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

Congressional Research Service Seminar:
Congressional Budget Office Methodology
in Developing Cost Estimates

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Current Projections by
CBO and the Joint
Committee on Taxation
(JCT)

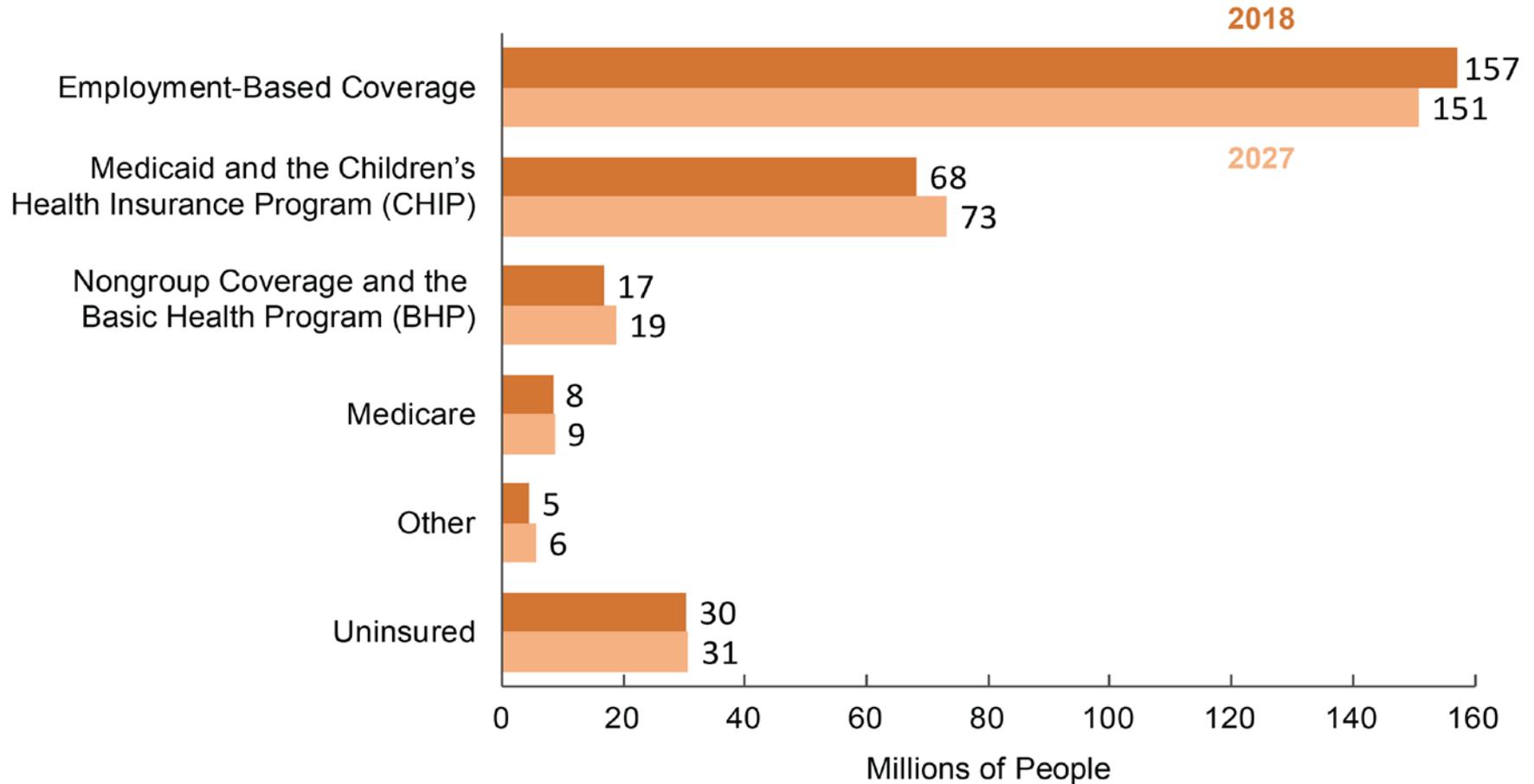
What Is CBO's Baseline?

- CBO's baseline shows health insurance coverage, spending, and revenues under the assumption that current law does not change. Current law reflects all current laws, regulations, and policies that govern spending.
- The baseline is not intended to be a prediction of the future.
- It is a projection of what would happen if there were no changes to current law.
- The baseline is the “base” from which changes are measured when developing cost estimates of proposals to change current law.

CBO's September 2017 Projections

- Today's presentation describes projections published in September 2017.
- CBO and JCT are working to update those projections to account for the enactment of Public Law 115-97, which repealed the penalties related to the individual health insurance mandate starting in 2019, as well as to incorporate new data and other information.
- Fully updated projections will be published in a few months.

