CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

June 24, 2024

Honorable Jodey Arrington
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Honorable Jason Smith
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Re: The Effects of Permanently Extending the Expansion of the Premium Tax Credit and the Costs of that Credit for Deferred Action for Childhood Arrivals Recipients

Dear Chairman Arrington and Chairman Smith:

You have asked the Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) to provide information about the effects of making permanent the expanded premium tax credit structure that was provided in the American Rescue Plan Act of 2021 (ARPA, Public Law 117-2) and later extended through calendar year 2025 in the 2022 reconciliation act (P.L. 117-169).

ARPA reduced the maximum amount that eligible enrollees must contribute toward premiums for health insurance purchased through the marketplaces established by the Affordable Care Act (ACA). ARPA also extended eligibility to people whose income is above 400 percent of the federal poverty level (FPL).

You have asked for information in several areas:

- How would a permanent extension affect federal deficits and sources of health insurance coverage?
- What would be the average federal subsidy for people who enrolled in marketplace coverage because of a permanent extension, and what is the average subsidy under current law for people who, because of

that extension, would be expected not to enroll in employment-based coverage?

- What is the projected income distribution among people with income above 400 percent of the FPL who would enroll in marketplace coverage because of a permanent extension, and what are the estimated costs of federal subsidies for their coverage?
- How many people would be expected to enroll in fully subsidized plans under the extension and what percentage of all marketplace enrollees would that group constitute?

You also have asked CBO and JCT to estimate the budgetary effects, including additional debt-service costs, of the policy for Deferred Action for Childhood Arrivals (DACA) recipients should the expanded premium tax credit structure be made permanent.[1]

Structure of the Premium Tax Credit

The premium tax credit is an advanceable and refundable credit that lowers the out-of-pocket cost of health insurance premiums for people who obtain insurance through the marketplaces.[2] The credit is calculated as the difference between the benchmark premium (that is, the premium for the second-lowest-cost silver plan available in a region) and a specified maximum contribution, which is a percentage of household income and is adjusted over time.[3] Table 1 compares maximum contributions under current law with those that would be in effect under a permanent extension.

1. The DACA policy provides certain deportable aliens (non-U.S. nationals) who arrived in the United States as children with temporary relief from removal (deferred action), eligibility for work authorization, and eligibility for a limited number of federal benefits. The deferred action is provided in two-year increments, and is renewable. See Department of Homeland Security, "Deferred Action for Childhood Arrivals," Final Rule, 87 *Fed. Reg.* 53152 (August 30, 2022) https://tinyurl.com/32f3jzmv.

2. See Joint Committee on Taxation, "Description of Subtitle H—Social Safety Net: Budget Reconciliation Recommendations," JCX-39-21 (September 11, 2021), www.jct.gov/publications/2021/jcx-39-21.

3. In most marketplaces, people can choose among plans—bronze, silver, gold, and platinum—for which the average percentage of the total cost of covered medical expenses paid by the insurer (that is, the actuarial value of the plan) differs. The share of medical expenses that is not paid by the insurer is paid by enrollees in the form of deductibles and other cost sharing.

Until 2021, the credit was available to people who met the following criteria:

- Their modified adjusted gross income was between 100 percent and 400 percent of the FPL;
- They were lawfully present in the United States;
- They were not eligible for public coverage, such as Medicaid; and
- They did not have an affordable offer of employment-based coverage.

For 2021 and 2022, ARPA expanded eligibility to include enrollees whose income was above 400 percent of the FPL and reduced the maximum household contribution amounts. The 2022 reconciliation act extended those provisions through calendar year 2025.

Estimated Budgetary Effects of a Permanent Extension

CBO and JCT estimate that making the policy permanent would increase the budget deficit by $335 billion over the 2025-2034 period (see Table 2).[4] That deficit amount reflects an estimated $415 billion increase in the cost of the premium tax credit—the result of a $250 billion increase in outlays and a $164 billion decrease in revenues. The $335 billion increase in the deficit is net of an offsetting increase in revenues, primarily attributable to a decline in offers of employment-based health insurance. It also includes effects on some other programs.

CBO and JCT estimate that a permanent extension would increase direct spending by $275 billion, on net, over the 2025-2034 period.[5] In addition to

4. That estimate is from a report discussing various assumptions about future legislation. See Congressional Budget Office, *Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues* (May 2024), pp. 6-7, www.cbo.gov/publication/60114. The estimated budgetary effects in that report incorporated interactions associated with extending certain expiring provisions of the 2017 tax act (P.L. 115-97). CBO and JCT estimate that if that act's interactions were excluded, a permanent extension would increase federal deficits over the 2025-2034 period by $325 billion, or by $10 billion less than the amount shown in this letter.

