



**Congressional Budget Office**

**Presentation to the  
World Health Care Congress**

**The Effects Of Health Reform  
on the Federal Budget**

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## Plan for Today's Remarks

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- Review the estimates done by the Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT).
- Discuss challenges to those estimates.
- Nothing I will say is new: Everything is drawn from cost estimates and other letters that CBO has released.

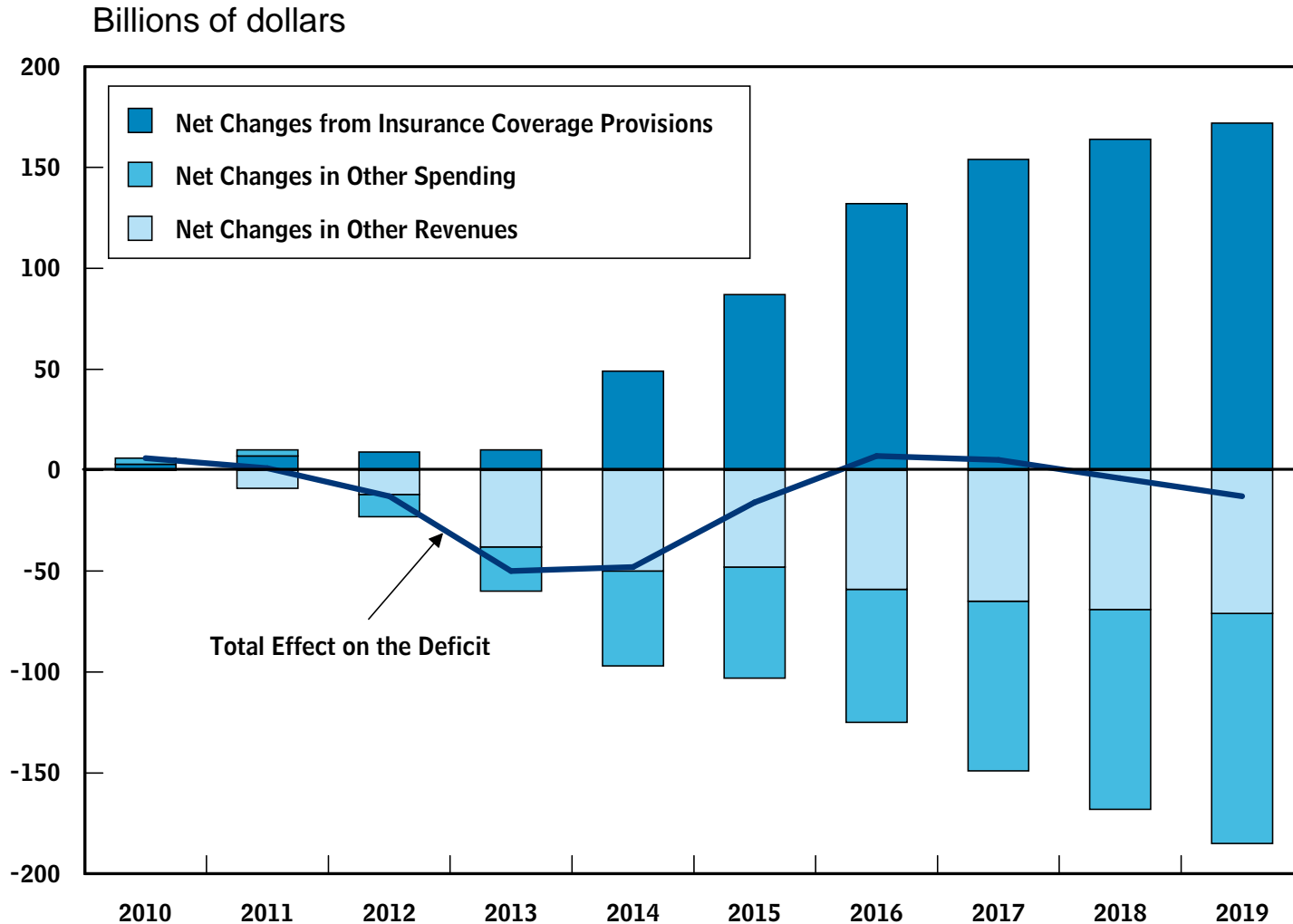


## CBO and JCT's Estimates for the 2010-2019 Period

- The underlying law and the subsequent reconciliation act that modified it will generate changes in direct spending and revenue that will reduce federal deficits by \$143 billion (-\$15 billion in 2019).
- Effects on deficits of main elements of the legislation:
  - Insurance coverage: +\$788 billion (+\$172 billion in 2019).
  - Other health provisions affecting direct spending: -\$492 billion (-\$114 billion in 2019).
  - Revenues: -\$420 billion (-\$71 billion in 2019).
  - Education provisions: -\$19 billion (-\$2 billion in 2019).



# Effect on the Deficit of the Main Elements of the Legislation (Excluding Education Provisions)



Source: Goldman Sachs based on CBO estimates.



## Two Alternative Perspectives on the Legislation (Excluding Education Provisions)

- Is the federal budget bigger?
  - Outlays: +\$411 billion (+\$92 billion in 2019).
  - Revenues: +\$525 billion (+\$104 billion in 2019).
  
