OBAMACARE: A BUDGET-BUSTING, JOB-KILLING HEALTH CARE LAW

A REPORT ON THE ECONOMIC AND FISCAL CONSEQUENCES OF THE PATIENT PROTECTION AND AFFORDABLE CARE ACT
(PUBLIC LAW 111-148)
&
THE HEALTH CARE AND EDUCATION RECONCILIATION ACT
(PUBLIC LAW 111-152)

Rep. John Boehner (R-OH), Speaker of the House
Rep. Eric Cantor (R-VA), House Majority Leader
Rep. Dave Camp (R-MI), Chairman, Committee on Ways & Means
Rep. John Kline (R-MN), Chairman, Committee on Education & the Workforce
Rep. Paul Ryan (R-WI), Chairman, Committee on the Budget
Rep. Fred Upton (R-MI), Chairman, Committee on Energy & Commerce

JANUARY 6, 2011

EXECUTIVE SUMMARY

This report details the economic and fiscal consequences of the Patient Protection and Affordable Care Act (PPACA,) signed into law by President Barack Obama on March 23, 2010. Several rationales were offered in support of this legislation, including that it would lead to the creation of jobs and the reduction of the federal budget deficit. This report shows that the health care law will achieve neither effect.

Economic Consequences. Consistent with respected economists' forecasts, the health care law contains a number of provisions that will eliminate jobs, reduce hours and wages, and limit future job creation. Specifically, the law:

- Penalizes employers for failing to offer coverage deemed acceptable by the government;
- Imposes burdensome mandates on small businesses, including new paperwork requirements; and
- Compounds the uncertainty employers and entrepreneurs are facing amid a challenging economic climate.

Independent analyses have determined that the health care law will cause significant job losses for the U.S. economy…

Independent analyses have determined that the health care law will cause significant job losses for the U.S. economy: the non-partisan Congressional Budget Office has determined that the law will reduce the "amount of labor used in the economy by … roughly half a percent...," an estimate that adds up to roughly 650,000 jobs lost.[i] A study by the National Federation of Independent Businesses (NFIB), the nation's largest small business association, found that an employer mandate alone could lead to the elimination of 1.6 million jobs, with 66 percent of those coming from small businesses.[ii] By comparison, then-Speaker Nancy Pelosi (D-CA) stated that "in its life," the health care law would "create 4 million jobs – 400,000 jobs almost immediately."[iii]

Fiscal Consequences. Studies of the health care law reveal that it will cost taxpayers more than originally estimated, and may exacerbate the nation's dire fiscal condition. Specifically, the law:

- Relies on accounting gimmicks that mask its true cost to taxpayers;
- Double-counts savings from Medicare that are widely viewed as unsustainable; and
- Requires additional government spending to direct its implementation.

According to an analysis by House Budget Committee Republicans, the health care law will cost the nation $2.6 trillion when fully implemented, and add $701 billion to the deficit in its first ten years.[iv] By comparison, President Obama stated during a joint session of Congress on September 9, 2009 that he would not sign health care reform that "adds one dime to our deficits – either now or in the future."[v]

Recommendations. The evidence is overwhelming: Immediate steps should be taken to repeal the health care law and replace it with common-sense reforms to lower costs and protect jobs. Such measures would ease uncertainty for employers and entrepreneurs, and give Congress an opportunity to take the necessary measures to address the nation's fiscal challenges.

ECONOMIC CONSEQUENCES

The health care law will cause significant job losses for the U.S. economy: the Congressional Budget Office has determined that the law will reduce the "amount of labor used in the economy by … roughly half a percent...," an estimate that adds up to roughly 650,000 jobs lost.[vi] A study by the National Federation of Independent Businesses (NFIB), the nation's largest small business association, found that an employer mandate alone could lead to the elimination of 1.6 million jobs between 2009 and 2014, with 66 percent of those coming from small businesses.[vii] By comparison, then-Speaker Nancy Pelosi (D-CA) stated that "in its life," the health care law would "create 4 million jobs -- 400,000 jobs almost immediately."[viii]

Speaker Pelosi's estimates were derived from a Center for American Progress (CAP) analysis showing that the health care law would lead to the creation of 250,000 to 400,000 jobs over ten years.[ix] This study relies on cost estimates that are widely viewed as unsubstantiated. An analysis by Americans for Tax Reform and the Beacon Hill Institute using CAP's methodology, but with what was deemed more realistic cost estimates, finds that the law will destroy between 120,000 and 700,000 jobs over the same ten-year period.[x]

Around the time these conflicting estimates were released, more than 130 respected economists addressed a letter to President Obama stating "the health care bill contains a number of provisions that will eliminate jobs, reduce hours and wages, and limit future job creation."[xi] According to the letter, those job-killing provisions include:

> "***New Taxes.*** *The bill raises taxes by almost $500 billion over ten years. A significant portion of these tax increases will fall on small business owners, reducing capital and limiting economic growth and hiring.*
>
> ***"New and Increased Medicare Taxes.*** *An increase in the Medicare payroll tax included in the bill will affect small businesses employing millions of Americans. Over time, higher payroll taxes will decrease wages for these employees. And a new Medicare tax on investment income such as interest, dividends, and capital gains proposed by President Obama and likely included in the bill will threaten jobs and decrease economic growth.*
>
> ***"Employer Mandate.*** *The bill will impose a tax of $2,000 per employee on employers with more than 50 employees that do not provide health insurance. The bill will also tax employers that offer health coverage deemed 'unaffordable' by the government. These new taxes on employers will reduce employment or be passed on to workers in the form of lower wages or reduced hours."*

Evaluating the Employer Mandate

Sections 1513 and 1003 of the health care legislation that passed Congress contain new mandates that penalize employers for failing to offer their workers coverage deemed 'acceptable.' Businesses with more than 50 employees that fail to adhere to federal guidelines will be penalized $2,000 per full-time employee. The first 30 employees are exempted. Under one scenario, then, employers that expand from 50 to 52 workers without offering sufficient coverage would have to pay annual penalties of $44,000. Employers with 55 to 60 workers stand to benefit from finding ways to reduce their workforce to under 50.

