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Assessing the Impact of Repeal:

Congress Can Save up to 695,000 Jobs and Cut the Deficit by $279.7B

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Abstract: *The Affordable Care Act (ACA) is an impediment to economic growth and federal fiscal balance, threatening nearly 700,000 jobs and increasing the deficit by nearly $300 billion in the near term. At a time when too many Americans remain unemployed and the country faces a daunting budgetary outlook, alternative approaches to health care reform would be preferable.*

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Repeal Avoids Job Losses and Higher Marginal Taxes

The ACA contains expensive mandates and penalties that create barriers to stronger job growth. Those mandates will compete for the scarce business resources that could be used for hiring and economic growth. The law also levies roughly $500 billion in new taxes that will enter the supply chain for medical services, raising the cost of medical care. At the same time that businesses juggle the potential for higher interest rates or higher taxes, these medical costs will translate to higher insurance premiums, further increasing the cost of operating a business in the United States.

The Congressional Budget Office estimates that the ACA legislation, on net, will reduce the amount of labor used in the U.S. economy by roughly 0.5 percent. CBO attributes this reduction in the labor market to the substantial expansion of Medicaid, the exchange subsidies, changes to the insurance market, increases in the payroll tax rate, excise taxes on high-premium insurance plans, and penalties for firms that do not offer insurance.[1] While a half of a percent decrease in employed labor may sound small, it translates to

Talking Points

- ✓ **Repeal Saves Jobs** – The ACA contains expensive mandates and penalties that threaten to destroy as many as 695,000 American jobs.
- ✓ **Repeal Protects Hardworking Americans from Higher Taxes –** The ACA's exchange subsidies create damaging increases in the earned marginal tax rate (EMTR) for low and middle-income Americans.
- ✓ **Repeal Reduces the Federal Deficit –** The ACA relied on budgetary gimmicks, unsustainable spending cuts, and uncollectible tax revenues to manipulate the Congressional Budget Office's budgetary score. When these measures are stripped from the repeal score, a different picture emerges: repeal would lower, not raise, the federal deficit, by $279.7 billion in the first ten years.

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[1] Elmendorf, Douglas W. "Economic Effects of the March Health Legislation." Congressional Budget Office: October 22, 2010.

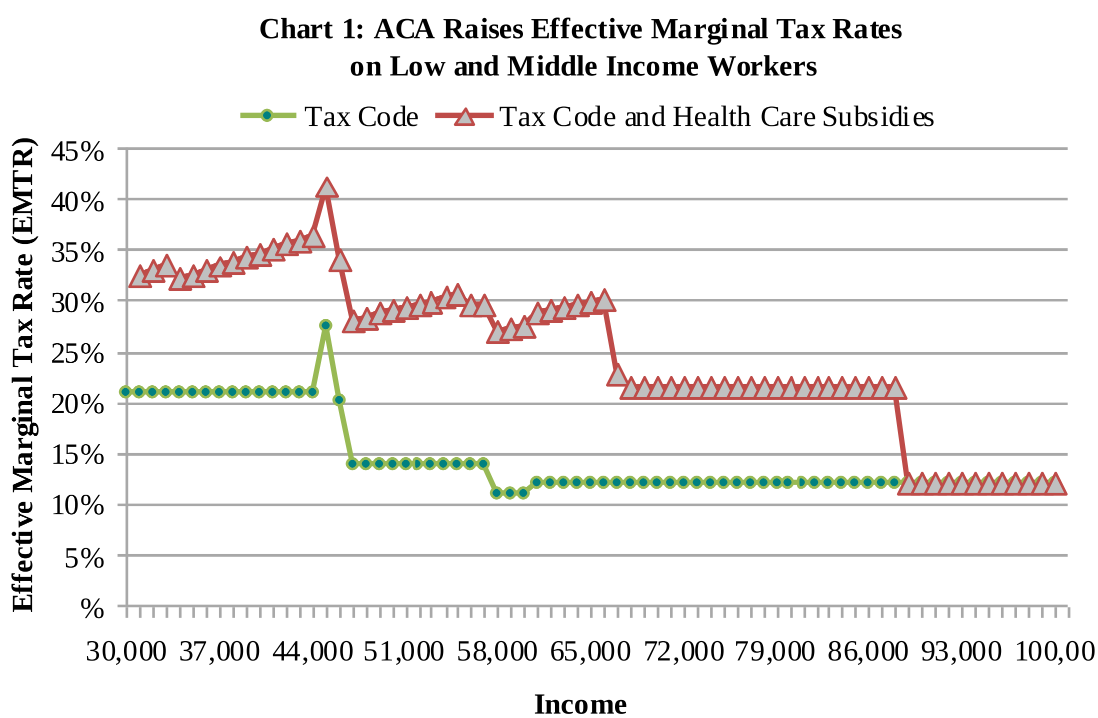
as many as 695,000 employed Americans at a time of unacceptably high unemployment (Figure 1).

