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

Douglas W. Elmendorf, Director

February 18, 2011

Honorable John Boehner
Speaker of the House
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) have estimated the direct spending and revenue effects of H.R. 2, the Repealing the Job-Killing Health Care Law Act, as passed by the House of Representatives on January 19, 2011. That act would repeal the Patient Protection and Affordable Care Act (PPACA, Public Law 111-148) and the provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) that are related to health care. Both of those laws were enacted in March 2010.

Among other things, PPACA and the provisions of the Reconciliation Act that are related to health care will do the following: establish a mandate for most legal residents of the United States to obtain health insurance; create insurance exchanges through which certain individuals and families will receive federal subsidies to substantially reduce the cost of purchasing health insurance coverage; significantly expand eligibility for Medicaid; permanently reduce the growth of Medicare's payment rates for most services (relative to the growth rates projected under prior law); impose an excise tax on health insurance plans with relatively high premiums; impose certain taxes on individuals and families with relatively high incomes; and make various other changes to the federal tax code, Medicare, Medicaid, and other programs.

Table 1 on page 3 summarizes CBO and JCT's assessment of the changes in federal budget deficits that would result from the effects of H.R. 2 on direct spending and revenues. Table 2 on pages 5 and 6 shows more detail on the federal budgetary cash flows for direct spending and revenues associated with the legislation. Table 3 on pages 8 and 9 provides estimates of the bill's effects related to health insurance coverage: changes in the

number of nonelderly people in the United States who will have health insurance and the primary budgetary effects of the legislation's major provisions related to insurance coverage. Table 4 on page 15 compares CBO and JCT's estimate of the budgetary effects of H.R. 2 with the agencies' estimate last March of the effects of enacting PPACA and the health-related provisions of the Reconciliation Act.

Impact on the Federal Budget in the First Decade

CBO and JCT estimate that, on balance, the direct spending and revenue effects of enacting H.R. 2 would cause a net increase in federal budget deficits of $210 billion *over the 2012-2021 period* (see Table 1).[1] By comparison, last March CBO and JCT estimated that enacting PPACA and the health-related provisions of the Reconciliation Act would reduce federal deficits by $124 billion *over the 2010-2019 period*.[2] The difference between the two estimates for the 10-year projection periods is primarily attributable to the different time periods they cover. Over the eight years that are common to the two analyses (2012-2019), enactment of PPACA and the health-related provisions of the Reconciliation Act was projected last March to reduce federal deficits by $132 billion, whereas the repeal of that legislation is projected now to increase deficits by $119 billion.

The net increase in deficits (shown in Table 1) from enacting H.R. 2 has the same three major components as the net decrease in deficits that was estimated to result from enacting PPACA and the Reconciliation Act.

---

[1] In a preliminary analysis issued January 6, 2011, CBO and JCT projected that enactment of H.R. 2 would increase federal budget deficits by about $230 billion over that period. See Congressional Budget Office, letter to the Honorable John Boehner presenting a preliminary analysis of the budgetary effects of H.R. 2, the Repealing the Job-Killing Health Care Law Act, as introduced on January 5, 2011.

[2] See Congressional Budget Office, letter to the Honorable Nancy Pelosi about the budgetary effects of H.R. 4872, the Reconciliation Act of 2010 (March 20, 2010). That letter and most of the other CBO documents cited in this letter are available on CBO's Web site (www.cbo.gov) and are contained in CBO's December 2010 report *Selected CBO Publications Related to Health Care Legislation, 2009–2010*.

Table 1. Estimate of the Impact on the Deficit That Would Result From the Direct Spending and Revenue Effects of H.R. 2 , as Passed by the House of Representatives on January 19, 2011

	By Fiscal Year, in Billions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
NET CHANGES IN THE DEFICIT FROM INSURANCE COVERAGE PROVISIONS [a, b]												
Effects on the Deficit	-6	-9	-55	-92	-131	-149	-145	-146	-149	-160	-294	-1,042
NET CHANGES IN THE DEFICIT FROM OTHER PROVISIONS AFFECTING DIRECT SPENDING [c]												
Effects on the Deficit of Changes in Outlays	10	20	45	52	62	78	94	115	123	133	190	732
NET CHANGES IN THE DEFICIT FROM OTHER PROVISIONS AFFECTING REVENUES [d]												
Effects on the Deficit of Changes in Revenues	20	35	39	43	52	58	63	66	70	74	189	520
NET CHANGES IN THE DEFICIT [a]												
Net Increase or Decrease (-) in the Budget Deficit	24	46	29	2	-16	-13	12	35	44	47	85	210
On-Budget	24	45	29	1	-21	-19	1	20	27	28	79	136
Off-Budget [e]	*	1	*	1	4	6	11	15	17	18	7	73

Sources: Congressional Budget Office and staff of the Joint Committee on Taxation (JCT).

