



March 20, 2010

Honorable Nancy Pelosi  
Speaker  
U.S. House of Representatives  
Washington, DC 20515

Dear Madam Speaker:

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) have completed an estimate of the direct spending and revenue effects of an amendment in the nature of a substitute to H.R. 4872, the Reconciliation Act of 2010. The amendment discussed in this letter (hereafter called “the reconciliation proposal”) is the one that was made public on March 18, 2010, as modified by subsequent changes incorporated in a proposed manager’s amendment that was made public on March 20.

This estimate differs from the preliminary estimate that CBO issued on March 18 in that it reflects CBO and JCT’s review of the legislative language of the earlier amendment and the manager’s amendment, as well as modest technical refinements of the budgetary projections.<sup>1</sup> This estimate is presented in two ways:

- An estimate of the budgetary effects of the reconciliation proposal, in combination with the effects of H.R. 3590, the Patient Protection and Affordable Care Act (PPACA), as passed by the Senate; and
- An estimate of the *incremental* effects of the reconciliation proposal, over and above the effects of enacting H.R. 3590 by itself.<sup>2</sup>

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<sup>1</sup> For the preliminary estimate by CBO and JCT of the direct spending and revenue effects of the reconciliation proposal, see Congressional Budget Office, letter to the Honorable Nancy Pelosi providing a preliminary analysis of the reconciliation proposal (March 18, 2010).

<sup>2</sup> For the estimate by CBO and JCT of the direct spending and revenue effects of H.R. 3590 as passed by the Senate, see Congressional Budget Office, cost estimate of H.R. 3590, Patient Protection and Affordable Care Act (March 11, 2010). JCT’s detailed table of revenue effects is available at [www.jct.gov](http://www.jct.gov).

CBO and JCT have not yet updated their preliminary and partial estimate of the budgetary impact of the reconciliation proposal under the assumption that H.R. 3590 is not enacted—that is, the reconciliation proposal’s impact under current law.

H.R. 3590 would, among other things, establish a mandate for most residents of the United States to obtain health insurance; set up insurance exchanges through which certain individuals and families could receive federal subsidies to substantially reduce the cost of purchasing that coverage; significantly expand eligibility for Medicaid; substantially reduce the growth of Medicare’s payment rates for most services (relative to the growth rates projected under current law); impose an excise tax on insurance plans with relatively high premiums; and make various other changes to the federal tax code, Medicare, Medicaid, and other programs. The reconciliation proposal includes provisions related to health care and revenues, many of which would amend H.R. 3590. (The changes with the largest budgetary effects are described below.) The reconciliation proposal also includes amendments to the Higher Education Act of 1965, which authorizes most federal programs involving postsecondary education. (Those provisions and their budgetary effects are described below as well.)

### **Estimated Budgetary Impact of the Legislation**

CBO and JCT estimate that enacting both pieces of legislation—H.R. 3590 and the reconciliation proposal—would produce a net reduction in federal deficits of \$143 billion over the 2010–2019 period as result of changes in direct spending and revenues (see Table 1). That figure comprises \$124 billion in net reductions deriving from the health care and revenue provisions and \$19 billion in net reductions deriving from the education provisions. Approximately \$114 billion of the total reduction would be on-budget; other effects related to Social Security revenues and spending as well as spending by the U.S. Postal Service are classified as off-budget. CBO has not completed an estimate of the potential impact of the legislation on discretionary spending, which would be subject to future appropriation action.

CBO and JCT previously estimated that enacting H.R. 3590 by itself would yield a net reduction in federal deficits of \$118 billion over the 2010–2019 period, of which about \$65 billion would be on-budget. The incremental effect of enacting the reconciliation proposal—assuming that H.R. 3590 had already been enacted—would be the difference between the estimate of their combined effect and the previous estimate for H.R. 3590. That

incremental effect is an estimated net reduction in federal deficits of \$25 billion during the 2010–2019 period over and above the savings from enacting H.R. 3590 by itself; almost all of that reduction would be on-budget.<sup>3</sup>

Additional details on the budgetary effects of the reconciliation proposal and H.R. 3590 are provided in Tables 2 through 7 attached to this letter:

