



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

April 27, 2011

H.R. 1213

A bill to repeal mandatory funding provided to states in the Patient Protection and Affordable Care Act to establish American Health Benefit Exchanges

As ordered reported by the House Committee on Energy and Commerce on April 5, 2011

SUMMARY

H.R. 1213 would repeal mandatory funding established by the Patient Protection and Affordable Care Act (PPACA) to provide grants to states to establish health insurance exchanges.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting the legislation would reduce deficits by almost \$13 billion over the 2012-2016 period and by about \$14 billion over the 2012-2021 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

Enacting H.R. 1213 could also lead to changes in spending subject to appropriation. While CBO has not yet completed an estimate of those potential effects on discretionary spending, we expect that the Department of Health and Human Services (HHS) would need additional resources because of increased responsibility for establishing health insurance exchanges.

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1213 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

	By Fiscal Year, in Billions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN DIRECT SPENDING												
Repeal Grant Authority ^a												
Estimated Budget Authority	-0.6	-0.8	-0.4	-0.2	0	0	0	0	0	0	-1.9	-1.9
Estimated Outlays	-0.6	-0.8	-0.4	-0.2	0	0	0	0	0	0	-1.9	-1.9
Other Effects												
Estimated Budget Authority	0	0	-2.1	-4.5	-4.7	-1.4	0	0	0	0	-11.3	-12.6
Estimated Outlays	0	0	-2.1	-4.5	-4.7	-1.4	0	0	0	0	-11.3	-12.6
Total												
Estimated Budget Authority	-0.6	-0.8	-2.5	-4.7	-4.7	-1.4	0	0	0	0	-13.2	-14.6
Estimated Outlays	-0.6	-0.8	-2.5	-4.7	-4.7	-1.4	0	0	0	0	-13.2	-14.6
CHANGES IN REVENUES												
Estimated Revenues	0	0	*	-0.4	*	0.2	0	0	0	0	-0.4	-0.2
On-Budget	0	0	0.2	0.1	0.4	0.3	0	0	0	0	0.7	0.9
Off-Budget	0	0	-0.2	-0.5	-0.4	-0.1	0	0	0	0	-1.1	-1.2
NET CHANGES IN THE DEFICIT												
Net Increase or Decrease (-) in the Budget Deficit	-0.6	-0.8	-2.5	-4.3	-4.7	-1.5	0	0	0	0	-12.8	-14.4
On-Budget	-0.6	-0.8	-2.7	-4.8	-5.1	-1.6	0	0	0	0	-13.9	-15.5
Off-Budget ^b	0	0	0.2	0.5	0.4	0.1	0	0	0	0	1.1	1.2

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

* = increase or decrease in revenues of less than \$50 million.

a. Repealing mandatory funding for states to establish insurance exchanges would increase the workload for the Department of Health and Human Services for establishing such exchanges. As a result, there could be an increase in discretionary spending under H.R. 1213. CBO has not completed an estimate of those potential increases in spending subject to appropriation.

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

BASIS OF ESTIMATE

H.R. 1213 would repeal section 1311 of PPACA. Section 1311 appropriates funds to the Secretary of HHS to make grants to states for planning and establishing health insurance exchanges. The Secretary has the discretion to determine the amounts awarded to states to establish exchanges until January 1, 2015, when that authority to provide grants expires. CBO estimates that under current law, spending for state grants to establish health insurance exchanges will be \$1.9 billion between 2012 and 2015. By repealing section 1311, H.R. 1213 would eliminate that spending; in addition, the repeal would probably lead to some delay in the establishment of insurance exchanges and consequent changes in insurance coverage and federal spending.

The Role of States and the Federal Government in Establishing Exchanges

States operating health insurance exchanges are responsible for certifying health plans as qualified plans under PPACA, providing consumer assistance and information for comparing plans, enrolling individuals and families into plans, determining eligibility for premium assistance credits and cost-sharing subsidies, and referring eligible applicants to Medicaid programs, among other activities. Health insurance exchanges will have the authority to charge assessments or user fees to participating health insurance issuers and after January 1, 2015, all health insurance exchanges must generate sufficient funds to meet their operating costs. Under PPACA, the Secretary of HHS will determine, by January 2013, whether a state will have an operational exchange by January 2014, and, if not, the federal government is required to set one up.

