



# Congressional Budget Office

January 10, 2018

## **Estimating the Costs of Proposals Affecting Health Insurance Coverage**

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

Sarah Masi

Budget Analysis Division

# Cost Estimates: What They Are and Why CBO Prepares Them

# What Is a Cost Estimate?

A cost estimate tells a concise story about the projected budgetary effects of a legislative proposal over a specified period.

Cost estimates identify the type of federal budgetary effect, as well as any mandates imposed on state, local, and tribal governments and the private sector.

# Why Does CBO Prepare Cost Estimates?

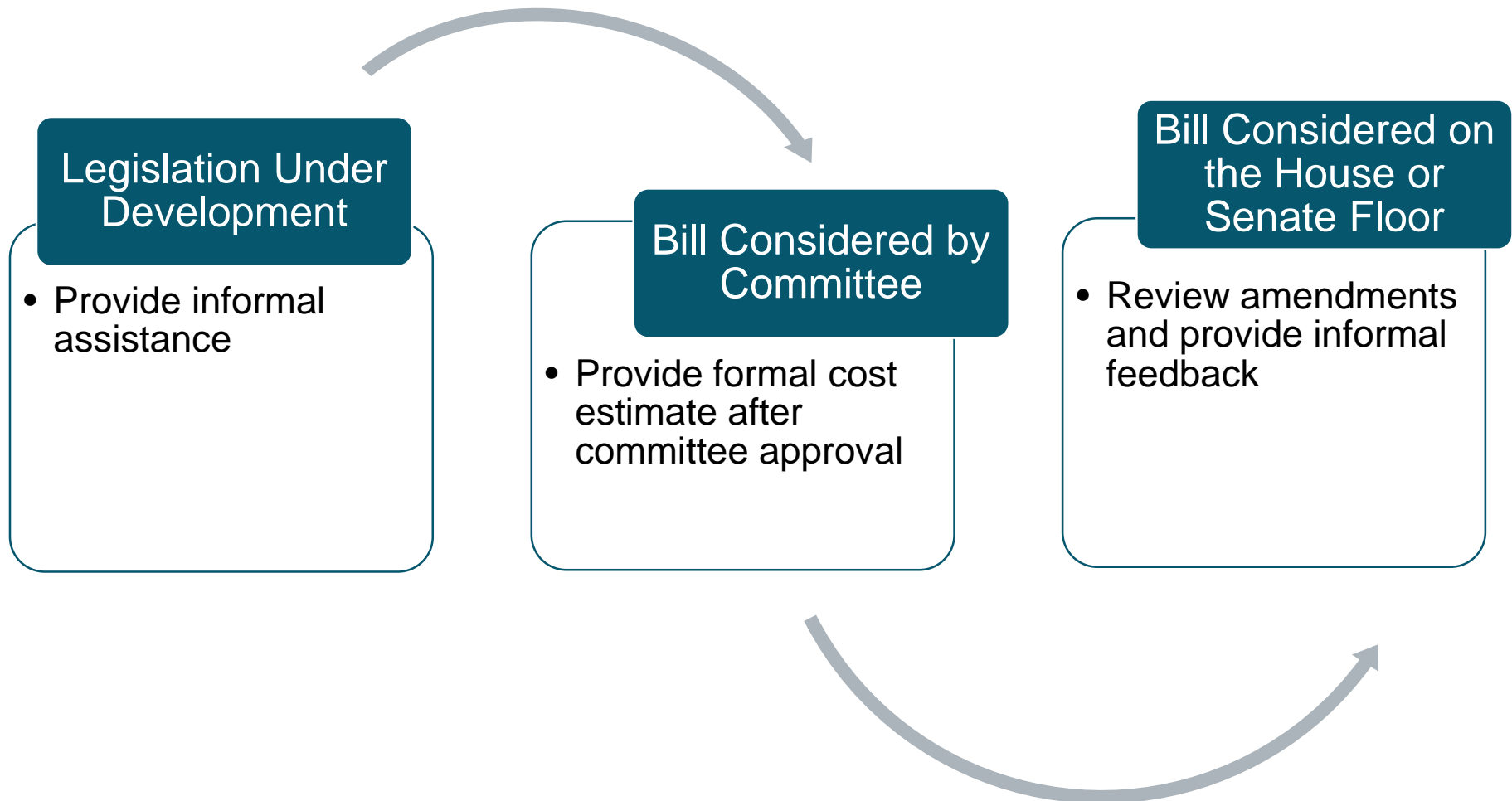
CBO is required to assist the Congress with estimating the budgetary effects of legislation.

