

# How CBO Evaluates Health Care Proposals

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Presentation to the Healthy Future Task Force

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# What Types of Products Does CBO Create About Health Care?

## Ongoing Analysis

- Budget baseline
  - Impact of the coronavirus pandemic
  - Demographics (fertility, mortality)
- Insurance coverage
- Projections of health care spending

## Recent Reports

- A description of who was uninsured in 2019 and why
- Review of health care prices by payer
- Single-payer series: budget impact, financing, macroeconomic impact
- Drug prices and innovation

## Recent Analysis of Legislation, Including Cost Estimates

- Surprise billing
- Legislation in response to the pandemic
  - Medicaid continuous coverage
  - Timing of the public health emergency
- Expansion of Affordable Care Act (ACA) subsidies in the American Rescue Plan Act (ARPA) and in the proposed reconciliation legislation
- Medicare expansions: dental, vision, hearing
- Drug price negotiation
- Medicare Part D benefit design
- Immunosuppressant drugs

# What Are the Key Features of CBO's Health Analyses?

**Horizon.** The typical horizon for CBO's health analyses is 10 years, but sometimes it is 20 years or more.

- Long-term analyses: cigarette taxes, major changes to Medicare and Medicaid financing

**Behavior.** CBO analyzes available evidence on the behavior of families and businesses.

- Families: impact of changes in eligibility or prices on decisions to take up health insurance
- Businesses: impact of the expansion of ACA subsidies in ARPA and the proposed reconciliation legislation on employers' offers of health insurance

# Does Behavior Change Through Preventive Care Reduce Federal Deficits?

Policy initiatives that improve health (such as preventive care) may improve health outcomes but might not reduce federal spending. There is uncertainty about effectiveness and timing at each step needed to reduce federal deficits:



If people already use the service, expanding federal coverage would shift costs to the federal government. CBO also accounts for other effects that preventive care may have on the federal budget, such as changes in tax revenues because of increased productivity of labor or changes in longevity (potentially resulting in increased Medicare expenditures).

Details matter: CBO estimated that H.R. 5534, the Comprehensive Immunosuppressive Drug Coverage for Kidney Transplant Patients Act of 2020, would save \$400 million. CBO's estimate of this additional Medicare benefit included patient premiums and new federal spending on prescription drugs, as well as averted spending on a full range of Medicare benefits for some kidney transplant patients.

# CBO's Process for Cost Estimates

**Provide technical assistance to committees as legislation is developed.** That process includes understanding the relationship between policy intent, specifications, and legislative language.

**Assess how legislation would be implemented.** CBO consults with agencies as needed to understand how they might implement legislation.

**Research potential budgetary effects.** To figure out the key dimensions needed for quantification, CBO may consult outside experts, including its [Panel of Health Advisers](#).

**Analyze and quantify budgetary effects.** A key aspect is to determine how legislation would change the behavior of affected individuals and institutions. The method used depends on the question and on the time and data available.

- Example: Estimates for the **Telemental Health Expansion Act** depended on benefit structure and limitations and on service price.

# What Does a Cost Estimate Include?

Cost estimates for legislation include effects on federal revenues and spending. They may also include effects on:

- The number of people with health insurance of various types,
- The number of people without health insurance,
- Premiums for private insurance,
- The stability of private insurance markets, and
- The size of the labor force and other macroeconomic factors (when they are significant and feasible to estimate).

Cost estimates include the effects of potential mandates on state, local, and tribal governments and the private sector.

# How Does CBO Use Simulation Models to Inform Cost Estimates?

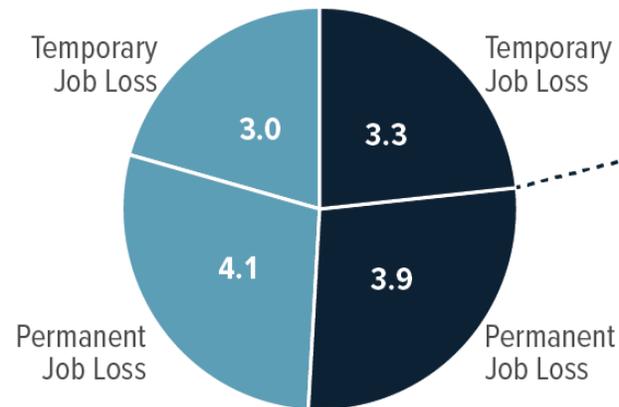
## Near-Term Pandemic Impact: Employment Loss and Resulting Insurance Coverage, 2020