What's more, even if an employer does provide coverage, a $3,000 penalty is levied for each full-time employee who still elects to receive subsidized coverage. The legislation provides a strict definition of 'full-time worker' as someone who works at least four days per week.

One small business owner, Gail Johnson, president & CEO of Rainbow Station, Inc., a nationally accredited preschool and school age recreation franchise, told members of Congress last spring that the employer mandate would slow or stall the growth of small and medium-sized firms like hers:

> *"As crafted, I believe the new law is intended to eliminate all flexibility for employers to design a benefits package for our employees that is affordable. ... This represents a significant government intrusion into the benefits decisions of employers. In order to comply, small employers will be faced with decisions such as cutting back wages, forgoing new hiring and raising prices for services. These measures will further stunt any economic recovery and curtail future job growth."*[xii]

"In order to comply, small employers will be faced with decisions such as cutting back wages, forgoing new hiring and raising prices for services."

This analysis has proven true for small- and medium-sized businesses around the country. Consider the case of White Castle. The hamburger chain has stated that the law's employer mandate "will eat up roughly 55 percent of its yearly net income after 2014."[xiii] The company's spokesman noted that this "will make it hard for the company to maintain its 421 restaurants, let alone create new jobs."[xiv] According to the National Council of Chain Restaurants, "the entire restaurant industry will have trouble dealing with costs the bill imposes in 2014," and it will be "expensive either way" for businesses, workers, and customers.[xv]

An independent report by Mercer Consulting has concluded that the retail industry will face new challenges on account of the health care law. The study highlights how many retailers are likely not currently in compliance with the requirements of the law, as well as the difficulty for employers acting in good faith to know whether they will be in compliance:

> *"The consultancy analyzed data from its annual survey of employer health plans and found that 62% of retailers face problems with at least one of three big requirements of the new law: to provide 'affordable' coverage, to offer coverage for part-time employees working at least 30 hours per week, and to go above and- beyond the limited benefit plans sometimes offered to part-timers.*
>
> *"The mandate to provide 'affordable' coverage is one of the knottier issues. Employers aren't supposed to charge their full-time employees more than 9.5% of household income for coverage. If they do, and if even one employee receives government aid to purchase individual coverage through an exchange, the employer gets socked with a penalty. But, Mercer notes, household income is not a figure that employers typically know."*[xvi]

To assist retailers, the National Retail Federation (NRF) has created a "Health Mandate Cost Calculator" to help employers and entrepreneurs understand their exposure to the health care law's penalties.[xvii] An NRF spokesman said, "We do worry about this discouraging employment, particularly when employment hasn't taken off."[xviii]

Impact on Low-Wage Workers

Evidence indicates that the health care law is likely to affect low-wage workers more than other workers. By discouraging the hiring of new employees, the law is pushing employers and entrepreneurs to find new ways to save on costs. As economist Diana Furchtgott-Roth of the Hudson Institute put it: "With higher-skill jobs, employers can offer the required benefits and pay for them by cutting the wage. But low-wage jobs in the restaurant and retail sectors leave little room for cuts in wages."[xix] Employers, then, have little incentive to cover low-wage workers, an unfortunate trend at a time when unemployment among adults without high school diplomas is currently 15.7 percent, more than three times as high as the rate for college graduates. Unemployment among teens is 25 percent, also well above the national average.[xx]

CBO has specifically noted how the employer mandate will disproportionately affect low-wage workers:

> *"Those penalties, whose amounts are based on the number of full-time workers in the firm, will, over time, generally be passed on to workers through reductions in wages or other forms of compensation. <u>However, firms generally cannot reduce workers' wages below the minimum wage, which will probably cause some employers to respond by hiring fewer low-wage workers</u>. Alternatively, because firms are penalized only if their full-time employees receive subsidies from exchanges, some firms may instead hire more part-time or seasonal employees."*[xxi]

This analysis is echoed by Dr. Kate Baicker, a member of CBO's panel of health advisers, whose research has found that "when it is not possible to reduce wages, employers may respond in other ways: employment can be reduced for workers whose wages cannot be lowered, outsourcing and reliance on temp agencies may increase, and workers can be moved into part-time jobs where mandates do not apply."[xxii]

Experts at the Congressional Research Service (CRS) expect this as well, stating in a paper on "Health Reform and Small Business" that "economic theory suggests the penalty should ultimately be passed through [as] lower wages [to an employee]. If firms cannot pass on the cost in lower wages, the higher cost of workers may lead firms to reduce output and the number of workers." CRS estimates that about *one in five employees work for a business that could be negatively impacted by the new* employer penalty."[xxiii]

NFIB has found that an employer mandate could ultimately lead to the elimination of 1.6 million jobs between 2009 and 2014.[xxiv] Specifically, NFIB determined that:

- Of the more than 1.6 million jobs lost between 2009 and 2013, small businesses would account for more than 1 million, 66 percent, of all jobs lost.
- U.S. real GDP would contract by approximately $200 billion between 2009 and 2013.
- Small businesses would lose roughly $113 billion in real output and account for 56 percent of all real output lost.
- Labor intensive industries (e.g. construction or restaurant) and businesses with 20 – 99 employees would experience the most job loss.

Evaluating the '1099 Mandate'

"[S]mall businesses that lack the capacity to track customer purchases may lose customers…"

Section 9006 of the health care law requires employers and entrepreneurs to submit to the Internal Revenue Service (IRS) a tax reporting form for every vendor with which it has more than $600 in transactions in a year. Employers will have to track down the taxpayer identification number of each vendor and may be responsible for withholding payments from the vendor if requested by the IRS.

Put more plainly, if a landscaper wants to buy a new lawnmower, or a restaurant needs a new ice-maker, they have to report that to the federal government. If you're a Mom-and-Pop grocery store, and you buy $1000 worth of merchandise each from 15 different vendors, that's 15 different forms you have to file. This will inevitably create higher compliance costs for small businesses.

