CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 2, 2015

Reconciliation Recommendations of the House Committee on Ways and Means

As approved by the House Committee on Ways and Means on September 29, 2015

SUMMARY

S. Con. Res. 11, the Concurrent Resolution on the Budget for fiscal year 2016, instructed several committees of the House of Representatives to recommend legislative changes that would reduce deficits over the 2016-2025 period. As part of that reconciliation process, the House Committee on Ways and Means approved legislation on September 29, 2015, that would, on net, reduce deficits over that period.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting the legislation—which would repeal several provisions of the Affordable Care Act (ACA)—would reduce federal deficits by $37.1 billion over the 2016-2025 period. That total consists of $12.5 billion in on-budget savings and $24.6 billion in off-budget savings.

CBO and JCT estimate that enacting the legislation would not increase net direct spending by more than $5 billion in either of the first two consecutive 10-year periods beginning in 2026; however, the agencies are not able to determine whether enacting the legislation would increase net direct spending in the third or fourth 10-year period. The agencies estimate that enacting the legislation would increase on-budget deficits by at least $5 billion in each of the four consecutive 10-year periods beginning in 2026.

JCT has determined that subtitle A of the legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO has reviewed the non-tax provision of the legislation (subtitle B) and determined that it contains no intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of the legislation is shown in the following table. The outlay effects of this legislation fall within budget function 550 (health) and 570 (Medicare).

	By Fiscal Year, in Billions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
CHANGES IN DIRECT SPENDING												
Subtitle A												
Repeal Individual and Employer Mandates												
Estimated Budget Authority	-8.7	-17.2	-21.0	-24.3	-26.4	-28.3	-30.3	-31.9	-33.7	-35.1	-97.6	-256.9
Estimated Outlays	-8.7	-17.2	-21.0	-24.3	-26.4	-28.3	-30.3	-31.9	-33.7	-35.1	-97.6	-256.9
Repeal Excise Tax on High-Premium Insurance Plans												
Estimated Budget Authority	0	0	-0.7	-0.9	-1.4	-1.6	-2.4	-3.1	-3.9	-4.1	-3.0	-18.2
Estimated Outlays	0	0	-0.7	-0.9	-1.4	-1.6	-2.4	-3.1	-3.9	-4.1	-3.0	-18.2
Subtitle B												
Repeal IPAB												
Estimated Budget Authority	0	0	0	0	0	0	0.6	1.5	1.9	3.1	0	7.1
Estimated Outlays	0	0	0	0	0	0	0.6	1.5	1.9	3.1	0	7.1
Total Changes in Direct Spending												
Estimated Budget Authority	-8.7	-17.2	-21.7	-25.2	-27.8	-29.9	-32.1	-33.5	-35.7	-36.1	-100.6	-268.0
Estimated Outlays	-8.7	-17.2	-21.7	-25.2	-27.8	-29.9	-32.1	-33.5	-35.7	-36.1	-100.6	-268.0
CHANGES IN REVENUES												
Subtitle A												
Repeal Individual and Employer Mandates	-10.1	-8.0	-8.0	-9.8	-10.5	-10.9	-11.9	-12.9	-13.5	-14.1	-46.4	-109.8
Repeal Medical Device Tax	-1.4	-2.0	-2.1	-2.2	-2.3	-2.5	-2.6	-2.8	-2.9	-3.1	-10.0	-23.9
Repeal Excise Tax on High-Premium Insurance Plans	0	0	-2.9	-8.1	-9.7	-11.5	-14.0	-17.1	-20.8	-25.0	-20.8	-109.3
Interaction Effects	0	0	*	2.1	2.0	1.7	1.7	1.6	1.6	1.4	4.1	12.1
Total Changes in Revenues	**-11.5**	**-10.0**	**-13.0**	**-18.0**	**-20.5**	**-23.2**	**-26.8**	**-31.2**	**-35.6**	**-40.8**	**-73.1**	**-230.9**
On-Budget	-13.0	-14.0	-16.8	-21.5	-23.7	-26.1	-29.3	-33.0	-36.8	-41.0	-89.2	-255.5
Off-Budget[a]	1.5	4.0	3.8	3.5	3.2	2.9	2.5	1.8	1.2	0.2	16.1	24.6
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	**2.8**	**-7.2**	**-8.7**	**-7.2**	**-7.3**	**-6.7**	**-5.3**	**-2.3**	**-0.1**	**4.7**	**-27.5**	**-37.1**
On-Budget	4.3	-3.2	-4.9	-3.7	-4.1	-3.8	-2.8	-0.5	1.1	4.9	-11.4	-12.5
Off-Budget[a]	-1.5	-4.0	-3.8	-3.5	-3.2	-2.9	-2.5	-1.8	-1.2	-0.2	-16.1	-24.6
Memorandum:												
Net Effect on Deficit												
Subtitle A	2.8	-7.2	-8.7	-7.2	-7.3	-6.7	-5.9	-3.8	-2.0	1.6	-27.5	-44.2
Subtitle B	0	0	0	0	0	0	0.6	1.5	1.9	3.1	0	7.1