That requirement is found in sections 202 and 402 of the Congressional Budget and Impoundment Control Act of 1974.

CBO's estimates are tools that the Congress can use to implement rules and procedures related to budget enforcement.

As section 201(f) requires, for tax legislation, CBO uses estimates provided by the staff of the Joint Committee on Taxation (JCT), a separate group that works closely with the Congressional tax-writing committees.

# When in the Process Does CBO Prepare Formal and Informal Estimates?



# Example of a Cost Estimate: Repealing the Individual Mandate

# The Individual Mandate: Background

The Affordable Care Act (ACA) included an individual mandate—a requirement that most people obtain health insurance or pay a penalty tax if they were not exempt.

In November 2017, CBO and JCT published an updated estimate of the effects of repealing the individual mandate. The process for producing that estimate is outlined here to illustrate how cost estimates are created.

*Note: After CBO and JCT published that estimate, the penalty for not having insurance was reduced to zero (beginning in 2019) as part of Public Law 115-97.*

# The Individual Mandate: Background (Continued)

The penalty paid by a household equaled the greater of two amounts:

- A fixed charge (\$695 in 2016) for every uninsured adult in the household plus half that amount for every uninsured child, or
- 2.5 percent of the household's income above the income tax filing threshold.

Penalties were subject to caps and prorated.

Many uninsured people were exempt from paying a penalty.



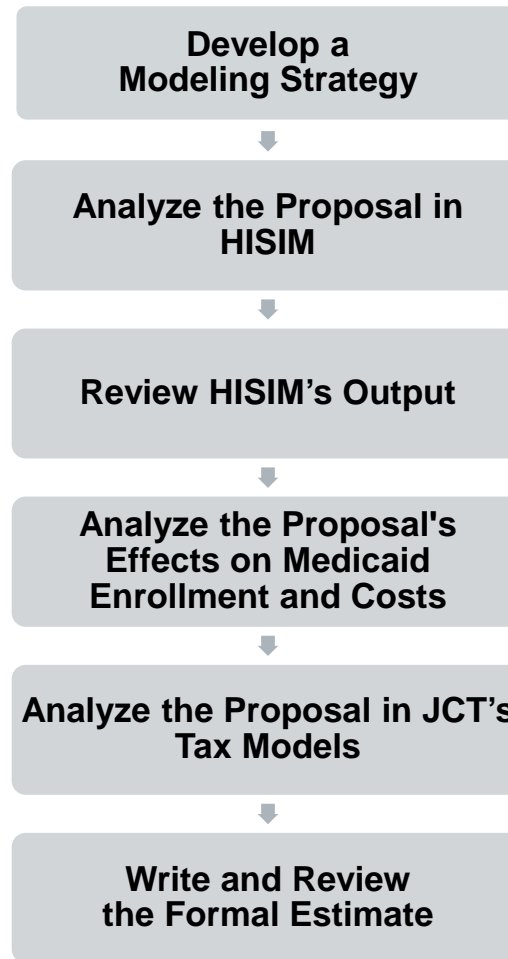
# The Individual Mandate: Background (Continued)

How does the existence of an individual mandate affect the federal budget?

- Penalties for not having insurance increase revenues and therefore decrease federal deficits;
- More people enroll in health insurance coverage, which increases federal costs for insurance coverage that is subsidized by the federal government; and
- Premiums are lower in the nongroup market because healthier people are more likely to obtain insurance.

# The Process for Estimating the Costs of Proposals Affecting Health Insurance Coverage

# Steps in CBO's and JCT's Estimating Process



# Step One: Develop a Modeling Strategy

In reviewing the proposal, CBO and JCT:

- Read the legislative language in the context of current law;
- Identify how the proposal could affect the federal budget and sources of health insurance;
- Project potential actions by states under the proposal;
- Identify what regulations and infrastructure would need to be in place to implement the proposal; and
- Consider how quickly stakeholders would be able to respond to the proposal and how those responses might change over time.

## Step One: Develop a Modeling Strategy (Continued)

CBO and JCT review existing evidence and solicit input about a proposal's potential effects from a variety of sources:

- Think tanks and academics with expertise;
- Industry experts, such as state insurance commissioners, insurers, and actuaries;
- CBO's Panel of Health Advisers; and
- Affected federal agencies.

