CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 6, 2013

H.R. 2668

An act to delay the application of the individual health insurance mandate, to delay the application of the employer health insurance mandate, and for other purposes

As passed by the House of Representatives on July 17, 2013

SUMMARY

H.R. 2668 would delay the implementation of several provisions related to the expansion of health insurance coverage established by the Affordable Care Act (ACA, Public Law 111-148 and the health care provisions of P.L. 111-152). Title I of H.R. 2668 would delay for one year the requirement that most residents of the United States have health insurance coverage by January 1, 2014. Title I also would shift by one year the schedule of penalties for people who do not comply with that mandate.

In addition, title II of the legislation would delay for one year the imposition of penalties for certain large employers that do not offer health insurance coverage that meets the affordability standard defined in the ACA and two reporting requirements for certain large employers and health insurance coverage providers.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting H.R. 2668 would reduce federal deficits by roughly $36 billion over the 2014-2018 period and by roughly $35 billion over the 2014-2023 period. Those budgetary effects would result entirely from title I. Title II would not affect direct spending or revenues since it essentially codifies changes announced by the Administration and subsequently incorporated into CBO's baseline.[1] Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

JCT has determined that H.R. 2668 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA).

1. Congressional Budget Office, Letter to the Honorable Paul Ryan Re: *Analysis of the Administration's Announced Delay of Certain Requirements Under the Affordable Care Act* (July 30, 2013), www.cbo.gov/publication/44465.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2668 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

	By Fiscal Year, in Billions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
CHANGES IN DIRECT SPENDING												
Medicaid and CHIP												
Estimated Budget Authority	-9.3	-4.9	-1.6	-0.8	-0.2	0	0	0	0	0	-16.9	-16.9
Estimated Outlays	-9.3	-4.9	-1.6	-0.8	-0.2	0	0	0	0	0	-16.9	-16.9
Exchange Subsidies												
Estimated Budget Authority	-5.0	-2.1	-1.0	-0.8	-0.1	*	*	*	*	*	-8.9	-8.9
Estimated Outlays	-5.0	-2.1	-1.0	-0.8	-0.1	*	*	*	*	*	-8.9	-8.9
Other												
Estimated Budget Authority	-0.8	-0.8	-0.3	-0.2	-0.1	*	*	*	*	*	-2.2	-2.2
Estimated Outlays	-0.8	-0.8	-0.3	-0.2	-0.1	*	*	*	*	*	-2.2	-2.2
Total Direct Spending Effects												
Estimated Budget Authority	-15.1	-7.8	-2.9	-1.8	-0.4	*	*	*	*	*	-28.0	-28.0
Estimated Outlays	-15.1	-7.8	-2.9	-1.8	-0.4	*	*	*	*	*	-28.0	-28.0
CHANGES IN REVENUES												
Estimated Revenues	5.5	2.5	-0.2	0.1	0.4	-0.1	-0.2	-0.2	-0.1	-0.2	8.3	7.4
On-Budget	2.7	1.0	-0.6	-0.2	0.3	-0.1	-0.2	-0.2	-0.1	-0.2	3.1	2.4
Off-Budget[a]	2.8	1.5	0.4	0.4	0.1	*	*	*	*	*	5.1	5.1
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on the Deficit	-20.6	-10.3	-2.7	-1.9	-0.8	0.1	0.2	0.2	0.1	0.2	-36.2	-35.4
On-Budget	-17.8	-8.8	-2.3	-1.5	-0.7	0.1	0.2	0.2	0.1	0.2	-31.1	-30.3
Off-Budget[a]	-2.8	-1.5	-0.4	-0.4	-0.1	*	*	*	*	*	-5.1	-5.1

Notes: Numbers may not sum to totals because of rounding.

CHIP = Children's Health Insurance Program; * = savings or costs of less than $50 million.

a. All off-budget effects would come from changes in revenues. (The payroll taxes for Social Security are classified as "off-budget.")

