



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 22, 2011

S. 1376

A bill to conform income calculations for purposes of eligibility for the refundable credit for coverage under a qualified health plan and for Medicaid to existing federal low-income assistance programs

As introduced in the United States Senate on July 18, 2011

SUMMARY

S. 1376 would, beginning in 2014, include all Social Security and Tier 1 Railroad Retirement benefits as part of modified adjusted gross income (MAGI) for purposes of determining eligibility for certain Medicaid applicants and subsidies for health insurance purchased through the new health insurance exchanges to be established under the Patient Protection and Affordable Care Act (PPACA, Public Law 111-148). Under PPACA, the nontaxable portion of those benefits will be excluded from MAGI for such eligibility determination.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting the legislation would reduce deficits by almost \$3 billion over the 2012-2016 period and by about \$13 billion over the 2012-2021 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues. Implementing S. 1376 would not have any significant impact on spending subject to appropriation.

S. 1378, also introduced on July 18, 2011, expands the MAGI definition using identical legislative language and would have the same budgetary effects as S. 1376 over the 2012-2016 and 2012-2021 periods. S. 1378 includes additional language related to how the budgetary effects of the legislation should be recorded for budget enforcement purposes; however, that language would not change the estimated budgetary effects of enacting the bill.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1376 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												
Medicaid												
Estimated Budget Authority	0	0	-1.4	-2.5	-4.0	-4.5	-4.7	-5.0	-5.2	-5.6	-7.9	-32.9
Estimated Outlays	0	0	-1.4	-2.5	-4.0	-4.5	-4.7	-5.0	-5.2	-5.6	-7.9	-32.9
Exchange Subsidies												
Estimated Budget Authority	0	0	0.2	0.9	1.3	1.5	1.6	1.6	1.8	1.8	2.4	10.8
Estimated Outlays	0	0	0.2	0.9	1.3	1.5	1.6	1.6	1.8	1.8	2.4	10.8
Other												
Estimated Budget Authority	0	0	0.1	0.1	0.1	*	*	0.1	0.1	*	0.2	0.4
Estimated Outlays	0	0	0.1	0.1	0.1	*	*	0.1	0.1	*	0.2	0.4
Total Direct Spending Effects												
Estimated Budget Authority	0	0	-1.1	-1.5	-2.6	-2.9	-3.1	-3.4	-3.3	-3.8	-5.2	-21.7
Estimated Outlays	0	0	-1.1	-1.5	-2.6	-2.9	-3.1	-3.4	-3.3	-3.8	-5.2	-21.7
CHANGES IN REVENUES												
Estimated Revenues	0	0	-0.4	-1.0	-1.2	-1.0	-1.1	-1.2	-1.5	-1.3	-2.6	-8.7
On-Budget	0	0	-0.2	-0.8	-1.0	-0.9	-0.9	-1.0	-1.2	-1.1	-2.0	-7.1
Off-Budget	0	0	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.3	-0.2	-0.6	-1.6
NET CHANGES IN THE DEFICIT												
Net Increase or Decrease (-) in the Budget Deficit	0	0	-0.7	-0.5	-1.5	-1.8	-2.0	-2.2	-1.8	-2.6	-2.6	-13.0
On-Budget	0	0	-0.9	-0.7	-1.7	-2.0	-2.2	-2.4	-2.1	-2.7	-3.3	-14.6
Off-Budget ^a	0	0	0.2	0.2	0.2	0.1	0.2	0.2	0.3	0.2	0.6	1.6

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

* = 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

Under current law, eligibility for subsidies to purchase insurance through health insurance exchanges and for Medicaid beginning in 2014 will be determined using a definition of MAGI that excludes the nontaxable portion of a family’s Social Security benefit. S. 1376 would expand the definition of MAGI to include all Social Security benefits provided under Title II of the Social Security Act—which include old-age benefits, disability benefits, spousal benefits, child benefits, survivor benefits, and parental benefits—as well as Tier 1 Railroad Retirement benefits.

Impact on Insurance Coverage

CBO and JCT estimate that S. 1376 would, relative to current law, reduce Medicaid enrollment, increase the number of people who purchase health insurance through the health insurance exchanges, and slightly increase the number of people with employer-based coverage and the number who are uninsured.