- Table 2 shows budgetary cash flows for direct spending and revenues associated with the two pieces of legislation combined.
- Table 3 summarizes the incremental changes in direct spending and revenues resulting from the reconciliation proposal, assuming that H.R. 3590 had already been enacted.
- For the two pieces of legislation combined, Table 4 provides estimates of the changes in the number of nonelderly people in the United States who would have health insurance and presents the primary budgetary effects of the provisions related to health insurance coverage.
- For the two pieces of legislation combined, Table 5 displays detailed estimates of the costs or savings from the health care provisions that are not related to health insurance coverage (primarily involving the Medicare program). The table does not include the effects of revenue provisions; those effects are reported separately by JCT in JCX-17-10 at [www.jct.gov](http://www.jct.gov).
- Table 6 presents details on the incremental effects of the health care and revenue provisions of the reconciliation proposal—that is, the difference between the effects of those provisions in the two pieces of legislation combined and the effects of H.R. 3590 by itself (as shown in CBO’s cost estimate of March 11, 2010).
- Table 7 summarizes the incremental effects of the health care, revenue, and education provisions of the reconciliation proposal, also assuming that H.R. 3590 had been enacted.

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<sup>3</sup> As originally introduced, the reconciliation proposal would require transfers from on-budget general funds to the off-budget Social Security trust funds to offset any reduction in the balances of those trust funds resulting from other provisions of the proposal. The effects of that provision were reflected in CBO’s preliminary estimate. However, the manager’s amendment to the reconciliation proposal strikes that provision, so its effects are not included in this estimate.

The estimate provided here covers the 2010–2019 period to be consistent with the budget horizon used under S. Con. Res. 13, the Concurrent Resolution on the Budget for Fiscal Year 2010. The Congress has not yet adopted a new budget resolution that would extend the House and Senate budget enforcement periods through 2020.

Because the reconciliation proposal and H.R. 3590 would affect direct spending and revenues, pay-as-you-go procedures would apply. The time periods used for pay-as-you-go calculations under the new Statutory Pay-As-You-Go Act extend from 2010 through 2015 and from 2010 through 2020. Although CBO and JCT have not conducted a detailed analysis of the effects of the reconciliation proposal and H.R. 3590 in 2020, enacting that legislation would probably reduce the budget deficit modestly in that year. Reflecting that assessment, CBO and JCT estimate that enacting that legislation would reduce projected on-budget deficits both through 2015 and through 2020.<sup>4</sup>

The remainder of this letter discusses the major components of the education provisions contained in the reconciliation proposal; reviews the main changes that the reconciliation proposal would make to the health care and revenue provisions of H.R. 3590; describes the effects of the legislation on health insurance coverage; presents information about the effects of the legislation on discretionary spending; provides CBO's analysis of the legislation's impact on the federal budget beyond the first 10 years; and analyzes certain other effects of the legislation.

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<sup>4</sup> Pay-as-you-go procedures do not apply to off-budget effects, which include changes to Social Security or the U.S. Postal Service. Under the Statutory Pay-As-You-Go Act, estimated changes in the on-budget deficit from direct spending and revenues are recorded on 5-year and 10-year "scorecards" by the Office of Management and Budget, which is required to order a sequestration (cancellation) of certain direct spending if either scorecard reflects a net cost in the budget year at the end of a Congressional session.

**Table 1. Estimate of the Effects on the Deficit of the Reconciliation Proposal Combined with H.R. 3590, as Passed by the Senate**

	By Fiscal Year, in Billions of Dollars										2010-	2010-
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2014	2019
<b>NET CHANGES IN THE DEFICIT FROM INSURANCE COVERAGE PROVISIONS <sup>a,b</sup></b>												
Effects on the Deficit	3	7	9	10	49	87	132	154	164	172	78	788
<b>NET CHANGES IN THE DEFICIT FROM OTHER PROVISIONS AFFECTING DIRECT SPENDING <sup>c</sup></b>												
Effects on the Deficit of Changes in Outlays	3	3	-7	-28	-50	-60	-70	-86	-101	-116	-79	-511
<b>NET CHANGES IN THE DEFICIT FROM OTHER PROVISIONS AFFECTING REVENUES <sup>d</sup></b>												
Effects on the Deficit of Changes in Revenues	*	-9	-12	-38	-50	-48	-59	-65	-69	-71	-109	-420
<b>NET CHANGES IN THE DEFICIT <sup>a</sup></b>												
Net Increase or Decrease (-) in the Budget Deficit	6	1	-10	-56	-51	-20	3	4	-5	-15	-109	-143
On-Budget	6	1	-10	-55	-50	-18	8	10	2	-6	-108	-114
Off-Budget <sup>e</sup>	*	*	1	-1	-1	-2	-5	-6	-7	-9	-1	-29
<b>Memorandum:</b>												
Incremental Effects on the Deficit of H.R. 4872 Incorporating the Manager's Amendment, Relative to H.R. 3590 as Passed by the Senate												
Net Increase or Decrease	2	4	4	-3	-13	-4	-7	-3	-2	-3	-5	-25
On-Budget	2	4	4	-6	-14	-7	-11	-7	-6	-7	-10	-48
Off-Budget <sup>e</sup>	0	*	*	4	1	3	4	4	4	4	5	23
Effects on the Deficit of Provisions of the Reconciliation Proposal Combined with H.R. 3590												
Health Care and Revenue Provisions	6	1	-13	-50	-48	-16	7	6	-4	-13	-104	-124
Education Provisions	*	*	4	-6	-3	-5	-4	-2	-2	-2	-5	-19

