



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 14, 2011

H.R. 2576

A bill to amend the Internal Revenue Code of 1986 to modify the calculation of modified adjusted gross income for purposes of determining eligibility for certain healthcare-related programs

As ordered reported by the Committee on Ways and Means on October 13, 2011

SUMMARY

H.R. 2576 would require all Social Security and Tier 1 Railroad Retirement benefits to be included as part of modified adjusted gross income (MAGI) for purposes of determining eligibility for certain Medicaid applicants and subsidies for health insurance purchased through the new health insurance exchanges to be established under the Patient Protection and Affordable Care Act (PPACA, Public Law 111-148). Under PPACA, the nontaxable portion of those benefits will be excluded from MAGI for such eligibility determinations.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting the legislation would reduce deficits by almost \$3 billion over the 2012-2016 period and by about \$13 billion over the 2012-2021 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues. Implementing H.R. 2576 would not have any significant impact on spending subject to appropriation.

JCT has determined that the bill contains no private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2576 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

By Fiscal Year, in Billions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN DIRECT SPENDING												
Medicaid												
Estimated Budget Authority	0	0	-1.4	-2.5	-4.0	-4.5	-4.7	-5.0	-5.2	-5.6	-7.9	-32.9
Estimated Outlays	0	0	-1.4	-2.5	-4.0	-4.5	-4.7	-5.0	-5.2	-5.6	-7.9	-32.9
Exchange Subsidies												
Estimated Budget Authority	0	0	0.2	0.9	1.3	1.5	1.6	1.6	1.8	1.8	2.4	10.8
Estimated Outlays	0	0	0.2	0.9	1.3	1.5	1.6	1.6	1.8	1.8	2.4	10.8
Other												
Estimated Budget Authority	0	0	0.1	0.1	0.1	*	*	0.1	0.1	*	0.2	0.4
Estimated Outlays	0	0	0.1	0.1	0.1	*	*	0.1	0.1	*	0.2	0.4
Total Direct Spending Effects												
Estimated Budget Authority	0	0	-1.1	-1.5	-2.6	-2.9	-3.1	-3.4	-3.3	-3.8	-5.2	-21.7
Estimated Outlays	0	0	-1.1	-1.5	-2.6	-2.9	-3.1	-3.4	-3.3	-3.8	-5.2	-21.7
CHANGES IN REVENUES												
Estimated Revenues	0	0	-0.4	-1.0	-1.2	-1.0	-1.1	-1.2	-1.5	-1.3	-2.6	-8.7
On-Budget	0	0	-0.2	-0.8	-1.0	-0.9	-0.9	-1.0	-1.2	-1.1	-2.0	-7.1
Off-Budget ^a	0	0	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.3	-0.2	-0.6	-1.6
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND RECEIPTS												
Impact on Deficits	0	0	-0.7	-0.5	-1.5	-1.8	-2.0	-2.2	-1.8	-2.6	-2.6	-13.0
On-Budget	0	0	-0.9	-0.7	-1.7	-2.0	-2.2	-2.4	-2.1	-2.7	-3.3	-14.6
Off-Budget ^a	0	0	0.2	0.2	0.2	0.1	0.2	0.2	0.3	0.2	0.6	1.6

Notes: Numbers may not sum to totals because of rounding.

* = less than \$50 million.

a. All off-budget effects would come from changes in revenues. (The payroll taxes for Social Security are classified as “off-budget.”)

BASIS OF ESTIMATE

Under current law, eligibility for subsidies to purchase insurance through health insurance exchanges and for Medicaid beginning in 2014 will be determined using a definition of MAGI that excludes the nontaxable portion of a family’s Social Security benefit. H.R. 2576 would expand the definition of MAGI to include all Social Security benefits provided under Title II of the Social Security Act—which include old-age

benefits, disability benefits, spousal benefits, child benefits, survivor benefits, and parental benefits—as well as Tier 1 Railroad Retirement benefits.

Impact on Insurance Coverage

CBO and JCT estimate that H.R. 2576 would, relative to current law, reduce Medicaid enrollment, increase the number of people who purchase health insurance through the health insurance exchanges, and slightly increase the number of people with employer-based coverage and the number who are uninsured.

