CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 4, 2014

H.R. 4118
Suspending the Individual Mandate Penalty Law Equals Fairness Act

As introduced in the House of Representatives on February 28, 2014

SUMMARY

H.R. 4118 would delay the implementation of certain penalties related to the expansion of health insurance coverage established by the Affordable Care Act (ACA, Public Law 111-148 and the health care provisions of Public Law 111-152). The legislation would delay for one year the imposition of penalties associated with the requirement that most residents of the United States have health insurance coverage beginning in 2014. In addition, H.R. 4118 would shift by one year the schedule of penalties for people who do not comply with that mandate.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting H.R. 4118 would reduce federal deficits by roughly $10 billion over the 2014-2019 period and by roughly $9 billion over the 2014-2024 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

JCT has determined that H.R. 4118 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4118 is shown in the following table. The costs of this legislation fall within budget function 550 (health). This estimate assumes enactment in the latter half of fiscal year 2014.

	By Fiscal Year, in Billions of Dollars												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014-2019	2014-2024
CHANGES IN DIRECT SPENDING													
Medicaid and CHIP													
Estimated Budget Authority	-0.9	-2.1	-1.6	-0.8	-0.2	0	0	0	0	0	0	-5.6	-5.6
Estimated Outlays	-0.9	-2.1	-1.6	-0.8	-0.2	0	0	0	0	0	0	-5.6	-5.6
Exchange Subsidies and Related Spending													
Estimated Budget Authority	-0.7	-0.2	-1.0	-0.8	-0.1	*	*	*	*	*	*	-2.8	-2.8
Estimated Outlays	-0.7	-0.2	-1.0	-0.8	-0.1	*	*	*	*	*	*	-2.8	-2.8
Other													
Estimated Budget Authority	-0.1	-0.5	-0.3	-0.2	-0.1	*	*	*	*	*	*	-1.1	-1.1
Estimated Outlays	-0.1	-0.5	-0.3	-0.2	-0.1	*	*	*	*	*	*	-1.1	-1.1
Total Direct Spending Effects													
Estimated Budget Authority	-1.6	-2.8	-2.9	-1.8	-0.4	*	*	*	*	*	*	-9.5	-9.5
Estimated Outlays	-1.6	-2.8	-2.9	-1.8	-0.4	*	*	*	*	*	*	-9.5	-9.5
CHANGES IN REVENUES													
Estimated Revenues	0.4	0.3	-0.2	0.1	0.4	-0.1	-0.2	-0.2	-0.1	-0.2	-0.3	0.9	-0.1
On-Budget	0.2	-0.8	-0.6	-0.2	0.3	-0.1	-0.2	-0.2	-0.1	-0.2	-0.3	-1.2	-2.2
Off-Budget[a]	0.2	1.1	0.4	0.4	0.1	*	*	*	*	*	*	2.1	2.0
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES													
Impact on the Deficit	-2.1	-3.1	-2.7	-1.9	-0.8	0.1	0.2	0.2	0.1	0.2	0.3	-10.4	-9.4
On-Budget	-1.9	-2.1	-2.3	-1.5	-0.7	0.1	0.2	0.2	0.1	0.2	0.3	-8.3	-7.3
Off-Budget[a]	-0.2	-1.1	-0.4	-0.4	-0.1	*	*	*	*	*	*	-2.1	-2.0

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

CHIP = Children's Health Insurance Program; * = savings or costs of 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, most residents of the United States are required to have health insurance coverage beginning in 2014. People who are not exempt and do not comply with the mandate may be charged a penalty that is the greater of a flat dollar amount or a percentage of income in excess of the income threshold for mandatory tax-filing. The flat amount per uninsured adult will rise from $95 per uninsured adult in 2014 to $695 in 2016 and will be adjusted for inflation after that (an overall cap will apply to family payments); the

percentage of income will rise from 1.0 percent in 2014 to 2.5 percent in 2016 and subsequent years (also 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 as defined in the law, unauthorized immigrants, and people who obtain a hardship waiver.

CBO and JCT anticipate that the existence of the mandate and its associated penalties will spur increased enrollment in health insurance coverage, including a significant number of people who have taxable income above the tax-filing threshold and will enroll in either Medicaid or the Children's Health Insurance Program (CHIP). Specifically, CBO and JCT project that, under current law, the existence of the mandate—coupled with the expansion of Medicaid, the availability of subsidies to purchase health insurance through exchanges, and other changes in insurance markets required by law—will increase the number of people with health insurance by 13 million in 2014 relative to what would have happened in the absence of those provisions of law; as a result, the number of uninsured nonelderly people will decrease to 45 million people this year according to CBO's and JCT's estimates.

H.R. 4118 would keep in place the requirement to have health insurance in 2014; however, there would be no penalty payment for failing to comply with that requirement. In addition, the legislation would shift by one year the schedule of penalties for people who do not comply with the mandate, effectively reducing the penalties for not having health insurance in future years. CBO and JCT estimate that delaying those penalties would increase the number of people without health insurance coverage—relative to the current-law projections—by about 1 million people in 2014, resulting in an estimated 46 million uninsured this year. That increase in the uninsured population would consist of roughly half a million fewer individuals with coverage under Medicaid or CHIP, and roughly half a million fewer individuals with employment-based coverage or coverage obtained in the individual market (including individual policies purchased in the exchanges or directly from insurers in the nongroup market).