Continued

**Table 1. Continued.**

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

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

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 appropriations.
- 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; they also reflect the effects of education provisions.
- d. The changes in revenues include effects on Social Security revenues, which are classified as off-budget. The 10-year figure of \$420 billion includes \$406 billion in revenues from tax provisions (estimated by JCT) apart from receipts from the excise tax on high-premium insurance plans and \$14 billion in revenues from certain provisions affecting Medicare, Medicaid, and other programs (estimated by CBO and JCT). (For JCT's estimates, see JCX-17-10.)
- e. Off-budget effects include changes in Social Security spending and revenues as well as U.S. Postal Service spending.

### **Education Provisions Contained in the Reconciliation Proposal**

Subtitle A of title II of the reconciliation proposal would amend the Higher Education Act of 1965, which authorizes most federal postsecondary education programs. The reconciliation proposal would eliminate the federal program that provides guarantees for student loans and replace those loans with direct loans made by the Department of Education. It would also increase direct spending for the Pell Grant program and other education grant programs. CBO estimates that those provisions would reduce direct spending by \$5 billion over the 2010–2014 period and \$19 billion over the 2010–2019 period (see Table 7).

**Federal Student Loan Programs.** On net, CBO estimates that the reconciliation proposal would reduce direct spending in the federal student loan programs by \$28 billion over the 2010–2014 period and \$58 billion over the 2010–2019 period.

In the Federal Family Education Loan (FFEL) program, private lenders originate loans to postsecondary students; the federal government makes payments to those lenders, guarantees them against significant loss in the case of default, and provides funds to guaranty agencies to help administer those loans. In the direct loan program, eligible borrowers receive nearly identical loans that are administered by the Department of Education and funded through the U.S. Treasury.

The reconciliation proposal would eliminate new loans in the FFEL program beginning in July 2010. Under the proposal, CBO expects that all of the guaranteed loans that would have been made under current law—estimated to be roughly \$500 billion through 2019—would instead be made through the direct loan program.

The Federal Credit Reform Act specifies that the cost of new federal loans and loan guarantees be recorded in the budget in the year that the loans are disbursed, and that the cost be calculated as the net present value of the government's expected cash flows over the lifetime of a loan or guarantee, using interest rates on Treasury securities of comparable maturity to discount the estimated cash flows.<sup>5</sup> Using this methodology, CBO estimates that eliminating new guaranteed loans and replacing them with direct loans would yield reductions in direct spending of \$61 billion over the 2010–2019 period. CBO also estimates that the expanded program for direct loans would incur about \$5 billion in additional administrative costs during that period. However, those additional costs are classified as discretionary spending and are subject to future appropriation; they are not incorporated in the estimates of changes in direct spending and revenues reported in this letter.

The legislation would also make other changes to federal loan programs for education. CBO estimates that those changes would increase direct spending by \$1 billion over the 2010–2014 period and \$3 billion over the 2010–2019 period—partially offsetting the gross savings from eliminating new guaranteed loans in the FFEL program.

**Federal Pell Grant Program.** The reconciliation proposal would alter the structure of the Pell Grant program and provide additional funding for that program. CBO estimates that those changes would increase direct spending by \$21 billion over the 2010–2014 period and \$36 billion over the 2010–2019 period.