In July 2010, the Internal Revenue Service's National Taxpayer Advocate highlighted several consequences of the 1099 mandate:

- *"[T]he new reporting burden, particularly as it falls on small businesses, may turn out to be disproportionate as compared with any resulting improvement in tax compliance."*
- *"[S]mall businesses may have to acquire new software or pay for additional accounting services, incurring additional costs."*
- *"In our view, it is highly likely that the IRS will improperly assess penalties that it must abate later, after great expenditure of taxpayer and IRS time and effort."*
- *"[S]mall businesses that lack the capacity to track customer purchases may lose customers, leaving the economy with more large national vendors and less local competition."*[xxv]

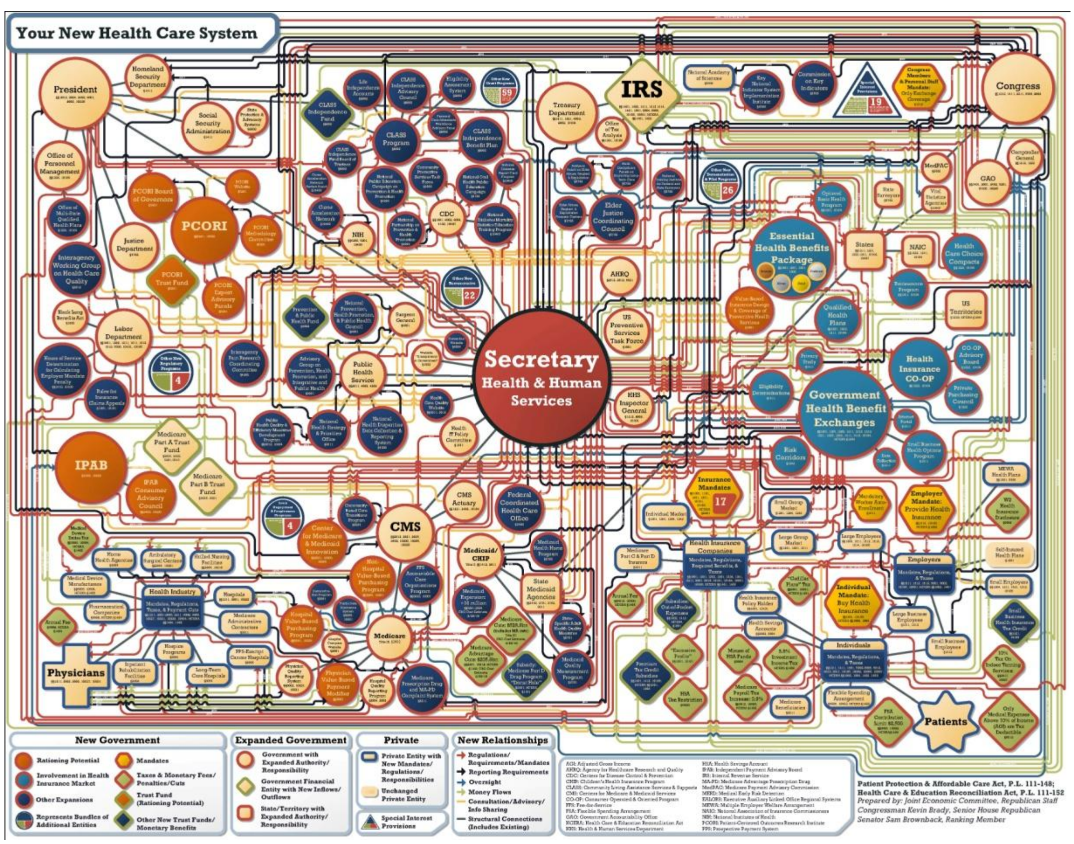
Karen Mills, the Administrator of the Small Business Administration, has advocated for repeal of the 1099 mandate, calling it "burdensome" and conceding it adds up to "too much paperwork, too much filing."[xxvi] Small businesses around the country have testified to challenges surrounding the new paperwork requirements:

- "Chip Rankin, the president and owner of EBC Carpet Services Corp., finds fault with a particular provision … that mandates all companies to issue tax forms, known as 1099s, to any individual or corporation from which they purchase goods or services worth more than $600. … 'The lawmakers are going to have to find a way to pay for this thing that they've created, but is it going to help? No,' said Rankin… 'There are going to be a lot of businesses that are small and mid-sized that will hurt from this.' … 'We've got it coming and going,' he said. 'A portion of some of my workers' jobs will now have to go toward taking care of this.'"[xxvii]

- "That means local start-ups and mom-and-pop shops with limited bookkeeping resources would have to collect tax ID information and file 1099 forms for every gas station or office supply store they spend $600 with to support their business. 'There has got to be a better way,' said Ed Fritz, owner of Centerville Coin & Jewelry Connection. 'It's just creating a big headache for small business owners.'"[xxviii]

Prolonging Economic Uncertainty

The health care law provides for the creation of nearly 160 boards, bureaus, bureaucracies, and commissions. In August 2010, the Joint Economic Committee minority released the following chart[xxix] detailing how the law operates:



Overall, the federal government is expected to issue roughly 10,000 pages of new regulations to govern the implementation of the new law. Small businesses around the country are concerned about the implications of these new regulations:

- "[S]ome business owners say they're holding back on creating new jobs because they're unsure if the newly added provisions will increase their health premiums or those of their customers. Among them is Rick Ledesma, owner of DataLogic Software Inc., a software company in Harlingen, Texas, with 15 employees. 'We can't plan to hire in this environment,' he says. 'It's not just necessarily your business but also the people you do business with who might be impacted. If it impacts them, it will impact you indirectly.'"[xxx]

- "[Omaha Friendly Services owner Paul Fraynd] and Adam Kalyn, the company's manager…said they have been fearful of what the newly passed health care legislation could mean for the firm. … 'I think (the health care bill) very much hurts small businesses,' Kalyn said. … 'It's very adversarial to small businesses right now.'"[xxxi]

- "Ron Ruff, president of Winfree, Ruff & Associates … said he is concerned about potential penalties that could be assessed to his business for not fully complying with the new [health care] guidelines. 'My concern is a lot of these regulations aren't written yet. Weekly, monthly, we hear new things come out. It's a big unknown in the future,' he said. 'There's a lot of unknowns; that's the scary part about this.'"[xxxii]

Overall, the federal government is expected to issue 10,000 pages of new regulations to govern the implementation of the new law.