Millions of People

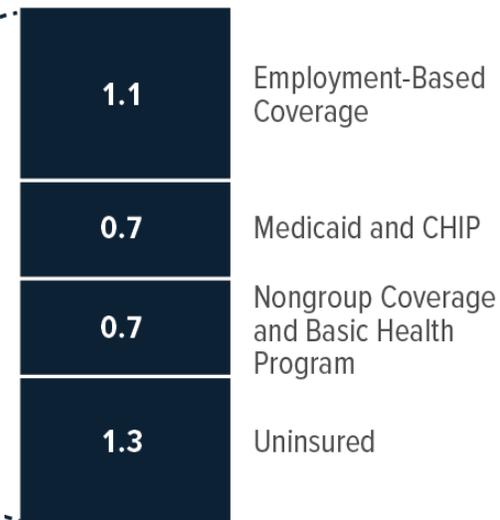
### Average Employment Loss

Did Not Have an Offer of  
Employment-Based  
Insurance

Had an Offer of  
Employment-Based  
Insurance



### Projected Insurance Status

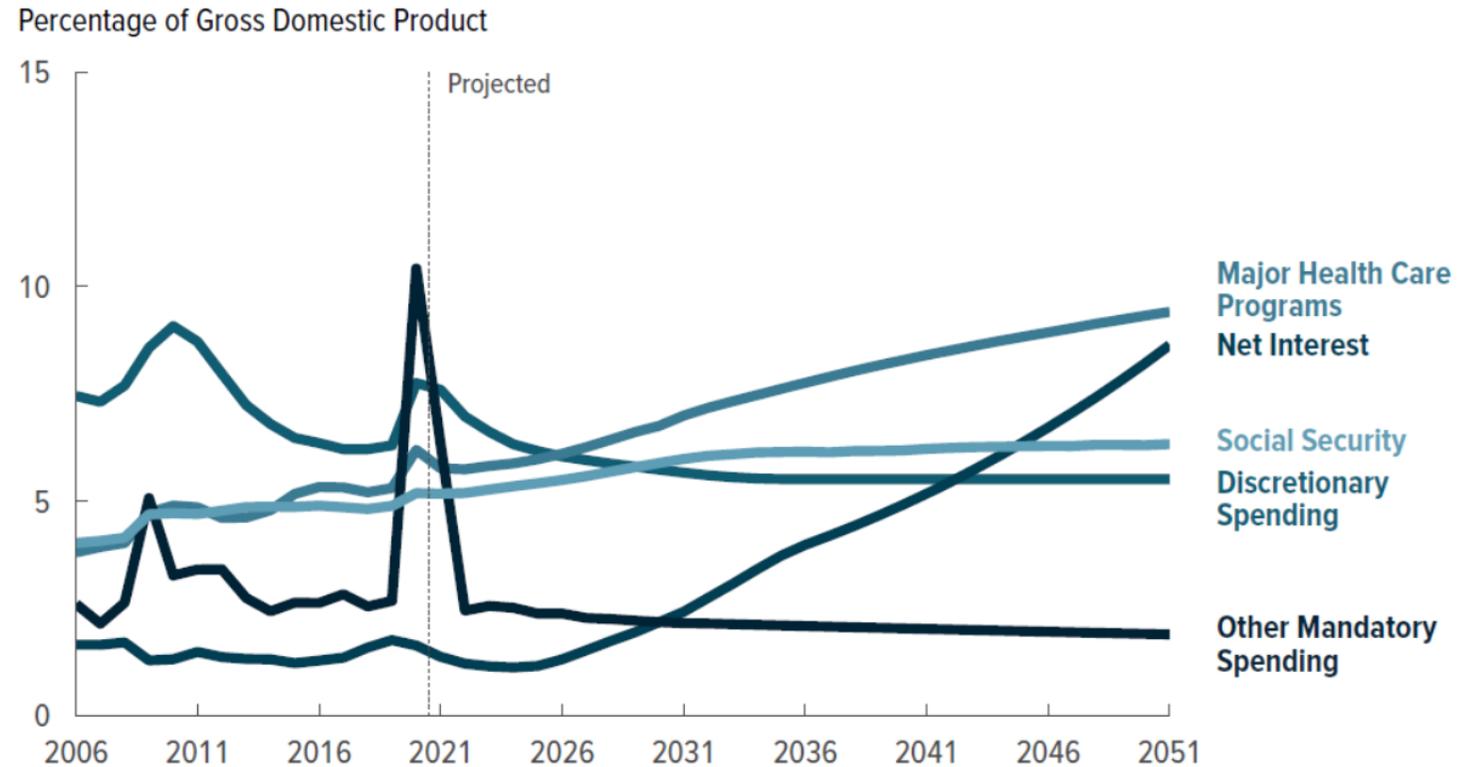


# To What Extent Do Health Programs Drive Mandatory Spending?

CBO prepares a budget baseline that serves as a benchmark for