Notes: These estimates were produced using the outlay and revenue baselines available in early 2011.

Components may not sum to totals because of rounding; * = between $0.5 billion and -$0.5 billion.

a. Does not include effects on spending subject to future appropriation.

b. Includes excise tax on high-premium insurance plans.

c. These estimates reflect the effects of provisions affecting Medicare, Medicaid, and other federal health programs, and include the effects of interactions between insurance coverage provisions and those programs.

d. The changes in revenues include effects on Social Security revenues, which are classified as off-budget. The 10-year total of $520 billion includes $512 in reduced revenues from tax provisions (estimated by JCT) apart from receipts from the excise tax on high-premium insurance plans and $8 billion in reduced revenues from certain provisions affecting Medicare, Medicaid, and other programs (estimated by CBO and JCT).

e. Off-budget effects include changes in Social Security spending and revenues as well as in spending by the U.S. Postal Service.

- The enacted legislation contained a set of provisions designed to expand health insurance coverage that was estimated to increase federal deficits. The costs of those coverage expansions—which include the cost of the subsidies to be provided through the exchanges, increased outlays for Medicaid and the Children's Health Insurance Program (CHIP), and tax credits for certain small employers—will be partially offset by revenues from the excise tax on high-premium insurance plans and net savings from other coverage-related effects. By repealing those coverage provisions of PPACA and the Reconciliation Act, over the 2012-2021 period H.R. 2 would yield gross savings of $1,390 billion and net savings (after accounting for the offsets just mentioned) of $1,042 billion.

- PPACA and the Reconciliation Act also included a number of other provisions related to health care that were estimated to reduce net federal outlays (primarily for Medicare). By repealing those provisions, H.R. 2 would increase other direct spending in the next decade by $732 billion.

- The enacted legislation will increase federal revenues (apart from the effect of provisions related to insurance coverage), mostly by increasing the Hospital Insurance payroll tax and imposing fees on certain manufacturers and insurers. Repealing those provisions would reduce revenues by an estimated $520 billion over the 2012-2021 period.

H.R. 2 would, on net, increase federal deficits over the next decade because the net savings from eliminating the coverage provisions would be more than offset by the combination of other spending increases and revenue reductions.

In total, CBO and JCT estimate that H.R. 2 would reduce outlays by about $604 billion and reduce revenues by about $813 billion over the 2012-2021 period (see Table 2).

Table 2. Estimated Changes in Direct Spending and Revenues That Would Result From Enacting H.R. 2, as Passed by the House of Representatives on January 19, 2011

	By Fiscal Year, in Billions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN OUTLAYS FROM DIRECT SPENDING												
Health Insurance Exchanges												
Premium and Cost Sharing Subsidies	0	0	-14	-33	-57	-71	-79	-84	-88	-94	-104	-519
Start-up Costs for Exchanges	*	-1	*	*	0	0	0	0	0	0	-2	-2
Other Related Spending	-1	-1	*	*	*	*	*	0	0	0	-2	-2
Subtotal	-1	-2	-15	-33	-57	-71	-79	-84	-88	-94	-108	-523
Reinsurance and Risk Adjustment Payments [a]	0	0	-11	-18	-18	-18	-19	-21	-23	-26	-47	-155
Effects of Coverage Provisions on Medicaid and CHIP	1	1	-31	-58	-84	-92	-95	-100	-105	-112	-171	-674
Medicare and Other Medicaid and CHIP Provisions												
Reductions in Annual Updates to FFS Payment Rates	6	10	15	21	29	38	48	60	70	82	80	379
Medicare Advantage Rates Based on FFS Rates	2	6	10	13	15	15	14	17	18	19	46	128
Medicare and Medicaid DSH Payments	*	*	1	4	5	8	10	12	11	7	10	57
Other Provisions	*	-1	15	8	7	11	16	22	20	20	29	119
Subtotal	9	15	40	46	55	71	89	110	119	128	165	682
Other Changes in Direct Spending												
Community Living Assistance Services and Supports	6	9	10	12	12	10	8	7	7	6	48	86
Other Provisions	-4	-4	-5	-5	-2	*	*	-1	1	*	-21	-20
Subtotal	1	5	6	7	9	10	8	7	7	7	28	66
Total Outlays	**9**	**19**	**-12**	**-56**	**-95**	**-100**	**-95**	**-88**	**-90**	**-97**	**-134**	**-604**
On-Budget	9	19	-12	-55	-94	-99	-94	-87	-89	-96	-133	-598
Off-Budget	*	*	*	*	-1	-1	-1	-1	-1	-1	-1	-6

Continued

Table 2. Continued.