# Example of Step One: Repealing the Individual Mandate

When reviewing legislative language to repeal the individual mandate, analysts considered:

- Whether both the mandate and the associated penalties would be repealed or the mandate would remain in place while the penalties were reduced to zero;
- Which year the mandate or penalties would be changed in; and
- Whether individuals would get refunds for penalties paid in earlier years.

## Example of Step One: Repealing the Individual Mandate (Continued)

Analysts also considered these key questions related to people's and insurers' responses to the proposal:

- Would those responses occur immediately or gradually?
- Would insurers want to continue to participate in the marketplaces created by the ACA?
- Would participating insurers have enough time to incorporate the change into their premium rates for the first year in which the mandate was repealed?

## Example of Step One: Repealing the Individual Mandate (Continued)

In modeling such responses before the enactment of the ACA, CBO's microsimulation model drew on empirical evidence from Massachusetts' experience with an individual mandate, as well as evidence about responses to other state mandates, such as car insurance and driver's licenses.

The agencies also reviewed more recent empirical evidence on the effects of the individual mandate on health insurance coverage.

And given the limited empirical evidence, CBO and JCT sought input from a range of outside experts.



## Step Two: Analyze the Proposal in HISIM

CBO and JCT estimate changes in health insurance coverage and changes in nongroup premiums with CBO's Health Insurance Simulation Model (HISIM)—along with other models as needed.

HISIM models how individuals' and employers' choices about insurance coverage might change on the basis of the relative price and generosity of the different health insurance options available.

On the basis of administrative and survey data, the model incorporates a wide range of information about a representative sample of individuals and families, including their income, employment, health status, and health insurance coverage.

## Step Two: Analyze the Proposal in HISIM (Continued)

When modeling a proposal with HISIM, analysts first set values for variables that are based on the proposal's specifications, such as changes in subsidies or tax penalties.

Because HISIM simplifies how individuals and employers make coverage choices, CBO and JCT must then additionally account for complex aspects of the proposal that would affect:

- States' behavior;
- The timing of individuals' and employers' responses; and
- Insurers' participation and market stability.

## Example of Step Two: Repealing the Individual Mandate

First, as a result of a reduction in the relative cost of being uninsured, HISIM estimated that some people would no longer enroll in health insurance coverage.

Shift in Effective Price = Effective Penalty + Shift Attributable to Nonfinancial Factors

