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How Repealing Portions of the Affordable Care Act Would Affect Health Insurance Coverage and Premiums

A little more than a year ago, the Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) estimated the budgetary effects of H.R. 3762, the Restoring Americans' Healthcare Freedom Reconciliation Act of 2015, which would repeal portions of the Affordable Care Act (ACA)—eliminating, in two steps, the law's mandate penalties and subsidies but leaving the ACA's insurance market reforms in place. At that time, CBO and JCT offered a partial assessment of how H.R. 3762 would affect health insurance coverage, but they had not estimated the changes in coverage or premiums that would result from leaving the market reforms in place while repealing the mandate penalties and subsidies.[1] This document—prepared at the request of the Senate Minority Leader, the Ranking Member of the Senate Committee on Finance, and the Ranking Member of the Senate Committee on Health, Education, Labor, and Pensions—provides such an estimate.

In brief, CBO and JCT estimate that enacting that legislation would affect insurance coverage and premiums primarily in these ways:

- The number of people who are uninsured would increase by 18 million in the first new plan year following enactment of the bill. Later, after the elimination of the ACA's expansion of Medicaid eligibility and of subsidies for insurance purchased through the ACA marketplaces, that number would increase to 27 million, and then to 32 million in 2026.

- Premiums in the nongroup market (for individual policies purchased through the marketplaces or directly from insurers) would increase by 20 percent to 25 percent—relative to projections under current law—in the first new plan year following enactment. The increase would reach about 50 percent in the year following the elimination of the Medicaid expansion and the marketplace subsidies, and premiums would about double by 2026.

The ways in which individuals, employers, states, insurers, doctors, hospitals, and other affected parties would respond to the changes made by H.R. 3762 are all difficult to predict, so the estimates in this report are uncertain. But CBO and JCT have endeavored to

1. Congressional Budget Office, letter to the Honorable Mike Enzi regarding the budgetary effects of H.R. 3762, the Restoring Americans' Healthcare Freedom Reconciliation Act, as passed by the Senate on December 3, 2015 (December 11, 2015), www.cbo.gov/publication/51090. CBO and JCT later updated those budgetary estimates following enactment of the Consolidated Appropriations Act, 2016; see Congressional Budget Office, cost estimate for H.R. 3762, the Restoring Americans' Healthcare Freedom Reconciliation Act, as passed by the Senate on December 3, 2015, and following enactment of the Consolidated Appropriations Act, 2016 (January 4, 2016), www.cbo.gov/publication/51107. The estimated effects on insurance coverage in that document did not substantially differ from those described in the letter transmitted on December 11, 2015.

develop estimates that are in the middle of the distribution of potential outcomes.

In an effort to make this information more useful, CBO and JCT have updated their estimates of H.R. 3762's effects on health insurance coverage and premiums using CBO's most recent baseline projections, which were released in March 2016, and adjusted the effective dates in the legislation to reflect an assumption that enactment would occur one year later.

The Restoring Americans' Healthcare Freedom Reconciliation Act of 2015

H.R. 3762 would make two primary sets of changes that would affect insurance coverage and premiums. First, upon enactment, the bill would eliminate penalties associated with the requirements that most people obtain health insurance (also known as the individual mandate) and that large employers offer their employees health insurance that meets specified standards (also known as the employer mandate). Second, beginning roughly two years after enactment, the bill would also eliminate the ACA's expansion of Medicaid eligibility and the subsidies available to people who purchase health insurance through a marketplace established by the ACA. H.R. 3762 also contains other provisions that would have smaller effects on coverage and premiums.

Importantly, H.R. 3762 would leave in place a number of market reforms—rules established by the ACA that govern certain health insurance markets. Insurers who sell plans either through the marketplaces or directly to consumers are required to:

- Provide specific benefits and amounts of coverage;
- Not deny coverage or vary premiums because of an enrollee's health status or limit coverage because of preexisting medical conditions; and
- Vary premiums only on the basis of age, tobacco use, and geographic location.

