

# AMERICAN ACTION FORUM

## Budgetary Savings from Delaying the PPACA

*Douglas Holtz-Eakin and James C. Capretta | October 11, 2011*

---

### **Introduction**

The Patient Protection and Affordable Care Act (PPACA) was enacted in March 2010, but most of its key budgetary provisions do not become effective until January 2014, when the so-called “exchanges” are to become operational in the fifty states and begin offering insurance policies with income-tested premium subsidies and substantially different insurance regulations.

There is growing concern that the substantial infrastructure necessary for successful implementation of the PPACA’s primary provisions will not be ready by 2014. Moreover, there are serious legal challenges to the law still pending. Finally, significant political disagreements exist over the merits of many PPACA provisions; these are likely to be debated extensively in the 2012 election season.

Consequently, there is growing interest in delaying further implementation of the law until the operational, legal, and political concerns can be settled. In this short note, we explore the budgetary implications of delaying the implementation of the PPACA for 2, 3, and 4 years.

### **Key Budgetary Provisions**

The Congressional Budget Office (CBO) estimated at the time of PPACA’s enactment that the new law would reduce the federal budget deficit by \$124 billion over ten years from its health-care related provisions.<sup>1</sup> But that estimate is the net effect of the legislation, as seen by CBO. Within that total are numerous spending increases, spending cuts, tax increases, and tax reductions.

The provisions with the most significant budgetary consequences are:

- expanded eligibility for the Medicaid program;
- premium credits payable to households with incomes between 133 and 400 percent of the federal poverty line who are enrolled in health insurance plans offered in the state exchanges;
- targeted cuts in spending in the Medicare and Medicaid programs; and
- new tax hikes on insurance premiums, drug manufacturers, and upper income households.

There are multiple ways to construct a freeze or delay of the PPACA, with targeted exceptions to achieve any desired budgetary goal. For instance, the main features of the state-based exchanges, along with the insurance rules that are to go into effect at that time, could be delayed for 2, 3, or 4 years. In addition, the main tax increases and other spending provisions could also be delayed in a like manner, with targeted exceptions to a few spending reductions to ensure the delay of the PPACA is scored by CBO as deficit reduction.

---

<sup>1</sup> See Letter to House Speaker Nancy Pelosi from Congressional Budget Office Director Douglas Elmendorf, March 20, 2011 (<http://www.cbo.gov/ftpdocs/113xx/doc11379/AmendReconProp.pdf>).

For more information, please contact the American Action Forum’s Director of Healthcare Policy, Michael Ramlet, at [mramlet@americanactionforum.org](mailto:mramlet@americanactionforum.org).

# AMERICAN ACTION FORUM

## The CLASS Act Revisited

CBO's estimate assumed implementation of the Community Living Assistance Services and Supports Act (CLASS) -- a voluntary long-term care insurance program that was enacted in the PPACA -- would provide a temporary \$70 billion surplus between 2011 and 2019. But it has become clear in the months since enactment that CLASS is a financially unsound program with significant operational roadblocks. Indeed, the problems with the program are so severe that the administration has requested no funding to administer the program in fiscal year 2012.

It therefore seems likely that CBO's initial estimate of \$70 billion in CLASS Act surplus through the first decade is optimistic. Indeed, the most likely scenario at this point is that CLASS is never launched as a program due to actuarial concerns. If that is in fact the case, then CBO's original estimate of ten-year deficit reduction from enactment of the PPACA would fall from \$124 billion to \$54 billion, making it even easier to construct legislation that delays the PPACA's main provisions while also reducing the deficit.<sup>2</sup>

## Estimates

The following scenarios, shown in the accompanying table, are intended to be illustrative of what could be achieved with a 2, 3, and 4 year delay plan. The policies in all three scenarios remain the same; the only variant is time period of delay. These estimates were produced on the assumption that the CLASS Act will not become operational at any time and therefore would have no budgetary effect in the baseline. In addition, these options assume delay of:

- the entire state exchange structure, including the premium credits;
- the insurance rules that become effective with the exchanges
- the Medicaid eligibility expansion;
- the medical-loss ratio requirement that became effective in 2011; and
- all of the tax increases contained in the PPACA, except the high cost insurance tax that does not become effective until 2018 anyway and the tax adjustment in the biofuels tax credit program;

These options also assume that certain Medicare spending reductions will be retained and not delayed, as shows in the table.