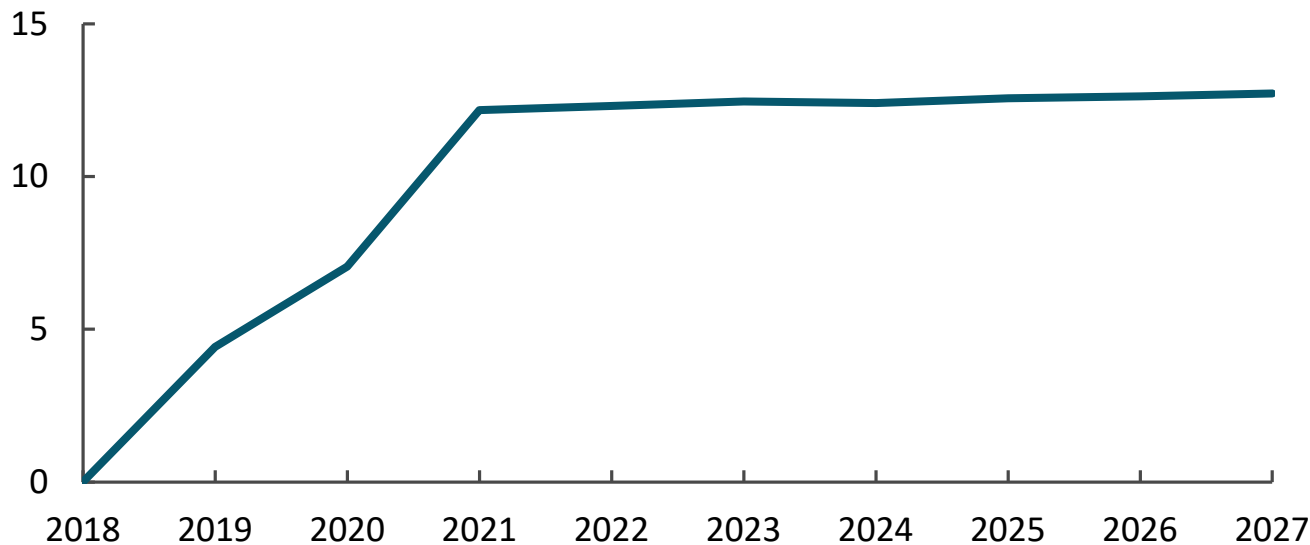
  
Statutory Penalty Amount \* Probability That Penalty Is Collected

Second, HISIM modeled an increase in the price of insurance through the nongroup market because healthier people would be most likely to no longer enroll in health insurance.

## Example of Step Two: Repealing the Individual Mandate (Continued)

In addition, CBO and JCT incorporated an expectation that individuals' and employers' full reaction to the elimination of the individual mandate would phase in gradually.

**Change in Number of Uninsured People Under Repeal of the Individual Mandate**  
Millions of People, by Calendar Year



## Step Three: Review HISIM's Output

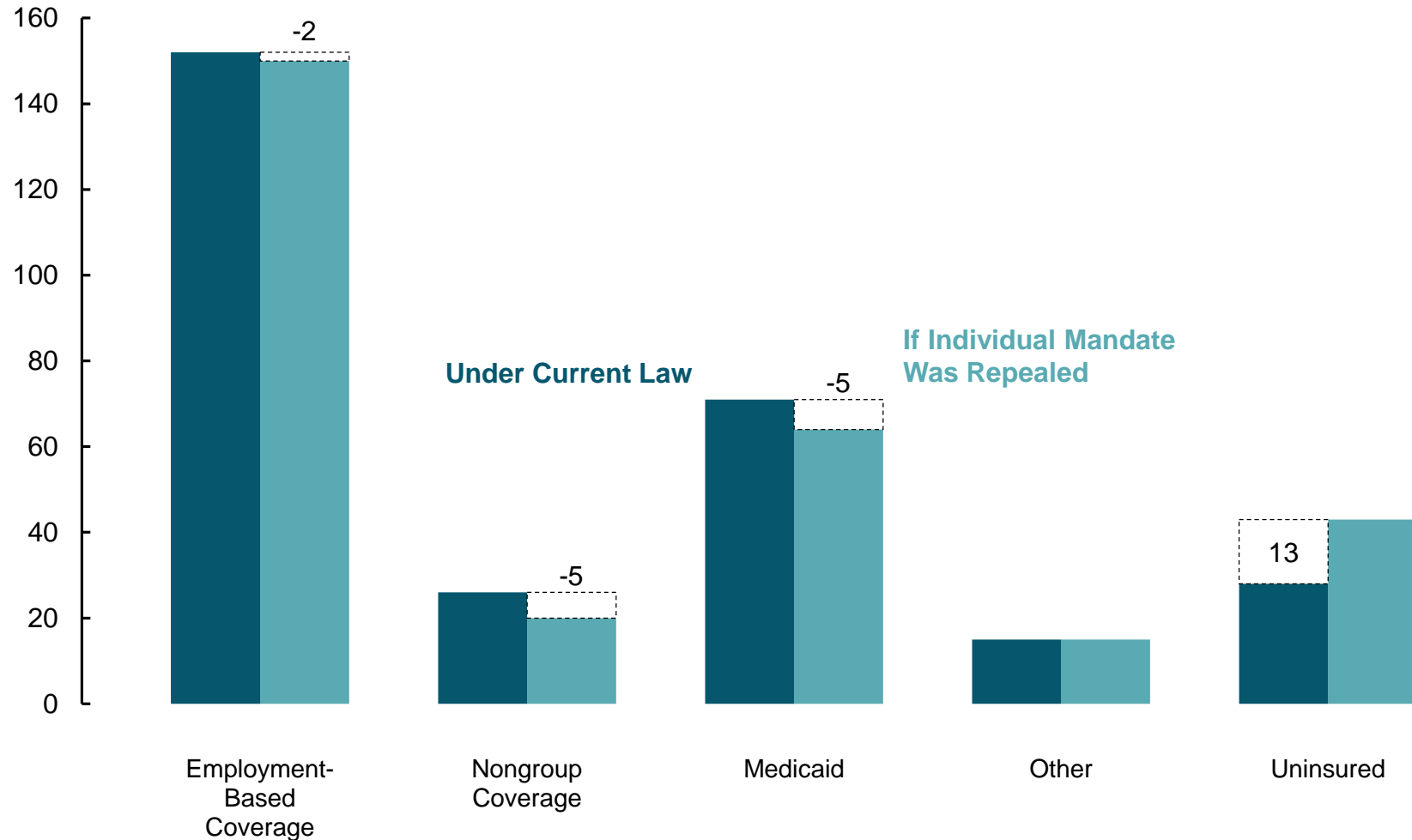
A dozen or more analysts review HISIM's output, first for a representative year and then for the entire 10-year projection period.

