



ANSWERS TO QUESTIONS AND CRITICISMS

In “[The Fiscal Consequences of the Affordable Care Act](#),” [Charles Blahous](#), a senior research fellow at the Mercatus Center at George Mason University, shows that the Affordable Care Act (ACA) will add at least \$340 billion to federal deficits over the next 10 years, and more than \$1.15 trillion to net federal spending.

The study has generated significant interest and praise—as well as some erroneous criticism. Below are brief responses to some misconceptions that have arisen about the study. For more information about the research and its author, please click [here](#).

Criticism: This study attacks the Congressional Budget Office (CBO) and its conclusions about the impact of the health care law.

Fact: This study does not question the reliability of CBO, nor is there a conflict between CBO’s findings and the study’s findings. Each simply explored different questions.

Under existing scorekeeping conventions, CBO must evaluate the health care law relative to a specific hypothetical budget baseline scenario. That point of comparison differs from actual law in some important respects. In particular, it assumes that Social Security and Medicare would make scheduled benefit payments in perpetuity regardless of the balances in their trust funds, including many expenditures for which there is “no legal authority to make such payments.” This scorekeeping convention dates back to the 1985 Deficit Control Act. It represents neither actual law nor historical practice.

In contrast, this study asked and answered how the health care law has changed the federal fiscal situation *relative to actual prior law*. It specifically takes into account the payments that Medicare would be allowed to make both before and after the passage of the ACA.

Fact: While this study endorses the use of the scorekeeping convention for many policy evaluation purposes, it notes that there are drawbacks to every scorekeeping method. Here, the conventional baseline obscures the fact that the ACA increases deficits both as a matter of literal law and as a matter of practical budgetary reality.

More important, the scorekeeping convention has never before been put to the use that it has with the ACA: specifically, to depict a law that increases federal health care financing commitments by trillions of dollars over the coming decades as somehow improving federal finances.

Criticism: An evaluation based on the standard scoring convention’s hypothetical baseline is a better indicator of the ACA’s likely budgetary effects than is an analysis of the literal change in the law.

Fact: For this contention to be correct, the ACA’s extension of Medicare Trust Fund solvency must have absolutely no effect on actual Medicare spending.

This is because the scoring convention assumes—in contrast with the law—that full Medicare benefit payments will always be made, *regardless of whether the trust fund can support these benefits*. The favorable budget score for the ACA depends wholly on this assumption. It essentially assumes that the extension of Medicare solvency has no economic meaning, and also no significance in influencing future congressional behavior.

Historically, however, Congress has enacted Medicare savings as necessary to avert pending program insolvency, while cost-cutting pressures have been relaxed whenever Medicare's projected insolvency date has been moved further away. Indeed, many of the ACA's proponents cite its extension of Medicare solvency as an achievement of the law, clearly signaling that less now needs to be done to safeguard Medicare benefit payments than was previously the case.

To find that the ACA has not worsened federal finances, one must ignore not only literal law but also these practical behavioral effects.

Criticism: There is no conflict in asserting both that the ACA reduces the deficit and that it extends Medicare solvency.

Fact: This theory behind the ACA's financing disregards as a serious prior-law constraint the statutory obligation to keep Social Security and Medicare in financial balance. It implicitly holds that every time we take action to shore up Social Security and Medicare, we are not meeting a prior-law obligation but instead creating *new* savings that we are then free to spend without worsening federal finances.

By this theory, when Social Security was rescued in 1983, we could have spent all the savings on a vast new spending program without doing any fiscal harm. Also under this theory, there was no fiscal harm when we used Medicare savings in the ACA to finance a new entitlement program. Such a practice would not only worsen federal finances, it would lead to a fiscal disaster.

This reality has long been recognized in congressional budget rules supported by both parties. For precisely this reason, budget rules have forbidden the use of savings generated within [Social Security](#) as an offset for unrelated federal spending. The only difference here is that that the ACA made use of a rules loophole specific to Medicare Hospital Insurance (HI).

Fact: Separate and distinct financing resources are required to fulfill each of the various uses claimed for the cost-savings in the ACA, which include extending the solvency of Medicare, expanding Medicaid/CHIP, and providing subsidies for health exchange insurance purchases. But the government must issue separate checks when it makes Medicare and Medicaid payments; the same check can't be cashed by both programs. If only one financing source has been provided for the two commitments, additional borrowing will be necessary and the deficit will rise.

Both CBO and the Centers for Medicare & Medicaid Services' Medicare actuary agree:

[CBO](#): "The savings to the HI trust fund under the [ACA] would be received by the government only once, so they cannot be set aside to pay for future Medicare spending and, at the same time, pay for current spending on other parts of the legislation or on other programs. ... To describe the full amount of HI trust fund savings as both improving the government's ability to pay future Medicare benefits and financing new spending outside of Medicare would essentially double-count a large share of those savings."

[CMS Medicare actuary](#): "In practice, the improved Part A financing cannot be simultaneously used to finance other Federal outlays (such as the coverage expansions under the [ACA]) and to extend the trust fund, despite the appearance of this result from the respective accounting conventions."

Criticism: Using literal prior law as a baseline—as this study does—is not meaningful, because the trajectory of prior law was implausible, especially in the long run.

Fact: While it's virtually certain that prior law would not have transpired exactly as written, the same should be said of [the baseline employed to show a positive fiscal effect of the ACA](#). Under that baseline, it's assumed that health entitlements and Social Security eat up a relentlessly rising proportion of the federal budget forever, and that there are no adverse consequences of rising federal debt upon interest rates or economic growth. The implausibility of the literal current-law baseline is thus not directly relevant here because neither baseline is plausible over the long run.

Moreover, it should not be a surprise that the fiscal outlook looks better than most people expect under a literal current-law scenario. This is because a great deal of the financial imbalance now projected by CBO consists of financial imbalances in the Social Security and Medicare programs. Under the assumption that lawmakers uphold existing statutory obligations to right the finances of these programs, the fiscal outlook appears much better.

The analytical question at hand is instead the relative fiscal impact of the health care law compared with where we'd be without it. The ACA's approach to budgeting unambiguously worsens federal finances. Applying the ACA's methods across the board, we would move from a situation in which we now have a statutory obligation to balance Social Security and Medicare to avert a projected fiscal meltdown, to a much worse situation in which we would face a fiscal meltdown even *if* Social Security and Medicare are kept in financial balance. Clearly this would be a substantial deterioration of federal finances.

Criticism: Invoking actual law is a “trick.” There are other places where existing scorekeeping conventions ignore actual law (such as the debt ceiling), so it is appropriate to ignore actual law here as well.

Fact: There are indeed other aspects of existing scorekeeping conventions that ignore aspects of actual law. CBO conventions generally do not assume that spending is curtailed when the debt ceiling is reached, for example. Nor do they assume that appropriations expire at the end of the fiscal year.

This does not mean, however, that we should ignore actual law everywhere when performing budget analyses; to do so would render budget scorekeeping meaningless. Moreover, while other aspects of law (such as the debt ceiling) have not been principal determinants of Medicare spending levels historically, actual Medicare law *has* been the primary determinant of total Medicare spending—indeed, more so than the hypothetical scorekeeping baseline has been. We thus need to know how changes in Medicare law are likely to affect actual Medicare spending.

Criticism: This study assumes the ACA's Medicare cost-savings will be overridden.

Fact: The study's finding that the ACA adds more than \$340 billion to federal deficits over the next decade assumes *all* of the Medicare savings will be enforced as written.

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