   The estimates in this letter are based on CBO's June 2024 baseline budget projections. See Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2024 to 2034* (June 2024), www.cbo.gov/publication/60039.

5. Direct (or mandatory) spending includes outlays for most federal benefit programs and for certain other payments to people, businesses, nonprofit institutions, and state and local governments. Such outlays are generally governed by statutory criteria and are not normally constrained by the annual appropriation process.

the $250 billion mentioned above attributable to larger outlays for the premium tax credit, federal spending for Medicaid and the Children's Health Insurance Program (CHIP) would increase by $21 billion. In addition, federal spending for the Basic Health Program and waivers under section 1332 of the ACA would increase by $17 billion.[6] Those increases would be partially offset by a $13 billion reduction in outlays attributable to other effects of the extension.

CBO and JCT also estimate that, on net, revenues would decrease by $60 billion over the 2025-2034 period because of three partially offsetting effects:

- An estimated $164 billion decrease in revenues would occur because some of the increased premium tax credit would offset enrollees' tax liabilities;
- A $101 billion increase in tax revenues would arise from a shift in employees' compensation from tax-favored health insurance to taxable wages, primarily because, in CBO and JCT's estimation, employers that decide not to offer health insurance would still keep workers' total compensation roughly unchanged; and
- About $3 billion in penalties would be collected from businesses with 50 or more full-time-equivalent workers that, under a permanent extension, no longer offer their employees health insurance coverage.

The debt-service costs associated with the policy extension—that is, the increase in interest payments on the federal debt that would arise from the larger deficit—would be $48 billion over the 2025-2034 period, CBO estimates. By long-standing convention, CBO's cost estimates do not include debt-service costs.

Effects on Health Insurance Coverage

CBO and JCT expect that if the extension of the expanded premium tax credit became permanent, 3.4 million more people would have health

6. Section 1332 allows states to apply for waivers from some of the ACA's rules governing insurance markets or programs offering health insurance. To obtain a waiver, a state's proposal must be budget-neutral and must provide insurance coverage that is comparable to that required under the ACA.

insurance in each year, on average, over the 2025-2034 period, than under current law.

That change would result from anticipated increases and decreases in several types of coverage over that period:

- A 6.9 million net increase in marketplace coverage resulting from an increase in subsidized enrollment of 7.4 million and a decline in unsubsidized enrollment of 600,000,
- A 500,000 combined increase in enrollment in Medicaid and CHIP,
- A 500,000 decrease in nongroup coverage purchased outside the marketplaces, and
- A 3.5 million decrease in enrollment in employment-based coverage.

The estimated increase in Medicaid and CHIP enrollment and the reduction in employment-based coverage would be driven primarily by a reduction in offers of employment-based coverage.

Additional Details Underlying Estimates of Employment-Based Coverage

CBO and JCT estimate that, over the 2025-2034 period, people who no longer enroll in employment-based coverage because of a permanent extension would have received an average annual tax benefit of $4,350. (That tax benefit reflects premiums being excluded from income and payroll taxes.)

Given the temporary nature of the expanded subsidy under current law and accounting for recent experience, CBO and JCT estimate that more employers would change their offers of health insurance if the policy became permanent than are expected to do so under current law. As a result, estimates of the effects of a permanent extension differ from those of the expanded subsidies that are in place through 2025 in two key ways:

- The decline in employment-based coverage would be larger under a permanent extension; and
- The additional marketplace enrollees—who otherwise would enroll in employment-based coverage—would be expected to have higher income, on average, under a permanent extension because the

decline in employment-based coverage would affect people with higher incomes.

Additional Details Underlying Estimates of the Premium Tax Credit and Enrollment in the Marketplaces

The estimated increase in the cost of the premium tax credit under a permanent extension would arise from two sources. First, for people who will be enrolled over the 2025-2034 period under current law, the maximum contribution would be lower. Second, CBO and JCT estimate that, in each year over the 2025-2034 period, the policy extension would attract 6.9 million additional enrollees to the marketplaces, on average, relative to current law (see Table 3). Those enrollees would receive an average annual credit of $5,370, which would account for $369 billion, or 89 percent, of the estimated $415 billion increase in the cost of the credit over that period.

CBO and JCT estimate that about half of the increase in enrollment and 69 percent of the total cost of the premium tax credit for people who enrolled because of a permanent extension would be for people with income below 400 percent of the FPL. The average credit for those enrollees is larger than the credit would be for enrollees above that level. CBO and JCT anticipate that most of the increases in enrollment in the group below 400 percent of the FPL would occur among people who, already eligible, would enroll because of the lower maximum contribution.