Figure 1: Impact on U.S. Jobs[2] (Numbers in Thousands)

	Employment Prior to ACA	CBO Estimate of Employment Impact	Projected Employment Post ACA
Employed Labor	138,952	**(695)**	138,257

For Americans who maintain employment, the ACA legislation will exacerbate the already-high effective marginal tax rates (EMTR) on lower and middle-income families. The effective marginal tax rate is the answer to the question: "If I earn $1 more, how much less than $1 do I get to save or spend?" If you can keep that full dollar for your disposal, the effective marginal tax rate is zero. If earning another dollar does not raise your disposable income by even a penny, the effective marginal tax rate is 100 percent.

Chart 1 shows the EMTRs for a two-earner family with two school-age children, one of whom is in college.[3] One line is the EMTR based on income tax law prior to the ACA's passage, while the second displays the damaging increases in the EMTR from the phase-outs of the insurance exchange subsidies. The ACA's individual mandate requires families to purchase insurance. As a family's income rises above 133 percent of the federal poverty level (FPL), they will receive their subsidy to purchase health insurance in the exchanges. In turn, however, as their hard work yields a higher income, exchange subsides are clawed back or effectively taxed away. As Chart 1 shows, prior to the ACA there were already some lower income families facing EMTRs above those in the middle class. But the barrier to success imposed by the ACA's individual mandate and perverse subsidy structure creates an even more daunting pattern of EMTRs.



[2] "The Employment Situation – December 2010." Bureau of Labor Statistics: January 7, 2010.
[3] Holtz-Eakin, Douglas, Smith, Cameron. "Labor Markets and Health Care Reform: New Results." American Action Forum: May 2010.

Essentially, every worker forced onto the subsidized exchanges will face higher barriers to upward mobility and the pursuit of the American Dream.

Repealing the ACA and the Deficit

The Congressional Budget Office (CBO) projects that repealing the Affordable Care Act would increase the deficit by $230 billion over the coming decade and by a modest amount in the decade after that. The CBO estimate has become the central defense by advocates fighting the repeal of the ACA. A close examination of CBO's work and other evidence leads to the exact opposite conclusion, which is that repeal is the logical first step toward restoring fiscal sanity.

The ACA is fiscally dangerous at a moment when the United States is already facing a sea of red ink. It creates a massive new entitlement at a time when the budget is already buckling under the weight of existing entitlements. At a minimum, it will add $1 trillion to government spending over the next decade. Assertions that these costs are paid for are based on omitted costs, budgetary gimmicks, shifted premiums from other entitlements, and unsustainable spending cuts and revenue increases. A more comprehensive and realistic projection suggests that the ACA could potentially raise the federal budget deficit by more than $500 billion during the first ten years and by nearly $1.5 trillion in the following decade.[4]

Applying the same evaluation methods to score a straight repeal of the ACA again requires removing the budgetary gimmicks, shifted premiums, unsustainable spending cuts, and revenue increases used by the law's framers to manipulate the CBO's score. When these measures are stripped from the repeal score, as shown in Figure 2, a different picture emerges: repeal would lower, not raise, the federal deficit, by $279.7 billion in the first ten years.

The dubious budgetary provisions that impact the repeal score fall into three scenarios: unachievable savings, uncollectible revenue, and already reserved premiums. Figure 2 summarizes the annual impact of each scenario over the first ten years.

Scenario #1: Unachievable Savings

The first scenario removes spending cuts that we believe the Centers for Medicare and Medicaid Services (CMS) will ultimately be unable to implement. These are composed of cost reductions through Medicare market-basket updates, the Independent Payment Advisory Board, Medicare Advantage interactions and the lower Part D premium subsidy for high-income beneficiaries.

Although the specifics of each differ, these provisions share two features. First, the Act itself does not automatically reform Medicare in such a manner that will permit it to operate at lower budgetary cost. Accordingly, when the time comes to implement these savings, or those developed by the Independent Payment Advisory Board, the CMS will be faced with the possibility of strongly limited benefits, the inability to serve beneficiaries, or both. As a result, the cuts will be politically infeasible, as Congress is likely to continue to regularly override scheduled reductions. This concern has been voiced repeatedly by the CMS Chief Actuary Richard Foster, most recently in the 2010 Medicare Trustees Report.