Under current law, Pell grants are funded through both discretionary and mandatory funding. The annual discretionary appropriation sets a base award level, and a mandatory account provides additional funding to

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<sup>5</sup> An alternative approach to estimating the cost of federal loans and loan guarantees is to estimate what a private entity would need to be paid to assume the costs and risks to the government from providing such loans or guarantees. For further discussion of that so-called “fair-value” methodology, and for estimates of the cost of replacing guaranteed loans with direct loans based on different methodologies, see Congressional Budget Office, letter to the Honorable Judd Gregg regarding the budgetary impact of the President's proposal to alter federal student loan programs (March 15, 2010).

students eligible for the program. The dollar amount of the additional mandatory awards is determined by the amount directly appropriated in the Higher Education Act.

Beginning in fiscal year 2010, the reconciliation proposal would appropriate the amounts necessary to cover the cost of specified award levels in the Pell Grant program. For academic years through 2012–2013, the proposal would maintain the additional mandatory award at \$690, as specified in current law for 2010–2011 and 2011–2012. (Under current law, however, there are not sufficient funds to cover all the costs of providing that \$690 add-on to all Pell grant recipients; the proposal would provide the incremental funds necessary to do so.) Beginning in academic year 2013–2014, the mandatory award would increase according to a formula specified in the legislation. CBO estimates that the add-on would reach \$1,115 for academic year 2017–2018 and subsequent years.

CBO estimates that the increase in the mandatory add-on for Pell grants would raise direct spending by \$23 billion over the 2010–2019 period. In addition, the legislation would provide roughly \$14 billion in further mandatory funds to the Pell Grant program; CBO expects that most of that additional funding would be spent in fiscal years 2011 and 2012.

**Other Education Grant Programs.** Finally, the education subtitle would appropriate \$255 million per year through 2019 for grants to Historically Black Colleges and Universities and other Minority Serving Institutions. It would also appropriate \$150 million per year through 2014 for College Access Challenge Grants. CBO estimates that those provisions would increase direct spending by \$2 billion over the 2010–2014 period and by \$3 billion over the 2010–2019 period.

### **Changes to H.R. 3590 Contained in the Reconciliation Proposal**

The reconciliation proposal would make a variety of changes to H.R. 3590, as passed by the Senate. The changes with the largest budgetary effects over the 2010–2019 period include these:

- Increasing the subsidies for premiums and cost sharing that would be offered through the new insurance exchanges;
- Increasing the penalties for employers that do not offer health insurance and modifying the penalties for individuals who do not obtain insurance;

- Increasing the federal share of spending for certain Medicaid beneficiaries;
- Changing eligibility for Medicaid in a way that effectively increases the income threshold from 133 percent of the federal poverty level to 138 percent for certain individuals;
- Reducing overall payments to insurance plans under the Medicare Advantage program;
- Expanding Medicare's drug benefit by phasing out the "doughnut hole" in that benefit;
- Modifying the design and delaying the implementation of the excise tax on insurance plans with relatively high premiums; and
- Increasing the rate and expanding the scope of a tax that would be charged to higher-income households.

### **Effects of the Legislation on Insurance Coverage**

CBO and JCT estimate that by 2019, the combined effect of enacting H.R. 3590 and the reconciliation proposal would be to reduce the number of nonelderly people who are uninsured by about 32 million, leaving about 23 million nonelderly residents uninsured (about one-third of whom would be unauthorized immigrants). Under the legislation, the share of legal nonelderly residents with insurance coverage would rise from about 83 percent currently to about 94 percent.

Approximately 24 million people would purchase their own coverage through the new insurance exchanges, and there would be roughly 16 million more enrollees in Medicaid and the Children's Health Insurance Program than the number projected under current law. Relative to currently projected levels, the number of people purchasing individual coverage outside the exchanges would decline by about 5 million.

Under the legislation, certain employers could allow all of their workers to choose among the plans available in the exchanges, but those enrollees would not be eligible to receive subsidies via the exchanges (and thus are shown in Table 4 as enrollees in employment-based coverage rather than as exchange enrollees). Approximately 5 million people would obtain coverage in that way in 2019, bringing the total number of people enrolled in exchange plans to about 29 million in that year.