Medicaid. CBO and JCT estimate that adding nontaxable Social Security income to the MAGI definition would reduce Medicaid enrollment, beginning in 2014, by between 500,000 and one million people depending on the year. Those losing Medicaid coverage include some retirees between the ages of 62 and 64 as well as some people receiving survivor benefits, disability benefits, and other Social Security benefits. Those losing Medicaid coverage would be expected to enroll in qualified health plans offered in health insurance exchanges, obtain employment-based insurance, or become uninsured.

Health Insurance Exchanges. S. 1376 would have two different effects on the number of people who purchase insurance through health insurance exchanges. First, CBO and JCT estimate that many of the individuals who lose Medicaid coverage would become eligible for premium assistance credits and cost-sharing subsidies in the exchanges. The number of people purchasing insurance through the exchanges would increase as a result. Second, we estimate that some people who were previously eligible for exchange subsidies would lose eligibility under the expanded MAGI definition that S. 1376 would establish, which would reduce the number of people purchasing insurance through the exchanges. CBO and JCT estimate that those coverage effects would, on net, result in an increase in enrollment in health exchanges of roughly one-half million people in any given year over the 2014-2021 period.

Other Coverage. CBO and JCT estimate that S. 1376 would increase the number of people enrolled in employer-based insurance as well as the number of uninsured by less than 500,000 in all years beginning in 2014.

Impact on Federal Spending and Revenues

Enacting S. 1376 would reduce direct spending by an estimated \$5.2 billion over the 2012-2016 period and \$21.7 billion over the 2012-2021 period. Further, S. 1376 would reduce revenues by approximately \$2.6 billion over the 2012-2016 period and \$8.7 billion over the 2012-2021 period. Of that revenue reduction, an estimated \$7.1 billion would be a change in on-budget revenues for the 2012-2021 period and the remaining \$1.6 billion would be a change in off-budget (Social Security) revenues.

Direct Spending. CBO estimates that Medicaid spending would decrease by \$7.9 billion over the 2012-2016 period and \$32.9 billion over the 2012-2021 period. Those savings would be partially offset by net increases in subsidies for health insurance purchased

through the exchanges. Under the expanded MAGI definition, some individuals would receive less-generous exchange subsidies and others would lose eligibility for subsidies completely, resulting in savings. However, such savings would be more than offset by an increase in subsidy costs associated with other individuals who lose Medicaid eligibility under S. 1376, but become eligible for and choose to take up exchange subsidies. On net, CBO estimates the outlay portion of the increased payments for premium and cost-sharing subsidies would be \$2.4 billion over the 2012-2016 period and \$10.8 billion over the 2012-2021 period.¹

Revenues. Two effects largely account for the estimated \$8.7 billion revenue reduction that would result from enacting S. 1376. The revenue portion of the increase in premium and cost-sharing subsidies represents a little less than half of the revenue reduction. The majority of the remaining revenue loss would stem from changes in the size and composition of the population with employment-based insurance, which would alter the mix of compensation provided to workers between taxable wages and salaries and nontaxable health insurance benefits.

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 S. 1376, as introduced in the United States Senate on July 18, 2011

	By Fiscal Year, in Millions of Dollars												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011-2016	2011-2021
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	0	0	-888	-694	-1,679	-1,955	-2,197	-2,376	-2,088	-2,706	-3,261	-14,584
Memorandum:													
Changes in Outlays	0	0	0	-1,120	-1,467	-2,644	-2,868	-3,087	-3,372	-3,333	-3,805	-5,232	-21,698
Changes in Revenues	0	0	0	-232	-773	-966	-913	-891	-995	-1,245	-1,099	-1,971	-7,114

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

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.

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 the Unfunded Mandates Reform Act. At the time this estimate was prepared, no mandate statement from JCT was available.

ESTIMATE PREPARED BY:

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CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

July 22, 2011

Honorable Michael B. Enzi
Ranking Member
Committee on Health, Education,
Labor, and Pensions
United States Senate
Washington, DC 20510

Dear Senator:

The Congressional Budget Office has prepared the enclosed cost estimate for S. 1376, a bill to conform income calculations for purposes of eligibility for the refundable credit for coverage under a qualified health plan and for Medicaid to existing federal low-income assistance programs.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Sarah Anders, who can be reached at 226-9010.

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf".

Douglas W. Elmendorf

Enclosure

cc: Honorable Tom Harkin
Chairman

Honorable Max Baucus
Chairman, Committee on Finance

Honorable Orrin Hatch
Ranking Member

Honorable Ben Nelson