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

Phillip L. Swagel, Director

July 21, 2022

Honorable Mike Crapo
Ranking Member
Committee on Finance
U.S. Senate
Washington, DC 20510

Re: Health Insurance Policies

Dear Senator:

You have asked the Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) to explain the effects of making permanent the enhanced premium tax credit structure provided in section 9661 of the American Rescue Plan Act of 2021 (ARPA). As you requested, the responses in this letter are based on CBO's May 2022 baseline budget projections.[1]

You asked for information in several specific areas:

- How would a permanent enhancement affect federal deficits and sources of health insurance coverage?
- What is the projected income distribution among new enrollees whose income is above 400 percent of the federal poverty level (FPL) in the health insurance marketplaces established by the Affordable Care Act, and what are the estimated costs of federal subsidies for their insurance coverage?
- What is the average federal subsidy under the permanent enhancement for new marketplace enrollees, and what is the average federal subsidy under current law for people who would be expected

1. Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032* (May 2022), www.cbo.gov/publication/57950.

not to enroll in employment-based coverage because of the permanent enhancement?

You also asked CBO and JCT to estimate the full effects of finalizing a proposed regulation concerning the affordability of employment-based coverage for family members.

Making Section 9661 of ARPA Permanent

Under current law, eligible people may use premium tax credits to lower their out-of-pocket monthly premium contributions for health insurance obtained through the marketplaces established under the Affordable Care Act. The credit is calculated as the difference between the benchmark premium for health insurance (that is, the premium for the second-lowest-cost silver plan available in a region) and a specified maximum contribution, expressed as a percentage of income, which is adjusted over time.

Except in 2021 and 2022, people are eligible for premium tax credits if they meet the following criteria:

- Their modified adjusted gross income is between 100 percent and 400 percent of the FPL;
- They are lawfully present in the United States;
- They are not eligible for public coverage, such as Medicaid; and
- They do not have an affordable offer of employment-based coverage.

Section 9661 of ARPA enhanced premium tax credits in two ways for 2021 and 2022. First, it increased the credit for currently eligible people by decreasing the maximum contribution and removing the adjustment to that contribution. Second, people whose income is above 400 percent of the FPL became eligible for the tax credits for 2021 and 2022. Maximum family contributions under current law and from a permanent extension of section 9661 are illustrated in Table 1.

Under the May 2022 baseline, CBO and JCT estimate that if the enhancements became permanent, federal deficits would increase by $247.9 billion over the 2023-2032 period (see Table 2)—a result of increases in direct spending of $181.4 billion and decreases in revenues of

$66.5 billion over the period. Those effects primarily reflect a $305.5 billion increase in premium tax credits, partially offset by higher revenues stemming from a shift in employees' compensation from tax-favored health insurance to taxable wages.

The estimated increase in premium tax credits is the result of two effects. First, if the enhancements became permanent, most current-law enrollees would receive a larger subsidy that would lower their out-of-pocket costs for premiums. Second, CBO and JCT expect that, on average, the enhanced subsidies would attract 4.8 million new enrollees to the marketplaces in each year over the 2023-2032 period relative to current law (see Table 3). Those enrollees would account for $242.2 billion, or roughly three-quarters, of the estimated $305.5 billion increase in premium tax credits over the period.

CBO and JCT estimate, on average, the annual credit for a new marketplace enrollee would be $4,980 over the 2023-2032 period. Among new enrollees, the agencies estimate, most of the increases in enrollment and the associated premium tax credits would be for people whose income is below 400 percent of the FPL. A majority of enrollees with incomes below 400 percent of the FPL would have incomes at or below 200 percent of the FPL, with a maximum required contribution ranging from zero percent of income to 2 percent of income if the enhanced subsidies were made permanent (see Table 1). In addition, CBO and JCT anticipate that most of the rise in enrollment among those with incomes below 400 percent of the FPL would occur for people who, already eligible for premium tax credits, would enroll because of the increased subsidies.

CBO and JCT expect that if the enhancement became permanent, 2.2 million fewer people would be without health insurance, on average, in each year over the 2023-2032 period, relative to current law.

