



Congressional Budget Office

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An Overview of CBO's Estimates of Federal Subsidies for Health Insurance for People Under Age 65: 2017 to 2027

Presentation at the Inforum Outlook Conference,
University of Maryland, College Park

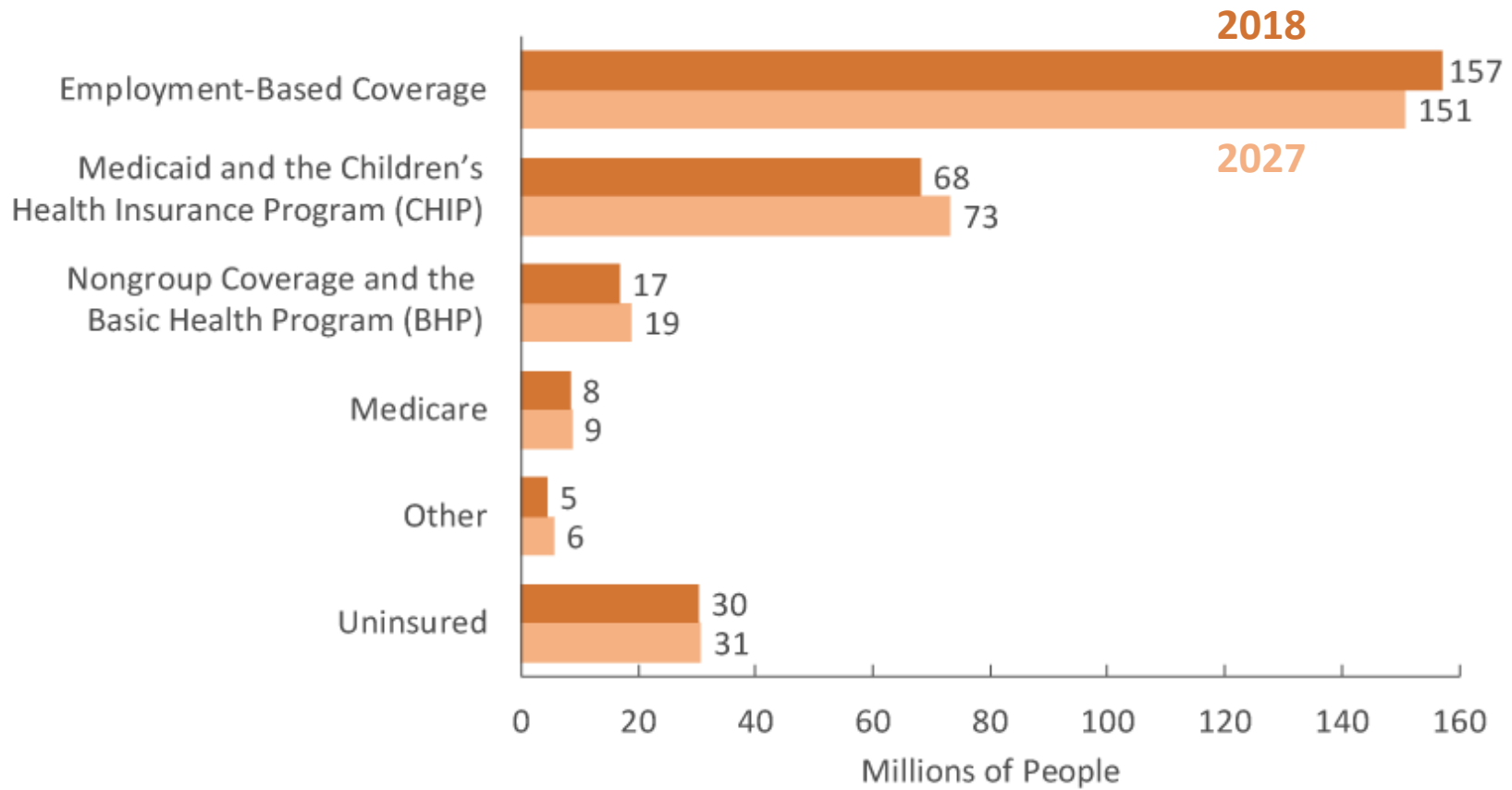
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CBO and JCT's Current Projections

Health Insurance Coverage for People Under Age 65



Net Federal Subsidies Associated With Health Insurance for People Under Age 65

Billions of Dollars

	2027	Total, 2018–2027
Tax Benefits for Work-Related Coverage	487	3,897
Medicaid and CHIP	508	4,017
Subsidies Through Marketplaces and Related Spending and Revenues	90	773
Medicare	124	1,011
Employer and Individual Penalty Payments ¹	-33	-258
Excise Tax on High-Premium Insurance Plans ¹	-6	-29
Tax on Health Insurance Providers	<u>-21</u>	<u>-166</u>
Net Subsidies	1,150	9,245

1. Excludes the effects on revenues of changes in taxable compensation. Those effects are included in the estimate of tax benefits for work-related coverage.