Evaluating the Small Business Tax Credit

Sections 1421 and 10105 of the health care bills passed by Congress provide for the creation of a tax credit to help small businesses afford the cost of covering their workers. Evidence suggests, however, this tax credit actually has the opposite effect than was intended: it acts as a disincentive to increase wages and hire additional workers. A NFIB analysis[xxxiii] determined that the tax credit "will do little to nothing to make purchasing insurance more affordable for small firms":

- Early estimates by CBO indicated that just 12 percent of small business workers would benefit.

- The credit is very restrictive and requires small business owners to meet three complicated "tests" to qualify for any portion of the credit.

- The credit is only available for a maximum of six years, but according to the actuaries at the Centers for Medicare and Medicaid Services, health care costs will continue to increase well after those six years.

Response to the small business tax credit has been described as "tepid" because "the credit starts to phase out for companies that pay average annual wages of more than $25,000 or employ more than 25 workers. The value of the benefit declines quickly, so many business owners in high-cost states get no tax break, and those elsewhere often say the credit is too small to make much of a difference."[xxxiv]

Experts at the Congressional Research Service have determined that, by 2016, just three million workers – or one percent of the nation's total population – will benefit from the credit.[xxxv]

Evaluating the Impact of Rising Costs on Large Employers

In December 2009, major U.S. employers wrote a letter to then-Speaker Nancy Pelosi (D-CA) and Senate Majority Leader Harry Reid (D-NV) warning that the health care law's massive tax increases would hurt the economy.[xxxvi] In the hours after President Obama's signing ceremony took place, businesses began publicly identifying losses in the millions – all on account of new tax increases in the law:

- AT&T, $1 billion.
- Verizon, $970 million.
- Deere & Co., $150 million.
- Boeing, $150 million.
- Caterpillar, $100 million.
- Prudential Financial Inc., $100 million.
- Lockheed Martin, $96 million.
- Exelon, $65 million.
- 3M Co., $85-$90 million.
- Ingersoll-Rand, $41 million.
- AK Steel, $31 million.
- Eaton, $25 million.
- Illinois Tool Works, $22 million.
- Xcel, $17 million.
- Valero, $15-$20 million.
- Honeywell, $13 million.
- Goodrich, $10 million.
- Carpenter, $5.9 million.
- Allegheny Technologies, $5 million.[xxxvii]

Health care costs are expected to continue rising for employers in 2011, a trend attributed to the health care law. A recently released Hewitt Associates report[xxxviii] forecasts a nine percent increase in costs for employers, the highest level in five years. In turn, employers are likely to ask workers to take on 12 percent more of these costs. The consequences of these cost increases are already being felt, with companies warning employees they will have to pay more for health care, and some going so far as to drop retirees:

- **Boeing.** *"In a letter mailed to employees late last week, the company cited the overhaul as part of the reason it is asking some 90,000 nonunion workers to pay significantly more for their health plan next year. 'The newly enacted health care reform legislation … is also adding cost pressure as requirements of the new law are phased in over the next several years,' wrote Rick Stephens, Boeing's senior vice president for human resources."*[xxxix]

- **3M.** *"3M Co. confirmed it would eventually stop offering its health-insurance plan to retirees, citing the federal health overhaul as a factor."*[xl]

- **McDonalds.** *"McDonald's Corp. has warned federal regulators that it could drop its health insurance plan for nearly 30,000 hourly restaurant workers unless regulators waive a new requirement of the U.S. health overhaul. The move is one of the clearest indications that new rules may disrupt workers' health plans as the law ripples through the real world."*[xli]

Evaluating the Excise Tax on Medical Device Manufacturers

Section 1405 of the health care law contains a 2.3 percent excise tax on medical device manufacturers that companies warn will lead to considerable job losses in the industry:

> *"A 2.3 percent excise tax on companies that supply medical devices like heart defibrillators and surgical tools to hospitals, health centers and ambulance services will cost medical device manufacturers an estimated $20 billion in new taxes over the next decade. And they say that will force them to lay off workers and curb the research and development of new medical tools.*
>
> *"'Many small to midsize medical device companies will owe more to the federal government in taxes than they make in profits,' said Mark Leahy of the Medical Device Manufacturers Association. 'We're talking about a 2.3 percent tax on total sales irrespective of whether a company is making a profit.' …*
>
> *"Richard Packer, CEO of Chelmsford, Mass.-based Zoll Medical Corp., which employs 650 workers in Massachusetts, said the tax will put his company, which produces defibrillators, 'at a break-even position' and dismissed the idea that companies should be grateful the tax wasn't higher.'"*[xlii]

The Issue with Government Waivers

The Department of Health and Human Services (HHS) is empowered by the health care law to grant waivers exempting entities from being required to comply with its mandates. To date, HHS has granted 222 such waivers, which last for one year. The complete list of recipients – including McDonald's, which had previously warned it would drop coverage – can be viewed on the HHS website.[xliii] A number of unions are also on the list of waiver recipients, including:

- The Service Employees Benefit Fund
- The Local 25 SEIU Welfare Fund
- United Food and Commercial Workers Allied Trade Health and Welfare Trust Fund
- International Brotherhood of Electrical Workers Union No. 915
- Asbestos Workers Local 53 Welfare Fund
- Employees Security Fund
- Plumbers and Pipefitters Local 123 Welfare Fund
- United Food and Commercial Workers Local 227
- United Food and Commercial Workers Local 455 (Maximus)
- United Food and Commercial Workers Local 1262
- Musicians Health Fund Local 802
- Hospitality Benefit Fund Local 17
- Transport Workers Union
- United Federation of Teachers Welfare Fund
- International Union of Painters and Allied Trades (AFL-CIO)

One analyst stated that the waivers prove that the health care law is a job-killer: "When you put the power in the hands of the administration and the bureaucracy to decide who is going to obey the law and who isn't going to obey the law, you've vitiated the purpose of the entire law in the first place. … What they've done here is admitted that they cannot create jobs with this. They know that this is a job-killer."[xliv]

Findings

With nearly one in ten Americans looking for work, evidence strongly indicates that the health care law will continue to increase strain on employers and entrepreneurs. The law's impact will especially be felt by the most vulnerable in our nation's workforce and small businesses, which create the overwhelming majority of the nation's new jobs.