measuring the effects of proposed legislation affecting mandatory spending.

CBO estimates health insurance coverage and projected spending on health care programs, including federal subsidies, Medicare, and Medicaid.

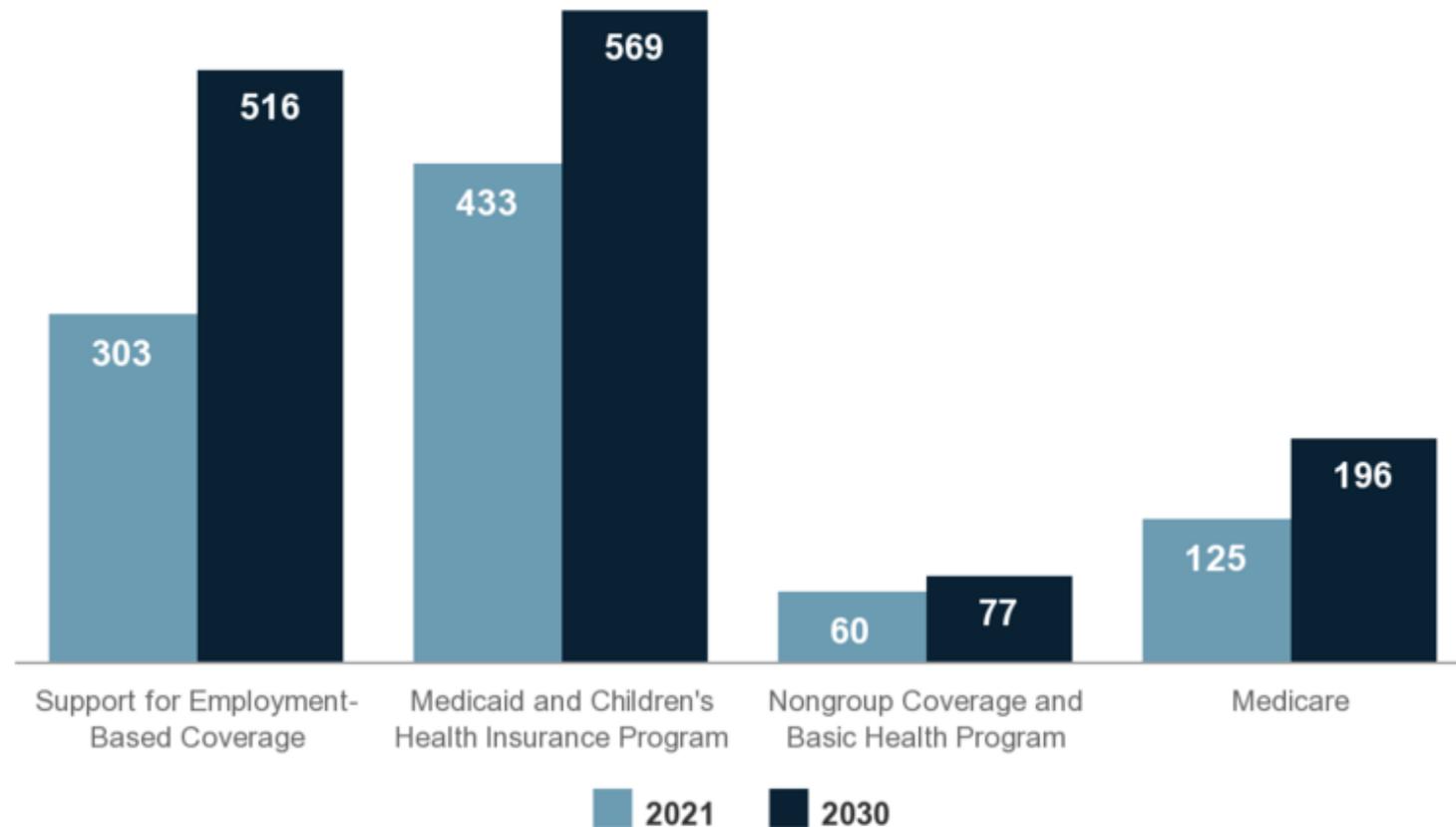
Subsidies include premium tax credits for policies in the ACA marketplaces and the tax subsidy for employment-based health insurance.