Methods

To inform their estimates of the numbers of people with certain types of coverage and the associated federal budgetary costs, CBO and the Joint Committee on Taxation (JCT) use:

- A health insurance simulation model,
- Models to project tax revenues,
- Models of actions and spending by states,
- Projections of trends in early retirees' health insurance coverage, and
- Other available information.

Health Insurance Simulation Model (HISIM)

The model incorporates a wide range of information, including:

- Data on a representative sample of individuals and families, including their income, employment status, health status, and health insurance coverage;
- Research literature on the responsiveness of individuals and employers to price changes and on the responsiveness of individuals to changes in their eligibility for public coverage; and
- Data on workers' wages and other characteristics from surveys of employers that are used to simulate employers' decisions to offer insurance.

Health Insurance Simulation Model (Continued)

The model also incorporates a number of features in the way it models individuals' enrollment decisions:

- Individuals' decisions to enroll in coverage are a function of changes in price.
- Other factors that influence individuals' decisions to enroll are translated into parameters that amplify or diminish the price changes.
- Marketplace premiums are a function of the health characteristics of enrollees, so they are affected by individuals' decisions.

How Have CBO and JCT's Projections Changed Since March 2016?

Net Federal Subsidies in 2018 for Work-Related Coverage and Coverage Established by the ACA

Billions of Dollars

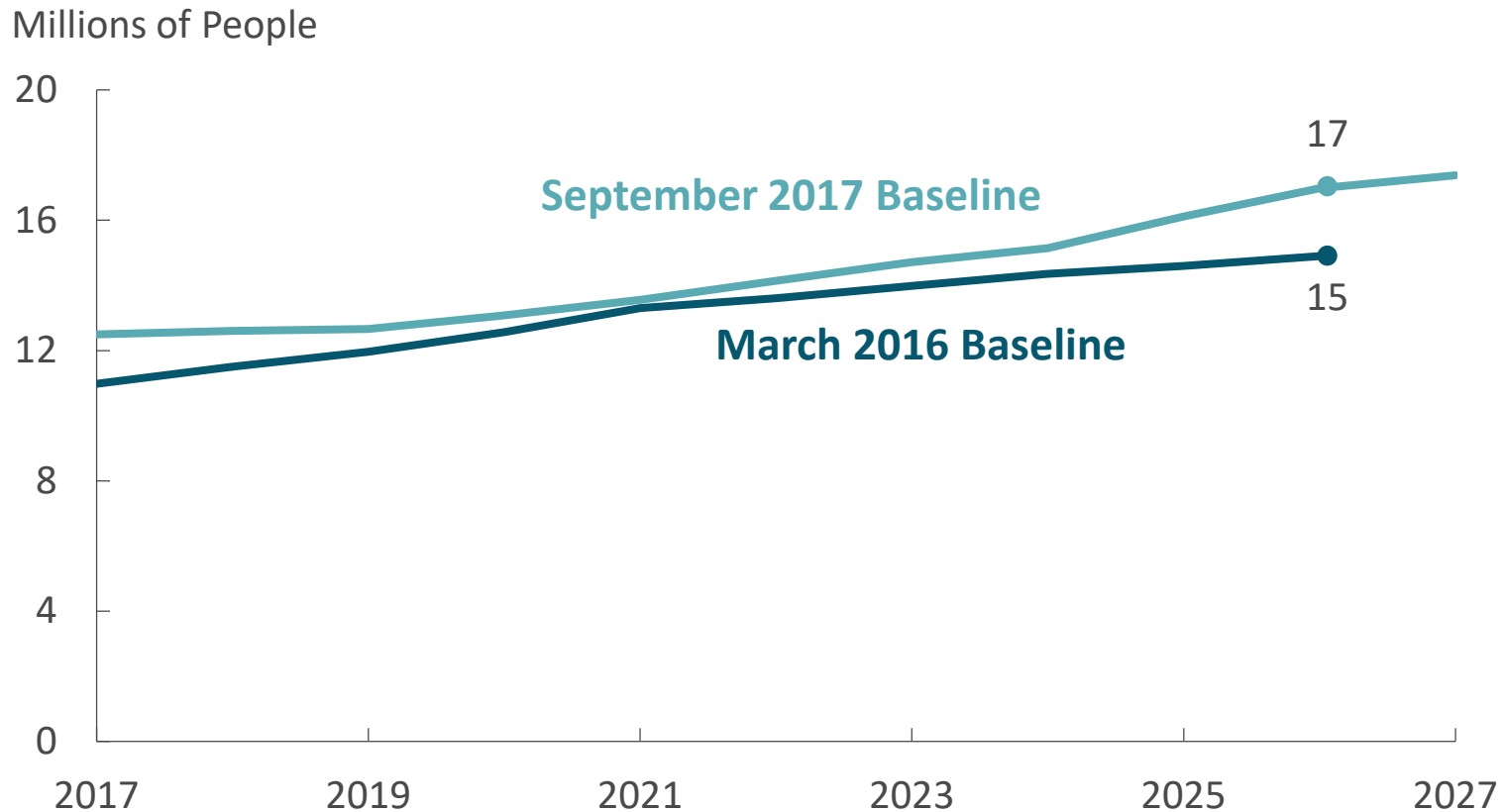
	Date of Baseline Projection		
	March 2016	January 2017	September 2017
Subsidies for Work-Related Coverage	302	-	306
Medicaid Outlays for People Made Eligible for the Program by the ACA	71	73	76
Subsidies Through Marketplaces and Related Spending and Revenues	70	63	62