On balance, the number of people obtaining coverage through their employer would be about 3 million lower in 2019 under the legislation, CBO and JCT estimate. The net change in employment-based coverage under the proposal would be the result of several flows, which can be illustrated using the estimates for 2019:

- Between 6 million and 7 million people would be covered by an employment-based plan under the proposal who would not be covered by one under current law (largely because the mandate for individuals to be insured would increase workers' demand for coverage through their employers).
- Between 8 million and 9 million other people who would be covered by an employment-based plan under current law would not have an offer of such coverage under the proposal. Firms that would choose not to offer coverage as a result of the proposal would tend to be smaller employers and employers that predominantly employ lower-wage workers—people who would be eligible for subsidies through the exchanges—although some workers who would not have employment-based coverage because of the proposal would not be eligible for such subsidies. Whether those changes in coverage would represent the dropping of existing coverage or a lack of new offers of coverage is difficult to determine.
- Between 1 million and 2 million people who would be covered by their employer's plan (or a plan offered to a family member) under current law would instead obtain coverage in the exchanges. Under the legislation, workers with an offer of employment-based coverage would generally be ineligible for exchange subsidies, but that "firewall" would be enforced imperfectly and an explicit exception to it would be made for workers whose offer was deemed unaffordable.

### **Effects of the Legislation on Discretionary Costs**

CBO has not completed an estimate of the potential impact of the legislation on discretionary spending, which would be subject to future appropriation action. Discretionary costs would arise from the effects of the legislation on several federal agencies and on a number of new and existing programs subject to future appropriation. Those discretionary costs fall into three general categories.

The first category is implicit authorization of discretionary costs associated with implementing the new policies established under the legislation. Although no provisions in the legislation specifically authorize such spending, it would be necessary for agencies to carry out the responsibilities that would be required of them by the bill. For example:

- CBO expects that the cost to the Internal Revenue Service of implementing the eligibility determination, documentation, and verification processes for premium and cost sharing subsidies would probably be between \$5 billion and \$10 billion over 10 years.
- CBO expects that the costs to the Department of Health and Human Services (especially the Centers for Medicare and Medicaid Services) and the Office of Personnel Management of implementing the changes in Medicare, Medicaid, and the Children's Health Insurance Program, as well as certain reforms to the private insurance market, would probably be at least \$5 billion to \$10 billion over 10 years. (The administrative costs of establishing and operating the exchanges were included as direct spending in CBO's estimate for the legislation.)

The second category of discretionary costs is explicit authorizations for a variety of grant and other programs for which specified funding levels for possible future appropriations are set in the act for one or more years. (Such cases include provisions where a specified funding level is authorized for an initial year along with the authorization of such sums as may be necessary for continued funding in subsequent years.) CBO has identified at least \$50 billion in such specified and estimated authorizations in H.R. 3590, as passed by the Senate.<sup>6</sup>

A third category of discretionary spending is explicit authorizations for a variety of grant and other programs for which no funding levels are specified in the legislation. CBO has not yet completed estimates of the amounts of such authorizations.

### **Effects of the Legislation Beyond the First 10 Years**

Although CBO does not generally provide cost estimates beyond the 10-year budget projection period, certain Congressional rules require some information about the budgetary impact of legislation in subsequent

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<sup>6</sup> For further details, see Congressional Budget Office, Potential Effects of the Patient Protection and Affordable Care Act on Discretionary Spending (March 15, 2010).

decades, and many Members have requested CBO's analysis of the long-term budgetary impact of broad changes in the nation's health care and health insurance systems. Therefore, CBO has developed a rough outlook for the decade following the 2010–2019 period by grouping the elements of the legislation into broad categories and (together with JCT) assessing the rate at which the budgetary impact of each of those broad categories is likely to increase over time.

**Effects on the Deficit.** Using this analytic approach, CBO estimated that enacting H.R. 3590, as passed by the Senate, would reduce federal budget deficits over the ensuing decade relative to those projected under current law—with a total effect during that decade in a broad range between one-quarter percent and one-half percent of gross domestic product (GDP).<sup>7</sup> The imprecision of that calculation reflects the even greater degree of uncertainty that attends to it, compared with CBO's 10-year budget estimates.

The reconciliation proposal would make a variety of changes to H.R. 3590 that would have significant effects on the legislation's overall budgetary impact—both in the 10-year projection period and in the ensuing decade. For example, the reconciliation proposal would increase the premium subsidies offered in the new insurance exchanges beginning in 2014, but would also change the annual indexing provisions beginning in 2019 so that those subsidies would grow more slowly thereafter. Over time, the spending on exchange subsidies would therefore fall back toward the level under H.R. 3590 by itself. As another example, the reconciliation proposal would reduce the impact in the 10-year projection period of an excise tax on health insurance plans with relatively high premiums, but would index the thresholds for the tax, beginning in 2020, to the rate of general inflation rather than to inflation plus 1 percentage point (as in H.R. 3590).