The effects of H.R. 4118 in 2014 would be less than they would be if the legislation had been enacted before October 2013 when the open enrollment period for obtaining health insurance through exchanges began. In particular, CBO and JCT anticipate that some people who would not have signed up for health insurance coverage without the mandate will keep coverage for which they will have signed up by the time the penalty would be removed.

Because the penalties associated with the mandate would be lower in 2015 and future years under the legislation than under current law, CBO and JCT also project incremental increases in the uninsured population in years after 2014. Specifically, CBO and JCT estimate that there would be increases of 2 million uninsured in 2015 and 1 million

uninsured in 2016, and changes in the uninsured population of less than 500,000 in later years.

Because of those projected changes in insurance coverage, CBO and JCT estimate that H.R. 4118 would result in net budgetary savings to the federal government of $9.4 billion over the 2014-2024 period. That projected reduction in federal deficits reflects a $9.5 billion decrease in direct spending and a $0.1 billion net decrease in revenues over the 2014-2024 period. That net revenue decrease comprises a decrease in on-budget revenues of nearly $2.2 billion and an increase in off-budget (Social Security) revenues of about $2.0 billion, CBO and JCT estimate.

The estimated decrease in direct spending arises partly because CBO estimates that outlays for Medicaid and CHIP would be $5.6 billion lower over the 2014-2024 period under H.R. 4118 than under current law, as a result of fewer people enrolling in those programs.

In addition, CBO and JCT estimate that enacting H.R. 4118 would reduce outlays for exchange subsidies and related spending, on net, by $2.8 billion over the 2014-2024 period. That amount consists of:

- An estimated $2.9 billion reduction in outlays for premium and cost-sharing subsidies, which reflects fewer people obtaining subsidized coverage through the insurance exchanges;[1]

- An estimated $0.1 billion increase in outlays for the risk corridor program. Delaying penalties associated with the mandate is expected to reduce insurance coverage in 2014 to a smaller extent among older and less healthy people than among younger and healthier people, thereby leading to higher average medical claims per enrollee than were anticipated by insurers at the time they set their premiums for 2014. Because insurers would not be able to change their 2014 premiums to reflect the increase in expected medical claims, some of those added costs would be borne by the government under the risk corridor program. CBO estimates that collections for the risk corridor program will also fall by $0.l billion, thereby reducing CBO's projection of net program receipts by $0.2 billion.[2]

Further, CBO and JCT estimate that enacting H.R. 4118 would reduce outlays by an additional $1.1 billion because of changes in the amounts of refundable tax credits owing to shifts in the mix of taxable and nontaxable compensation (discussed below).

1. Subsidies for health insurance premiums are structured as refundable tax credits; the portions of such credits that exceed taxpayers' liabilities are classified in the budget as outlays, while the portions that reduce tax payments are reflected in the budget as reductions in revenues. CBO and JCT estimate that exchange subsidies would fall by $3.3 billion over the 2014-2024 period. Of that amount, $2.9 billion would be classified as a decrease in outlays and $0.4 billion would be classified as an increase in revenues (which are discussed below).

2. The reduction in risk corridor collections of $0.1 billion is incorporated in the estimate as a change in revenues.

Two effects account for most of the estimated $0.1 billion decrease in net revenues over the 2014-2024 period that would result from enacting H.R. 4118. Tax revenues would be higher by an estimated $6.0 billion because, without the penalties associated with the mandate in 2014, fewer people would take up employment-based health insurance coverage. That change would lead to a larger share of total compensation taking the form of taxable wages and salaries and a smaller share taking the form of nontaxable health benefits.

In the other direction, the legislation would eliminate all revenues associated with penalties charged to uninsured individuals in 2014. (Under current law, penalties assessed for 2014 would be collected in 2015.) In addition, the one-year shift in the schedule of individual mandate penalties would reduce revenues collected from those penalties relative to what would occur under current law in most other years (although that loss would be greatest during the three-year phase-in period beginning in 2015). In total, CBO and JCT estimate that mandate penalty collections would be $6.3 billion lower over the 2014-2024 period. Other effects account for the remaining $0.2 billion net increase in revenues.

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.

CBO Estimate of Pay-As-You-Go Effects for H.R. 4118, as introduced in the House of Representatives on February 28, 2014

	By Fiscal Year, in Millions of Dollars												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014-2019	2014-2024
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	-1,866	-2,050	-2,294	-1,511	-703	100	197	152	115	218	331	-8,324	-7,310
Memorandum:													
Changes in Outlays	-1,631	-2,823	-2,905	-1,756	-361	-7	0	1	0	-2	-3	-9,484	-9,487
Changes in Revenues[a]	235	-773	-611	-245	342	-108	-196	-152	-116	-220	-334	-1,160	-2,177

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

a. Negative revenues indicate increases in the deficit.

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 H.R. 4118 contains no intergovernmental or private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATES

On September 6, 2013, CBO transmitted a cost estimate for H.R. 2668, as passed by the House of Representatives on July 17, 2013. The legislative language of title I of H.R. 2668 is similar to the legislative language of H.R. 4118. Both bills would delay the application of penalties associated with the individual mandate for 2014 and would shift by one year the schedule of penalties for people who do not comply with that mandate. H.R. 2668 goes further than H.R. 4118 by also repealing the requirement that people purchase health insurance in 2014. The main difference in the estimates for the two bills arises from a difference in the likely enactment date. H.R. 2668 was assumed to be enacted prior to the beginning of the open enrollment period for health insurance exchanges and thus was expected to have a greater effect on the decision of whether to buy health insurance coverage for many more people than H.R. 4118.

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