BASIS OF ESTIMATE

Title I: Fairness for American Families Act

Under current law, most residents of the United States are required to have health insurance coverage by January 1, 2014. People who are not exempt and do not comply with the mandate may be charged a penalty that is the greater of a flat dollar amount or a percentage of income in excess of the income threshold for mandatory tax-filing. The flat amount per uninsured adult will rise from $95 per uninsured adult in 2014 to $695 in 2016 and will be adjusted for inflation after that (an overall cap will apply to family payments); the percentage of income will rise from 1.0 percent in 2014 to 2.5 percent in 2016 (also subject to a cap). Certain categories of people are exempt from paying penalties, including people with taxable income below the filing threshold, people without access to affordable coverage, unauthorized immigrants, and people who obtain a hardship waiver.

CBO and JCT anticipate that the existence of the mandate and its associated penalties will spur increased enrollment in health insurance coverage, including a significant number of people that have taxable income above the tax-filing threshold and will enroll in either Medicaid or the Children's Health Insurance Program (CHIP). Specifically, CBO and JCT project that, under current law, the existence of the mandate, coupled with the expansion of Medicaid and the availability of subsidies to purchase health insurance through exchanges that are scheduled to begin in 2014, will increase the number of people with health insurance by 13 million in 2014 relative to what would have happened in the absence of those provisions of law; as a result, the number of uninsured nonelderly people will decrease to 44 million people in that year according to CBO's and JCT's estimates.

Title I of H.R. 2668 would delay the health insurance requirement for one year and would also shift by one year the schedule of penalties for people who do not comply with the mandate. CBO and JCT estimate that delaying the mandate to have health insurance coverage would increase the number of people without health insurance coverage—relative to the current-law projections—by about 11 million people in 2014, resulting in an estimated 55 million uninsured in that year. That increase in the uninsured population would consist of about 5 million fewer individuals with coverage under Medicaid or CHIP, about 4 million fewer individuals with employment-based coverage, and about 2 million fewer people with coverage obtained in the individual market (including individual policies purchased in the exchanges or directly from insurers in the nongroup market).

Because the mandate would become effective in 2015 under the legislation, CBO and JCT project smaller incremental increases in the uninsured population in years after 2014. Specifically, CBO and JCT estimate that there would be increases of 2 million uninsured in 2015 and 1 million uninsured in 2016, and changes in the uninsured population of less than 500,000 in later years.

Because of those projected changes in coverage, CBO and JCT estimate that title I of H.R. 2668 would result in net budgetary savings to the federal government of $35.4 billion over the 2014-2023 period (with most of those savings attributable to estimated changes in coverage in calendar year 2014 that would affect the budget in fiscal years 2014 and 2015). That projected reduction in federal deficits reflects a $28.0 billion decrease in direct spending and a $7.4 billion net increase in revenues over the 2014-2023 period. Of that revenue increase, an estimated $2.4 billion would be a change in on-budget revenues and $5.1 billion would be a change in off-budget (Social Security) revenues.

CBO estimates that outlays for Medicaid and CHIP would be $16.9 billion lower over the 2014-2023 period under title I than under current law because fewer people would enroll in those programs, particularly in 2014. In addition, outlays would be lower and revenues would be higher because fewer people would obtain subsidized coverage through the insurance exchanges, again particularly in 2014. CBO and JCT estimate that the outlay portion of the reduced payments for premium and cost-sharing subsidies (that is, "exchange subsidies") would be $8.9 billion lower over the 2014-2023 period.[2]

Two effects account for most of the estimated $7.4 billion increase in net revenues over the 2014-2023 period that would result from enacting title I. Tax revenues would be higher by an estimated $12.2 billion because, without the mandate in 2014, fewer people would take up employment-based health insurance coverage. That change would lead to a larger share of total compensation taking the form of taxable wages and salaries and a smaller share taking the form of nontaxable health benefits. In the other direction, the absence of an individual mandate in 2014 would eliminate all revenues associated with penalties charged to uninsured individuals in that year. (Under current law, penalties assessed for 2014 would be collected in 2015.) In addition, the one-year shift in the schedule of individual mandate penalties would reduce revenues collected from those penalties relative to the baseline in most other years (although that loss would be greatest during the three-year phase-in period beginning in 2015). In total, CBO and JCT estimate that mandate penalty collections would be $5.9 billion lower over the 2014-2023 period. Other effects account for the remaining $1.1 billion net increase in revenues.