FISCAL CONSEQUENCES

The government takeover of health care is exacerbating the already dire fiscal challenges our nation faces. If fully implemented, the health care law will cost taxpayers $2.6 trillion, while adding $701 billion to the deficit in its first ten years.[xlv] By comparison, President Obama told a joint session of Congress on September 9, 2009, that he would not sign health care reform that "adds one dime to our deficits – either now or in the future."[xlvi]

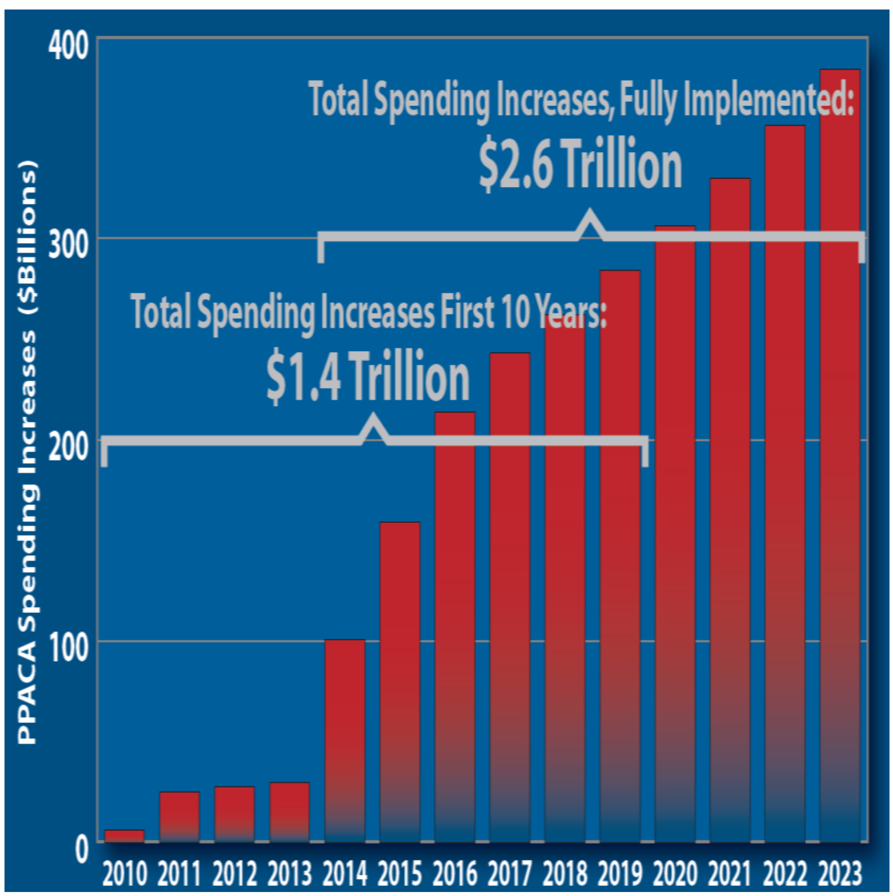
Revisiting CBO's Initial Analysis

If fully implemented, the health care law will cost taxpayers $2.6 trillion, while adding $701 billion to the deficit in its first ten years.

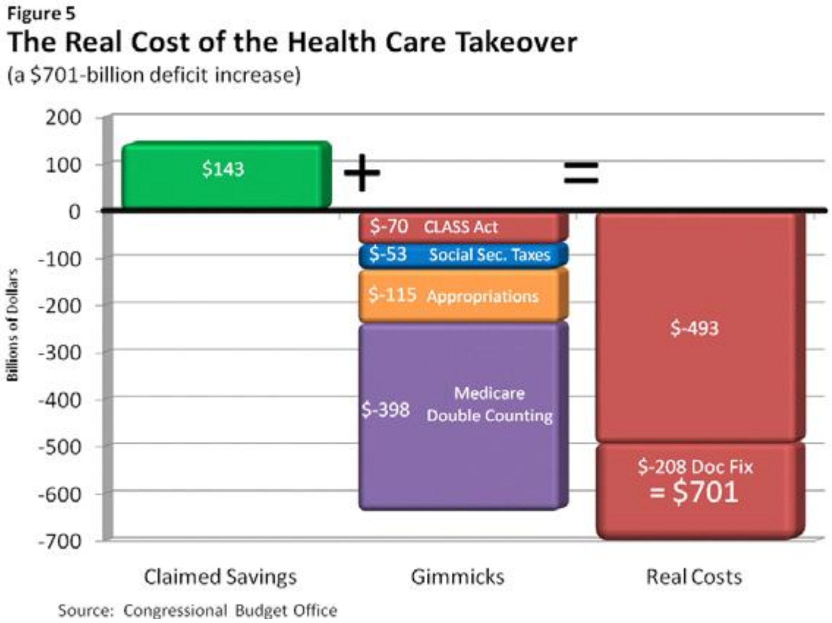
Claims that the health care law would lower the deficit were based primarily on an analysis by the non-partisan Congressional Budget Office (CBO) showing costs of $940 billion over ten years and deficit reduction of $143 billion over the same period.[xlvii]

An analysis by House Budget Committee Republicans, however, reveals the true cost of the health care law – if fully implemented – to be $2.6 trillion. The nearby chart shows the rapid growth in the cost of the law over time.[xlviii]

This chart also demonstrates how the law's authors used CBO's methodology to their advantage. CBO evaluates legislation over a ten-year budget window. The health care law's most significant benefits don't take effect for four years, however, meaning that the law requires ten years of tax increases and ten years of Medicare cuts to pay for six years of spending. This trend is reflected in the chart below.