[4] Holtz-Eakin, Douglas, Ramlet, Michael J. "Health Care Reform Is Likely To Widen Federal Budget Deficits, Not Reduce Them." Health Affairs: June 2010.

FIGURE 2: Scenario Analysis Summary - Repealing Health Care-Related Provisions in Public Law 111-152, Reconciliation Act of 2010

Alternative Scenarios	**($ billions)**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2010-2019**
CBO Projected Subsidies		4	11	13	9	70	125	181	204	219	236	1072
CBO Projected Cost Savings		2	-2	-11	-18	-43	-51	-59	-75	-91	-109	-455
Scenario #1: Unachievable Savings[a]		0.1	1.4	4.9	10	20.1	25.7	32.3	41.7	52.1	64.8	253.5
	Subtotal	2.1	-0.6	-6.1	-8	-22.9	-25.3	-26.7	-33.3	-38.9	-44.2	-201.5
CBO Projected Tax Revenues		0	-8	-15	-43	-77	-90	-114	-123	-131	-141	-739
Scenario #2: Uncollectable Revenue[b]		0	-1	-2	-5	1	6	14	18	22.2	26.8	78
Scenario #3: Premiums Reserved[c]		0	0	5.4	8.8	10	11.3	11.1	9.1	7.6	7	70.2
	Subtotal	0	-9	-11.6	-39.2	-66	-72.7	-88.9	-95.9	-101.2	-107.2	-590.8
Net Reduction in the Deficit[d]		**6.1**	**1.4**	**-4.7**	**-38.2**	**-18.9**	**27**	**65.4**	**74.8**	**78.9**	**84.6**	**279.7**
Percentage of GDP		*0.10*	*0.11*	*0.08*	*0.12*	*0.00*	*0.27*	*0.50*	*0.55*	*0.58*	*0.62*	*2.90*

SOURCES: Congressional Budget Office (CBO); Joint Committee on Taxation; and Authors' analysis of previous CBO health care budget scores.

Note: Components may not sum to totals because of rounding.

a. Scenario #1: CMS unable to achieve cost reductions through Medicare market basket updates, the Independent Payment Advisory Board, Medicare Advantage interactions, or the Part D premium subsidy for high-income beneficiaries.

b. Scenario #2: The excise tax on high-premium health plans and the associated effects of coverage provisions on revenues prove politically and operationally infeasible to collect.

c. Scenario #3: The CLASS Act premiums are reserved for the future payouts to beneficiaries that enroll in the new long-term care insurance plans, and not counted toward the deficit effect of health care coverage expansion.

d. Negative numbers indicate increases in the deficit, and positive numbers indicate reductions in the deficit.

Scenario #2: Uncollectible Revenue

Scenario two reflects on the excise tax on high-premium "Cadillac" health plans. This tax was intended to begin immediately, according to the Senate's version of the reform law. After intense lobbying by organized labor, Congress relented and pushed the tax back to 2018. This raises the possibility that it will prove politically infeasible to ever implement the tax – similar to the experience with the Medicare Physician Payment updates. Thus, the scenario shows the impact of not collecting the associated tax revenue of $78 billion over the next ten years.

Scenario #3: Reserved Premiums

Scenario three focuses on Community Living Assistance Services and Supports (CLASS) Act premiums for long-term care insurance and the potential increase in Social Security receipts. In principle, if the CLASS act were to be a "funded" program rather than a pay-as-you-go program, these receipts would be reserved to cover future payments and not be devoted to short-term deficit reduction. Specifically, this scenario shows the implications of reserving the $70 billion in premiums expected to be raised in the first ten years for the legislations new long-term care insurance.

Conclusion

The Affordable Care Act does not constitute real health care reform. The 112th Congress' could remove barriers to stronger job growth and to help restore fiscal balance by protecting taxpayers, businesses, workers, and health care consumers from the impacts of the Affordable Care Act. Repealing the Affordable Care Act can save 695,000 jobs and reduce the federal deficit by $279.7 billion.

After repealing the Affordable Care Act, Congress should start with a clean sheet of paper and adopt initiatives that would encourage providers to offer higher-quality care at lower costs; reduce the cost pressures that threaten to bankrupt Medicare and Medicaid; and give every American access to more options for quality insurance.