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RESEARCH SUMMARY

THE FISCAL EFFECTS OF REPEALING THE AFFORDABLE CARE ACT

A new study published by the Mercatus Center at George Mason University illuminates the enormous fiscal stakes of recently suspended efforts to repeal and replace the Affordable Care Act (ACA). While lawmakers must consider a number of important value judgments—affecting the health and income security of millions of Americans—in the context of any future healthcare legislation, they cannot responsibly ignore the implications of healthcare policy for federal finances. The ACA has significantly worsened the federal fiscal outlook, and efforts to repeal and replace the law represent a critical opportunity for much-needed fiscal corrections.

In "The Fiscal Effects of Repealing the Affordable Care Act," Mercatus Senior Research Fellow Charles Blahous examines the effects of different variables that could push the projected budget savings from repeal-and-replace either higher or lower than current projections. His analysis expands upon the estimates of the Congressional Budget Office (CBO), which is charged by Congress with producing a single best-guess estimate of the fiscal effects of legislation, and which must follow certain scorekeeping rules that occasionally diverge from current law and policy practice.

Blahous presents three scenarios ranging from partial to full repeal of the ACA, considers how different assumptions could impact fiscal outcomes, and produces a range of estimates resulting from each variation. His study also includes an addendum that applies the same methodology to examine the range of possible fiscal effects of the American Health Care Act (AHCA) as introduced.

KEY FINDINGS

- Repealing the ACA will, considered in isolation, substantially reduce future federal deficits.
- Repealing the ACA's various spending and tax increases, effective next year, could reduce federal deficits over 2017–2026 by $228 billion to $1.07 trillion.
- One example of repeal-and-replace legislation, the AHCA as originally introduced, could reduce federal deficits over 2017–2026 by $42 billion to $657 billion.

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- The amount of deficit reduction depends on several key assumptions and legislative variables, including the effective dates of repeal provisions, the specifics of replacement provisions, and which ACA provisions are repealed, modified, or retained.

- It is likely that the practical fiscal improvements from repeal will exceed those projected by CBO, although budget savings could be either underestimated or overestimated. The greater likelihood of increased budget savings is not primarily attributable to CBO projection error, but rather to Congress's patterns of legislative behavior and its scorekeeping rules.

- ACA repeal legislation would improve federal finances irrespective of whether it repeals the ACA's Medicare cost-containment provisions. Lawmakers are unlikely to repeal these provisions, however, because doing so would significantly accelerate the depletion of the Medicare Hospital Insurance (HI) trust fund.

- The net fiscal effect of the ACA has been far more unfavorable than initially projected, primarily because several of its financing provisions have not been implemented as originally enacted, because they were repealed, suspended, postponed, scaled back, or weakened in regulation.

SUMMARY AND CONCLUSIONS

- Under assumptions consistent with CBO's, repealing all the ACA's new spending and tax provisions effective next year would reduce federal deficits over 2017–2026 by $586 billion.

- If the ACA's Medicaid expansion costs have been underestimated, if its insurance marketplace rules are included among those repealed, and if one assumes that the "Cadillac plan" tax, the medical device tax, health insurance fees, and the Independent Payment Advisory Board (IPAB) remain inoperative, the savings from repeal could be as much as $1.07 trillion.

- If, on the other hand, the ACA's Medicaid "woodwork" population has been underestimated and the ACA's exchange enrollment overestimated, and if the ACA's cost-sharing subsidies would have been terminated without legislation, the savings from repeal could be as little as $228 billion.

- A similar analysis of repealing the ACA's coverage expansion provisions alone (leaving its other tax increases in place) finds that the fiscal improvement over 2017–2026 could be as little as $878 billion or as much as $1.377 trillion, surrounding a midpoint estimate of $1.236 trillion.

ADDENDUM: THE AMERICAN HEALTH CARE ACT

- CBO scored the AHCA (as introduced) as reducing federal deficits over 2017–2026 by $337 billion.

- If the ACA's Medicaid expansion costs have been underestimated, and if one assumes that the Cadillac plan tax, the medical device tax, health insurance fees, and IPAB remain inoperative, the savings from the AHCA could be as much as $657 billion.

- If instead the ACA's Medicaid expansion enrollment and exchange enrollment have been overestimated, savings under the AHCA could be as little as $42 billion.

- Under all three scenarios Blahous describes, the AHCA's repeal of the ACA's Medicare HI payroll tax increase would accelerate HI trust fund depletion. This would increase the deficit reduction over 2017–2026 from $337 billion under the CBO baseline to $374 billion under Medicare law, based on specifics provided within the CBO score that suggest trust fund depletion in 2026. Adding other less specific information from the CBO report suggests that depletion could occur in 2025, resulting in budget savings under the AHCA ranging from $92 billion to $707 billion from 2017 to 2026, around a midpoint estimate of $424 billion.

- It is likely that the practical fiscal effects of the AHCA would be somewhat better than the effects projected by CBO, although budget savings could be either underestimated or overestimated. Again, the greater likelihood of increased budget savings is not due primarily to CBO projection error but rather to Congress's patterns of legislative behavior and its scorekeeping rules.