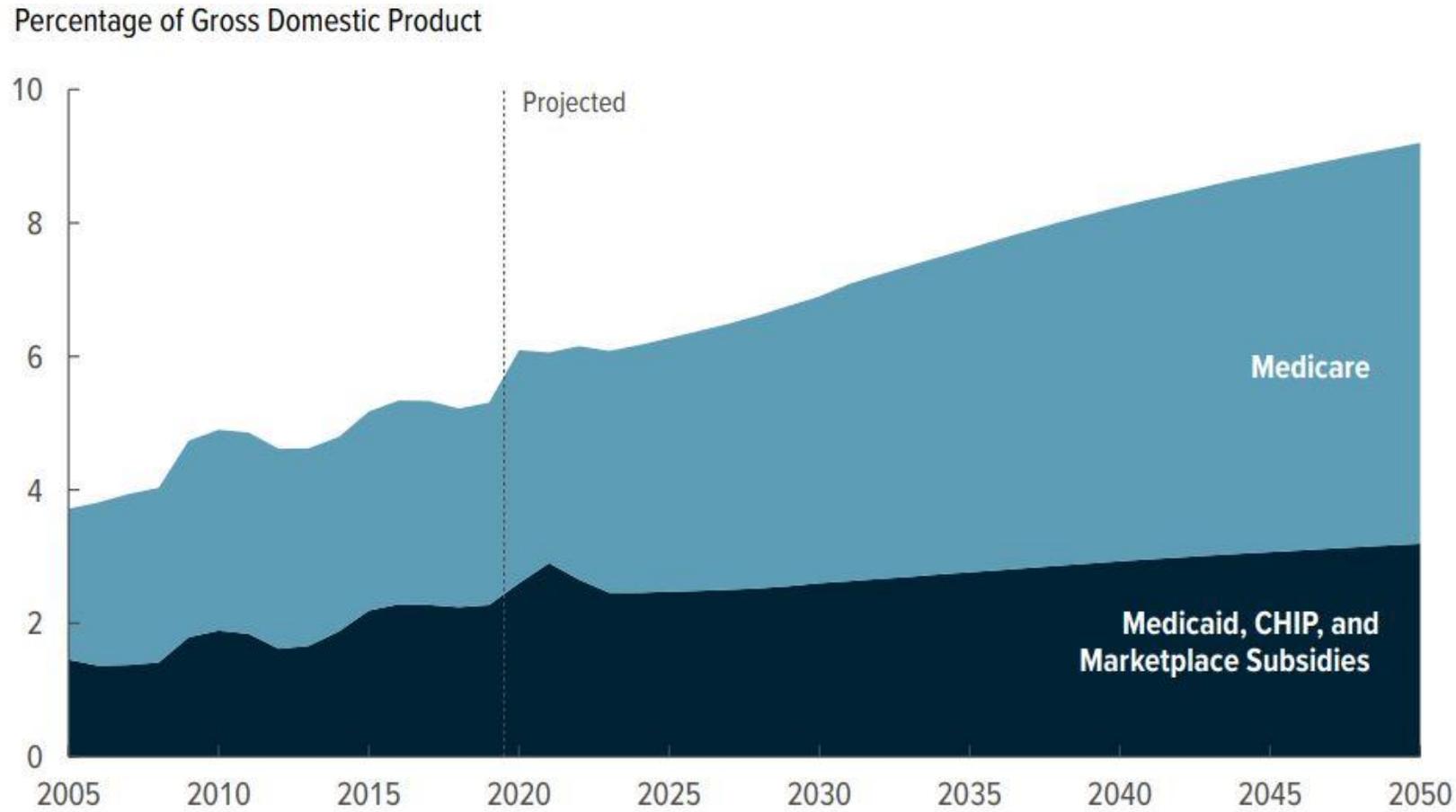
# Health Insurance Subsidies for People Under Age 65, by Federal Program

