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

May 9, 2006

Honorable Edward M. Kennedy
Ranking Member
Committee on Health, Education,
Labor, and Pensions
United States Senate
Washington, DC 20510

Dear Senator:

This letter responds to your questions regarding the analysis underlying the Congressional Budget Office's (CBO's) cost estimate for S. 1955, the Health Insurance Marketplace Modernization and Affordability Act.

In fiscal year 2011, when CBO expects the full effect of the proposed legislation would be realized, we estimate that the small group health insurance market (which consists of firms with 50 or fewer employees) will include about 10.5 million single policyholders and 7.4 million family policyholders. (The family policies will cover an additional 12.5 million dependents, for a total of about 30 million covered individuals in the small group market.) CBO estimates that premiums also would be affected for about 6 million people in firms with slightly more than 50 employees. As discussed in CBO's cost estimate, S. 1955 would lower the average premium while increasing the variation in premiums for small group health insurance.

For that part of the insurance market affected by the bill, CBO estimates that about three-quarters of people covered by single or famly policies (27 million in 2011) would face a decrease in premiums under the bill, and one quarter (9 million) would face an increase in premiums (relative to what they would pay under current law).

For single policyholders in the small group market who face a decrease in premiums in 2011, CBO estimates that the average decrease would be about $480 annually, or 8 percent. For those who face an increase in premiums, the average increase would be about $520, or 6 percent. (The average premium under current law for policyholders experiencing a decrease in premiums is lower than that for policyholders likely to experience an increase in premiums.)

For family policyholders in the small group market who face a decrease in premiums in 2011, CBO estimates that the average decrease would be about $1,070, or 7 percent. For those who face an increase in premiums, the average increase would be about $1,420, or 6 percent. We have no basis for estimating the largest increase or decrease in premiums that an individual would face.

These changes do not include any behavioral effects such as adding covered benefits in response to premium reductions or choosing less generous policies in response to premium increases. Before taking account of these types of responses, CBO estimates that the net effect of the bill would be to decrease average premiums in the small group market by 3 percent to 4 percent. After taking those responses into account, we estimate that the net effect would be a decrease of 2 percent to 3 percent.

You asked about the effect of the bill on access to coverage for conditions and services that are the subject of mandates under state laws. According to the empirical literature and CBO's discussions with industry experts, most mandated conditions and services are popular health insurance benefits and generally would be offered regardless of state laws. Nevertheless, some individuals might find it more difficult to purchase coverage for conditions or services that previously had been mandated under their state laws, and which were included in their health insurance plan only because of the state requirement. CBO cannot provide a detailed breakdown of which mandated items would most likely be dropped from health plans offered by employers. Nor can we estimate the number of people who would prefer to purchase a health benefits package that included those additional mandated conditions or services for the higher premium inherent in such coverage.

You also asked about the characteristics of people whose coverage status would change as a result of S. 1955. For states that do not permit much variation in premiums across firms in the small group market, allowing greater variation would, on net, reduce average premiums for groups that have relatively low expected health care costs (including groups whose average age is lower than in the market in general), leading some of the people in those groups to become newly insured. Likewise, average premiums would increase among groups who have relatively high expected health care costs (including groups whose average age is higher than in the market in general), leading some of the people in those groups to drop coverage.

I hope this information is helpful to you. The CBO staff contact for further information is Tom Bradley.

Sincerely,

Donald B. Marron

Donald B. Marron
Acting Director

cc: Honorable Mike Enzi
Chairman
Committee on Health, Education,
Labor, and Pensions

Identical letters sent to the Honorable Jeff Bingaman, the Honorable Hillary Rodham Clinton, the Honorable Christopher J. Dodd, the Honorable Tom Harkin, the Honorable James M. Jeffords, the Honorable Patty Murray, and the Honorable Jack Reed