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 ^a	-33	-258
Excise Tax on High-Premium Insurance Plans ^a	-6	-29
Tax on Health Insurance Providers	<u>-21</u>	<u>-166</u>
Net Subsidies	1,150	9,245

a. 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 JCT use:

- A health insurance simulation model,
- Models to project tax revenues,
- Models of actions and spending by states in their Medicaid and CHIP programs,
- 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 changes in the price of insurance 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 Affordable Care Act (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

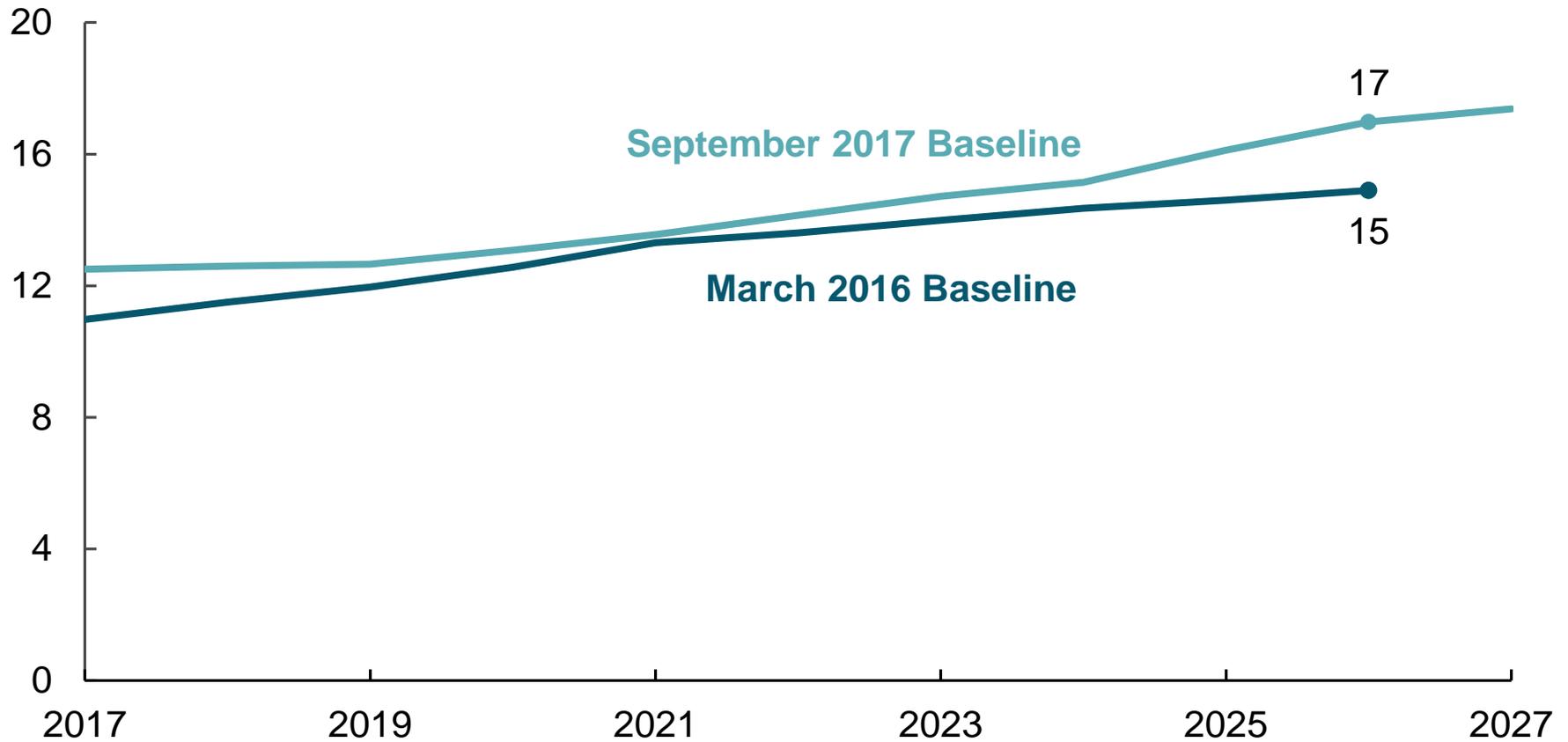
Key Sources of Revisions to Projections

- Changes in legislation are incorporated into CBO's models.
- New data from administrative enrollment records and recent surveys, as well as new evidence from academic and other sources, 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 ACA

Millions of People



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.