Analysis of H.R. 3762 Relative to CBO's March 2016 Baseline

According to CBO and JCT's analysis, upon enactment, H.R. 3762 would reduce the number of people with insurance; and in the first new plan year, premiums in the nongroup market would rise and participation by insurers in that market would decline. Starting in the year following the elimination of the expansion of Medicaid eligibility and the marketplace subsidies, the increase in the number of uninsured people and premiums would be greater, and participation by insurers in the nongroup market would decline further.

Estimated Changes Before the Elimination of the Medicaid Expansion and Subsidies

Following enactment but before the Medicaid expansion and subsidies for insurance purchased through the marketplaces were eliminated, the effects of H.R. 3762 on insurance coverage and premiums would stem primarily from repealing the penalties associated with the individual mandate.

Effects on Insurance Coverage. CBO and JCT expect that the number of people without health insurance coverage would increase upon enactment of H.R. 3762 but that the increase would be limited initially, because insurers would have already set their premiums for the current year, and many people would have already made their enrollment decisions for the year. Subsequently, in the first full plan year following enactment, by CBO and JCT's estimates, about 18 million people would become uninsured. That increase in the uninsured population would consist of about 10 million fewer people with coverage obtained in the nongroup market, roughly 5 million fewer people with coverage under Medicaid, and about 3 million fewer people with employment-based coverage.

Most of those reductions in coverage would stem from repealing the penalties associated with the individual mandate. However, CBO and JCT also expect that insurers in some areas would leave the nongroup market in the first new plan year following enactment. They would be leaving in anticipation of further reductions in enrollment and higher average health care costs among enrollees who remained after the subsidies for insurance purchased through the marketplaces were eliminated. As a consequence, roughly 10 percent of the population would be living in an area that had no insurer participating in the nongroup market.

Effects on Premiums. According to CBO and JCT's analysis, premiums in the nongroup market would be roughly 20 percent to 25 percent higher than under current law once insurers incorporated the effects of H.R. 3762's changes into their premium pricing in the first new plan year after enactment. The majority of that increase would stem from repealing the penalties associated with the individual mandate. Doing so would both reduce the number of people purchasing health insurance and change the mix of people with insurance—tending to cause smaller reductions in coverage among older and less healthy people with high health care costs and larger reductions among younger and healthier people with low health care costs. Thus, average health care costs among the people retaining coverage would be higher, and insurers would have to raise premiums in the nongroup market to cover those higher costs. Lower participation by insurers in the nongroup market would place further upward pressure on premiums because the market would be less competitive.

Estimated Changes After the Elimination of the Medicaid Expansion and Subsidies

The bill's effects on insurance coverage and premiums would be greater once the repeal of the Medicaid expansion and the subsidies for insurance purchased through the marketplaces took effect, roughly two years after enactment.

Effects on Insurance Coverage. By CBO and JCT's estimates, enacting H.R. 3762 would increase the number of people without health insurance coverage by about 27 million in the year following the elimination of the Medicaid expansion and marketplace subsidies and by 32 million in 2026, relative to the number of uninsured people expected under current law. (The number of people without health insurance would be smaller if, in addition to the changes in H.R. 3762, the insurance market reforms mentioned above were also repealed. In that case, the increase in the number of uninsured people would be about 21 million in the year following the elimination of the Medicaid expansion and marketplace subsidies; that figure would rise to about 23 million in 2026.)

The estimated increase of 32 million people without coverage in 2026 is the net result of roughly 23 million fewer with coverage in the nongroup market and 19 million fewer with coverage under Medicaid, partially offset by an increase of about 11 million people covered by employment-based insurance. By CBO and JCT's estimates, 59 million people under age 65 would be uninsured in 2026 (compared with 28 million under current law), representing 21 percent of people under age 65. By 2026, fewer than 2 million people would be enrolled in the nongroup market, CBO and JCT estimate.