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Notes: Numbers may not sum to totals because of rounding; IPAB = Independent Payment Advisory Board;
* = increase in revenues between zero and $500 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

For this estimate, CBO and JCT assume that the legislation will be enacted near the end of calendar year 2015. On net, the agencies estimate that enacting the legislation would decrease federal deficits by $37.1 billion over the 2016-2025 period; that change would result from a $230.9 billion reduction in revenues and a $268.0 billion decrease in direct spending. Most of the reduction in revenues would stem from eliminating several penalties and excise taxes; most of the reduction in direct spending would result from lower projected enrollment in health insurance coverage that is subsidized by the federal government. (See "Net Effects on Health Insurance Coverage" for a discussion of the combined effects of the legislation on health insurance coverage.)

Subtitle A—Revenue Provisions

Over the 2016-2025 period, CBO and JCT estimate that subtitle A of the legislation would decrease direct spending by $275.1 billion and decrease revenues by $230.9 billion, thereby reducing federal budget deficits, on net, by $44.2 billion. Subtitle A would repeal the following provisions of the ACA:

- The requirement that most people in the United States must obtain health insurance coverage or pay a penalty for not doing so (a provision known as the individual mandate);
- Penalties imposed on large employers who decline to offer their employees health insurance coverage that meets specified standards (a provision known as the employer mandate)[1];
- The federal excise tax imposed on the sale of medical devices; and
- The federal excise tax imposed on some health insurance plans with high premiums along with related reporting requirements.

Repeal of the Individual and Employer Mandates. Section 301 of subtitle A would repeal the individual mandate and section 302 of subtitle A would repeal the employer mandate. CBO and JCT estimate that repealing the both mandates would result in net budgetary savings to the federal government of $147.1 billion over the 2016-2025 period. That projected decrease in federal deficits over the 10-year period consists of a $256.9 billion decrease in direct spending, partially offset by a $109.8 billion reduction in

1. To meet the standards, the cost to the employee for self-only coverage must not exceed a specified share of income (which is 9.56 percent in 2015 and is indexed for inflation over time), and the plan must pay at least 60 percent of the cost of covered benefits. The employer mandate generally applies to employers with at least 50 full-time-equivalent employees.

revenues. The revenue decrease would result from an estimated $155.2 billion reduction in on-budget revenues, partially offset by an estimated $45.4 billion increase in off-budget (Social Security) revenues.

Individual Mandate. Under current law, people who do not obtain health insurance owe the greater of a flat dollar penalty or a percentage of a household's adjusted gross income in excess of the income threshold for mandatory tax-filing, both subject to a cap. Certain categories of people are exempt from paying penalties, including people with taxable income below the filing threshold, people without access to affordable coverage, unauthorized immigrants, and people who obtain a hardship waiver. If the individual mandate was repealed, penalty payments for being uninsured would no longer be collected; CBO and JCT estimate that loss in penalty payments would total $43.3 billion over the 2016-2025 period.

In addition to eliminating penalties for uninsured individuals, CBO and JCT estimate that repealing the individual mandate would substantially reduce the number of people with health insurance coverage and, accordingly, reduce the estimated federal costs associated with some sources of health insurance coverage. Under current law, the agencies estimate that the existence of the individual mandate and its associated penalties spurs increased enrollment in federally-subsidized health insurance coverage through Medicaid, the Children's Health Insurance Program (CHIP), exchanges, and employment-based plans (which are subsidized indirectly because almost no premiums for that coverage are treated as taxable compensation). The estimated savings stemming from lower enrollment in such coverage would exceed the loss in revenues from eliminating penalty payments by uninsured people.

