CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

June 21, 2010

Honorable Michael B. Enzi
Ranking Member
Committee on Health, Education,
Labor, and Pensions
United States Senate
Washington, DC 20510

Dear Senator:

This letter responds to your request for additional information about the provisions of the Patient Protection and Affordable Care Act (PPACA, Public Law 111-148) regarding high-risk insurance pools.

PPACA appropriated $5 billion for the Department of Health and Human Services (HHS) to implement a temporary program to operate such pools. To be eligible to enroll, applicants must have been uninsured for at least 6 months and must have a preexisting medical condition. Enrollees will be charged a standard premium—one that is based on the expected costs of covering a broadly representative population, rather than the costs of covering high-risk enrollees. Federal subsidies to the pools will cover the difference between the enrollees' premiums and the costs of providing their insurance. The program is scheduled to commence later this year and may continue to operate through 2013 (after which time qualified enrollees could switch to a health plan offered through newly created insurance exchanges).

In its analysis of PPACA released in March, the Congressional Budget Office (CBO) estimated that all of the $5 billion appropriated for the program would be spent.[1] CBO concluded that the new pools would be more attractive than the high-risk pools that now exist in many states, both because the premium would be lower (state high-risk pools typically charge a premium between 125 percent and 200 percent of the standard premium)

[1] See Congressional Budget Office, letter to the Honorable Nancy Pelosi about the budgetary effects of H.R. 4872, the Reconciliation Act of 2010 (March 20, 2010).

and because the new pools would provide immediate coverage for enrollees' preexisting medical conditions (current high-risk pools generally do not do so). Reflecting that assessment, CBO estimated that the funding available for subsidies would not be sufficient to cover the costs of all applicants through 2013, so CBO assumed that HHS would use the authority given to it under the act to limit enrollment in the program. On that basis, CBO expects that the number of enrollees in the program will average about 200,000 over the 2011–2013 period. If, instead, more people are allowed to sign up initially, the available funds will probably be exhausted prior to 2013, but total spending for the program will still be capped at $5 billion.

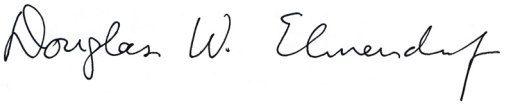
You also asked about the federal costs of implementing a similar program for high-risk pools that did not cap the funding available. Estimating those costs is difficult not only because of the uncertainty surrounding the number and types of people who would want to enroll but also because several of the program's features have not been precisely defined. For example, the new high-risk pools are supposed to cover at least 65 percent of enrollees' costs for health care, on average, but could cover a higher share. The larger the share of costs that the program would cover, the more attractive it would be to potential enrollees and the more expensive it would be to implement—because there would be more enrollees and higher costs per enrollee. Similarly, the law provides little guidance about how the requirement for participants to have a preexisting condition will be met, how applicants' lack of insurance coverage will be monitored, and how the program will interact with existing high-risk pools. The resulting uncertainty about the program's design did not affect CBO's cost estimate with the $5 billion funding cap in place, but how those features are ultimately defined would affect the estimated cost of an uncapped program.

At this point, therefore, CBO can provide only a preliminary range of estimates reflecting some assumptions about an uncapped program's specifications. If the program covered about 65 percent of enrollees' costs for health care, federal spending through 2013 would probably fall between $10 billion and $15 billion—or $5 billion to $10 billion more than the cap specified in PPACA. Total enrollment in the federal high-risk pool program would be expected to grow from roughly 400,000 in 2011 to about 600,000 or 700,000 in 2013.

Several factors affect the estimate of enrollment. The number of people who may be eligible for the program is in the millions—much greater than the estimates of participation—but CBO focused its analysis on those people who would be likely to enroll and has not estimated the total size of the eligible population. In the absence of the program, most of those enrollees would have been uninsured, but some would have had coverage from an individually purchased or employment-based plan. (Reductions in employment-based coverage tend to raise federal revenues because that coverage receives favorable tax treatment, but CBO has not estimated the effects of an uncapped program on revenues.) Although enrollees will be subsidized, many potential applicants will be discouraged from enrolling by the premium they would have to pay and the cost-sharing requirements they would face in the program. Others might be eligible for the program but not aware of it.

I hope that this analysis is helpful. If you have any questions, please contact me or CBO staff. The primary staff contacts for this analysis are Philip Ellis and Holly Harvey.

Sincerely,



Douglas W. Elmendorf
Director

Enclosures

cc: Honorable Tom Harkin
Chairman
Committee on Health, Education, Labor, and Pensions

Honorable Harry Reid
Senate Majority Leader

Honorable Mitch McConnell
Senate Republican Leader

Honorable Max Baucus
Chairman
Committee on Finance

Honorable Chuck Grassley
Ranking Member

Honorable Kent Conrad
Chairman
Committee on the Budget

Honorable Judd Gregg
Ranking Member