## Federal Health Insurance Subsidies

Billions of Dollars



# Projected Federal Outlays for Major Health Care Programs as of September 2020



## Projections for Major Health Care Programs for FY 2021 (As of July 21, 2021)

Medicare	\$683 Billion
Medicaid	\$519 Billion
Premium Tax Credits and Related Spending	\$68 Billion
Children's Health Insurance Program	\$16 Billion

# Which Health-Related Policy Options Would Reduce Federal Deficits?

- Reducing or reshaping federal subsidies, such as those for employment-based health insurance or policies bought in the ACA marketplaces
- Paying less to providers (doctors and hospitals in Medicare and Medicaid) or to Medicare Advantage plans
- Making broader structural changes to Medicare or Medicaid (such as in eligibility, premiums, benefit structure, or caps on federal spending)

# Which Options Would Reduce Health Care Spending per Person?

- Limiting the tax exclusion for employment-based health insurance would lead employers to shift to plans with lower premiums and more limited benefits.
- Easing restrictions on tax deductions through health savings or reimbursement accounts would increase deficits but could promote cost-conscious consumer behavior. Increasing patient cost sharing has been shown to reduce utilization of both high- and low-value care.
- Increasing state flexibility through Medicaid waivers has been proposed as a solution to reducing federal spending growth in health care. In 2017, as part of discussions to repeal and replace the ACA, CBO estimated that legislation replacing Medicaid subsidies with block grants could reduce on-budget deficits by at least \$133 billion and result in reductions in coverage.

# Do Policies That Improve Transparency Reduce Federal Deficits?

People who know the prices of health care services may be more likely to seek out less expensive providers or treatments and to question the effectiveness of that care. Price transparency may shift negotiating dynamics between insurers and providers or lead to changes in benefit design.

Several factors may limit the effectiveness of transparency in cutting health care expenditures.

- Insurance insulates people from the full price of the health care they consume, limiting their incentive to compare prices.
- Health professionals often direct decisions about which services to buy from whom, because individuals may have inadequate information on the care they need or the quality or value of that care.
- Finally, awareness of prices makes little difference in emergency situations.

CBO is tracking research and assessing whether to estimate budgetary savings for policies related to price transparency.