That decrease is the result of increases and decreases among different types of coverage:

- A 4.8 million net increase in enrollments for marketplace coverage resulting from an increase in subsidized enrollment of 5.2 million and a decline of 400,000 people enrolled without subsidies;
- A 200,000 combined increase in enrollment in Medicaid and the Children's Health Insurance Program (CHIP);

- A 500,000 decrease in nongroup coverage purchased outside the marketplaces; and
- A 2.3 million decrease in enrollment in employment-based coverage.

The estimated reduction in employment-based coverage and the increase in Medicaid and CHIP enrollment are driven primarily by a reduction in offers of employment-based coverage that would result from the enhanced marketplace subsidies. CBO and JCT estimate that people who no longer enroll in employment-based coverage because of the policy would receive an average annual tax benefit of $3,830 over the 2023-2032 period. The estimated effect on the number of people with employment-based coverage is larger for a permanent extension than is the case for the enhanced subsidies in place for 2021 and 2022 because the agencies estimate that few employers changed their decision to offer health insurance given the temporary nature of the enhanced subsidy.

Proposed Regulation Concerning the Affordability of Employment-Based Coverage for Family Members

In a recent report, CBO and JCT analyzed the effects of a regulation proposed by the Department of the Treasury and the Internal Revenue Service, "Affordability of Employer Coverage for Family Members of Employees" (87 Fed. Reg. 20354, April 7, 2022).[2]

That regulation would change the current-law calculation used to determine whether the plan an employer offers is affordable, for the purpose of determining eligibility for marketplace subsidies. In what is often called the family glitch, the current calculation, which is based on the cost of an individual-only rather than a family plan, leaves some families ineligible for marketplace subsidies because the employee's contribution for individual coverage does not exceed the affordability standard even though that employee's contribution for a family plan would do so.

Under the May 2022 baseline, CBO and JCT estimate that, if the proposed regulation is made final, the number of people enrolled in nongroup coverage would increase, on average, by 900,000 in each year over the 2023-2032 period. That enrollment estimate is the net result of an estimated decrease of 600,000 people with employment-based coverage, a decrease of

2. Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People Under 65: 2022 to 2032* (June 2022), www.cbo.gov/publication/57962.

400,000 people who are uninsured, and an increase of 100,000 people enrolled in Medicaid and CHIP. The agencies estimate that those changes would increase the deficit by $33.6 billion over the period as a result of increased direct spending of $43.7 billion, primarily driven by an increase in premium tax credits for people newly receiving them. The increase in direct spending would be partially offset by increased revenues of $10.1 billion collected from people no longer receiving the tax exclusion for employment-based coverage (see Table 4).

I hope this information is helpful. Please contact me directly if you have any questions.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable Ron Wyden
Chairman
Senate Committee on Finance

Honorable Bernie Sanders
Chairman
Senate Committee on the Budget

Honorable Lindsey Graham
Ranking Member
Senate Committee on the Budget

Honorable Patty Murray
Chair
Senate Committee on Health, Education, Labor and Pensions

Honorable Richard Burr
Ranking Member
Senate Committee on Health, Education, Labor and Pensions

Table 1.
Comparison of Maximum Household Contributions for Marketplace Premium Tax Credits

Percentage of the Federal Poverty Level	Percentage of Income: Under Current Law[a] 2023	Percentage of Income: Under Current Law[a] 2032	Percentage of Income: Under a Permanent Extension of ARPA Section 9661, All Years
100 to 133	2.04	2.29	0
133 to 150	3.06 to 4.08	3.44 to 4.58	0
150 to 200	4.08 to 6.43	4.58 to 7.22	0 to 2.0
200 to 250	6.43 to 8.22	7.22 to 9.23	2.0 to 4.0
250 to 300	8.22 to 9.70	9.23 to 10.89	4.0 to 6.0
300 to 400	9.70	10.89	6.0 to 8.5
Above 400	n.a.	n.a	8.5

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

ARPA = American Rescue Plan Act of 2021; n.a. = not applicable.

a. Reflects CBO's current-law estimate of maximum household contributions in 2032.