	By Fiscal Year, in Billions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN REVENUES												
Coverage-Related Provisions												
Exchange Premium Credits	0	0	5	11	18	21	23	25	25	27	34	156
Reinsurance and Risk Adjustment Collections	0	0	-12	-16	-18	-18	-19	-22	-24	-26	-47	-156
Small Employer Tax Credit	5	5	5	3	3	3	4	4	3	3	21	38
Penalty Payments by Employers and Uninsured Individuals	0	0	-3	-9	-12	-13	-14	-16	-16	-18	-24	-101
Excise Tax on High-Premium Plans	0	0	0	0	0	0	-16	-27	-32	-36	0	-111
Associated Effects of Coverage Provisions on Revenues	*	3	3	-4	-16	-21	-21	-21	-21	-20	-14	-119
Other Provisions												
Fees on Certain Manufacturers and Insurers [b]	-5	-5	-12	-15	-16	-18	-19	-19	-20	-21	-52	-148
Additional Hospital Insurance Tax	-1	-19	-8	-24	-28	-30	-33	-36	-38	-41	-80	-259
Other Revenue Provisions	-14	-12	-19	-3	-9	-9	-11	-11	-12	-13	-57	-114
Total Revenues	**-15**	**-27**	**-41**	**-58**	**-78**	**-87**	**-107**	**-123**	**-133**	**-144**	**-219**	**-813**
On-Budget	-15	-26	-41	-56	-73	-81	-95	-107	-116	-124	-211	-734
Off-Budget	*	-1	*	-1	-5	-6	-12	-16	-18	-20	-8	-79
NET IMPACT ON THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES [c]												
Net Change in the Deficit	**24**	**46**	**29**	**2**	**-16**	**-13**	**12**	**35**	**44**	**47**	**85**	**210**
On-budget	24	45	29	1	-21	-19	1	20	27	28	79	136
Off-budget	*	1	*	1	4	6	11	15	17	18	7	73

Sources: Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT).

Notes: These estimates were produced using the outlay and revenue baselines available in early 2011.

Does not include effects on spending subject to future appropriation. Components may not sum to totals because of rounding; * = between $0.5 billion and -$0.5 billion.

CHIP = Children's Health Insurance Program; FFS = fee-for-service; DSH = disproportionate share hospital.

a. Reductions to risk-adjustment payments lag revenues shown later in the table by one quarter. The reduction in payments for reinsurance totals $20 billion over the 10-year period.

b. Amounts include reductions in fees on manufacturers and importers of branded drugs and certain medical devices as well as reductions in fees on health insurance providers.

c. Positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

Effects on Insurance Coverage

Enactment of H.R. 2 would repeal all of the provisions of PPACA and the Reconciliation Act that are designed to expand insurance coverage as well as related provisions, including the following:

- The requirement that most legal U.S. residents obtain health insurance;
- The establishment of health insurance exchanges and the provision of subsidies for certain individuals and families who purchase coverage through the exchanges;
- The requirements that insurers accept all applicants, not limit coverage for preexisting medical conditions, and not vary premiums to reflect differences in enrollees' health;
- The requirement that insurers extend dependent coverage for adult children up to age 26;
- The expansion of Medicaid coverage to include most nonelderly people with income below 138 percent of the federal poverty level;[3]
- The penalties on certain employers if any of their workers obtain subsidized coverage through the exchanges;
- The tax credits for small employers that offer health insurance; and
- The excise tax on insurance policies with relatively high premiums.

Under H.R. 2, about 33 million fewer nonelderly people would have health insurance in 2021, leaving a total of about 57 million nonelderly people uninsured (see Table 3). The share of legal nonelderly residents with insurance coverage in 2021 would be about 82 percent, compared with a projected share of 95 percent under current law (and 83 percent currently).

[3] The legislation established the eligibility threshold for Medicaid at 133 percent of the federal poverty level, but 5 percent of applicants' income is disregarded, raising the effective threshold to 138 percent of the federal poverty level.

Table 3. Estimated Impact of H.R. 2, as Passed by the House of Representatives on January 19, 2011, on Insurance Coverage and Related Budgetary Effects

	By Calendar Year in Millions of Nonelderly People										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
EFFECTS ON INSURANCE COVERAGE [a]											
Current Law Coverage [b]											
Medicaid and CHIP	37	36	36	45	48	52	52	52	53	53	54
Employer	156	159	161	163	161	158	159	159	159	159	159
Exchanges	0	0	0	8	13	21	22	23	23	23	23
Other Nongroup	12	12	12	10	9	8	8	8	8	8	9
Other Coverage [c]	14	14	14	16	17	18	17	16	16	16	17
Uninsured [d]	51	50	50	32	26	21	21	22	22	23	23
Total	269	271	272	274	276	277	279	281	282	284	285
Change											
Medicaid and CHIP	0	*	1	-10	-14	-18	-18	-17	-17	-17	-18
Employer	0	-3	-3	-5	-2	3	2	3	3	2	2
Exchanges	0	0	0	-8	-13	-21	-22	-23	-23	-23	-23
Nongroup and Other [c]	0	*	*	2	3	4	5	5	5	5	5
Uninsured [d]	0	3	3	20	25	31	32	32	33	33	33
Post-Policy Uninsured Population											
Number of Nonelderly People [d]	51	53	53	52	52	53	53	54	55	56	57
Insured Share of the Nonelderly Population [a]											
Including All Residents	81%	80%	81%	81%	81%	81%	81%	81%	81%	80%	80%
Excluding Unauthorized Immigrants	83%	82%	83%	83%	83%	83%	83%	83%	83%	82%	82%