Reflecting the changes made by the reconciliation proposal, the combined effect of enacting H.R. 3590 and the reconciliation proposal would also be to reduce federal budget deficits over the ensuing decade relative to those projected under current law—with a total effect during that decade in a broad range around one-half percent of GDP. The incremental effect of enacting the reconciliation bill (over and above the effect of enacting H.R. 3590 by itself) would thus be to further reduce federal budget deficits

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<sup>7</sup> For a more extensive explanation of that analysis, see Congressional Budget Office, letter to the Honorable Harry Reid regarding the longer-term effects of the manager's amendment to the Patient Protection and Affordable Care Act (December 20, 2009).

in that decade, with an effect in a broad range between zero and one-quarter percent of GDP.

CBO has not extrapolated estimates further into the future because the uncertainties surrounding them are magnified even more. However, in view of the projected net savings during the decade following the 10-year budget window, CBO anticipates that the reconciliation proposal would probably continue to reduce budget deficits relative to those under current law in subsequent decades, assuming that all of its provisions continued to be fully implemented.

Congressional rules governing the consideration of reconciliation bills also require an assessment of their budgetary impact separately by title, as shown in Table 7 for the 2010–2019 period. Relative to H.R. 3590, CBO’s analysis of the longer-term effects of the reconciliation proposal, by title, is as follows:

- Most of the changes to H.R. 3590 having significant budgetary effects would be made by title I of the reconciliation proposal, so the conclusions about the longer-term impact for the proposal as a whole—that it would reduce deficits relative to those under H.R. 3590—also apply to that title.
- The changes regarding health care contained in title II would have a much smaller budgetary impact than those in title I and would, by themselves, increase budget deficits somewhat during the 2010–2019 period and in the ensuing decade. That title also contains the proposal’s education provisions, which CBO estimates would reduce deficits during the next 10 years and in the following decade. In CBO’s estimation, the savings generated by the education provisions would outweigh the costs related to health care arising from title II, so the title as a whole would reduce budget deficits in both the 10-year projection period and subsequent years.

CBO has not yet completed an assessment of the impact for the longer term of enacting the reconciliation proposal by itself—that is, an assessment of the reconciliation proposal’s longer-term impact under current law.

**Key Considerations.** Those longer-term calculations reflect an assumption that the provisions of the reconciliation proposal and H.R. 3590 are enacted and remain unchanged throughout the next two decades, which is often not the case for major legislation. For example, the sustainable growth rate

mechanism governing Medicare's payments to physicians has frequently been modified (either through legislation or administrative action) to avoid reductions in those payments, and legislation to do so again is currently under consideration by the Congress.

The reconciliation proposal and H.R. 3590 would maintain and put into effect a number of policies that might be difficult to sustain over a long period of time. Under current law, payment rates for physicians' services in Medicare would be reduced by about 21 percent in 2010 and then decline further in subsequent years; the proposal makes no changes to those provisions. At the same time, the legislation includes a number of provisions that would constrain payment rates for other providers of Medicare services. In particular, increases in payment rates for many providers would be held below the rate of inflation (in expectation of ongoing productivity improvements in the delivery of health care). The projected longer-term savings for the legislation also reflect an assumption that the Independent Payment Advisory Board established by H.R. 3590 would be fairly effective in reducing costs beyond the reductions that would be achieved by other aspects of the legislation.<sup>8</sup>

Under the legislation, CBO expects that Medicare spending would increase significantly more slowly during the next two decades than it has increased during the past two decades (per beneficiary, after adjusting for inflation). It is unclear whether such a reduction in the growth rate of spending could be achieved, and if so, whether it would be accomplished through greater efficiencies in the delivery of health care or through reductions in access to care or the quality of care. The long-term budgetary impact could be quite different if key provisions of the legislation were ultimately changed or not fully implemented.<sup>9</sup> If those changes arose from future legislation, CBO would estimate their costs when that legislation was being considered by the Congress.

### **Other Effects of the Legislation**

Many Members have expressed interest in the effects of proposals on various other measures of spending on health care. One such measure is the

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<sup>8</sup> The Independent Payment Advisory Board would be required, under certain circumstances, to recommend changes to the Medicare program to limit the rate of growth in that program's spending. The Board's recommendations would go into effect automatically unless blocked by subsequent legislative action.