Budget Committee Republicans' analysis also uncovered that the health care law will actually increase the deficit by $701 billion over the next ten years.



This figure is reached after balancing the CBO savings figure against a number of accounting gimmicks that were ineligible for inclusion in CBO's original analysis:

- **<u>$53 billion of savings is claimed by counting increased Social Security payroll revenues.</u>** These dollars, however, are already spoken for by Social Security beneficiaries, meaning either that benefits will not be paid out, or the law's authors are double-counting the savings.

- **<u>$70 billion of savings is claimed from the newly created Community Living Assistance Services and Support (CLASS) program.</u>** These savings are achieved by collecting premiums immediately and beginning to pay out benefits after five years, hence why savings appears in the ten-year budget window. Over time, however, as CBO has found, this new entitlement "would eventually lead to net outlays when benefits exceed premiums."[xlix] *The Washington Post* has said of the CLASS program: "These are not 'savings' that can be honestly counted on the balance sheet of reform."[l] Senate Budget Chairman Kent Conrad (D-ND) has called CLASS "a Ponzi scheme of the first order."[li]

- **<u>$115 billion in new government spending required to implement the health care law is not factored into CBO's initial estimate.</u>** On May 11, CBO notified Congress that additional discretionary spending would be required to implement the government takeover of health care. This includes roughly $9 billion for both the Internal Revenue Service (IRS) and the Department of Health and Human Services (HHS).[lii]

- **$398 billion is claimed in Medicare Hospital Insurance Fund savings.** CBO has previously noted that "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 and thus overstate the improvement in the government's fiscal position."[liii]

The CBO estimate also does not account for the cost of the scheduled cut in Medicare payments to physicians (the 'doc fix.')

There are additional provisions in the law that present the possibility of cost overruns. Section 1101 provides for the establishment of a "temporary high-risk insurance health insurance program" to benefit patients with pre-existing conditions. Under the law, Congress allotted $5 billion to get the program up and running, a sum that evidence shows may be insufficient.

… concluding that the law does little to reduce the pressure rising health care costs are placing on the federal budget deficit.

Two months prior to final passage, Medicare's chief actuary, Richard S. Foster, determined that the $5 billion sum would be "exhausted" within two years of the program's implementation, resulting in "substantial premium increases" that would "limit further participation."[liv] CBO echoed Foster's analysis in a June 21, 2010 letter, stating "that the funding available for subsidies would not be sufficient to cover the costs of all applicants through 2013."[lv] Nearly half of the states have opted not to enroll in the program on account of cost concerns.

Recent reports have indicated that "in at least a few states, claims for medical care covered by the 'high-risk pools' are proving very costly, and it is an open question whether the $5 billion allotted by Congress to start up the plans will be sufficient."[lvi]

In a separate analysis, CBO director Douglas Holtz-Eakin found that the health care law "will raise the deficit by more than $500 billion during the first ten years and by nearly $1.5 trillion in the following decade." He concludes: "In light of the precarious state of federal fiscal affairs and the enormous downside risks presented by the act, one can only hope that every future effort is devoted to reducing its budgetary footprint."[lvii]

In May 2010, CBO director Douglas Elmendorf gave a presentation to the Institute of Medicine in which he defended his office's initial finding that the health care law would lower the deficit over ten years. At the same time, he provided a more complete picture of the health care law's impact on the budget, concluding that the law does little to reduce the pressure rising health care costs are placing on the federal budget deficit.[lviii]

Cost Analyses

In April 2010, Medicare's Office of the Actuary released an analysis showing that the new law would increase national health care spending by more than $311 billion over the next ten years.[lix] Specifically, chief actuary Richard Foster's report concluded that:

- The law's new taxes would lead to higher premiums for patients.

- The CLASS program, one of the law's cost-savers, carries "a very serious risk" of insolvency.

- Roughly 15 percent of hospitals and providers would go into the red, "possibly jeopardizing access" for seniors.

Foster reserved his "most sober assessments" for Medicare.[lx] Foster found the law's Medicare cuts to be unsustainable, their long-term viability "doubtful."[lxi] Foster echoed the CBO's finding that savings from the program cannot be double-counted.

In August 2010, Medicare's trustees stated in their annual report that the solvency of the Medicare Hospital Insurance Fund had been extended by 12 years. HHS Secretary Kathleen Sebelius welcomed the trustees' analysis, stating that the savings could be attributed "in large part to the Affordable Care Act."[lxii]

For his part, Foster appended to the trustees' report his view that it does not "represent a reasonable expectation for actual program operations in either the short range . . . or the long range."[lxiii] He went so far as to highlight an "alternative scenario"[lxiv] showing that Medicare's share of the economy would rise 60 percent over the next three decades, more than double the rate forecasted by the trustees.

Other Medicare experts concur with Foster's analysis. Dr. Tom Saving, a Medicare trustee from 2000- 2007, said that "while some savings are necessary to shore up the Medicare program, we know that the new law's unrealistic cuts will hurt care for seniors. Instead of reducing the existing program's tremendous burden on taxpayers, the new law commits future taxpayers to a bigger burden through a bigger trust fund."[lxv]

In August 2010, reports surfaced that the health care law's most fervent supporters had backed away from claims the law would reduce the deficit as promised: "key White House allies are dramatically shifting their attempts to defend health care legislation, abandoning claims that it will reduce costs and the deficit and instead stressing a promise to 'improve it.'" A PowerPoint presentation put together by Democratic pollsters conceded "that the fiscal and economic arguments that were the White House's first and most aggressive sales pitch have essentially failed."[lxvi]

In December, President Obama's National Commission on Fiscal Responsibility and Reform addressed the health care law in their final report. Calling federal health spending "our single largest fiscal challenge," the commission found that the Administration's projections "count on large phantom savings."[lxvii] Echoing CBO director Elmendorf's May presentation, the commission calls for "a number of other reforms to reduce federal health spending and slow the growth of health care costs more broadly."