Sources: Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT).

Notes: These estimates were produced using the outlay and revenue baselines available in early 2011.

CHIP = Children's Health Insurance Program; * = between 0.5 million and -0.5 million people.

a. Figures for the nonelderly population include only residents of the 50 states and the District of Columbia..

b. Figures reflect average annual enrollment; individuals reporting multiple sources of coverage are assigned a primary source.

c. Other includes Medicare; the effects of the proposal are almost entirely on nongroup coverage.

d. The count of uninsured people includes unauthorized immigrants as well as people who are eligible for, but not enrolled in, Medicaid.

Continued

Table 3. (Continued)

	By Fiscal Year in Billions of Dollars											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2021
EFFECTS ON THE FEDERAL DEFICIT [a, b]												
Medicaid & CHIP Outlays [c]	0	1	1	-31	-58	-84	-92	-95	-100	-105	-112	-674
Exchange Subsidies and Related Spending [d]	0	-1	-2	-19	-45	-75	-92	-101	-108	-112	-120	-677
Small Employer Tax Credits	0	-5	-6	-5	-3	-3	-3	-4	-4	-4	-4	-40
Gross Cost of Coverage Provisions	0	-6	-6	-56	-107	-162	-187	-199	-212	-220	-236	-1,390
Penalty Payments by Uninsured Individuals	0	0	0	0	2	3	4	4	4	5	5	27
Penalty Payments by Employers	0	0	0	4	8	9	10	11	12	13	14	82
Excise Tax on High-Premium Insurance Plans	0	0	0	0	0	0	0	16	27	32	36	111
Other Effects on Tax Revenues and Outlays	0	0	-3	-3	5	18	23	23	23	23	21	130
Net Effect on the Deficit of Coverage Provisions	0	-6	-9	-55	-92	-131	-149	-145	-146	-149	-160	-1,042

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

Notes: These estimates were produced using the outlay and revenue baselines available in early 2011.

CHIP = Children's Health Insurance Program.

a. Does not include effects on federal administrative costs that would be subject to appropriation.

b. Components may not sum to totals because of rounding; positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

c. States have the flexibility to make programmatic and other budgetary changes to Medicaid and CHIP. CBO estimates that H.R. 2 would reduce state spending on Medicaid and CHIP in the 2012-2021 period by about $60 billion as a result of the coverage provisions.

d. Related spending includes mandatory outlays for high-risk pools, administration of insurance exchanges, and other related activities.

That projected difference of 33 million in the number of uninsured people in 2021 reflects a number of differences relative to circumstances under current law. Approximately 23 million people who would otherwise purchase their own coverage through insurance exchanges would not do so, and Medicaid and CHIP would have roughly 18 million fewer enrollees. Partly offsetting those reductions would be net increases, relative to the number projected under current law, of about 5 million people purchasing individual coverage directly from insurers and about 2 million people obtaining coverage through their employer.[4]

CBO and JCT estimate that the repeal of the provisions of PPACA and the Reconciliation Act affecting health insurance coverage would result in a net decrease in federal deficits of $1,042 billion over fiscal years 2012 through 2021 (see Table 3). That estimate includes a $674 billion reduction in net federal outlays for Medicaid and CHIP and $677 billion in savings resulting from the elimination of the exchange subsidies and related spending. In addition, the repeal of the tax credit for certain small employers who offer health insurance is estimated to save $40 billion over 10 years. Those savings would be partly offset by lower revenues or higher costs, totaling about $350 billion over the 10-year budget window, from four sources: a decline in net revenues from eliminating the excise tax on high-premium insurance plans, totaling $111 billion; eliminating the penalty payments by uninsured individuals, which would reduce revenues by $27 billion; eliminating penalty payments by employers whose workers would receive subsidies via the exchanges, which would reduce revenues by $82 billion; and other budgetary effects, mostly on tax revenues, associated with shifts in the mix of taxable and nontaxable compensation resulting from changes in employment-based health insurance coverage, which would increase deficits by $130 billion.[5]

In addition to the federal budgetary effects, repealing the coverage provisions of PPACA and the Reconciliation Act would reduce state spending for Medicaid and CHIP. Under current law, states have the

---

[4] For more information about the effects of PPACA and the Reconciliation Act on the sources of health insurance coverage, see CBO's March 20, 2010, letter to the Honorable Nancy Pelosi cited earlier (in particular, pages 9 and 10).