Table 2.
Estimated Budgetary Effects of Making Permanent the Temporary Enhancement of Premium Tax Credits Enacted in ARPA Section 9661

By Fiscal Year, Millions of Dollars

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2022-2027	2022-2032
Increases in Direct Spending													
Budget Authority	0	13,623	17,301	15,873	16,247	16,917	18,434	18,631	19,813	21,590	22,952	76,961	181,381
Estimated Outlays	0	13,623	17,301	15,873	16,247	16,917	18,434	18,631	19,813	21,590	22,952	76,961	181,381
Increases or Decreases (-) in Revenues													
Total Revenues	0	677	-3,556	-5,974	-5,268	-6,130	-7,306	-8,238	-8,968	-10,050	-11,722	-20,251	-66,535
On-Budget	*0*	*418*	*-4,382*	*-7,371*	*-7,189*	*-8,414*	*-9,740*	*-10,927*	*-11,826*	*-13,209*	*-15,121*	*-26,938*	*-87,161*
Off-Budget	*0*	*259*	*826*	*1,397*	*1,921*	*2,284*	*2,434*	*2,689*	*2,858*	*3,159*	*3,399*	*6,687*	*21,226*
Net Increase or Decrease (-) in the Deficit From Changes in Direct Spending and Revenues													
Effect on the Deficit	0	12,946	20,857	21,847	21,515	23,047	25,740	26,869	28,781	31,640	34,674	100,212	247,916
On-Budget	*0*	*13,205*	*21,683*	*23,244*	*23,436*	*25,331*	*28,174*	*29,558*	*31,639*	*34,799*	*38,073*	*106,899*	*269,142*
Off-Budget	*0*	*-259*	*-826*	*-1,397*	*-1,921*	*-2,284*	*-2,434*	*-2,689*	*-2,858*	*-3,159*	*-3,399*	*-6,687*	*-21,226*

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

ARPA = American Rescue Plan Act of 2021.

Table 3.
Estimated Distribution of New Enrollment in Marketplace Coverage and Associated Premium Tax Credits Under a Permanent Extension of ARPA Section 9661, 2023-2032

	Average Annual Increase in Marketplace Enrollees		Total Cost of Premium Tax Credits for New Marketplace Enrollees	
Percentage of the Federal Poverty Level	Millions of Enrollees	Percentage of Total	Billions of Dollars	Percentage of Total
Below 400	2.5	52	172.8	71
400 to 499	0.9	19	33.3	14
500 to 599	0.6	13	16.8	7
600 to 749	0.4	8	12.3	5
750 and Above	0.4	8	7.0	3
Total	4.8	100	242.2	100

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.
ARPA = American Rescue Plan Act of 2021.

Table 4.
Estimated Full Effects of Finalizing a Proposed Regulation Concerning the Affordability of Employment-Based Coverage for Family Members of Employees

	By Fiscal Year, Millions of Dollars												
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2022-2027	2022-2032
Increases or Decreases (-) in Direct Spending													
Budget Authority	0	1,622	2,236	4,259	4,595	4,679	4,879	5,327	5,608	5,225	5,278	17,391	43,708
Estimated Outlays	0	1,622	2,236	4,259	4,595	4,679	4,879	5,327	5,608	5,225	5,278	17,391	43,708
Increases in Revenues													
Total Revenues	0	250	510	899	1,243	1,169	1,076	1,203	1,232	1,223	1,311	4,071	10,116
On-Budget	*0*	*93*	*145*	*325*	*543*	*433*	*351*	*442*	*445*	*428*	*484*	*1,542*	*3,692*
Off-Budget	*0*	*157*	*365*	*574*	*697*	*736*	*725*	*761*	*787*	*795*	*827*	*2,529*	*6,424*
Net Increase or Decrease (-) in the Deficit From Changes in Direct Spending and Revenues													
Effect on the Deficit	0	1,372	1,726	3,360	3,352	3,510	3,803	4,124	4,376	4,002	3,967	13,320	33,592
On-Budget	*0*	*1,529*	*2,091*	*3,934*	*4,049*	*4,246*	*4,528*	*4,885*	*5,163*	*4,797*	*4,794*	*15,849*	*40,146*
Off-Budget	*0*	*-157*	*-365*	*-574*	*-697*	*-736*	*-725*	*-761*	*-787*	*-795*	*-827*	*-2,529*	*-6,424*

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.
CBO's estimate is for a regulation proposed by the Department of the Treasury and the Internal Revenue Service, "Affordability of Employer Coverage for Family Members of Employees" (87 Fed. Reg. 20354, April 7, 2022).