

Chapman Client Alert

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Current Issues Relevant to Our Clients

Congressional Budget Office Releases Its Analysis of the Effects of the American Health Care Act on the Federal Budget and Health Care Coverage

Yesterday, the Congressional Budget Office (“CBO”) released its highly anticipated score of the American Health Care Act (“AHCA”), the Republican-proposed replacement bill for the Affordable Care Act (“ACA”). As described in last week’s [Health Care Legislative and Regulatory Update](#), the two reconciliation bills that jointly make up the AHCA cleared two key House committees last week and are headed to the House Budget Committee for additional consideration. Providing talking points for both sides of the aisle, the [CBO Report](#) forecasts that the AHCA would increase the number of uninsured by 24 million over the next ten years, while decreasing the federal budget by \$337 billion over the same time period. Despite the favorable federal deficit analysis, many proponents of the legislation have been critical of the CBO Report, suggesting it offers an incomplete picture as it does not take into account future regulatory steps or other legislation that Republicans plan as part of a multistep strategy to repeal and replace the ACA. Opponents of the bill have embraced the Report, highlighting the prediction that millions of Americans will lose coverage.

Key conclusions from the 36-page CBO Report follow:

The Uninsured Rate Would Rise

The CBO Report estimates that in 2018, 14 million more people would be uninsured under the AHCA than under the ACA, with that number rising to 24 million by 2026. The CBO predicts that most of the reductions in coverage in 2018 would stem from repealing the penalties associated with the ACA’s individual mandate (e.g. — people choosing not to buy insurance after tax penalties for those without coverage are repealed), while most of the reductions in coverage for 2019 through 2026 would result from changes in Medicaid enrollment.¹ The Report estimates that the number of Medicaid beneficiaries under the AHCA would be 17 percent lower than under the ACA, which translates to 14 million fewer Medicaid enrollees by 2026.²

The Federal Deficit Would Shrink

The CBO estimates that enacting the legislation would reduce the federal deficit by \$337 billion by 2026 as a result of a \$1.2 trillion decrease in direct spending, partially offset by an \$883 billion reduction in federal revenues. The Report attributes the largest savings to reductions in Medicaid spending and from the elimination of the ACA’s subsidies for individual (non-employer) health insurance. The largest costs are attributed to the establishment of a new tax credit for health insurance and the repeal of many of the taxes established by the ACA.³

Insurance Premiums Would Initially Rise, then Fall

The Report estimates that average premiums for people buying insurance on their own would be 15 to 20 percent higher in 2018 and 2019 than they would be under the ACA, mainly because the elimination of the individual mandate penalty would induce fewer healthy people to sign up. However, beginning in 2020 premiums are expected decrease, with average premiums projected to be roughly 10 percent lower than under the ACA by 2026. Premiums are expected to begin dropping in 2020 due to a combination of several factors, including: grants to states from the AHCA’s Patient and State Stability Fund, the elimination of the requirement for insurers to offer plans covering certain percentages of the cost of covered benefits, and a younger mix of enrollees.⁴

Changes in the Age Rating Rules Would Reduce Premiums for Younger People and Increase Premiums for Older People

Although average premiums would increase prior to 2020 and decrease starting in 2020, the CBO estimates that changes in premiums relative to those under the ACA would differ significantly for people of different ages due to a change in age-rating rules. Under the AHCA, insurers would be allowed to generally charge five times more for older enrollees than younger ones, rather than three times more as under the ACA. The CBO predicts that this would result in substantially reduced premiums for young adults and substantially increased premiums for older people.⁵

New Age-Based Subsidy Methodology Would Not Off-Set Premium Increases for Older Enrollees

Like the ACA, the ACHA provides tax credits to help some people pay their health insurance premiums if they do not receive insurance through work or government programs. However, rather than tying the credits to a person's income as the current law does, the ACHA tax credit would be largely tied to age, with older people receiving larger subsidies. However, because the AHCA allows insurers to charge five times more for older enrollees than younger ones, the CBO predicts that the age-based subsidies will not be large enough to off-set the premium increases discussed above. For example, the Report estimates that a 21-year-old at 175 percent of the Federal Poverty Guidelines ("FPL") could expect a \$3,900 premium and a \$2,450 subsidy, with a resulting out-of-pocket cost of \$1,450. Conversely, a 64-year-old at 175 percent of the FPL could expect a \$19,500 premium and a \$4,900 subsidy, with a resulting out-of-pocket cost of \$14,600.⁶

The Increase in the Number of Uninsured Would Disproportionately Affect Low-Income, Older Americans

The CBO Report predicts that the increase in the number of uninsured would be disproportionately larger among older people with lower income. In particular, people between 50 and 64 years old with income of less than 200 percent of the FPL would make up a larger share of the uninsured.⁷ This would

largely be due to the failure of the AHCA's age-based subsidies to off-set the premium increases for older Americans, as discussed above.

The Insurance Market Would Remain Stable

The Report anticipates that the individual insurance market would likely be stable in most areas under either the ACA or the AHCA, meaning that (1) most areas of the country would have insurers participating in the market, and (2) the market would not be subject to an unsustainable spiral of rising premiums. The Report concludes that even though the new tax credits would be structured differently from the current subsidies and would generally be less generous for those receiving subsidies under current law, the other AHCA changes would lower average premiums enough to attract a sufficient number of relatively healthy people to stabilize the market.⁸

For More Information

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1 CBO Report, pages 2 and 20. The full CBO Report is available here: https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/costestimate/americanhealthcareact_0.pdf

2 CBO Report, page 8.

3 CBO Report, pages 1 and 6 and Table 1.

4 CBO Report, pages 3, 8 and 21.

5 CBO Report, pages 3, 5 and 13.

6 See CBO Report, Table 4.

7 CBO Report, page 21 and Figure 2.

8 CBO Report, pages 2 and 18.

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