The agencies also estimate that under a permanent extension, roughly 30 percent of marketplace enrollees, or about 7 million people, would enroll in plans with fully subsidized premiums.[7]

7. The Centers for Medicare & Medicaid Services (CMS) reported that during open enrollment in federally facilitated marketplaces for plan years 2023 and 2024, 32 percent and 42 percent of enrollees, respectively, selected a plan with fully subsidized premiums (Centers for Medicare & Medicaid Services, "Health Insurance Marketplaces 2024 Open Enrollment Report," accessed June 18, 2024, https://tinyurl.com/4n8v78nv). By contrast, CBO and JCT anticipate that, on average over the 2025-2034 period, about 30 percent of enrollees would choose such a plan. CBO and JCT's estimates, unlike those of CMS, account for enrollment through state-based marketplaces, where the income of enrollees is higher, on average, because of differences among states concerning Medicaid eligibility. CBO and JCT expect that the income of marketplace enrollees over the 2025-2034 period under a permanent extension also would be higher, on average, than the estimates that underlie CMS's data for 2024. That expectation is based on factors that include the dissipating effect of postpandemic reductions in Medicaid enrollment and the further reductions in employment-based coverage that would result from a permanent extension of the expanded premium tax credit structure.

That estimate encompasses two groups of enrollees:

- Enrollees who would not be required to contribute to the benchmark premium (because their income is below 150 percent of the FPL) and who then select either the benchmark premium or a plan with a lower premium; and
- Enrollees whose income would require them to contribute to the benchmark premium, but who would instead select a plan with a lower premium than the benchmark so that their premium would be fully subsidized. (Choosing lower-priced insurance may require higher out-of-pocket spending than the benchmark plan.)

Final Rule Concerning the Marketplace Eligibility of Deferred Action for Childhood Arrivals Recipients

In May 2024, the Centers for Medicare & Medicaid Services issued a final rule that changed what it means for a noncitizen to be "lawfully present" in the United States for the purpose of determining eligibility for the premium tax credit. The result was to make DACA recipients eligible for that credit.[8]

Under current law, CBO and JCT estimate, about 110,000 DACA recipients will enroll in marketplace coverage, on average, in each year because of the rule, increasing the deficit by an estimated $7 billion over the 2025-2034 period. The costs from additional marketplace enrollment are offset slightly in the agencies' estimates by decreases in emergency Medicaid spending as people become eligible to claim the credit.

Should the expanded premium tax credit structure be made permanent, CBO and JCT estimate, the number of DACA recipients enrolling in marketplaces would increase to about 140,000, on average, per year. As a result, the cumulative deficit would increase by another $2 billion, increasing the cost of the final rule to $9 billion over the 2025-2034 period (see Table 4).

Debt-service costs would add another $2 billion to the total cost for DACA recipients. (CBO's cost estimates do not include such costs.)

8. Centers for Medicare & Medicaid Services, "Clarifying the Eligibility of Deferred Action for Childhood Arrivals (DACA) Recipients and Certain Other Noncitizens for a Qualified Health Plan Through an Exchange, Advance Payments of the Premium Tax Credit, Cost-Sharing Reductions, and a Basic Health Program," Final Rule, 89 *Fed. Reg.* 39392 (May 8, 2024), https://tinyurl.com/ypssv7dw.

I hope this information is helpful. If you wish further details, we would be pleased to provide them.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable Brendan Boyle
Ranking Member
House Committee on the Budget

Honorable Richard Neal
Ranking Member
House Committee on Ways and Means

Table 1.
Maximum Household Contributions Under Current Law and Under a Permanent Extension of the Premium Tax Credit

Percentage of the Federal Poverty Level	Percentage of Income		
	Without the Expanded Premium Tax Credit		Under a Permanent Extension,
	2025	2034	All Years
100 to 133	1.82	1.92	0
133 to 150	2.73 to 3.64	2.88 to 3.84	0
150 to 200	3.64 to 5.73	3.84 to 6.04	0 to 2.0
200 to 250	5.73 to 7.33	6.04 to 7.72	2.0 to 4.0
250 to 300	7.33 to 8.65	7.72 to 9.11	4.0 to 6.0
300 to 400	8.65	9.11	6.0 to 8.5
Above 400	n.a.	n.a	8.5

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

The maximum household contribution and the annual adjustment to it, which reflects the growth in premiums relative to income, are established in statute. For 2025, the adjustment would have been 0.9102 if the expanded premium tax credit were not available. See Centers for Medicare & Medicaid Services, "Premium Adjustment Percentage, Maximum Annual Limitation on Cost Sharing, Reduced Maximum Annual Limitation on Cost Sharing, and Required Contribution Percentage for the 2025 Benefit Year" (November 15, 2023), https://tinyurl.com/c47kahn8. The values presented for 2034 reflect CBO and JCT's estimates of the annual adjustment. When premium growth exceeds income growth, the maximum household contribution increases, and when premium growth falls below income growth, the contribution decreases.

n.a. = not applicable.