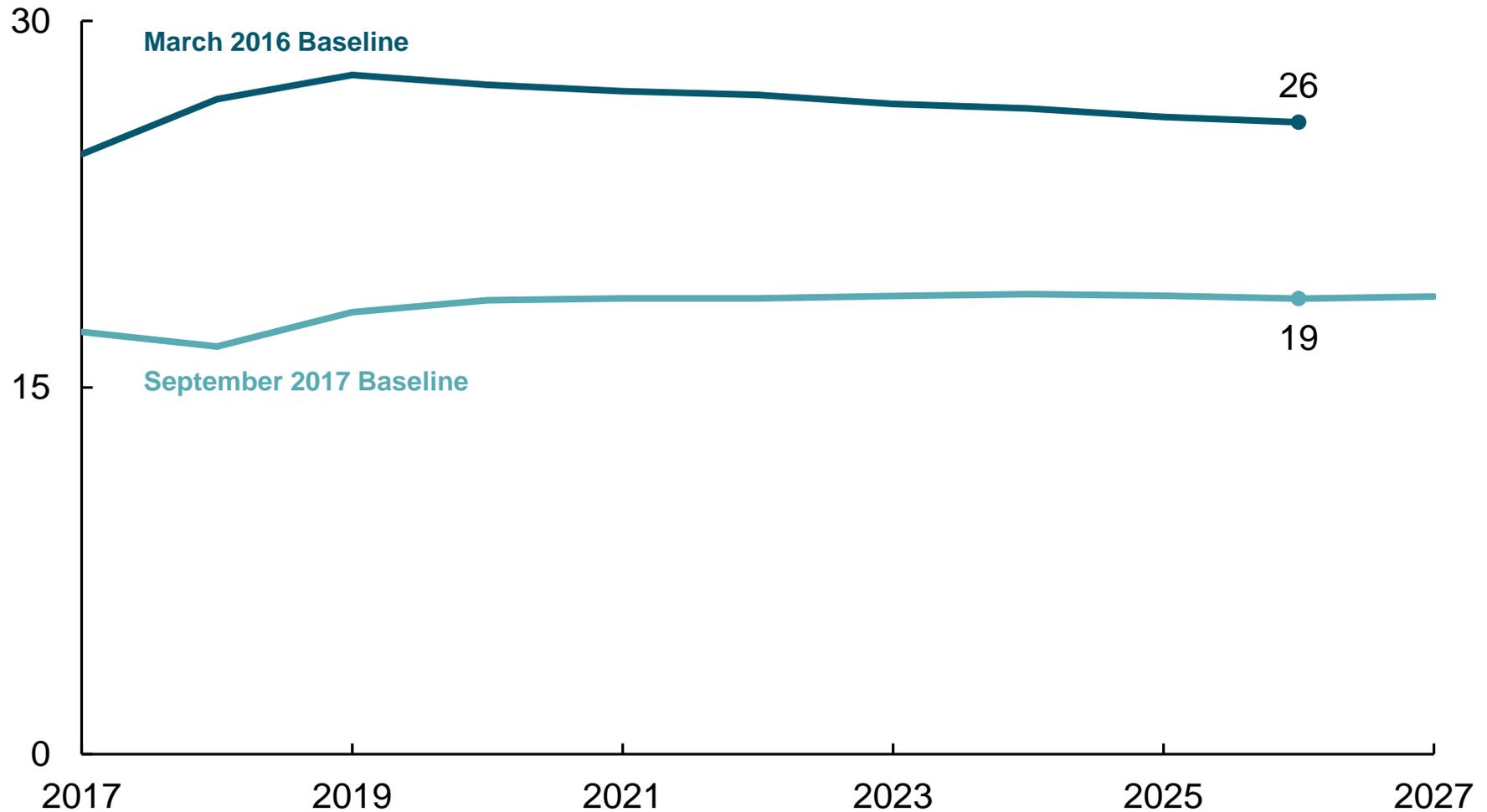
Factors that may be contributing to higher-than-expected enrollment rates include:

