



THE FISCAL EFFECTS OF REPEALING THE AFFORDABLE CARE ACT Section-by-Section Summary

A new study published by the Mercatus Center at George Mason University illuminates the enormous fiscal stakes of recently suspended efforts to repeal and replace the Affordable Care Act (ACA). While lawmakers must consider a number of important value judgments—affecting the health and income security of millions of Americans—in the context of any future healthcare legislation, they cannot responsibly ignore the implications of healthcare policy for federal finances. The ACA has significantly worsened the federal fiscal outlook, and efforts to repeal and replace the law represent a critical opportunity for much-needed fiscal corrections.

In “[The Fiscal Effects of Repealing the Affordable Care Act](#),” Mercatus Senior Research Fellow Charles Blahous examines the effects of different variables that could push the projected budget savings from repeal-and-replace either higher or lower than current projections. His analysis expands upon the estimates of the Congressional Budget Office (CBO), which is charged by Congress with producing a single best-guess estimate of the fiscal effects of legislation, and which must follow certain scorekeeping rules that occasionally diverge from current law and policy practice.

INTRODUCTION: THE ACA’S FISCAL EFFECTS OVER ITS FIRST SEVEN YEARS

- The ACA was originally enacted in part as a down payment on federal entitlement reform, which, per bipartisan consensus, was considered essential to improving the federal fiscal outlook. But the ACA has failed to lower the fiscal pressures arising from federal healthcare program spending. To the contrary, the ACA’s net fiscal effects appear to have been worse than the most pessimistic analyses made shortly after its enactment.
- The failure of the ACA to advance entitlement and fiscal reform is due primarily to three factors.

First, the enacted version of the ACA, as originally scored, increased rather than decreased federal health spending obligations.

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Second, Congress's scorekeeping rules directed CBO to compare the ACA's fiscal results not to law in the absence of the ACA but to a scorekeeping baseline of Congress's construction that assumed future legislation would increase allowable Medicare Hospital Insurance (HI) spending. It was only in comparison with this hypothetical Medicare spending increase that the ACA was projected to reduce federal deficits. Relative to Medicare law in the absence of the ACA, the ACA would have been scored as increasing federal deficits.

Third, many of the ACA's financing provisions were subsequently weakened, scaled back, or simply not implemented at all:

- The Community Living Assistance Services and Support (CLASS) long-term care program, originally relied upon to provide more than half of the ACA's net projected deficit reduction over its first 10 years, was later suspended and repealed because it was found to be actuarially unsound.
 - The Independent Payment Advisory Board (IPAB), established to control Medicare spending growth, was never constituted.
 - The "Cadillac plan" tax—an excise tax on high-premium insurance plans, originally enacted to take effect in 2013—was immediately postponed until 2018 and more recently until 2020, in addition to being weakened.
 - A tax on medical devices has since been suspended.
 - Health insurance plan fees have also been suspended.
 - Mandates and penalties affecting individuals (for failing to carry coverage) and employers (for failing to offer it) were later delayed and relaxed.
- While some of this fiscal slippage was anticipated by analysts upon the ACA's enactment, much was not. As a result, net finances under the ACA appear to have been worse than the more pessimistic estimates made at the time of its enactment.
 - Awareness of the ACA's troubled finances has been limited in part because the only budget scores routinely updated by CBO have been for the ACA's coverage provisions. These have generally come in below initial cost projections because of lower-than-expected enrollment and a decline in national health expenditure growth that began before the ACA but for which data were not fully available until afterward. These publications have not included updated estimates of reduced savings arising from the ACA's various financing provisions.

ESTIMATES FOR COMPLETE OR PARTIAL ACA REPEAL, AND HOW THEY ARE AFFECTED BY LEGISLATIVE CHOICES

- Repealing the ACA's coverage expansion provisions would reduce projected federal spending and deficits by trillions of dollars over upcoming decades.

- Repealing the ACA’s coverage expansion provisions and its various tax increases would also reduce projected federal spending by trillions of dollars over upcoming decades, and reduce federal deficits by hundreds of billions of dollars over the next decade alone.
- Repealing the entirety of the ACA (including its Medicare cost-containment provisions) would substantially reduce projected federal deficits, but would also greatly accelerate the depletion of the Medicare HI trust fund.
- Recent updates of CBO assumptions reveal that ACA marketplace enrollment has been lower than projected while the cost of Medicaid expansion has been greater than projected. Part of the Medicaid cost increase has been due to higher enrollment, part to higher per capita costs.
- Specifically, from 2015 to 2016 CBO decreased its projections for exchange enrollment by more than one-third in the near term, while its long-term estimates for Medicaid expansion costs increased by more than 20 percent.
- Repealing the ACA’s Medicare payroll tax increase effective next year would accelerate Medicare HI trust fund depletion from 2028 (under Medicare trustees’ assumptions) to 2026. Repealing the ACA’s Medicare payroll tax increase and cost-containment provisions effective next year would accelerate HI trust fund depletion to 2022.
- With or without repeal of the ACA’s Medicare provisions, repeal of the ACA would significantly improve the federal fiscal outlook. If all the Medicare provisions are repealed, however, some of the fiscal improvement will occur as a result of Medicare benefit payment interruptions upon accelerated HI trust fund depletion. For these reasons, lawmakers are not expected to repeal the ACA’s Medicare cost-containment provisions.
- With or without repeal of the ACA’s Medicare provisions, repeal of the ACA would reduce projected federal outlays cumulatively through 2025 by more than \$1.3 trillion.
- Repeal will have more positive fiscal effects if the effective dates for repealing the ACA’s coverage expansion provisions (marketplace subsidies and Medicaid expansion) are set earlier.