According to the agencies' analysis, eliminating the mandate penalties and the subsidies while retaining the market reforms would destabilize the nongroup market, and the effect would worsen over time. The ACA's changes to the rules governing the nongroup health insurance market work in conjunction with the mandates and the subsidies to increase participation in the market and encourage enrollment among people of different ages and health statuses. But eliminating the penalty for not having health insurance would reduce enrollment and raise premiums in the nongroup market. Eliminating subsidies for insurance purchased through the marketplaces would have the same effects because it would result in a large price increase for many people. Not only would enrollment decline, but the people who would be most likely to remain enrolled would tend to be less healthy (and therefore more willing to pay higher premiums). Thus, average health care costs among the people retaining coverage would be higher, and insurers would have to raise premiums in the nongroup market to cover those higher costs. CBO and JCT expect that enrollment would continue to drop and premiums would continue to increase in each subsequent year.

Leaving the ACA's market reforms in place would limit insurers' ability to use strategies that were common before the ACA was enacted. For example, insurers would not be able to vary premiums to reflect an individual's health care costs or offer health insurance plans that exclude coverage of preexisting conditions, plans that do not cover certain types of benefits (such as maternity care), or plans with very high deductibles or very low actuarial value (plans paying a very low share of costs for covered services).

Effects on Participation by Insurers. In CBO and JCT's estimation, the factors exerting upward pressure on premiums and downward pressure on enrollment in the nongroup market would lead to substantially reduced participation by insurers and enrollees in many areas. Prior experience in states that implemented similar nongroup market reforms without a mandate penalty or subsidies has demonstrated the potential for market destabilization. Several states that enacted such market reforms later repealed or substantially modified those reforms in response to increased premiums and insurers' departure from the market.

After weighing the evidence from prior state-level reforms and input from experts and market participants, CBO and JCT estimate that about half of the nation's population lives in areas that would have no insurer participating in the nongroup market in the first year after the repeal of the marketplace subsidies took effect, and that share would continue to increase, extending to about three-quarters of the population by 2026. That contraction of the market would most directly affect people without access to employment-based coverage or public health insurance.

Effects on Premiums. In total, as a result of reduced enrollment, higher average health care costs among remaining enrollees, and lower participation by insurers, CBO and JCT project that premiums in the nongroup market would be about 50 percent higher in the first year after the marketplace subsidies were eliminated—relative to projections under current law—and would about double by 2026.

Comparison With CBO and JCT's 2015 Cost Estimate

This analysis differs in a number of respects from the one CBO and JCT did in December 2015. In particular, the projected increase in the number of uninsured people is now greater largely because, at that time, the agencies had not estimated the changes in coverage from leaving the ACA's insurance market reforms in place while repealing the mandate penalties and subsidies. Moreover, the current estimates of how H.R. 3762 would affect coverage are measured relative to CBO's March 2016 baseline, rather than the March 2015 baseline, which was the basis for the earlier estimates. Those baselines differ in part because CBO and JCT have reduced their projections of the number of people with health insurance coverage through the marketplaces and increased their projections of the number of people with coverage through Medicaid under current law.[2]

Future Legislation

If the Congress considers legislation similar to H.R. 3762 in the coming weeks, the estimated effects could differ from those described here. In particular, the response of individuals, insurers, and states would depend critically on the particular specifications contained in such legislation.

This document was requested by the Senate Minority Leader, the Ranking Member of the Senate Committee on Finance, and the Ranking Member of the Senate Committee on Health, Education, Labor, and Pensions. Kate Fritzsche and Sarah Masi prepared it with guidance from Jessica Banthin, Chad Chirico, and Holly Harvey and with contributions from Allison Percy and the staff of the Joint Committee on Taxation. An electronic version is available on CBO's website (www.cbo.gov/publication/52371).

Keith Hall
Director

2. See Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2016 to 2026* (March 2016), www.cbo.gov/publication/51385.