Key Sources of Revisions to Projections

- New data from administrative enrollment records and recent surveys allow CBO to calibrate its models.
- HISIM is updated for revised population projections, including updates to immigration estimates.
- HISIM is updated to reflect CBO's latest macroeconomic forecast, which includes forecasts of changes in labor force participation, overall wage and income growth, and changes in the distribution of wage and income growth by type of family.
- Models of states' actions, which are based on their past behavior, are updated to reflect new information.

Medicaid and CHIP Coverage

Enrollment in Medicaid of People Made Eligible by the Affordable Care Act (ACA)



Reasons for Revisions to Projections of Medicaid and CHIP Enrollment

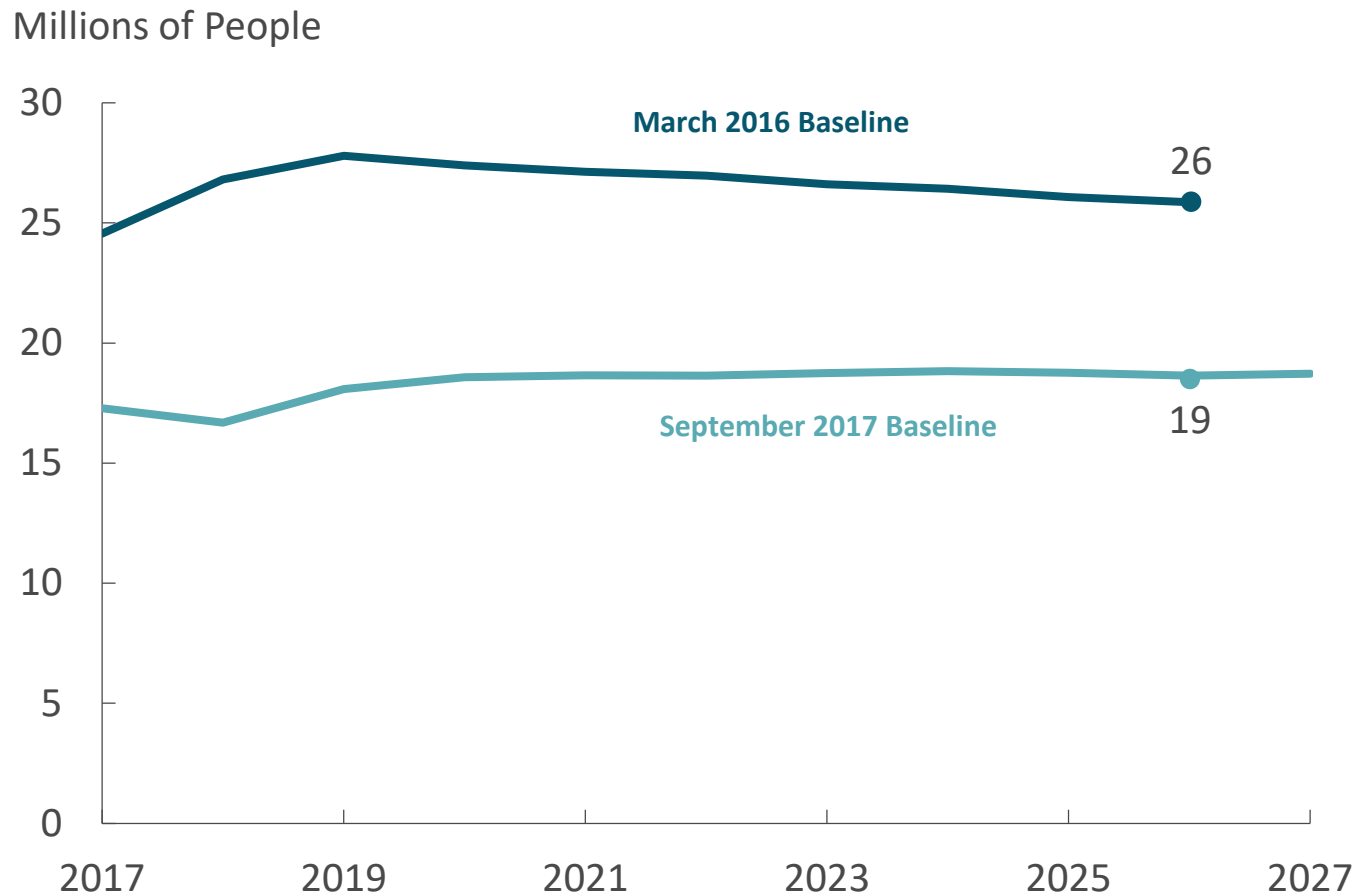
CBO has increased its March 2016 projections of enrollment of people made eligible for Medicaid by the ACA by between 1 million and 2 million people in most years, mainly because a larger share of people who are eligible are projected to enroll.

Factors that may be contributing to higher-than-expected enrollment rates include:

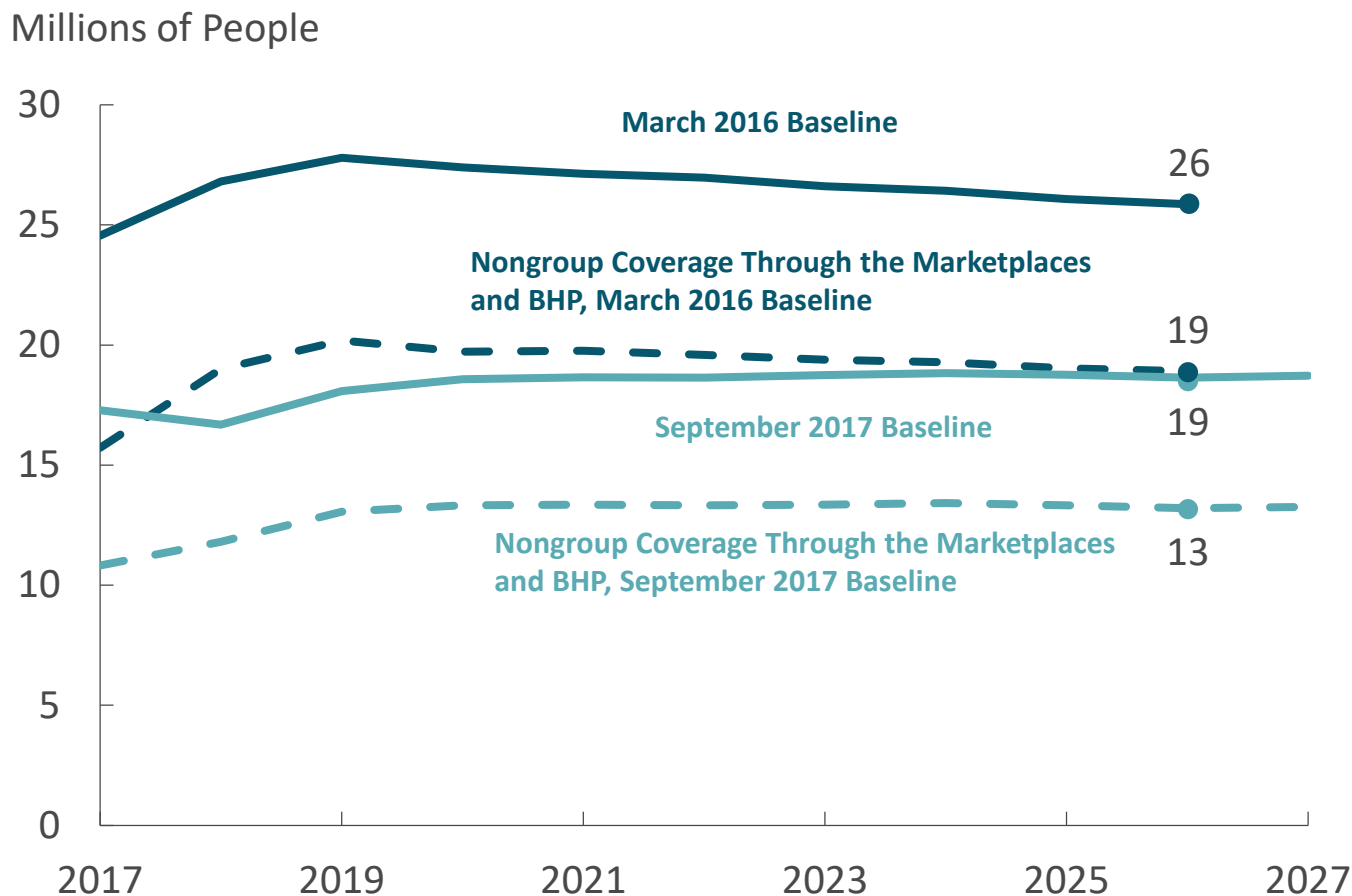
- Increased awareness,
- Less burdensome application processes, and
- Responses to penalties, reduced stigma, or changes in social norms related to the individual mandate.