HISIM's output does not represent the final estimate for a proposal because:

- Other models are used to analyze certain aspects of the proposal when HISIM is not well suited to model them; and
- The Medicaid cost and coverage model and JCT's tax models are used to estimate the proposal's budgetary effects with HISIM output.

# Health Insurance Coverage for People Under Age 65 in 2026, as Estimated in November 2017

Millions of People



## Step Four: Analyze the Proposal's Effects on Medicaid Enrollment and Costs

The Medicaid cost and coverage model uses HISIM output to determine the proposal's budgetary effects for Medicaid.

On the basis of an analysis of historical per capita spending, CBO applies different per capita costs to different groups of people, depending on why they are eligible for Medicaid.

## Example of Step Four: Repealing the Individual Mandate

With no individual mandate, Medicaid enrollment—and therefore spending—would be lower for several reasons:

- Some people who are subject to the mandate have enrolled in Medicaid to avoid paying the penalty.
- Some people who are exempt from the penalty have thought that they were not exempt and have enrolled in Medicaid.
- Some people have applied for coverage in the marketplaces because of the mandate and turned out to be eligible for Medicaid.
- Some people have enrolled in Medicaid because of the influence of peers who enrolled in health insurance because of the mandate.



## Step Five: Analyze the Proposal in JCT's Tax Models

Subsidies for coverage purchased through the nongroup and employment-based markets as well as penalties associated with the individual and employer mandates are implemented through the Internal Revenue Code.

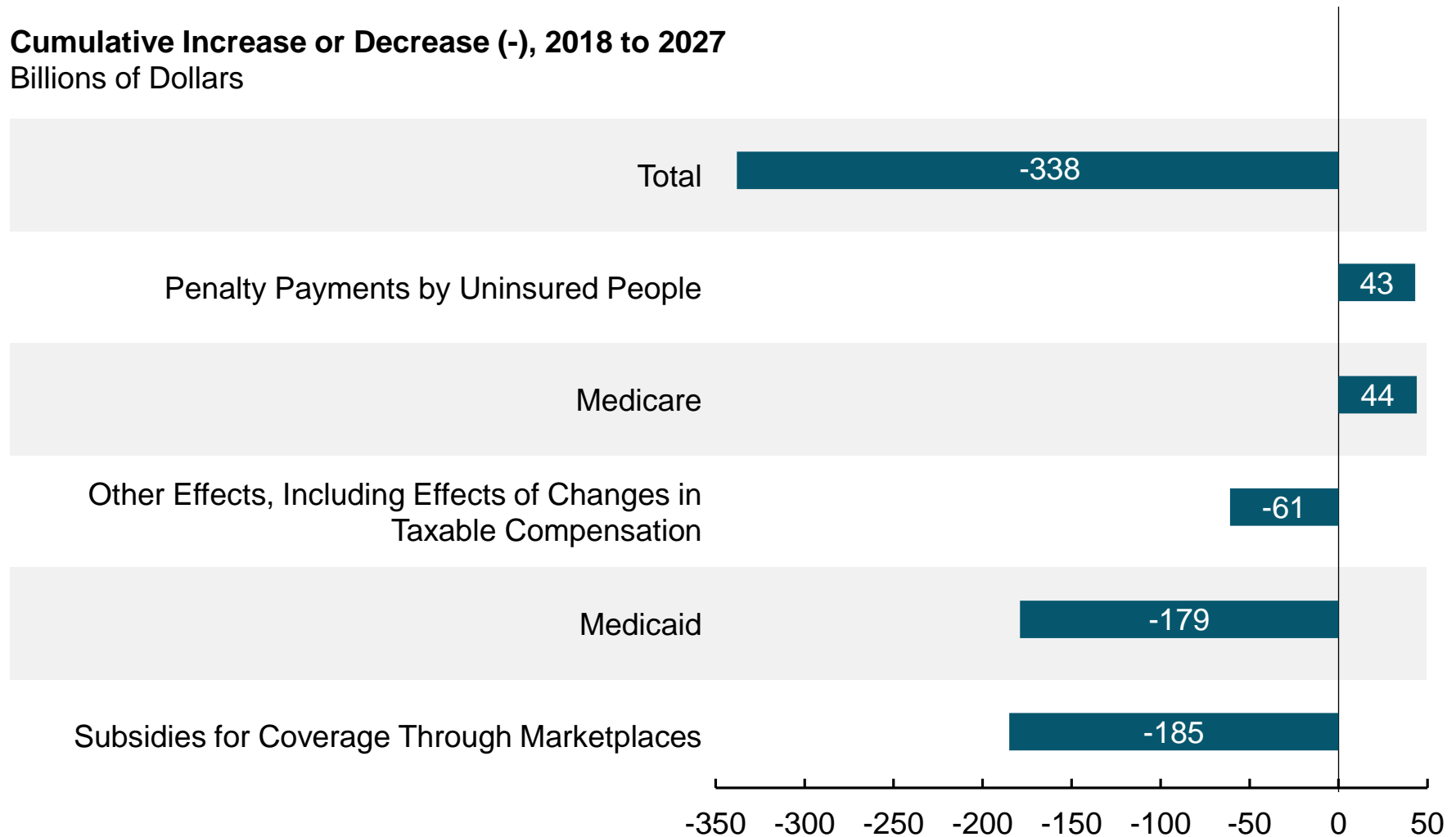
JCT uses its tax models to determine how changes in coverage and premiums affect tax liability. Examples include:

- Changes in the total cost of premium tax credits for eligible taxpayers purchasing coverage through the nongroup market; and
- Changes in the share of employees' compensation that is taxable resulting from changes in the number of employees enrolled in health insurance through their employer.

# Net Effects of Repealing the Individual Mandate on the Budget Deficit, as Estimated in November 2017

## Cumulative Increase or Decrease (-), 2018 to 2027

Billions of Dollars



## Step Six: Write and Review the Formal Estimate

All estimates go through extensive internal review by a group of analysts, senior staff, and managers from CBO and JCT. The review ensures that the final point estimate represents the middle of the distribution of possible outcomes.

In communicating an estimate, CBO and JCT strive to:

- Write a clear explanation of the proposal's net budgetary effect and changes in coverage and premiums; and
- Make estimates accessible by providing context, explaining technical terms, and effectively using tables, graphs, and figures.

But CBO and JCT make no recommendations about policy choices.

# Other Examples of Estimates From the Past Year

Congressional Budget Office, cost estimate for H.R. 1628, American Health Care Act of 2017 (May 24, 2017), [www.cbo.gov/publication/52752](http://www.cbo.gov/publication/52752).

Congressional Budget Office, cost estimate for H.R. 1628, the Better Care Reconciliation Act of 2017: An Amendment in the Nature of a Substitute (July 20, 2017), [www.cbo.gov/publication/52941](http://www.cbo.gov/publication/52941).

Congressional Budget Office, *The Effects of Terminating Payments for Cost-Sharing Reductions* (August 2017), [www.cbo.gov/publication/53009](http://www.cbo.gov/publication/53009).

# The Role of the Mandate's Repeal in CBO's Baseline

In addition to other technical and economic changes, CBO's next baseline will incorporate estimates related to those presented here about the effects of repealing the individual mandate because, beginning in 2019, the repeal of the penalty for not having insurance is now part of current law.

CBO and JCT have undertaken considerable work to revise and update their methods of estimating those effects.

The preliminary results of analysis using revised methods indicates that the estimated effects on health insurance coverage will be smaller than the numbers reported in this presentation.

# 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](http://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](http://www.cbo.gov/publication/53094).

Congressional Budget Office, *Repealing the Individual Health Insurance Mandate: An Updated Estimate* (November 2017), [www.cbo.gov/publication/53300](http://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](http://www.cbo.gov/publication/53310).

# Contact CBO

[CongressionalAffairs@cbo.gov](mailto:CongressionalAffairs@cbo.gov)

202-226-2837