Findings

Respected economists have argued for the need to cut spending and begin tackling the nation's debt load in order to boost confidence and encourage economic growth. Evidence suggests that the health care law is not well-positioned to improve the nation's fiscal health. Instead of lowering costs and reducing the deficit as promised, the health care law has left taxpayers on the hook for more spending and more debt.

CONCLUSION

The evidence is overwhelming: immediate steps should be taken to repeal the health care law and replace it with common-sense reforms to lower costs and protect jobs. Such measures would ease uncertainty for employers and entrepreneurs, and give Congress an opportunity to take the necessary measures to address the nation's fiscal challenges.

On January 12, 2011, the House of Representatives is scheduled to take two votes related to replacing President Obama's health care law (P.L. 111-148) with common sense reforms that will actually lower costs and make health care more affordable for all Americans.

The first, the Repealing the Job-Killing Health Care Law Act, is sponsored by Majority Leader Eric Cantor (R-VA).[lxviii]

The second vote comes on a resolution[lxix] calling for congressional committees "to report legislation replacing the job-killing health care law." The committees of jurisdiction – Education & the Workforce, Energy & Commerce, and Ways & Means – are further instructed to produce legislation that will, among other key reforms:

- "foster economic growth and private sector job creation by eliminating job-killing policies and regulations;"
- "lower health care premiums through increased competition and choice;"
- "preserve a patient's ability to keep his or her health plan if he or she likes it;"
- "provide people with pre-existing conditions access to affordable health coverage;"
- "reform the medical liability system to reduce unnecessary and wasteful health care spending;"
- "increase the number of insured Americans;" and
- "provide the States great flexibility to administer Medicaid programs"

These reforms mirror better solutions House Republicans supported during the health care debate in the 111th Congress.

Rep. John Boehner (R-OH)
Speaker of the House

Rep. Eric Cantor (R-VA)
House Majority Leader

Rep. Dave Camp (R-MI)
Chairman, Committee on Ways & Means

Rep. John Kline (R-MN)
Chairman, Committee on Education & the Workforce

Rep. Paul Ryan (R-WI)
Chairman, Committee on the Budget

Rep. Fred Upton (R-MI)
Chairman, Committee on Energy &Commerce

ENDNOTES

[i] "The Budget and Economic Outlook: An Update," August 2010. http://cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf

[ii] NFIB press release. http://www.nfib.com/press-media/press-media-item?cmsid=48480

[iii] Remarks at Bipartisan Meeting at Blair House on Health Insurance Reform, February 25, 2010. http://www.democraticleader.gov/news/press?id=1559

[iv] "The Budget Record of the 111th Congress," September 29, 2010. http://www.house.gov/budget_republicans/111thadjournmentpacket.pdf

[v] Remarks by the President to a Joint Session of Congress on Health Care, September 9, 2009. http://www.whitehouse.gov/the_press_office/remarks-by-the-president-to-a-joint-session-of-congress-on-health-care/

[vi] "The Budget and Economic Outlook: An Update," August 2010. http://cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf

[vii] NFIB release. http://www.nfib.com/press-media/press-media-item?cmsid=48480

[viii] Remarks at Bipartisan Meeting at Blair House on Health Insurance Reform, February 25, 2010. http://www.democraticleader.gov/news/press?id=1559

[ix] "New Jobs Through Better Health Care," January 8, 2010. http://www.americanprogress.org/issues/2010/01/new_jobs_health.html

[x] "Study: Health Care Legislation Will Cost up to 700,000 Jobs by 2019," March 19, 2010. http://www.atr.org/userfiles/031710pr-ATRF_Obamacare_Jobs_Study(5).pdf

[xi] Letter to President Obama, March 18, 2010. http://gopleader.gov/UploadedFiles/Economists_Letter_to_Obama_and_Congress_March.pdf

[xii] Press Release, "Blunt Chairs Forum to Investigate True Cost of Health Care Law," May 27, 2010. http://img.votesmart.org/speech_detail.php?sc_id=558200&keyword=&phrase=&contain=

[xiii] Cleveland Plain Dealer, July 4, 2010. http://www.cleveland.com/open/index.ssf/2010/07/ohio_hamburger_chain_says_insu.html

[xiv] Ibid.

[xv] Ibid.

[xvi] Mercer release, April 27, 2010. http://www.mercer.com/summary.htm?idContent=1378875
[xvii] http://www.nrf.com/modules.php?name=Pages&sp_id=1290

[xviii] Cleveland Plain Dealer, July 4, 2010. http://www.cleveland.com/open/index.ssf/2010/07/ohio_hamburger_chain_says_insu.html

[xix] Diana Furchtgott-Roth, *Washington Examiner*, December 16, 2010. http://washingtonexaminer.com/opinion/columnists/2010/12/diana-furchtgott-roth-obamacare-will-hurt-low-skill-workers

[xx] BLS data

[xxi] "The Budget and Economic Outlook: An Update," August 2010.

[xxii] "Myths and Misconceptions about U.S. Health Insurance," Health Affairs, 2008. http://content.healthaffairs.org/cgi/content/full/27/6/w533

[xxiii] "Health Reform and Small Business," April 8, 2010. http://crs.gov/Pages/Reports.aspx?Source=cli&ProdCode=R40775#_Toc268786482

[xxiv] NFIB release. http://www.nfib.com/press-media/press-media-item?cmsid=48480

[xxv] Mid-Year Report to Congress, July 7, 2010. http://www.irs.gov/newsroom/article/0,,id=225270,00.html

[xxvi] *Accounting Today*, November 26, 2010. http://www.accountingtoday.com/debits_credits/SBA-Administrator-Backs-Repeal-1099-Requirements-56462-1.html

[xxvii] *The Delaware News-Journal*, 10/31/10.