- Is the federal budget more committed to health?
  - CBO defined the “federal budgetary commitment to health care” as the sum of net federal outlays for health programs and tax preferences for health care.
  - That commitment increased by \$390 billion over 10 years.



## Effect of the Legislation Beyond the First 10 Years

- CBO does not generally provide cost estimates beyond a 10-year period, but many Members requested our analysis of the long-term impact of this legislation.
- We concluded that the legislation would reduce federal deficits over the ensuing decade relative to those projected under current law—with a total effect in a broad range around one-half percent of GDP. That calculation is very uncertain.
- The legislation would also reduce the federal budgetary commitment to health care in the second decade.



## Challenges to Those Estimates

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- CBO and JCT have mis-estimated the effects of the changes in law.
- Budget conventions hide or misrepresent certain effects of the law.
- The law will be changed in the future in ways that will make deficits worse.
- The law misses critical opportunities to reduce future deficits.



## Estimating the Effects of the Law

- Concerns in different directions:
  - Subsidies will be more expensive than we project.
  - Medicare reforms will save more money than we project.
- Our estimates reflect the middle of the distribution of possible outcomes, based on our professional judgment (including consultation with outside experts). However, estimates of the effects of comprehensive reforms are extremely uncertain.





## Budget Conventions: Part 1

- Policymakers sometimes give less attention to the effects of legislation on discretionary spending, because such spending is appropriated later and pay-as-you-go rules apply to entitlements and revenues.
  - The health reform legislation will lead to some increases in discretionary spending:
    - Spending necessary for agencies to implement the legislation: \$10 billion to \$20 billion over 2010-2019 period for the IRS and HHS.
    - Authorizations of appropriations for other programs: At least \$50 billion during 2010-2019, but CBO did not complete estimates of all of the amounts. Some or all of those amounts may not be appropriated.



## Budget Conventions: Part 2

- Cost estimates focus on the effects of legislation on the unified (total) budget.
  - The health reform legislation improves cash flow in the HI trust fund by more than \$400 billion over 10 years. Higher balances in the fund will give the government legal authority to pay Medicare benefits longer, but most of the money will pay for new programs and will not enhance the government's economic ability to pay Medicare benefits. (There is a much smaller effect of this sort on Social Security.)
  - The legislation establishes a voluntary federal program for long-term care insurance (CLASS). The program will reduce budget deficits by \$70 billion during 2010-2019 but eventually will increase deficits.



## Budget Conventions: Part 3

- Cost estimates do not include any effects of legislation on overall output, which could go in either direction.
  - The health reform legislation raises effective tax rates for some people, through tax increases and income-based subsidies for health insurance.
  - The legislation makes it easier for people to get health insurance after switching jobs or without having a job.
  - CBO wrote about those effects and other possible effects on output of health reform proposals last summer, but CBO has not estimated the effects of the legislation on output.



## Possible Future Changes in the Law: Part 1

- CBO estimates the effects of proposals as written and does not forecast future policy changes. However, we have emphasized that the health reform legislation maintains and puts into effect a number of policies that might be difficult to sustain over a long period of time. For example, the legislation:
  - Reduces the growth rate of Medicare spending (per beneficiary, adjusting for overall inflation) from about 4 percent per year for the past two decades to about 2 percent per year for the next two decades. It is unclear whether such a reduction can be achieved, and, if so, whether it would be through greater efficiencies in the delivery of health care or through reductions in access to care or the quality of care.
  - Indexes exchange subsidies at a lower rate after 2018.
  - Establishes a tax on insurance plans with relatively high premiums in 2018 and (beginning in 2020) indexes the tax thresholds to general inflation.



## Possible Future Changes in the Law: Part 2

- In a letter responding to questions from Congressman Paul Ryan, CBO analyzed the effects of the health reform legislation if:
  - The tax on high-premium insurance plans was never implemented;
  - The indexing of exchange subsidies continued in the same way after 2018 as before;
  - The adjustment to physician payment rates under Medicare that was passed by the House last fall (the “SGR fix”) was included; and
  - The Independent Payment Advisory Board—which would recommend changes to Medicare to limit spending growth—was never implemented.
  
- We estimated that, if those changes were made, the legislation would increase federal deficits during the decade beyond 2019 relative to those projected under current law—with a total effect during that decade in a broad range around one-quarter percent of GDP.



## Missed Opportunities to Reduce Future Deficits?

- Some analysts argue that the legislation hampers future deficit reduction by using spending cuts and extra revenues to pay for a new entitlement rather than existing entitlements.
- Some analysts argue that the legislation should have reformed health care delivery and the government's budgetary commitment to health care more significantly.
- CBO does not make policy recommendations; instead, we try to provide the information that policymakers need to make their decisions. For example, we noted that using savings in existing programs to finance new programs would necessitate even stronger policy actions in other areas, and we released a report that included a wide range of options for changing the nation's health care and health insurance systems.



## Conclusion

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- CBO and JCT estimate that the health legislation will reduce federal budget deficits during the next decade and in the following decade.
- Those estimates apply to the law as written. The budgetary impact could be quite different if key provisions are ultimately changed. We will estimate the costs of any changes when proposals are being considered by the Congress.