Medicaid. CBO and JCT estimate that adding nontaxable Social Security income to the MAGI definition would reduce Medicaid enrollment, beginning in 2014, by between 500,000 and one million people depending on the year. Those losing Medicaid coverage include some retirees between the ages of 62 and 64 as well as some people receiving survivor benefits, disability benefits, and other Social Security benefits. Those losing Medicaid coverage would be expected to enroll in qualified health plans offered in health insurance exchanges, obtain employment-based insurance, or become uninsured.

Health Insurance Exchanges. H.R. 2576 would have two different effects on the number of people who purchase insurance through health insurance exchanges. First, CBO and JCT estimate that many of the individuals who lose Medicaid coverage would become eligible for premium assistance credits and cost-sharing subsidies in the exchanges. The number of people purchasing insurance through the exchanges would increase as a result. Second, we estimate that some people who were previously eligible for exchange subsidies would lose eligibility under the expanded MAGI definition that H.R. 2576 would establish, which would reduce the number of people purchasing insurance through the exchanges. CBO and JCT estimate that those coverage effects would, on net, result in an increase in enrollment in health exchanges of roughly one-half million people in any given year over the 2014-2021 period.

Other Coverage. CBO and JCT estimate that H.R. 2576 would increase the number of people enrolled in employer-based insurance as well as the number of uninsured by less than 500,000 in all years beginning in 2014.

Impact on Federal Spending and Revenues

Enacting H.R. 2576 would reduce direct spending by an estimated \$5.2 billion over the 2012-2016 period and \$21.7 billion over the 2012-2021 period. Further, H.R. 2576 would reduce revenues by approximately \$2.6 billion over the 2012-2016 period and \$8.7 billion over the 2012-2021 period. Of that revenue reduction, an estimated \$7.1 billion would be a change in on-budget revenues for the 2012-2021 period and the remaining \$1.6 billion would be a change in off-budget (Social Security) revenues.

Direct Spending. CBO estimates that Medicaid spending would decrease by \$7.9 billion over the 2012-2016 period and \$32.9 billion over the 2012-2021 period. Those savings would be partially offset by net increases in subsidies for health insurance purchased through the exchanges. Under the expanded MAGI definition, some individuals would receive less-generous exchange subsidies and others would lose eligibility for subsidies completely, resulting in savings. However, such savings would be more than offset by an increase in subsidy costs associated with other individuals who lose Medicaid eligibility under H.R. 2576, but become eligible for and choose to take up exchange subsidies. On net, CBO estimates the outlay portion of the increased payments for premium and cost-sharing subsidies would be \$2.4 billion over the 2012-2016 period and \$10.8 billion over the 2012-2021 period.¹

Revenues. Two effects largely account for the estimated \$8.7 billion revenue reduction that would result from enacting H.R. 2576. The revenue portion of the increase in premium and cost-sharing subsidies represents a little less than half of the revenue reduction. The majority of the remaining revenue loss would stem from changes in the size and composition of the population with employment-based insurance, which would alter the mix of compensation provided to workers between taxable wages and salaries and nontaxable health insurance benefits.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT reviews provisions in legislation that amend the tax code to determine if those provisions contain intergovernmental or private-sector mandates as defined in UMRA. JCT has determined that the bill contains no private-sector or intergovernmental mandates as defined in UMRA.

1. Subsidies for health insurance premiums are structured as refundable tax credits; the portions of such credits that exceed taxpayers' liabilities are classified as outlays, while the portions that reduce tax payments are reflected in the budget as reductions in revenues.

CBO Estimate of Pay-As-You-Go Effects for H.R. 2576, as ordered reported by the Committee on Ways and Means on October 13, 2011

By Fiscal Year, in Millions of Dollars

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT												
Statutory Pay-As-You-Go Impact	0	0	-888	-694	-1,679	-1,955	-2,197	-2,376	-2,088	-2,706	-3,261	-14,584
Memorandum:												
Changes in Outlays	0	0	-1,120	-1,467	-2,644	-2,868	-3,087	-3,372	-3,333	-3,805	-5,232	-21,698
Changes in Revenues	0	0	-232	-773	-966	-913	-891	-995	-1,245	-1,099	-1,971	-7,114

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

PREVIOUS CBO ESTIMATE

On July 22, 2011, CBO transmitted a cost estimate for S. 1376, as introduced in the United States Senate on July 18, 2011. The legislative language modifying the MAGI definition in H.R. 2576 is similar to the legislative language of S. 1376 and would have the same budgetary effects over the 2012-2016 and 2012-2021 periods.

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