[xxviii] *Dayton Daily News*, 10/25/10 http://www.daytondailynews.com/business/tax-rule-in-health-care-law-could-increase-small-business-paperwork-985309.html

[xxix] Joint Economic Committee minority release, August 2, 2010. http://www.jec.senate.gov/republicans/public/index.cfm?p=CommitteeNews&ContentRecord_id=bb302d88-3d0d-4424-8e33-3c5d2578c2b0

[xxx] *The Wall Street Journal*, September 23, 1010. http://online.wsj.com/article/SB10001424052748703860104575508262663016850.html

[xxxi] Omaha World-Herald, November 7, 2010. http://www.omaha.com/article/20101107/MONEY/711079938

[xxxii] *Lancaster Eagle-Gazette*, November 7, 2010.

[xxxiii] http://www.nfib.com/issues-elections/issues-elections-item/cmsid/51057

[xxxiv] http://www.businessweek.com/smallbiz/content/aug2010/sb20100825_366429.htm

[xxxv] "Summary of Small Business Health Insurance Tax Credit Under PPACA," April 5, 2010. http://www.ncsl.org/documents/health/SBtaxCredits.pdf

[xxxvi] http://www.americanbenefitscouncil.org/documents/hcr_drugsub_cfo-letter121109.pdf

[xxxvii] Specific citations for this list can be found here: http://gopleader.gov/UploadedFiles/ObamaCare3MonthsBrokenPromises.pdf

[xxxviii] http://www.hewittassociates.com/Intl/NA/en-US/AboutHewitt/Newsroom/PressReleaseDetail.aspx?cid=9106

[xxxix] *Associated Press*, October 18, 2010. http://news.yahoo.com/s/ap/20101018/ap_on_bi_ge/us_health_costs_boeing

[xl] *The Wall Street Journal*, October 4, 2010. http://online.wsj.com/article/SB10001424052748703859204575526953379583836.html

[xli] *The Wall Street Journal*, September 30, 2010. http://online.wsj.com/article/SB10001424052748703431604575522413101063070.html

[xlii] *Associated Press*, June 7, 2010. http://www.boston.com/business/taxes/articles/2010/06/07/medical_device_makers_new_tax_will_cost_jobs/

[xliii] http://www.hhs.gov/ociio/regulations/approved_applications_for_waiver.html

[xliv]*Fox News*, November 13, 2010. http://www.foxnews.com/on-air/cost-of-freedom/transcript/cashin/social-security-mayhem

[xlv] "The Budget Record of the 111th Congress," September 29, 2010. http://www.house.gov/budget_republicans/111thadjournmentpacket.pdf

[xlvi] Remarks by the President to a Joint Session of Congress on Health Care, September 9, 2009. http://www.whitehouse.gov/the_press_office/remarks-by-the-president-to-a-joint-session-of-congress-on-health-care/

[xlvii] http://www.cbo.gov/ftpdocs/113xx/doc11379/AmendReconProp.pdf

[xlviii] This chart is from a report issued by Sen. Tom Coburn, M.D. (R-OK) and Sen. John Barrasso, M.D. (R-WY.) http://barrasso.senate.gov/public/_files/FinalGrim.pdf

[xlix] Letter to Rep. Charles Rangel (D-NY), October 29, 2009. http://www.cbo.gov/ftpdocs/106xx/doc10688/hr3962Rangel.pdf#page=13

[l] *Washington Post* editorial, July 10, 2009. http://www.washingtonpost.com/wp-dyn/content/article/2009/07/09/AR2009070902607_pf.html

[li] The Washington Post, October 27, 2009. http://www.washingtonpost.com/wp-dyn/content/article/2009/10/27/AR2009102701417.html

[lii] Letter to Rep. Jerry Lewis, May 11, 2010. http://www.cbo.gov/ftpdocs/114xx/doc11490/LewisLtr_HR3590.pdf

[liii] Director's Blog, December 23, 2009. http://cboblog.cbo.gov/?p=448

[liv] "Estimated Financial Effects of the 'Patient Protection and Affordable Care Act,' as Passed by the Senate on December 24, 2009," January 8, 2010. http://www.cms.gov/ActuarialStudies/Downloads/S_PPACA_2010-01-08.pdf

[lv] Letter to Sen. Mike Enzi (R-WY), June 21, 2010. http://www.cbo.gov/ftpdocs/115xx/doc11572/06-21-High-Risk_Insurance_Pools.pdf

[lvi] The Washington Post, December 27, 2010. http://www.washingtonpost.com/wp-dyn/content/article/2010/12/27/AR2010122702343.html

[lvii] Health Affairs, June 2010. http://www.ncpa.org/pdfs/health-care-reform-likely-to-add-billions-to-deficit.pdf

[lviii] Presentation to the Institute of Medicine, May 26, 2010. http://www.cbo.gov/ftpdocs/115xx/doc11544/Presentation5-26-10.pdf

[lix] "Estimated Financial Effects of the 'Patient Protection and Affordable Care Act,' as Amended," April 22, 2010. http://www.cms.gov/ActuarialStudies/Downloads/PPACA_2010-04-22.pdf

[lx] Associated Press, April 22, 2010. http://www.msnbc.msn.com/id/36726295/ns/politics-health_care_reform/

[lxii] Release, August 5, 2010. http://www.hhs.gov/news/press/2010pres/08/20100805d.html

[lxiii] https://www.cms.gov/ReportsTrustFunds/downloads/tr2010.pdf

[lxiv] "Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers," August 5, 2010. http://www.cms.gov/ReportsTrustFunds/downloads/2010TRAlternativeScenario.pdf

[lxvi] *POLITICO*, August 19, 2010. http://www.politico.com/news/stories/0810/41271.html#ixzz18qvtrZgk

[lxvii] "The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform," December 1, 2010. http://www.fiscalcommission.gov/news/moment-truth-report-national-commission-fiscal-responsibility-and-reform

[lxviii] H.R. 2, the Repealing the Job-Killing Health Care Law Act is available here: http://rules-republicans.house.gov/Legislation/legislationDetails.aspx?NewsID=60

[lxix] H. Res. 9, "Instructing certain committees to report legislation replacing the job-killing health care law," is available here: http://rules-republicans.house.gov/Legislation/legislationDetails.aspx?NewsID=61.