Table 2.
Estimated Budgetary Effects of Permanently Extending the Expanded Premium Tax Credit

	By Fiscal Year, Millions of Dollars											
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2029	2025-2034
Increases in Direct Spending												
Estimated Budget Authority	623	26,200	25,662	26,863	28,636	29,203	31,101	32,287	34,172	36,319	107,984	271,066
Estimated Outlays	662	26,642	26,044	27,355	28,653	30,243	32,461	32,287	34,172	36,319	109,356	274,838
Increases or Decreases (-) in Revenues												
Estimated Total Revenues	491	3,313	-6,004	-6,893	-7,370	-7,556	-8,013	-9,238	-9,212	-9,725	-16,463	-60,207
On-Budget	*297*	*1,930*	*-8,904*	*-10,540*	*-11,437*	*-11,963*	*-12,794*	*-14,271*	*-14,658*	*-15,615*	*-28,654*	*-97,955*
Off-Budget	*194*	*1,383*	*2,900*	*3,647*	*4,067*	*4,407*	*4,781*	*5,033*	*5,446*	*5,890*	*12,191*	*37,748*
Net Increase or Decrease (-) in the Deficit From Changes in Direct Spending and Revenues												
Effect on the Deficit	171	23,329	32,048	34,248	36,023	37,799	40,474	41,525	43,384	46,044	125,819	335,045
On-Budget	*365*	*24,712*	*34,948*	*37,895*	*40,090*	*42,206*	*45,255*	*46,558*	*48,830*	*51,934*	*138,010*	*372,793*
Off-Budget	*-194*	*-1,383*	*-2,900*	*-3,647*	*-4,067*	*-4,407*	*-4,781*	*-5,033*	*-5,446*	*-5,890*	*-12,191*	*-37,748*
Memorandum:												
Increase in Net Interest Outlays[a]	4	476	1,421	2,479	3,606	4,927	6,373	7,939	9,635	11,432	7,986	48,292

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Off-budget effects would come from increases in Social Security revenues.

a. These debt-service costs are the change in interest payments on the federal debt that would result from the estimated change in the deficit. By long-standing convention, CBO's cost estimates do not include debt-service costs.

Table 3.
Estimated Distribution of Additional Enrollees in Marketplace Coverage and the Associated Increased Premium Tax Credit Under a Permanent Extension of the Expanded Premium Tax Credit, 2025-2034

	Average Annual Increase in Marketplace Enrollees		Average Annual Premium Tax Credit	Total Cost of the Premium Tax Credit for Additional Marketplace Enrollees	
Percentage of the Federal Poverty Level	Millions of Enrollees	Percentage of Total	Dollars	Billions of Dollars	Percentage of Total
Below 400	3.4	50	7,510	255.4	69
400 to 499	1.4	20	4,190	58.1	16
500 to 599	1.0	14	2,980	29.0	8
600 to 749	0.7	10	2,560	17.1	5
750 and Above	0.4	6	2,030	8.9	2
Total	6.9	100	5,370	368.5	100

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Table 4.
Estimated Budgetary Effects of a Final Rule Concerning the Eligibility of DACA Recipients for the Premium Tax Credit Under a Permanent Extension of the Expanded Credit

	By Fiscal Year, Millions of Dollars											
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2029	2025-2034
Increases in Direct Spending												
Estimated Budget Authority	618	864	856	852	844	835	837	831	809	796	4,034	8,142
Estimated Outlays	618	864	856	852	844	835	837	831	809	796	4,034	8,142
Decreases in Revenues												
Estimated Revenues	-51	-89	-96	-96	-94	-93	-92	-90	-86	-82	-426	-869
Net Increase or Decrease (-) in the Deficit From Changes in Direct Spending and Revenues												
Effect on the Deficit	669	953	952	948	938	928	929	921	895	878	4,460	9,011
Memorandum:												
Increase in Net Interest Outlays[a]	17	48	79	109	140	175	212	249	289	330	393	1,648

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

DACA = Deferred Action for Childhood Arrivals.

The estimated effects incorporate the assumption that the expanded premium tax credit structure becomes permanent. All changes would be on-budget.

See Centers for Medicare & Medicaid Services, "Clarifying the Eligibility of Deferred Action for Childhood Arrivals (DACA) Recipients and Certain Other Noncitizens for a Qualified Health Plan Through an Exchange, Advance Payments of the Premium Tax Credit, Cost-Sharing Reductions, and a Basic Health Program," Final Rule, 89 *Fed. Reg.* 39392 (May 8, 2024), https://tinyurl.com/ypssv7dw.

a. These debt-service costs are the change in interest payments on the federal debt that would result from the estimated change in the deficit. By long-standing convention, CBO's cost estimates do not include debt-service costs.