CBO's and JCT's estimate of the number of people receiving subsidies through exchanges under current law is based in part on the assumption that most states would set up their own exchanges and that nearly all exchanges would be operational by January 2014. Under current law, however, exchanges are not expected to reach full enrollment until 2016. That expectation reflects the likelihood that some states will encounter delays in achieving fully operational exchanges in the first few years. In addition, participation rates among potential enrollees are expected to be lower in the first few years (beginning in 2014) as employers and individuals adjust to the features of PPACA.

Changes in Establishing Exchanges and Insurance Coverage Under the Legislation

Under H.R. 1213, CBO assumes that some states will move forward without federal funding to establish exchanges, but that the federal government will be required to take responsibility for setting up exchanges in more states than is expected under current law. While there may be some increased efficiency in the federal government implementing similar mechanisms across additional states, there are also reasons to believe that the federal government would face added challenges. In particular, coordinating with states' Medicaid agencies to establish enrollment rules as required under PPACA and communicating and coordinating with local health insurers and managed care organizations would probably slow the federal government's pace of implementation.

Because of the reduced availability of funds to set up exchanges under H.R. 1213, states that establish exchanges without federal funding also may face greater challenges in becoming fully operational. We assume that such challenges for states and the federal government would temporarily limit the desirability of exchanges as an alternative to other sources of coverage, reduce the capacity of some exchanges to process enrollment and ultimately lower enrollment by an estimated 5 percent to 10 percent below the levels expected under current law between 2014 and 2016. In 2015, we estimate that there would be almost 2 million fewer people enrolled in state exchanges. By January 2017, we

assume that all exchanges will be fully operational whether set up by states or the federal government and that enrollment will be the same as projected under current law.

The slowdown in establishing exchanges caused by H.R. 1213 would also lead to other changes in health insurance coverage for the 2014-2016 period. The number of people offered insurance through an employer is expected to increase in response to the reduced availability and desirability of exchanges; CBO and JCT estimate that roughly half of the people who will not enroll in exchanges under H.R. 1213 will be covered by employer-sponsored insurance. Small reductions in Medicaid enrollment compared with current law are also expected because some exchanges will also have reduced ability to provide an alternative entry point to the Medicaid program. The number of people without health insurance is expected to increase by about half a million in 2015. We estimate that insurance coverage by January 2017 would be the same under H.R. 1213 as under current law.

Impact on Federal Spending

Enacting H.R. 1213 would reduce direct spending by an estimated \$14.6 billion over the next 10 years, and would reduce revenues by a net amount of \$0.2 billion over that same period. For this estimate, CBO assumes that the legislation will be enacted by the end of September 2011.

Outlays for state grants would be reduced by \$1.9 billion—the entire amount that CBO has assumed will be spent under current law on such grants between 2012 and 2015.

CBO and JCT estimate that most of the budgetary effect of eliminating grants for states under H.R. 1213 would come from reductions in subsidies for health insurance purchased through exchanges. Payments for premium and cost-sharing subsidies (which affect both revenues and direct spending) would be reduced over the 2012-2021 period.¹ The net reduction would reflect savings from the reduction in exchange subsidies stemming from the reduction in exchange enrollment and the increase in subsidies that would occur in states that offset the loss of grant funds for establishing their exchanges by adding an additional surcharge for participating health insurance issuers. That surcharge would have the effect of raising premiums slightly for health insurance offered through those exchanges with an increase in estimated subsidies.

Other smaller effects include savings to the Medicaid program because of the reductions in enrollment discussed above and a small reduction in revenues because of changes in the amount of taxable compensation from an increase in the number of people with employer-sponsored health insurance.

¹ 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.

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 on-budget deficits that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 1213, as ordered reported by the House Committee on Energy and Commerce on April 5, 2011

	By Fiscal Year, in Millions of Dollars											2011-	2011-
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2016	2021
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	-550	-750	-2,650	-4,800	-5,100	-1,600	0	0	0	0	-13,850	-15,450
Memorandum:													
Changes in Outlays	0	-550	-750	-2,500	-4,700	-4,700	-1,350	0	0	0	0	-13,200	-14,550
Changes in Revenues	0	0	0	150	100	400	250	0	0	0	0	650	900

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1213 contains no intergovernmental or private-sector mandates as defined in UMRA. By eliminating funding made available by PPACA, the bill would decrease the amount of resources that state, local, and tribal governments receive to establish health exchanges.

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