





# Budget Control Act: Potential Impact of Sequestration on Health Reform Spending

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sequestration.<sup>38</sup> According to CBO and JCT's May 2013 estimates, Medicaid and CHIP outlays are projected to account for \$710 billion, or 39%, of the gross costs of \$1,798 billion for coverage expansion over the FY2014-FY2023 period (see **Table 4**).<sup>39</sup>

Second, the refundable tax credits available to individuals and families with incomes between 100% and 400% of the FPL for purchasing insurance coverage through the exchanges also appear to be exempt from sequestration. While the ACA premium tax credits are not specifically exempted from sequestration, the BBEDCA provides a general exemption for refundable individual tax credits.<sup>40</sup> These premium tax credits have the effect of limiting the cost of purchasing coverage to a specified percentage of income. Based on CBO and JCT's May 2013 estimates, the premium tax credits account for approximately \$920 billion, or 86%, of ACA's total exchange subsidies and related spending of \$1,075 billion over the FY2014-FY2023 period (see **Table 4**). Exchange subsidies and related spending, in turn, represents about 60% of the \$1,798 billion in gross costs for coverage expansion.<sup>41</sup>

In addition to the premium tax credits for purchasing coverage through an exchange, certain individuals and families receiving the credits are also eligible for coverage with lower cost-sharing (i.e., out-of-pocket costs such as deductibles and co-pays) than otherwise required under the law. This is achieved through a cost-sharing subsidy, which is paid directly to the insurer to cover the extra costs associated with lower patient cost-sharing. In the absence of any exemption under BBEDCA, the cost-sharing subsidies are fully sequestrable at the rate applicable to nonexempt nondefense mandatory spending.<sup>42</sup> Based on CBO and JCT's May 2013 estimates, the cost-sharing subsidies account for an additional \$149 billion, or 14%, of ACA's total exchange subsidies and related spending over the FY2014-FY2023 period (see **Table 4**).<sup>43</sup>

Finally, mandatory spending on the small employer tax credits to help offset the cost of purchasing health insurance for their employees also appears to be fully sequestrable at the rate applicable to nonexempt nondefense mandatory spending.<sup>44</sup> These credits are available to for-profit and nonprofit employers with fewer than 25 FTEs and average annual wages of less than

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<sup>38</sup> Low-income programs, including Medicaid and CHIP, that are exempt from sequestration are listed in BBEDCA § 255(h). 2 U.S.C. § 905(h).

<sup>39</sup> U.S. Congressional Budget Office, "Table 2. CBO's May 2013 Estimate of the Budgetary Effects of the Insurance Coverage Provisions Contained in the Affordable Care Act," [http://www.cbo.gov/sites/default/files/cbofiles/attachments/44190\\_EffectsAffordableCareActHealthInsuranceCoverage\\_2.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/44190_EffectsAffordableCareActHealthInsuranceCoverage_2.pdf).

<sup>40</sup> BBEDCA § 255(d) reads as follows: "Payments to individuals made pursuant to provisions of the Internal Revenue Code of 1986 establishing refundable tax credits shall be exempt from reduction under any order issued under this part." 2 U.S.C. § 905(d).

<sup>41</sup> U.S. Congressional Budget Office, "Table 3. Health Insurance Exchanges: CBO's May 2013 Baseline," [http://www.cbo.gov/sites/default/files/cbofiles/attachments/44190\\_EffectsAffordableCareActHealthInsuranceCoverage\\_2.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/44190_EffectsAffordableCareActHealthInsuranceCoverage_2.pdf).

<sup>42</sup> The impact of sequestration is unclear. ACA entitles certain low-income exchange enrollees to coverage with reduced cost-sharing and requires the participating insurers to provide that coverage. Sequestration does not change that requirement. Insurers presumably will still have to provide required coverage to qualifying enrollees but they will not receive the full subsidy to cover their increased costs.

<sup>43</sup> U.S. Congressional Budget Office, "Table 3. Health Insurance Exchanges: CBO's May 2013 Baseline," [http://www.cbo.gov/sites/default/files/cbofiles/attachments/44190\\_EffectsAffordableCareActHealthInsuranceCoverage\\_2.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/44190_EffectsAffordableCareActHealthInsuranceCoverage_2.pdf).

<sup>44</sup> Among the programs and activities listed as being exempt from a sequestration order, BBEDCA § 255 includes payments to individuals in the form of refundable tax credits (see footnote 40). It does not include small employer tax credits.