[5] Changes in the extent of employment-based health insurance affect federal revenues because most payments for that coverage are tax-preferred. If employers increase or decrease the amount of compensation they provide in the form of health insurance (relative to current-law projections), CBO and JCT assume that offsetting changes will occur in wages and other forms of compensation—which are generally taxable—to hold total compensation roughly the same. Such effects also arise with respect to specific elements of the proposal (such as the tax credits for small employers), and those effects are included within the estimates for those elements.

flexibility to make programmatic and other budgetary changes to Medicaid and CHIP. CBO estimates that H.R. 2 would reduce state governments' spending for Medicaid and CHIP by about $60 billion over the 2012-2021 period. By comparison, last March CBO estimated that the coverage provisions of PPACA and the Reconciliation Act would increase state spending for Medicaid and CHIP by $20 billion over the 2010-2019 period. The difference between those two estimates primarily reflects the different time periods they cover; the savings accruing to the states from repeal of PPACA and the Reconciliation Act are greatest in the later years of the current 10-year projection period since the states' share of the costs of the Medicaid coverage expansions will gradually rise over that period.

Effects on Spending for Medicare, Medicaid, and Other Programs
Many of the other provisions that would be repealed by enacting H.R. 2 affect spending under Medicare, Medicaid, and other federal programs. PPACA and the Reconciliation Act made numerous changes to payment rates and payment rules in those programs, established a voluntary federal program for long-term care insurance through the Community Living Assistance Services and Supports (CLASS) provisions, and made certain other changes to federal health programs. In total, CBO estimates that repealing those provisions would increase net federal spending by $732 billion over the 2012–2021 period (those budgetary effects are summarized in Table 1 and shown in greater detail in Table 2).

The provisions whose repeal would result in the largest increases in federal deficits include the following (all estimates are for the 2012-2021 period):

- Repeal of the permanent reductions in the annual updates to Medicare's payment rates for most services in the fee-for-service sector (other than physicians' services) would increase Medicare outlays by $379 billion. (That figure excludes interactions between those provisions and others—namely, the effects of those changes on payments to Medicare Advantage plans and collections of Part B premiums.)

- Repeal of the new mechanism for setting payment rates in the Medicare Advantage program would increase Medicare outlays by $128 billion (before interactions). [6]

[6] Over the eight years that are common to the two analyses, the overall budgetary effects estimated for repealing the provisions involving Parts A and B of Medicare are not significantly different from the effects, with the opposite sign, that were projected last year for enacting PPACA and the Reconciliation Act. However, the reduction in fee-for-service payment updates has a much larger

- Repeal of the reductions in Medicaid and Medicare payments to hospitals that serve a large number of low-income patients, known as disproportionate share hospitals (DSH), would increase federal spending by $57 billion.

- Repeal of other provisions pertaining to Medicare, Medicaid, and CHIP (other than the coverage-related provisions discussed above) would increase federal spending by $119 billion. That figure includes increased spending of $14 billion from eliminating the Independent Payment Advisory Board (IPAB). Under current law, the IPAB will be required, under certain circumstances, to recommend changes to the Medicare program to reduce that program's spending; such changes will go into effect automatically.

- Repeal of the CLASS provisions would increase federal deficits by $86 billion over the 2012-2021 period. Under those provisions, active workers will be able to purchase long-term care insurance, usually through their employer. Premiums will be set to cover the full cost of the program as measured on an actuarial basis. However, CBO projects that the program's cash flows excluding interest earned on income from premiums will show net receipts for a number of years, followed by net outlays in subsequent decades. In particular, the program will pay out far less in benefits than it will receive in premiums over the 2012-2021 period. Consequently, repealing the CLASS provisions would increase federal deficits over that period.

Effects on Discretionary Spending

The figures discussed elsewhere in this estimate do not include any savings associated with lower discretionary spending under H.R. 2. The cost estimate issued last March focused on direct spending and revenues because those effects are relevant for pay-as-you-go purposes and will

---

effect on federal deficits in the current estimate than in the March 2010 estimate, and the change in the payment mechanism for Medicare Advantage plans has a much smaller effect. That difference arises because, under current law, CBO's projections of fee-for-service enrollment are substantially higher and its projections of Medicare Advantage enrollment are correspondingly lower than before PPACA and the Reconciliation Act were enacted. Those changes in the distribution of enrollment, in conjunction with the sequence in which CBO evaluates budgetary effects, resulted in a different distribution of estimated effects on spending between the fee-for-service sector and the Medicare Advantage program. CBO's estimates of enrollment in the Medicare Advantage program (and the average subsidy of extra benefits not covered by Medicare) following repeal of PPACA and the Reconciliation Act are essentially identical to CBO's pre-PPACA projections.

