Joint Economic Committe
Republicans Senator Sam Brownback *Ranking Member*
Representative Kevin Brady *Senior House Republican*

4 Unwinding Obamacare

Exploring the Democrats' 2800-page, $2.6 trillion takeover of health care

- Revenues generated by the "Cadillac" health plans tax may be lower than predicted because certain FEHB premiums are rising faster than expected.
- As a result, Obamacare may cost a good deal more than originally estimated.

New Data Suggests Health Law's Cost Rising

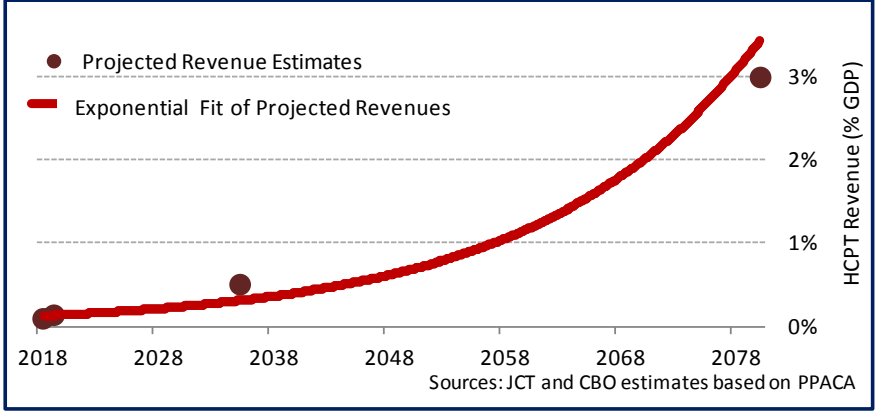
October 4, 2010

Last Friday afternoon, the Office of Personnel Management released the new 2011 rates for health insurance plans under the Federal Employees Health Benefits Program (FEHB). While this information was previously only relevant to federal employees, it now has implications for individuals and their health insurance plans nationwide.

High Cost Plans Tax Revenues May Be Less Than Projected

Under the Patient Protection and Affordable Care Act (PPACA), the thresholds for a new 40% high cost plans tax (HCPT), also known as the "Cadillac tax," are tied to the growth rate of the FEHB Blue Cross Blue Shield (BCBS) Standard benefit plan.[i] The HCPT thresholds are tentatively set at premiums levels of $10,200 for individuals and $27,500 for families beginning in 2018, but if the rate of growth in the BCBS Standard plan exceeds 55% between 2010 and 2018, the thresholds for the HCPT will increase similarly.[ii] [iii] If this happens, fewer plans will be subject to the tax and fewer plans will restrict their benefit offerings to avoid the tax. This may be good news for consumers, but not for government revenues.

High Cost Plans Tax Projected to be an Exponential Source of Revenue (Projected revenue shown as a percent of GDP)



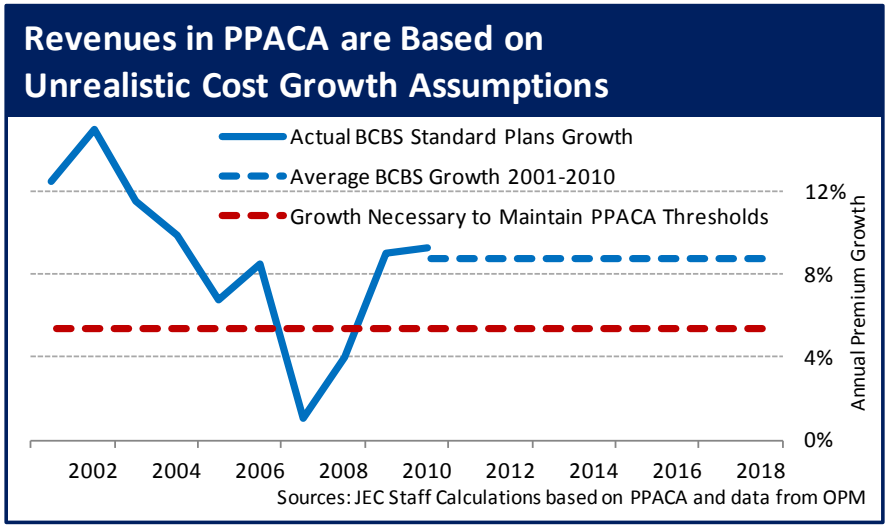
Sources: JCT and CBO estimates based on PPACA