It is possible to design a delay package to achieve a wide variation of budgetary savings, depending on which provisions are allowed to remain in effect. CBO estimated that the cost of the coverage expansion provisions would total about \$900 billion over the first ten years after enactment, so there is a great deal of new federal spending that can be postponed in the PPACA. The only question is how much of the tax increases or Medicare cuts are allowed to remain in effect to achieve a desired level of deficit reduction.

In all of the scenarios presented here, the savings would be significant over ten years, starting from \$176 billion from a two-year delay and rising to \$308 billion from a four year delay. The latter estimate would be about one-third of the deficit reduction goal the Joint Select Committee on Deficit Reduction must achieve (not counting net interest savings) to avoid across-the-board spending reductions starting in January 2013.

---

<sup>2</sup> The education provisions of the PPACA should also be excluded from delay legislation, as they are not unrelated to the health policy concerns surrounding the PPACA debate.

# AMERICAN ACTION FORUM

Delaying Implementation of the PPACA												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
<b>CBO Estimate of Net Deficit Impact of PPACA</b>	-10	-56	-51	-20	3	4	-5	-15	-21	-30	-134	-201
<b>Adjustments:</b>												
Remove CLASS Act	-5	-9	-10	-11	-11	-9	-8	-7	-7	-6	-46	-83
Remove Education Provisions	4	-6	-3	-5	-4	-2	-2	-2	-2	-2	-14	-24
<b>Adjusted CBO Estimate</b>	-1	-53	-44	-14	10	11	1	-10	-16	-26	-102	-142
<b>Policies Not Frozen</b>												
Medicare Market Basket Updates	-4	-7	-11	-15	-20	-25	-32	-41	-51	-62	-57	-269
Hospital Readmissions Reduction Program	0	0	0	-1	-1	-1	-1	-2	-2	-2	-3	-10
Payment Adjustment for Home Health Care	-1	-1	-2	-3	-5	-8	-9	-10	-11	-11	-12	-61
Medicare Disproportionate Share Hospital Payments	0	0	0	-4	-4	-5	-4	-5	-5	-5	-8	-32
Reduce Part D Subsidy for High-Income Benes	-1	-1	-1	-1	-1	-2	-2	-2	-3	-3	-5	-17
Excluded Unprocessed Fuels from Biofuel Credit	-7	-6	-3	-2	0	0	0	0	0	0	-17	-17
High Cost Insurance Tax	0	0	0	0	0	0	-12	-20	-28	-36	0	-96
<b>Adjusted CBO Baseline w/Retained Policies Excluded</b>	11	-39	-27	12	42	52	62	70	83	93	0	359
<b>2-year Freeze</b>												
Change In Deficit	-11	39	38	-51	-69	-40	-20	-18	-21	-23	-54	-176
<b>3-Year Freeze</b>												
Change In Deficit	-11	39	27	-1	-80	-79	-50	-28	-31	-31	-28	-246
<b>4-year Freeze</b>												
Change In Deficit	-11	39	27	-12	-31	-90	-89	-57	-41	-41	11	-308

# AMERICAN ACTION FORUM

OPERATION:  
HEALTHCARE  
& CHOICE

AMERICAN ACTION  
FORUM

OPERATION:  
HEALTHCARE  
& CHOICE

**The American Action Forum** is a forward-looking policy institute. The Forum produces real-time, fact-based, innovative policy analysis and solutions for policy makers and the public alike. Our mission is to promote common-sense, innovative and solutions-based policies that will reform government, challenge outdated assumptions, and create a smaller, smarter government.

**Operation Healthcare Choice** is the Forum's public policy center focused on promoting high-value healthcare and higher quality health insurance that expands consumer choice. Operation Healthcare Choice experts conduct research, offer commentary, and develop policies aimed at eliminating healthcare's burden on the economy.