Nongroup Coverage and the Basic Health Program (BHP)

Nongroup Coverage and the Basic Health Program



Nongroup Coverage and the Basic Health Program (Continued)



Reasons for Revisions to Projections of Marketplace Enrollment and Nongroup Coverage

- Recent data indicate that the enrollment rate of people eligible for premium subsidies is lower than CBO and JCT projected. The agencies now estimate that consumers are less interested in plans offered through the marketplaces than originally anticipated and that enrollment will be relatively flat in the future.
- The agencies expect lower enrollment in 2018 than they did in past projections because they anticipate that insurers' uncertainty about cost-sharing reduction payments will result in higher premiums.
- The federal government announced that it will spend less on advertising and enrollment efforts, and it shortened the open-enrollment period.
- For the next few years, CBO and JCT anticipate, fewer people will be eligible for subsidized nongroup coverage than originally projected because more employers will offer coverage—continuing a trend observed in survey data.

CBO and JCT's Process of Preparing a Cost Estimate for a Major Health Insurance Coverage Proposal

From Baseline to Cost Estimate

- The baseline reflects coverage, spending, and revenues under the assumption that current law does not change.
- A cost estimate projects changes (in relation to the baseline) in coverage, spending, and revenues that would result if the proposed policy became law.
- Thus, a cost estimate's projections depend on the baseline used and will differ when a proposal's effects are measured against a new baseline.

Who Prepares a Cost Estimate?

- CBO and the staff of JCT use a multistep process to prepare a cost estimate for a major proposal that would significantly change health insurance coverage for people under age 65.
 - CBO leads the effort on estimating changes in coverage and federal spending.
 - JCT leads the effort on estimating tax-related budgetary effects.
- The process involves a team of analysts who read and analyze the proposal, consult with outside experts, review existing evidence, analyze states' behavior, and use several models to inform their cost estimate.

Nine Major Steps in Preparing an Estimate

- Read and analyze proposal
- Assess implementation and timing
- Consult with outside experts and review evidence
- Model potential actions by states
- Prepare Health Insurance Simulation Model (HISIM)
 - Set values for factors specified in proposal
 - Use other models to calculate values for factors not specified in proposal
- Analyze proposal in HISIM and review output
- Analyze proposal in Medicaid Cost and Coverage Model
- Analyze proposal in JCT's Individual Tax Model
- Produce and review final output