The Congressional Budget Office (CBO) does not provide revenue estimates beyond the 10 year window, but it does note that the HCPT will be a significant and growing portion of revenues in the second decade of enactment. To get an idea of the magnitude with which the HCPT revenues are projected to rise (primarily because health care costs will exceed the taxes' inflation index), CBO estimates that HCPT revenues will rise to just over 0.5% of GDP in 2035 and to over 3% of GDP in 2080.[iv] Applying the most recent GDP data, this would be equivalent to $72.9 billion in revenue (in 2010 dollars) in 2035, rising to $437.4 billion in 2080. The two years of actual dollar revenue estimates given by the Joint Committee on Tax for the HCPT—$12.2 billion in 2018 and $19.8 billion in 2019—pale in comparison to what the HCPT revenue will become under current assumptions.[v] Given the

magnitude of the HCPT as a source of growing future revenues to pay for growing future costs of health insurance subsidies, even a slight increase to the HCPT thresholds will have an enormous impact on already astronomical future budget deficit projections.

How Likely Is It That The HCPT Thresholds Will Be Increased?

Based on the historical data, it is virtually inevitable that the HCPT thresholds will be increased. Between 2000 and 2011, premiums for the BCBS Standard plans rose annually by an average of 8.63%.[vi] If this trend continues, growth in the BCBS Standard plans would be 92% between 2010 and 2018—significantly more than the 55% benchmark set in PPACA. As a result, the HCPT thresholds would rise by 37% (92%-55%) from $10,200 for individuals and $27,500 for families to $13,959 and $37,635, respectively.[vii] A 37% jump in the HCPT thresholds would have serious implications for future budget revenues. Lacking sufficient revenues, either massive deficit increases (which will become increasingly difficult to sustain given current deficit projections and rising interest rates) or massive tax increases will be needed to pay for the new health care entitlements created under PPACA.



Conclusion

Six months after PPACA was signed into law, new data suggests it is quite likely that the high cost plans tax may generate significantly less revenue than projected at the time of the tax's enactment.[viii] Or to put it another way, Obamacare may cost a good deal more than originally estimated.

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[i] Of the approximately 2.2 million employees who received health insurance through one of the nearly 200 FEHB plans offered in 2009, 42% chose the BCBS Standard plan (another 19% chose the BCBS Basic plan). Source: OPM.

[ii] I.R.C. § 4980I, as added by §§ 9001 and 10901 of the Patient Protection and Affordable Care Act, P.L. 111-148, as amended by P.L. 111-152.

[iii] Plan costs in excess of the thresholds will be subject to a 40% tax that will be levied on the insurer and presumably passed on to the consumer. The thresholds will be indexed to the CPI plus 1% in 2019 and to the CPI in years 2020 and beyond.

[iv] Congressional Budget Office, "The Long-Term Budget Outlook," June 2010 (revised August 2010), http://www.cbo.gov/ftpdocs/115xx/doc11579/06-30-LTBO.pdf

[v] Joint Committee on Tax, "Estimated Revenue Effects of the Amendment in the Nature of a Substitute to H.R. 4872, the "Reconciliation Act of 2010," as amended, In Combination With The Revenue Effects Of H.R. 3590, The "Patient Protection And Affordable Care Act ('PPACA')," As Passed By The Senate, And Scheduled For Consideration By The House Committee On Rules On March 20, 2010."

[vi] Office of Personnel Management. The BCBS Standard plan for individuals increased by an average of 8.56% from 2000 to 2011, while the average increase for the family plan was 8.70%.

[vii] If past trends continue, the average BCBS standard plans will increase by 91.85% from 2010 to 2018. This would result in an additional 36.85% increase in the HCPT thresholds.

[viii] CBO, Letter to Hon. Nancy Pelosi on the costs of PPACA, March 20, 2010. http://cbo.gov/ftpdocs/113xx/doc11379/AmendReconProp.pdf