

What If CBO's Assumptions Are Wrong?

In reaching its conclusion that the Finance Committee's Health Care bill is budget neutral, the Congressional Budget Office (CBO) makes a number of critical assumptions. The *Washington Post* reported that CBO's lead health care analyst "is the first to admit that his painstaking numbers are almost certainly wrong."ⁱ The score of the bill will change dramatically if any one of these assumptions plays out differently in practice. But by then it will be too late—if Congress votes to create the new health care entitlement supported by Democrats, the policies will be virtually impossible to reconsider. The plan is therefore likely to become a tremendous strain on a federal government already drowning in red ink. Below are a few of the assumptions that, if proven wrong, could have ripple effects on the cost of the bill.

CBO Assumes the Individual Mandate will be Effective: CBO believes that the majority of Americans will comply with a mandate to purchase health insurance. But because of the insurance market reforms in the bill and the weakening of the mandate in committee mark-up, there are great incentives for people to do exactly the opposite. The number of people actually mandated to buy insurance will be relatively low (and go lower as insurance premiums rise because the mandate exempts people who cannot find an insurance plan below a certain percentage of their income);ⁱⁱ the penalty for not buying insurance will be low relative to the cost of insurance;ⁱⁱⁱ and people will be allowed to buy insurance whenever they want and without regard to preexisting conditions. So a large number of people will likely decide it's cheaper to pay the penalty and then buy insurance if something happens to go wrong. The experience of Massachusetts is illustrative. As the *Wall Street Journal* reported, one major insurer in Massachusetts found that about 40 percent of people who bought its non-subsidized individual plan in a 12-month period left after less than five months. While these individuals had coverage, they incurred an average \$2,400 in monthly medical bills—six times the plan's projections.^{iv} If this were to happen nationally, insurers would have to increase premiums for the rest of the population to cover the losses, and costs to the federal government for the subsidies would rise correspondingly.

CBO Assumes that Employers Won't Drop Coverage: CBO estimates that relatively few employers will drop coverage in response to the employer mandate.^v Under the Baucus proposal, employers with large numbers of low-income workers could show that dropping coverage is actually in their employees' economic interest because they would be able to take advantage of taxpayer subsidies. For example, according to the Kaiser Family Foundation's premium calculator, a 45 year old employee with a family of four earning \$55,000 would receive a subsidy through the exchange for more than half their family premium (\$5,870 out of a \$11,080 premium) if their employer dropped coverage.^{vi} The subsidy would be even greater for lower income workers. Since all health care expenses are ultimately paid for by the employee in the form of reduced wages, it would be a better deal for the employer to pay the penalty and let the employee get taxpayer subsidized coverage in the exchange. Increasing the rate that employers dropped coverage by even a few percentage points would dramatically increase the cost of the Baucus bill.

CBO Assumes that Congress will Approve Additional Out-Year Cuts to Medicare (beyond the \$500 Billion in Cuts Already in the Bill): While the Finance bill includes almost \$500 billion in Medicare cuts, the out-year budget score relies on Congress approving recommendations from a new

Medicare Commission for even more Medicare cuts every year. CBO's score acknowledges how tenuous the projected savings are. CBO wrote: "These projections assume that the proposals are enacted and remain unchanged throughout the next two decades, which is often not the case for major legislation. ... The long-term budgetary impact could be quite different if those provisions were ultimately changed or not fully implemented."^{vii} A similar provision was established by the Medicare 45 percent "trigger," which provided a fast track procedure to reduce Medicare spending if general revenues were projected to cover more than 45 percent of overall Medicare costs.^{viii} Since the trigger was enacted in the Medicare Modernization Act ^{ix} in 2003, Congress has never had the courage to actually use the procedures to reduce Medicare spending. If this history is any guide, lawmakers are likely to postpone or avoid cuts proposed by the Medicare Commission on a regular basis rather than affirmatively acting to approve the additional cuts.

CBO Assumes that Congress Will Drastically Cut Payments to Doctors: CBO assumes that doctors will experience a 25 percent pay cut after the one-year Sustainable Growth Rate (SGR) patch provided in the Baucus bill. CBO assumes this even though every year, from 2004 through 2009, Congress took action to spare doctors from the effect of the planned cuts. Including the cost of fixing the SGR in the health care reform bill would add nearly a quarter trillion dollars to the score of the bill. The *Washington Post* described this maneuvering by Democrats as a \$245 billion "shell game" and "budgetary smoke and mirrors."^x The *Post* wrote, "No one believes that [the cuts in payments to doctors required by the SGR] will happen, so the money is going to have to be scrounged up later or else add more to the deficit." Accounting for the almost certain cost of fixing the SGR would mean that the Baucus health care bill would increase the deficit by more than \$150 billion.

ⁱ *Washington Post*, "In Health Debate, Those Numbers Are Just Numbers," October 19, 2009.

ⁱⁱ In committee mark-up, the mandate was weakened so that it does not apply to people who cannot find a health insurance policy for less than eight percent of their income. A premium calculator from the Kaiser Family Foundation shows that a family of four (in which both parents are 45 years old) would have to earn \$125,000 per year (570 percent of the Federal Poverty Level (FPL)) before they could find a plan for less than eight percent of their income so that the mandate penalty would apply to them.

ⁱⁱⁱ For example, families between 300 and 400 percent FPL would be required to pay health insurance premiums of at least 12 percent of their income for a plan before receiving a subsidy. For a family of four earning 400 percent FPL (\$88,000 per year), that would mean the family would be required to pay more than \$9,000 in premiums to buy health insurance (not including cost-sharing) or a \$1,500 penalty (\$750 for each adult) for not buying insurance.

^{iv} *Wall Street Journal*, "Mandated Health Insurance Squeezes Those in the Middle," September 16, 2009.

^v CBO only estimates that three million people lose employer-based coverage, although the number of people who lose their existing coverage could be affected by an increased offer rate among employers. CBO has not provided data on the flows in coverage behind their numbers.

^{vi} Available at: <http://healthreform.kff.org/SubsidyCalculator.aspx>. The calculator does not appear to account for the cost of the increased taxes on insurers, device manufacturers, and pharmaceutical companies that will be passed on to consumers in the form of higher premiums.

^{vii} CBO Score of the America's Healthy Future Act of 2009.

^{viii} CRS Report to Congress, "Medicare Trigger," January 29, 2008, RS 22796.

^{ix} Public Law 108-173, Sec. 801, December 8, 2003. Available at: http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_public_laws&docid=f:publ173.108.pdf

^x *Washington Post*, "Health Reform Shell Game," October 10, 2009.