



July 7, 2009

Honorable Judd Gregg
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Senator:

In response to your request, the Congressional Budget Office (CBO) has considered the likely effects on federal spending and health insurance coverage of adding a substantial expansion of eligibility for Medicaid to the Affordable Health Choices Act, a draft of which was recently released by the Senate Committee on Health, Education, Labor, and Pensions (HELP). CBO's preliminary analysis of that draft legislation was provided to Senator Edward M. Kennedy on July 2, 2009; that analysis is available on CBO's web site, www.cbo.gov.

The draft legislation would make a number of changes regarding the financing and provision of health insurance, including establishing insurance exchanges through which coverage could be purchased and providing new federal subsidies to help individuals and families with income between 150 percent and 400 percent of the federal poverty level (FPL) pay for that coverage. Although the draft legislation envisions that Medicaid would be expanded to cover individuals and families with income below 150 percent of the FPL, it does not include provisions to accomplish that goal, and our preliminary analysis (conducted jointly with the staff of the Joint Committee on Taxation) did not reflect such an expansion.

The precise effects on federal costs and insurance coverage of adding an expansion of eligibility for Medicaid up to 150 percent of the FPL would depend importantly on the specific features of that expansion. For example, the effects would depend on how eligibility for the program was determined and on whether the expansion started immediately or only as the proposed insurance exchanges went into operation. The effects would also depend what share of the costs for newly eligible people was borne by the federal government and what share was borne by the states (which would be determined by the average FMAP, or Federal Medical Assistance Percentage). In addition, the effects would depend on whether states faced a maintenance-of-effort requirement regarding their current Medicaid programs.

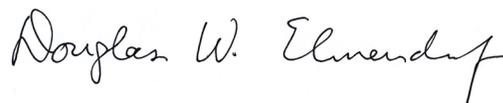
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CBO has not yet had time to produce a full estimate of the cost of incorporating any specific Medicaid expansion in the HELP committee's legislation. However, our preliminary analysis indicates that such an expansion could increase federal spending for Medicaid by an amount that could vary in a broad range around \$500 billion over 10 years. Along with that increase in federal spending would come a substantial increase in Medicaid enrollment, amounting to perhaps 15 million to 20 million people. Such an expansion of Medicaid would also have some impact on the number of people who obtain coverage from other sources (including employers). All told, the number of non-elderly people who would remain uninsured would probably decline to somewhere between 15 million and 20 million. (For comparison, CBO's analysis of the draft legislation that was released by the HELP committee found that, absent any expansion of Medicaid or other change in the legislation, about 33 million people would ultimately remain uninsured if it were to be enacted.)

Such an expansion of Medicaid would have some impact on other aspects of the federal budget beyond Medicaid itself (including tax revenues and the proposed payments to the government by employers who do not offer coverage to their workers, which the legislation labels "equity assessments"). Those additional effects might increase or decrease the effect of the proposal on the federal deficit by as much as \$100 billion. It bears emphasizing that this analysis is preliminary and the figures cited are approximate because they do not reflect specific legislative language nor do they incorporate, in detail, a variety of interactions and other effects that changes in Medicaid would cause.

I hope this information is helpful to you. If you have any questions, please contact me or CBO's primary staff contacts for this analysis, Philip Ellis and Holly Harvey.

Yours truly,



Douglas W. Elmendorf
Director

cc: Honorable Kent Conrad
Chairman

Identical letter sent to the Honorable Mike Enzi.