occur without any additional legislative action (in contrast with discretionary spending, which is subject to future appropriation action). However, that earlier estimate noted that additional funding would be necessary for agencies to carry out the responsibilities required of them by the legislation and that the legislation also included explicit authorizations for a variety of grants and other programs.[7]

By CBO's estimates, repeal of the health care legislation would probably reduce the appropriations needed by the Internal Revenue Service by between $5 billion and $10 billion over 10 years. Similar savings would accrue to the Department of Health and Human Services.

In addition, H.R. 2 would repeal a number of authorizations for future appropriations, which, if left in place, might or might not result in additional appropriations. CBO estimated that such provisions authorizing specific amounts, if fully funded, would result in appropriations of $106 billion over the 2010–2019 period. Updating those estimates for the 2012–2021 period would result in authorizations of just under $100 billion if fully funded. However, most of those authorizations—about $85 billion—were for activities that were already being carried out under prior law or that were previously authorized and that PPACA authorized for future years; for example, that amount includes an estimated $39 billion for ongoing activities of the Indian Health Service and $34 billion for continued grants to federally qualified health centers. Consequently, just as the authorizations in PPACA of an estimated $106 billion over the 2010–2019 period will not necessarily lead to an increase of that amount in total discretionary spending, the repeal of those PPACA authorizations would not necessarily result in discretionary savings of $100 billion for the 2012–2021 period.

Sources of the Differences Between the Estimated Impacts of Enactment and Repeal of the Health Care Legislation

The estimated 10-year increase in deficits from repealing PPACA and the provisions of the Reconciliation Act related to health care differs from the 10-year reduction in deficits that CBO and JCT estimated in March 2010 for enactment of that legislation. The differences between the two sets of estimates result primarily from the following factors:

---

[7] For more information, see CBO's March 20, 2010, letter to the Honorable Nancy Pelosi cited earlier (in particular, pages 10 and 11); Congressional Budget Office, letter to the Honorable Jerry Lewis about potential effects of the Patient Protection and Affordable Care Act on discretionary spending (May 11, 2010); and "Additional Information about the Potential Discretionary Costs of Implementing PPACA" (May 12, 2010).

- The time periods covered by the two estimates differ. The original estimate of enacting the health care legislation covered 2010 through 2019, the period used for Congressional budget enforcement procedures when the legislation was being considered (in calendar year 2009 and early 2010), while the estimate of the effect of repealing the legislation covers the period from 2012 through 2021.

- Some of the funding provided by the legislation enacted last March has been obligated or spent and thus would not be recovered by enacting H.R. 2. In addition, some regulations implementing aspects of that legislation have been promulgated. The estimated budgetary impact of repealing that legislation incorporates an assessment of the extent to which repeal would affect those actions. Because this estimate of repeal is based on the assumption that the bill would be enacted around the end of this fiscal year, no significant budgetary effects are estimated to occur in fiscal year 2011. However, such effects would occur if H.R. 2 was enacted well before the end of the fiscal year.

- The estimates prepared last March were based on the projections of economic conditions, health care costs, federal spending and revenues, and other factors that CBO published in March 2009. The economic outlook is now somewhat different, and CBO and JCT have made a number of technical changes to their spending and revenue projections related to the provisions of PPACA and the Reconciliation Act.

- Subsequent legislation has already modified the laws enacted last March. Specifically, the Medicare and Medicaid Extenders Act of 2010 (P.L. 111-309) increased the amount that could be recovered from enrollees in insurance exchanges whose actual income in a year differed from the figure used to determine the amount of their tax credit for health insurance premiums. That legislation was estimated to reduce net federal payments for subsidies through the health insurance exchanges.

The difference between the two estimates does not reflect any substantial change in the estimation of the overall effects of PPACA and the Reconciliation Act from what CBO and JCT projected in March 2010. In its ongoing monitoring of developments, CBO has seen no evidence to date

that the steps that will be taken to implement that legislation—or the ways in which participants in the health care and health financing systems will respond to that legislation—will yield overall budgetary effects that differ significantly from the ones projected earlier.

Over the eight-year period that is common to the two analyses (2012-2019), CBO and JCT estimate that repealing PPACA and the provisions of the Reconciliation Act related to health care would increase federal deficits by $119 billion, which is similar to the result that would have been obtained by reversing the sign of the earlier estimate of the effects of enacting the legislation ($132 billion) (see the two middle columns of Table 4). The relatively small difference between the two estimates over the 2012-2019 period reflects the net effect of using updated projections of economic conditions, health care costs, and federal spending and revenues to develop the estimate for the effects of H.R. 2; the legislative change noted above; and certain technical changes.