- 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

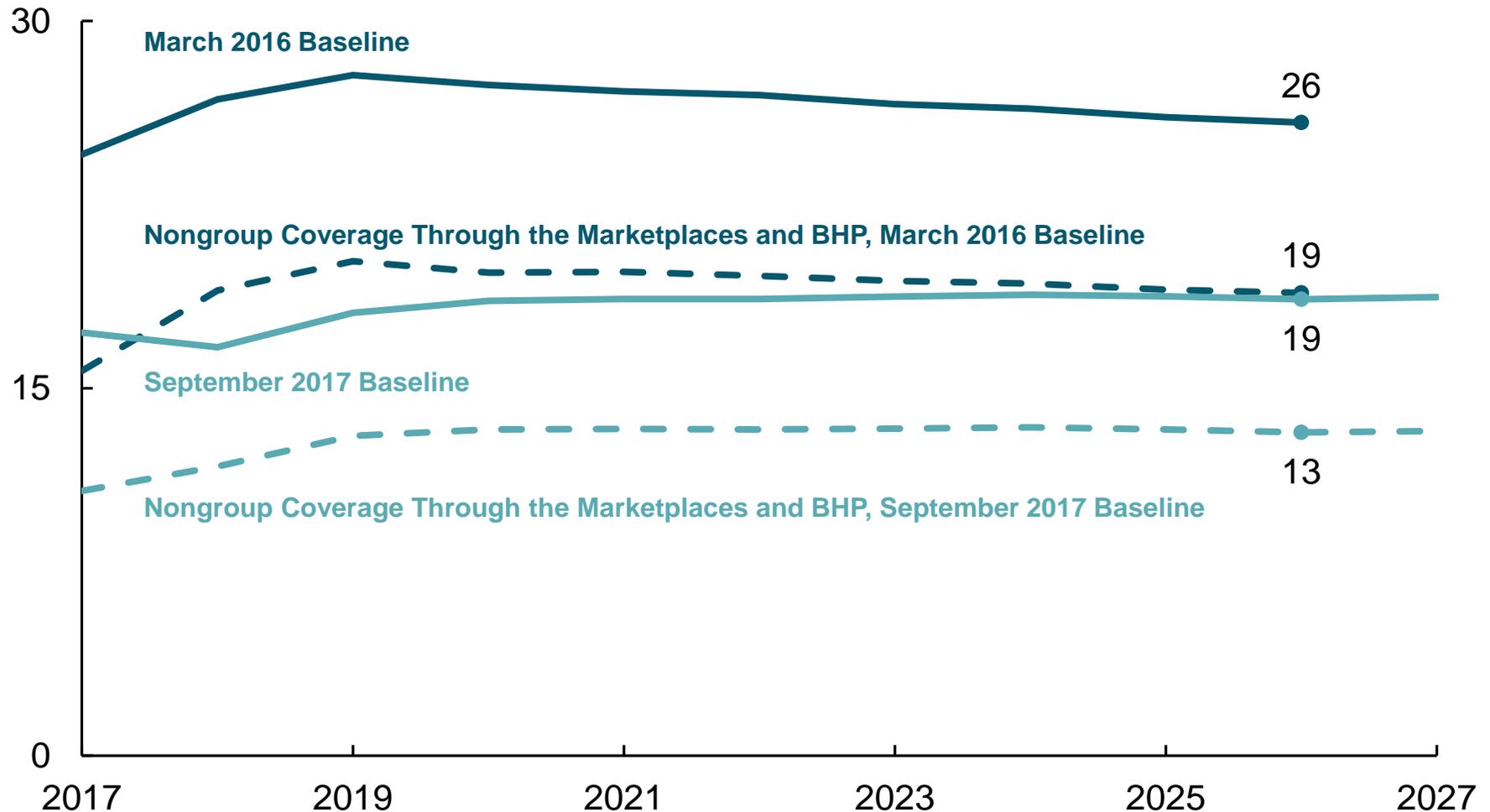
Nongroup Coverage and the Basic Health Program

Millions of People



Nongroup Coverage and the Basic Health Program (Continued)

Millions of People



Reasons for Revisions to Projections of Marketplace Enrollment and Nongroup Coverage

- Data that became available in 2017 indicated that the enrollment rate of people eligible for premium subsidies was 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 expected lower enrollment in 2018 than they did in past projections because they anticipated that insurers' uncertainty about cost-sharing reduction payments would result in higher premiums.
- The federal government spent 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 employers will offer coverage—continuing a trend observed in survey data.

The Difference Between a Baseline and a Cost Estimate

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.

Related Publications

Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2017 to 2027* (September 2017), www.cbo.gov/publication/53091.

Congressional Budget Office, *CBO's Record of Projecting Subsidies for Health Insurance Under the Affordable Care Act: 2014 to 2016* (December 2017), www.cbo.gov/publication/53094.

Congressional Budget Office, *Repealing the Individual Health Insurance Mandate: An Updated Estimate* (November 2017), www.cbo.gov/publication/53300.

Alexandra Minicozzi, Unit Chief of the Health Insurance Modeling Unit, Congressional Budget Office, “Modeling the Effects of the Individual Mandate on Health Insurance Coverage” (presentation at the annual meeting of the American Academy of Actuaries, November 14, 2017), www.cbo.gov/publication/53310.

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