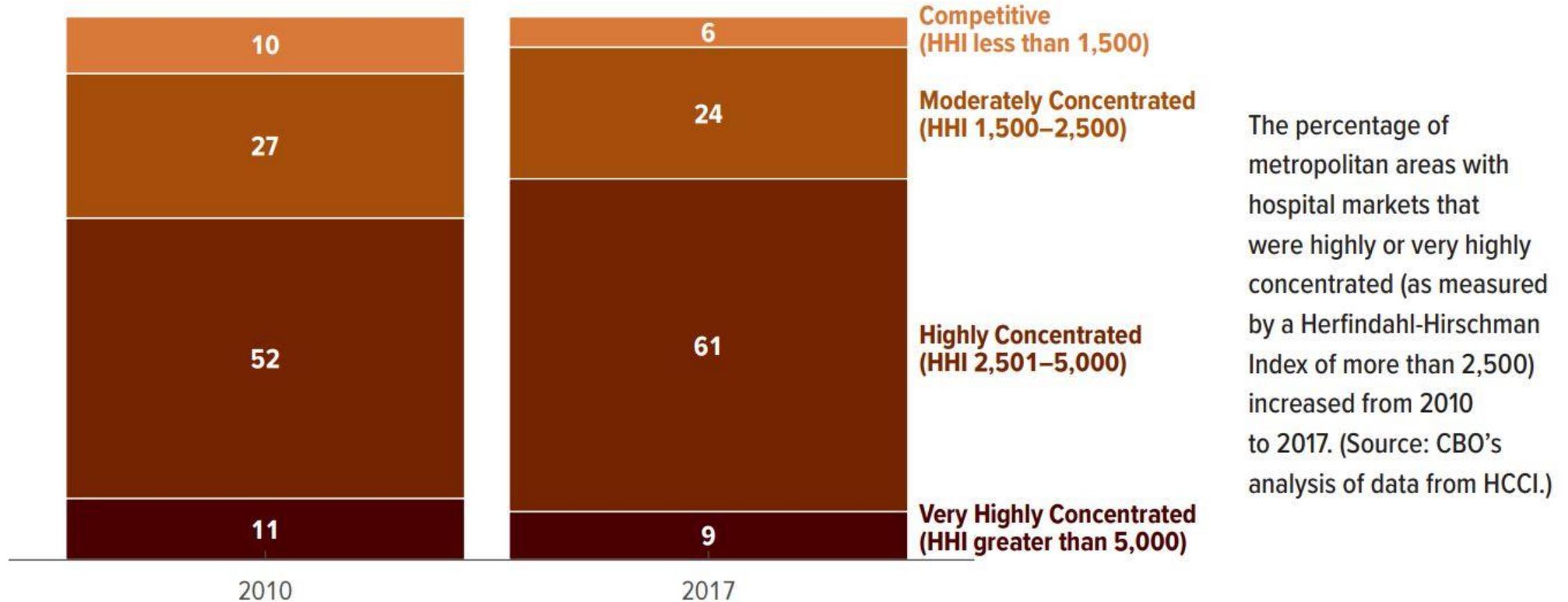
# Do Policies That Change Provider Incentives Reduce Federal Deficits?

- There are many existing incentives under current law to promote value-based care.
- The specifics of any proposal would be important:
  - What behavior is the policy targeting?
  - Who is eligible for inclusion in the policy? Is it important to consider selection?
  - How are payment rates and units determined?
  - How is the policy measuring and paying for outcomes?
  - How would the policy overlap with models already underway?

# Do Policies That Increase Competition Reduce Federal Deficits?

## Hospital Market Concentration, 2010 and 2017

Percentage of MSAs



# How Does CBO Make Its Work Transparent?

- Testifying and publishing answers to questions
- Explaining analytic methods in cost estimates, reports, and working papers
- Releasing data
- Analyzing the accuracy of its projections
- Comparing current estimates with previous estimates
- Comparing its estimates with those of other organizations
- Estimating the effects of policy alternatives
- Characterizing uncertainty surrounding estimates
- Creating data visualizations
- Conducting outreach to Members, Hill staff, and other stakeholders

# How Do I Find Out What CBO Is Currently Working On?

CBO publishes a [quarterly report](#) on its recent and upcoming work. Upcoming work includes:

- A report on policy approaches that aim to reduce the prices paid to hospitals and physicians in commercial health plans;
- An estimate of the effects on the federal deficit of changing the age of Medicare eligibility, as well as a description of the basis of that estimate; and
- An analysis of the effects of work requirements and programs that support work in means-tested transfer programs.

CBO's staff members frequently meet with health staff to discuss legislative priorities and use the input for the agency's strategic planning process.

In the next year, CBO anticipates that staff will work on policies related to telehealth, mental health, opioids, and drug pricing.