Table 4. Comparison of the Estimated Effects of Enactment and Repeal of PPACA and the Provisions of the Reconciliation Act Related to Health Care

Effects on the Federal Deficit (Billions of dollars)	Effects of Enactment 2010-2019	Effects of Enactment 2012-2019	Effect of Repeal 2012-2019	Effect of Repeal 2012-2021
Insurance Coverage Provisions				
Gross Effect	938	931	-934	-1,390
Net Effect	788	778	-733	-1,042
Other Provisions Affecting Direct Spending	-492	-498	477	732
Other Provisions Affecting Revenues	-420	-412	376	520
Net Increase or Decrease (-) in the Budget Deficit	-124	-132	119	210

Sources: Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation.

Notes: Estimates for the effect of enactment of PPACA and the Reconciliation Act are from the cost estimate released in March 2010. Estimates for the effect of the repeal of that legislation were produced using the outlay and revenue baselines available in early 2011.

Does not include effects on spending subject to future appropriation.

Instead, the difference between the 10-year estimates of the budgetary effects of enacting the health care legislation and repealing that legislation primarily reflects the different time periods used in the analysis. In particular, including the years 2020 and 2021 in the analysis of the effects of H.R. 2 resulted in a substantially larger estimated increase in budget deficits; in those two years alone, enactment of H.R. 2 would increase federal deficits by a total of about $90 billion (see Tables 1 and 4). That larger increase in deficits in later years under H.R. 2 reflects the fact that, under PPACA and the Reconciliation Act, the budgetary savings will be growing in those years: The net costs of the coverage provisions are projected to rise more slowly than the combined effect of the factors that will reduce deficits (the decrease in other direct spending and the increase in other revenues).

Uncertainty Surrounding the Estimates

The projections of the bill's budgetary impact are quite uncertain because assessing the effects of making broad changes in the nation's health care and health insurance systems—or of reversing scheduled changes—requires assumptions about a broad array of technical, behavioral, and economic factors. However, CBO and JCT, in consultation with outside experts, have devoted a great deal of care and effort to the analysis of health care legislation in the past few years, and the agencies strive to develop estimates that are in the middle of the distribution of possible outcomes.

As with all of CBO's cost estimates, the estimates in this letter reflect an assumption that the provisions of current law would otherwise remain unchanged throughout the projection period and that the legislation being considered would be enacted and implemented throughout that period in its current form. CBO's responsibility to the Congress is to estimate the effects of proposals and of current law as written and not to forecast future legislation. The budgetary impact of repealing PPACA and the provisions of the Reconciliation Act related to health care could be quite different if key provisions of that original legislation would have subsequently been changed or not fully implemented.

Impact on the Federal Budget Beyond the First 10 Years

Relative to current law, enacting H.R. 2 would, CBO estimates, increase federal budget deficits in the decade following 2021.

CBO does not generally provide cost estimates beyond the 10-year projection period. Over a longer time span, a wide range of changes could occur—in people's health, in the sources and extent of their insurance

coverage, and in the delivery of medical care—that are very difficult to predict but that could have a significant effect on federal health care spending. Nonetheless, certain Congressional rules require some information about the budgetary impact of legislation in subsequent decades, and many Members have requested analyses of the long-term budgetary impact of proposed broad changes in the health care and health insurance systems.

Last March, CBO (with input from JCT) assessed the budgetary effects of PPACA and the Reconciliation Act in the decade following the 10-year projection period by grouping the elements of that legislation into broad categories and assessing the rate at which the budgetary impact of each of those broad categories would increase over time. For the 2020-2029 period, CBO projected that the health care legislation enacted last March would reduce federal budget deficits by an amount that is in a broad range around one-half percent of gross domestic product (GDP). The imprecision of that estimate reflects the greater degree of uncertainty that attends to it, compared with CBO's 10-year estimates.

Because PPACA and the Reconciliation Act were projected to *reduce* deficits in the decade following the 10-year projection period, CBO estimates that enacting H.R. 2 would *increase* federal deficits during the decade following the initial 10-year period. Specifically, the total increase in deficits during the 2022-2031 period would lie in a broad range around one-half percent of GDP. CBO has not extrapolated that estimate further into the future. However, in view of the projected budgetary effects between 2022 and 2031, CBO anticipates that enacting H.R. 2 would probably continue to increase budget deficits relative to those under current law in subsequent decades.