CBO and JCT estimate that repealing the individual mandate would also result in higher health insurance premiums in the nongroup market (that is, premiums for individually purchased health insurance) after 2016.[2] Insurers would still be required to provide coverage to any applicant, would not be able to vary premiums to reflect enrollees' health status or to limit coverage of preexisting medical conditions, and would be allowed to vary premiums by age only to a limited degree. Those features are most attractive to applicants with relatively high expected costs for health care, so the agencies expect that repealing the individual mandate would tend to reduce insurance coverage less among older and less healthy people than among younger and healthier people. Nevertheless, CBO and JCT anticipate that a significant number of relatively healthy people would still have a strong incentive to purchase insurance in the nongroup market because of the availability of government subsidies—and, therefore, that the market would not be subject to an unsustainable spiral of rising premiums. In years after 2016, CBO and JCT estimate that

2. CBO and JCT expect that insurers would not be able to change their 2016 premiums to reflect the increase in expected medical claims because the bill would be enacted after premiums are set for the 2016 plan year.

repealing the individual mandate would increase premiums for policies in the nongroup market by roughly 20 percent above what would be expected under current law, which would in turn increase the costs to the federal government of subsidies for eligible individuals who remain enrolled in individual policies purchased through the exchanges.

*Employer Mandate***.** CBO and JCT estimate that repealing the employer mandate would yield two types of budgetary effects. First, employers that do not offer health insurance that meets specified standards would no longer be assessed penalties, which would reduce revenues by $166.9 billion over the 2016-2025 period according to CBO and JCT's estimates. Second, the agencies estimate that there would be small changes in health insurance coverage that would yield largely offsetting budgetary effects. Specifically, the agencies expect that some employers that are projected to offer health insurance to their employees under current law would no longer do so if the employer mandate were repealed because eliminating penalties would lower the cost of not offering health insurance. However, CBO and JCT expect that the reduction in offers of employment-based coverage would be limited because most employers construct compensation packages that comprise a mix of wages and nonwage benefits that will attract the best available workers at the lowest cost.[3] Those that would no longer enroll in employment-based coverage in the absence of the employer mandate would instead enroll in coverage through Medicaid, CHIP, the nongroup market (including individual policies purchased through the exchanges or directly from insurers in the nongroup market), or become uninsured.

Repeal of the Medical Device Tax. Section 303 of subtitle A would repeal the medical device excise tax established by the ACA. Under current law, a tax of 2.3 percent is imposed on the sale of medical devices by the manufacturer or importer. Medical devices that are regularly available at retail for individual use and not primarily intended for use by a medical professional are exempt from the tax. The tax went into effect on January 1, 2013, and its repeal by the legislation would be effective starting in the first calendar quarter after the date of enactment. JCT estimates that repealing the medical device tax would reduce revenues, thus increasing federal deficits, by about $23.9 billion over the 2016-2025 period.

Repeal of the Excise Tax on High-Premium Insurance Plans. Section 304 of subtitle A would repeal a federal excise tax that will be imposed on employment-based health plans whose total value is greater than specified thresholds.[4] Under current law, the excise tax

3. See Congressional Budget Office, *CBO and JCT's Estimates of the Effects of the Affordable Care Act on the Number of People Obtaining Employment-Based Health Insurance* (March 2012), http://www.cbo.gov/publication/43082.

4. The total value includes employers' and employees' contributions for health insurance premiums and contributions made through health reimbursement arrangements, flexible spending arrangements, and health savings accounts for other health care costs.

will take effect in 2018 and will be equal to 40 percent of the difference between the total value of contributions and the applicable threshold. CBO and JCT estimate that repealing the tax would result in net budgetary costs to the federal government of $91.1 billion over the 2016-2025 period. That projected increase in federal deficits over the 10-year period consists of a $109.3 billion decrease in revenues, partially offset by an $18.2 billion decrease in direct spending.

The decrease in revenues over the 2016-2025 period primarily reflects an $87.3 billion reduction in revenues stemming from forgone excise tax receipts and from fewer employers and workers shifting to lower-cost health insurance plans to avoid paying the tax. That is, relative to current law, more people would remain in higher-cost health insurance plans and a larger share of total compensation would take the form of non-taxable health benefits, decreasing the share taking the form of taxable wages and salaries. (Also, increased enrollment in higher-cost health plans would probably place upward pressure on health insurance premiums.)

CBO and JCT estimate that tax revenues would further decrease by $12.5 billion over the 2016-2025 period as some employers who are expected to stop offering health insurance under current law (instead of offering insurance whose total value exceeds the specified thresholds for the excise tax) would no longer do so, thereby further reducing the share of compensation taking the form of taxable wages and salaries. Similarly, some employees who are not expected to enroll in insurance offered by their employer under current law, would do so. Both of those changes would further reduce the share of compensation taking the form of taxable wages and salaries.