<sup>9</sup> For an example of the long-term budgetary effect of altering several key features of the legislation, see Congressional Budget Office, letter to the Honorable Paul Ryan responding to questions about the preliminary estimate of the reconciliation proposal (March 19, 2010).

“federal budgetary commitment to health care,” a term that CBO uses to describe the sum of net federal outlays for health programs and tax preferences for health care.<sup>10</sup> CBO estimated that H.R. 3590, as passed by the Senate, would increase the federal budgetary commitment to health care over the 2010–2019 period; the net increase in that commitment would be about \$210 billion over that 10-year period. The combined effect of enacting H.R. 3590 and the reconciliation proposal would be to increase that commitment by about \$390 billion over 10 years. Thus, the incremental effect of the reconciliation proposal (if H.R. 3590 had been enacted) would be to increase the federal budgetary commitment to health care by about \$180 billion over the 2010–2019 period.

In subsequent years, the effects of the provisions of the two bills combined that would tend to decrease the federal budgetary commitment to health care would grow faster than the effects of the provisions that would increase it. As a result, CBO expects that enacting both proposals would generate a reduction in the federal budgetary commitment to health care during the decade following the 10-year budget window—which is the same conclusion that CBO reached about H.R. 3590, as passed by the Senate.

Members have also requested information about the effect of the legislation on health insurance premiums. On November 30, 2009, CBO released an analysis prepared by CBO and JCT of the expected impact on average premiums for health insurance in different markets of PPACA as originally proposed.<sup>11</sup> Although CBO and JCT have not updated the estimates provided in that letter, the effects on premiums of the legislation as passed by the Senate and modified by the reconciliation proposal would probably be quite similar.

CBO and JCT previously determined that H.R. 3590, as passed by the Senate, would impose several intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO and JCT estimated that the total costs of those mandates to state, local, and tribal governments and the private sector would greatly exceed the annual thresholds established in UMRA (\$70 million and \$141 million,

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<sup>10</sup> For additional discussion of that term, see Congressional Budget Office, letter to the Honorable Max Baucus regarding different measures for analyzing current proposals to reform health care (October 30, 2009).

<sup>11</sup> 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).

respectively, in 2010, adjusted annually for inflation) in each of the first five years that the mandates would be in effect.

If both the reconciliation proposal and H.R. 3590 were enacted, that combination would impose similar mandates on both intergovernmental and private-sector entities with costs exceeding the thresholds established in UMRA. The incremental effect of enacting the reconciliation proposal—assuming that H.R. 3590 had already been enacted—would be to increase the costs of the mandates on private-sector entities. That increase in costs would exceed the annual UMRA threshold as well.

I hope this analysis is helpful for the Congress's deliberations. If you have any questions, please contact me or CBO staff. Many people at CBO have contributed to this analysis, but the primary staff contacts are David Auerbach, Colin Baker, Reagan Baughman, James Baumgardner, Tom Bradley, Stephanie Cameron, Julia Christensen, Mindy Cohen, Anna Cook, Noelia Duchovny, Sean Dunbar, Philip Ellis, Peter Fontaine, April Grady, Stuart Hagen, Holly Harvey, Tamara Hayford, Jean Hearne, Janet Holtzblatt, Lori Housman, Justin Humphrey, Paul Jacobs, Deborah Kalcevic, Daniel Kao, Jamease Kowalczyk, Julie Lee, Kate Massey, Alexandra Minicozzi, Keisuke Nakagawa, Kirstin Nelson, Lyle Nelson, Andrea Noda, Sam Papenfuss, Lisa Ramirez-Branum, Lara Robillard, Robert Stewart, Robert Sunshine, Bruce Vavrichek, Ellen Werble, Chapin White, and Rebecca Yip.

Sincerely,

Douglas W. Elmendorf  
Director

Enclosures

cc: Honorable John A. Boehner  
Republican Leader

Honorable John M. Spratt Jr.  
Chairman  
Committee on the Budget

Honorable Nancy Pelosi

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Honorable Paul Ryan  
Ranking Member

Honorable Harry Reid  
Senate Majority Leader

Honorable Mitch McConnell  
Senate Republican Leader

Honorable Kent Conrad  
Chairman  
Senate Committee on the Budget

Honorable Judd Gregg  
Ranking Member