Those calculations incorporate an assumption that the provisions of current law would otherwise remain unchanged throughout the next two decades. However, current law now includes a number of policies that might be difficult to sustain over a long period of time. For example, PPACA and the Reconciliation Act reduced payments to many Medicare providers relative to what the government would have paid under prior law. On the basis of those cuts in payment rates and the existing "sustainable growth rate" mechanism that governs Medicare's payments to physicians, CBO projects that Medicare spending (per beneficiary, adjusted for overall inflation) will increase significantly more slowly during the next two decades than it has increased during the past two decades. If those provisions would have subsequently been modified or implemented incompletely, then the

budgetary effects of repealing PPACA and the relevant provisions of the Reconciliation Act could be quite different—but CBO cannot forecast future changes in law or assume such changes in its estimates.

Effects on the Federal Budgetary Commitment to Health Care

CBO projects that enacting H.R. 2 would reduce the "federal budgetary commitment to health care" by $464 billion over the 2012–2021 period; CBO uses that term to describe the sum of net federal outlays for health programs and tax preferences for health care.[8] The net reduction in that commitment would be driven primarily by repeal of the coverage expansions, which would be partly offset by other factors such as the increase in other federal health care spending (primarily for Medicare) and the repeal of the excise tax on high-premium insurance policies.[9]

However, CBO projects that enactment of H.R. 2 would increase the federal budgetary commitment to health care in the decade following the 10-year projection period. The estimated effect in later years differs from that in the first decade because the effects of those provisions that would tend to increase the federal budgetary commitment to health care (such as the increase in Medicare spending and the repeal of the excise tax on insurance policies with relatively high premiums) would grow faster than the effects of provisions that would tend to decrease it (primarily the repeal of the coverage expansions). As with the longer-term estimate of overall budgetary effects, that projection incorporates an assumption that the provisions of current law would otherwise remain unchanged throughout the next two decades.

These projections are consistent with those that were released last March, in which CBO projected that enacting PPACA and the relevant provisions of the Reconciliation Act would increase the federal budgetary commitment to health care by about $400 billion over the 2010–2019 period but reduce that commitment in the following decade.

---

[8] For additional discussion of that term, see Congressional Budget Office, letter to the Honorable Max Baucus regarding different measures for analyzing proposals to reform health care (October 30, 2009).

[9] The excise tax on high-premium insurance policies will reduce the federal budgetary commitment to health care by encouraging many individuals who would otherwise have such policies to purchase less expensive policies instead, thereby reducing the dollar amount of premiums for employment-based health insurance that will be excluded from income and payroll taxes.

Effects on Health Insurance Premiums

On November 30, 2009, CBO released an analysis prepared by CBO and JCT of the impact that PPACA as it was originally proposed would have on average premiums for health insurance in different markets.[10] Although CBO and JCT have not updated the estimates provided in that letter, the estimated effects of PPACA and the Reconciliation Act as enacted would probably be quite similar, and CBO expects that the effects on premiums of repealing that legislation would be similar to reversing the effects estimated in November 2009.

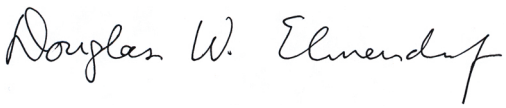
In particular, if H.R. 2 was enacted, premiums for health insurance in the individual market would be somewhat lower than under current law, mostly because the average insurance policy in this market would cover a smaller share of enrollees' costs for health care and a slightly narrower range of benefits. The effects of those differences would be offset in part by other factors that would tend to raise premiums in the individual market if PPACA was repealed; for example, insurers would probably incur higher administrative costs per policy and enrollees would tend to be less healthy, leading to higher average costs for their health care. Although premiums in the individual market would be lower, on average, under H.R. 2 than under current law, many people would end up paying more for health insurance—because under current law, the majority of enrollees purchasing coverage in that market would receive subsidies via the insurance exchanges, and H.R. 2 would eliminate those subsidies.

Premiums for employment-based coverage obtained through large employers would be slightly higher under H.R. 2 than under current law, reflecting the net impact of many relatively small changes. Premiums for employment-based coverage obtained through small employers might be slightly higher or slightly lower (reflecting uncertainty about the impact of the enacted legislation on premiums in that market).

[10] See Congressional Budget Office, letter to the Honorable Evan Bayh providing an analysis of health insurance premiums under the Patient Protection and Affordable Care Act (November 30, 2009).

I hope this analysis is helpful for the Congress's deliberations. If you have any questions, please contact me or CBO staff. The primary staff contacts are James Baumgardner and Holly Harvey.

Sincerely,



Douglas W. Elmendorf
Director

cc: Honorable Nancy Pelosi
Democratic Leader

Honorable Paul Ryan
Chairman
Committee on the Budget

Honorable Chris Van Hollen
Ranking Member

Honorable Harry Reid
Senate Majority Leader

Honorable Mitch McConnell
Senate Republican Leader

Honorable Kent Conrad
Chairman
Senate Committee on the Budget

Honorable Jeff Sessions
Ranking Member