The remaining portion of the estimated net decrease in revenues comprises a $12.1 billion reduction in projected penalty payments from people who, under current law, would be uninsured because of the tax, and employers that, under current law, would pay penalties for not offering health insurance coverage that meets certain standards to their employees, and a $2.6 billion increase in revenues from other smaller effects. In addition, CBO and JCT estimate that direct spending would decrease by $18.2 billion over the 2016-2025 period primarily because some of the people who would newly enroll in employment-based coverage in the absence of the excise tax on high-premium plans would have otherwise been enrolled in insurance obtained through Medicaid and exchanges.

Interaction Effects. Repealing the excise tax on high-premium insurance plans would reduce the amount of penalty payments collected from employers and uninsured people. However, those penalties would be eliminated by the repeal of the individual and employer mandates. Therefore, the estimated cost of repealing the excise tax on high-premium insurance plans would be reduced if the provisions of subtitle A were enacted simultaneously. Accounting for the interactions, CBO and JCT project that the total

savings would be $12.1 billion greater over the 2016-2025 period than the net savings from the two provisions when estimated separately.

Net Effects on Health Insurance Coverage

CBO and JCT estimate that the provisions of subtitle A would reduce the number of nonelderly people in the United States with health insurance coverage by about 14 million to 15 million in most years (about 20 percent of those are estimated to be children). Nearly all of that reduction in coverage would arise from repealing the mandate on individuals to obtain health insurance coverage; however, the other provisions in subtitle A would have small effects on coverage as discussed below. Specifically, CBO and JCT estimate:

- Roughly 3 million to 4 million fewer people, on net, would enroll in employment-based coverage. CBO and JCT estimate that 4 million fewer people would enroll in employment-based coverage because fewer employers would offer health insurance coverage to their employees in the absence of the employer mandate and fewer employees would take up such coverage in the absence of the individual mandate. However, CBO and JCT estimate that repealing the excise tax on high-premium insurance plans would offset that loss in employment-based coverage by roughly 500,000 to 1 million people because some employers who are not expected to offer coverage and some employees who are not expected to enroll in coverage under current law because of the tax on high-premium plans would do so.

- Roughly 7 million fewer people would obtain coverage through the nongroup market (including individual policies purchased through the exchanges or directly from insurers in the nongroup market). CBO and JCT estimate that repealing the individual mandate and, to a much lesser extent, repealing the excise tax on high-premium insurance plans would reduce the number of people that seek out and enroll in coverage through the nongroup market; however, that reduction would be partially offset by an increase in nongroup coverage among people who would no longer have an offer of employment-based coverage if the employer mandate was repealed.

- Roughly 4 million fewer people would enroll in Medicaid or CHIP (about 20 percent of those are estimated to be children). Nearly all of that reduction in coverage stems from people—particularly those with taxable income above the tax-filing threshold— who would have been induced to enroll in Medicaid or CHIP because of the existence of the individual mandate and associated penalties.

In years after 2016, CBO and JCT estimate that 41 million nonelderly people, or roughly 15 percent of the nonelderly population, would be uninsured if the provisions in subtitle A

were enacted. By comparison, the agencies project that 26 million to 27 million nonelderly people, or roughly 10 percent of the nonelderly population, will be uninsured under current law in those years.

Subtitle B—Repeal of Independent Payment Advisory Board

The legislation would repeal the provisions of the Affordable Care Act that established the Independent Payment Advisory Board (IPAB) and that created a process by which the board (or the Secretary of the Department of Health and Human Services) would be required under certain circumstances to modify the Medicare program to achieve specified savings.

CBO estimates that repealing the IPAB provision would not have any budgetary impact between 2015 and 2021, but would increase direct spending by $7.1 billion over the 2022-2025 period.[5]

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO and JCT estimate that enacting the legislation would not increase net direct spending in either of the first two consecutive 10-year periods beginning in 2026; at some point the costs of repealing IPAB would exceed the savings from the other provisions, but the agencies cannot determine whether that would occur during the third or fourth 10-year periods after 2026 or later. The agencies estimate that enacting the legislation would increase on-budget deficits by at least $5 billion in each of the four consecutive 10-year periods beginning in 2026.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that subtitle A contains no intergovernmental or private-sector mandates as defined in UMRA. CBO has reviewed the non-tax provision of the legislation (subtitle B) and determined that it contains no intergovernmental or private-sector mandates as defined in UMRA.

5. For a discussion of the CBO's approach to estimating the budgetary effect of repealing the IPAB provision, see *H.R. 1190, Protecting Seniors' Access to Medicare Act of 2015*, June 11, 2015, https://www.cbo.gov/publication/50294

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