



Congressional Budget Office

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**Economic Effects
of the March Health Legislation**

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**Douglas W. Elmendorf
Director**



March Legislation

- The Patient Protection and Affordable Care Act, and the Health Care and Education Reconciliation Act:
 - Expansion of insurance coverage.
 - Changes in Medicare.
 - Revenue increases.

- The economic effects of the legislation can be divided into two pieces:
 - The effects on the five-sixths of the economy outside the health sector.
 - The effects on the health sector itself.



Effects on the Economy Outside the Health Sector

- The most significant effects will be through the labor market—but those effects will probably be small.
- The legislation will affect some individuals' decisions about whether and how much to work, and some employers' decisions about hiring workers. We estimated that the legislation, on net, will reduce the amount of labor used in the economy by roughly half a percent, primarily by reducing the amount of labor that workers choose to supply.



Effects on the Economy Outside the Health Sector (continued)

- The net reduction in the supply of labor is largely attributable to the substantial expansion of Medicaid and the provision of subsidies through the exchanges.

- Other provisions of the legislation will also affect supply of labor or firms' demand for certain types of workers:
 - Changes to the insurance market.
 - Increase in the payroll tax rate.
 - Excise tax on high-premium insurance plans.
 - Penalties for firms that do not offer insurance.
 - Demand for workers in health care and insurance.



Effects on the Health Sector

- Total spending on health care now accounts for about 15 percent of GDP, and CBO projects that it will represent more than 25 percent by 2035. Therefore, changes in the performance of this part of the economy are increasingly critical to the performance of the economy as a whole.
- It may be useful to frame the discussion by asking, What effects were the advocates of the legislation hoping for?



One Goal: More Health Care for People Who Would Have Been Uninsured in the Absence of the Law

- The legislation will achieve this goal. We projected that 32 million fewer people will be uninsured in 2019 because of the legislation.
- Previous research suggests that, all else equal, gaining insurance coverage will increase an individual's demand for health services by about 40 percent. This would represent an expansion of the health sector of the economy equal to an increase in total health services of a few percent.



Another Goal: Less Unnecessary Spending

- The legislation will probably achieve this goal only to a very limited extent, at least during the next decade.
- Reasons for optimism about government policy:
 - There seems to be a lot of unnecessary spending.
 - Consensus exists about broad types of changes.
- Reasons for skepticism about government policy:
 - Someone's wasted spending is someone's income.
 - Significant savings probably require fundamental changes in organization and delivery of health care.
 - Significant savings means no longer performing services that do not improve health. How will those decisions be made?



Policy Lever: Regulation of Private Health Insurance

- Administrative costs will be reduced.
- Health care spending will also be reduced by increased competition among insurers in the nongroup market.
- The overall effect on spending from those changes will be a very small reduction.



Policy Lever: Tax Treatment of Employer-Sponsored Health Insurance

- The legislation imposes an excise tax on employment-based policies whose total premium exceeds a specified threshold. Most employers will respond to the tax by offering policies with premiums at or below the threshold.
- Plans will achieve lower premiums by reducing spending, primarily through greater cost sharing (which will also lower total spending on health care) and more stringent benefit management.
- The impact will be muted in the near term because the excise tax will not take effect until 2018.



Policy Lever: Management of Medicare

- Reduce payments to Medicare providers:
 - Impose greater pressure on providers to increase efficiency in the delivery of care.
 - Save the federal government about \$400 billion over next decade, some of which represents reductions in national health spending.
 - How long can these cuts be sustained? CBO projects that Medicare spending will increase significantly more slowly during the next two decades than during the past two decades (per beneficiary, after adjusting for overall inflation). Would it be accomplished through greater efficiencies or reductions in access or quality?



Policy Lever: Management of Medicare (continued)

- Change payments rules and structures to induce providers to offer higher-quality and lower-cost care:
 - The legislation sets up a number of experiments in delivery and payment systems.
 - Those experiments are important, not just for Medicare but also because of positive spillovers. But it is unclear how successful the experiments will be.
 - Little reliable evidence about exactly how to move Medicare in the directions that experts support.
 - Need to measure quality or value of care.
 - Unknown how CMS and HHS will administer the law.
 - The legislation included important limitations in the experimentation that will occur.



Policy Lever: Management of Medicare (continued)

- CBO projects limited savings from the experiments in delivery and payment systems during the next decade. That estimate reflects what we believe to be the middle of the distribution of possible outcomes—including a small probability of much larger savings.
- The issue is not whether efficiencies can be achieved in principle, but the extent to which the legislation enacted in March will cause such efficiencies to be achieved in practice.



Conclusion: CBO's Analysis of the March Legislation

- The legislation will reduce the amount of labor used in the economy by roughly half a percent, primarily by reducing the amount of labor that workers choose to supply.
- The legislation will increase spending on health care for people who would have been uninsured in the absence of the legislation.
- The legislation will decrease spending on health care for people who would be insured with or without the legislation. The magnitude of that decrease, and the extent to which it will be achieved through greater efficiencies in the delivery of care or through reductions in access to care or quality of care, are unclear.