FACTORS THAT COULD AFFECT PROJECTION ACCURACY

- Current projections assume that if the ACA remains on the books, certain taxes—such as its Cadillac plan tax on high-premium insurance plans, its medical device tax, and health insurance fees—will be collected and produce escalating streams of federal revenue. However, these taxes have been suspended or postponed while the ACA has been in effect. Assuming these taxes continue to remain uncollected substantially worsens the baseline projections under the ACA and increases the budget savings associated with repeal.
- The per capita costs of the ACA’s Medicaid expansion have come in much higher than previously estimated. In 2015, the per capita cost of covering the expansion population was more than 60 percent higher than projected in the 2013 Medicaid actuarial report. CBO and

the Centers for Medicare and Medicaid Services assume these per capita costs will decline during the next few years. If they do not, the ACA's Medicaid expansion costs may still be underestimated, and thus the savings from repeal underestimated as well.

- On the other hand, it is possible that CBO is underestimating the share of the ACA Medicaid expansion population consisting of the so-called “woodwork” population: that is, individuals eligible for Medicaid pre-ACA who “came out of the woodwork” to enroll under the ACA's outreach processes. If this population is currently underestimated, both the coverage decline and the budget savings associated with ACA repeal will be less than currently projected.
- Various other variables and policy choices could push fiscal outcomes in either direction:
 - CBO analyses suggest that the budget savings associated with repeal will be increased if the ACA's various insurance market rules are repealed as part of the legislation.
 - The termination of cost-sharing subsidies by executive action in advance of legislation would reduce budget outlays before repeal, and thereby reduce the relative savings associated with repeal.
 - The budget savings arising from repeal will be increased if the ACA's IPAB Medicare cost-containment board remains inoperative and ineffective even if the ACA stays on the books.
 - The budget savings arising from repeal will be reduced if CBO is continuing to overestimate how many individuals will enroll in the ACA's health insurance marketplaces and receive federal subsidies for doing so.

SUMMARY AND CONCLUSIONS

- Under assumptions consistent with CBO's, repealing all the ACA's new spending and tax provisions effective next year would reduce federal deficits over 2017–2026 by \$586 billion.
- If the ACA's Medicaid expansion costs have been underestimated, if its insurance market-place rules are included among those repealed, and if one assumes that the Cadillac plan tax, the medical device tax, health insurance fees, and IPAB would have remained inoperative, the savings from repeal could be as much as \$1.07 trillion.
- On the other hand, if the ACA's Medicaid woodwork population has been underestimated and the ACA's exchange enrollment overestimated, and if the ACA's cost-sharing subsidies would have been terminated without legislation, the savings from repeal could be as little as \$228 billion.
- A similar analysis of repealing the ACA's coverage expansion provisions alone (leaving its other tax increases in place) finds that the fiscal improvement could be as little as \$878

billion or as much as \$1.377 trillion from 2017–2026, surrounding a midpoint estimate of \$1.236 trillion.

ADDENDUM: THE AMERICAN HEALTH CARE ACT

- CBO scored the American Health Care Act (AHCA), as originally introduced, as reducing federal deficits over 2017–2026 by \$337 billion.
- If the ACA’s Medicaid expansion costs have been underestimated, and if one assumes that the Cadillac plan tax, the medical device tax, health insurance fees, and IPAB would have remained inoperative, the savings from the AHCA could be as much as \$657 billion.
- If instead the ACA’s Medicaid expansion enrollment and exchange enrollment have been overestimated, savings under the AHCA could be as little as \$42 billion.
- Under the three scenarios described in this study, the AHCA’s repeal of the ACA’s Medicare HI payroll tax increase would accelerate HI trust fund depletion. This would increase the deficit reduction over 2017–2026 from \$337 billion under the CBO baseline to \$374 billion under Medicare law, based on specifics provided within the CBO score that suggest trust fund depletion in 2026. Adding other less-specific information from the CBO report suggests that depletion could occur in 2025, resulting in 2017–2026 budget savings under the AHCA ranging from \$92 billion to \$707 billion, around a midpoint estimate of \$424 billion.
- Although these projections may be either underestimated or overestimated, it is likely that the practical fiscal effects of the AHCA would be somewhat better than those projected by CBO. This likelihood of increased budget savings is not due primarily to CBO projection error but to Congress’s patterns of legislative behavior and its budget scorekeeping rules.