Enacting title I would also result in higher health insurance premiums in the nongroup market (that is, premiums for individually purchased health insurance) in 2014, CBO and JCT estimate. Insurers would still be required to provide coverage to any applicant, would not be able to vary premiums to reflect enrollees' health status or to limit coverage of preexisting medical conditions, and would be allowed to vary premiums by age only to a limited degree. Those features would be most attractive to applicants with relatively high expected costs for health care, so delaying the mandate until 2015 would tend to reduce

2. Subsidies for health insurance premiums are structured as refundable tax credits; the portions of such credits that exceed taxpayers' liabilities are classified as outlays, while the portions that reduce tax payments are reflected in the budget as reductions in revenues. CBO and JCT estimate that exchange subsidies would fall by $10.2 billion over the 2014-2023 period. Of that amount, $8.9 billion would be classified as a decrease in outlays and $1.3 billion would be classified as an increase in revenues.

insurance coverage in 2014 less among older and less healthy people than among younger and healthier people. Nevertheless, CBO and JCT anticipate that a significant number of relatively healthy people would still have a strong incentive to purchase insurance in the nongroup market because of the availability of government subsidies—and, therefore, that the market would not be subject to an unsustainable spiral of rising premiums.

Title II: Authority for Mandate Delay Act

Certain large employers that do not offer health insurance coverage that meets the affordability standard defined in the Affordable Care Act will be subject to penalties under current law. In addition, insurers and certain other health coverage providers (primarily employers that self-insure) will be required to report the names of those receiving coverage, and certain large employers will be required to report on the health insurance coverage offered to their full-time employees. On July 2, 2013, the Administration announced its decision to delay for one year the penalties for certain large employers that do not provide affordable coverage, as well as to delay certain reporting requirements for insurers and employers. Because title II of H.R. 2668 essentially codifies the Administration's announcement, CBO and JCT estimate that enacting title II of H.R. 2668 would not affect direct spending or revenues relative to our current projections, which incorporate that administrative decision.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

CBO Estimate of Pay-As-You-Go Effects for H.R. 2668, as passed by the House of Representatives on July 17, 2013

	By Fiscal Year, in Millions of Dollars												
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2013-2018	2013-2023
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	-17,809	-8,803	-2,294	-1,511	-703	100	197	152	115	218	-31,120	-30,337
Memorandum:													
Changes in Outlays	0	-15,135	-7,815	-2,905	-1,756	-361	-7	0	1	0	-2	-27,972	-27,980
Changes in Revenues	0	2,675	989	-611	-245	342	-108	-196	-152	-116	-220	3,149	2,357

Note: Numbers may not sum to totals because of rounding.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT reviews provisions in legislation that amend the tax code to determine if those provisions contain intergovernmental or private-sector mandates as defined in UMRA. JCT has determined that H.R. 2668 contains no intergovernmental or private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATES

On July 16, 2013, CBO transmitted a cost estimate for H.R. 2667, as introduced in the House of Representatives on July 11, 2013. The legislative language in title II of H.R. 2668 (as passed by the House of Representatives on July 17, 2013) is identical to the legislative language of H.R. 2667. Both would codify an Administration decision to delay employer penalties and certain reporting requirements, and therefore, would have no budgetary effect over the 2014-2023 period.

On July 16, 2013, CBO also transmitted a letter discussing the potential budgetary effects of H.R. 2668, as introduced in the House of Representatives on July 11, 2013. That letter stated that CBO was unable to complete a cost estimate for H.R. 2668 at that time. The legislative language of that bill is identical to the legislative language of title I of H.R. 2668 (as passed by the House of Representatives on July 17, 2013). Both would delay for one year the requirement for individuals to maintain health insurance coverage and would have the same budgetary effects over the 2014-2023 period.

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