Congressional Budget Office
Cost Estimate

August 20, 2019

At a Glance

H.R. 1425, State Health Care Premium Reduction Act

As ordered reported by the House Committee on Energy and Commerce on April 4, 2019

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	17,967	43,280
Revenues	0	4,211	8,855
Deficit Effect	0	13,756	34,425
Spending Subject to Appropriation (Outlays)	0	0	0

Statutory pay-as-you-go procedures apply?	Yes	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	> $5 billion	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

The bill would

- Appropriate $10 billion annually, beginning in 2020, to fund state or federal reinsurance programs in the nongroup insurance market or to establish state-run subsidy programs to reduce premiums and out-of-pocket costs for nongroup plans sold through the marketplaces established under the Affordable Care Act

Estimated budgetary effects would primarily stem from

- Spending from the Improve Health Insurance Affordability Fund for states and insurers to implement reinsurance programs and for state-based subsidy programs for coverage purchased through the marketplaces
- Reducing premiums for nongroup insurance coverage, which would lower the net cost of federal subsidies for coverage purchased through the marketplaces

Areas of significant uncertainty include

- Identifying the number of states that would operate their own subsidy programs instead of reinsurance
- Estimating the effects on costs, premiums, and coverage arising from various states' approaches to operating subsidy programs
- Estimating the reductions to premiums that insurers might make in response to reinsurance programs

Detailed estimate begins on the next page.

Bill Summary

H.R. 1425 would appropriate $10 billion each year, beginning in 2020, to provide funding to states for reinsurance programs in the nongroup insurance market or for other subsidy programs that reduce costs for people in nongroup plans sold through the marketplaces established under the Affordable Care Act (ACA).[1] The bill would establish a federal reinsurance program in any state that did not operate either type of program.

Estimated Federal Cost

The estimated budgetary effect of H.R. 1425 is shown in Table 1. The costs of the legislation fall within budget function 550 (health).

Table 1.
Estimated Budgetary Effects of H.R. 1425

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
Increases or Decreases (-) in Direct Spending													
Reinsurance and Other Subsidy Programs													
Estimated Budget Authority	0	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	50,000	100,000
Estimated Outlays	0	0	10,331	10,331	10,331	10,000	10,000	10,000	10,000	10,000	10,000	40,994	90,994
Offsetting Decreases in Other Direct Spending													
Estimated Budget Authority	0	-3,287	-4,800	-5,086	-4,967	-4,887	-4,907	-5,051	-4,947	-4,911	-4,871	-23,026	-47,714
Estimated Outlays	0	-3,287	-4,800	-5,086	-4,967	-4,887	-4,907	-5,051	-4,947	-4,911	-4,871	-23,026	-47,714
Total Changes in Direct Spending													
Estimated Budget Authority	0	6,713	5,200	4,914	5,033	5,113	5,093	4,949	5,053	5,089	5,129	26,974	52,286
Estimated Outlays	0	-3,287	5,531	5,246	5,364	5,113	5,093	4,949	5,053	5,089	5,129	17,967	43,280
Increases in Revenues													
Estimated Revenues	0	607	935	1,006	883	780	842	894	903	980	1,025	4,211	8,855
On-Budget	0	418	648	690	607	535	574	627	633	686	708	2,898	6,125
Off-Budget	0	188	288	316	276	245	268	267	270	294	317	1,313	2,730
Net Increase or Decrease (-) in the Deficit From Changes in Direct Spending and Revenues													
Effect on the Deficit	0	-3,894	4,596	4,240	4,481	4,333	4,251	4,055	4,150	4,109	4,104	13,756	34,425
On-Budget	0	-3,706	4,884	4,556	4,757	4,578	4,519	4,322	4,420	4,403	4,421	15,069	37,155
Off-Budget	0	-188	-288	-316	-276	-245	-268	-267	-270	-294	-317	-1,313	-2,730

Components may not sum to totals because of rounding.

1. Nongroup insurance can be purchased either within or outside of the marketplaces established under the ACA. People are generally eligible for subsidies for coverage purchased through the marketplaces if their income is between 100 percent and 400 percent of the federal poverty guidelines (also called the federal poverty level) and if they do not have another affordable source of insurance coverage, such as employment-based insurance or Medicare.

Basis of Estimate

For this estimate, CBO and the staff of the Joint Committee on Taxation (JCT) assume that the legislation will be enacted late in 2019.

Direct Spending and Revenues

States could apply to receive a share of the $10 billion appropriated annually to either establish a reinsurance or other subsidy program; the bill would establish a federal reinsurance program in any state that did not operate either type of program. CBO and JCT estimate that enacting H.R. 1425 would increase direct spending by $91.0 billion for the reinsurance and other subsidy programs. Those increases would be partially offset by a reduction in direct spending of $47.7 billion, resulting in a net increase in outlays of $43.3 billion over the 2019-2029 period. In addition, the costs would be partly offset by an $8.9 billion increase in revenues. In total, the deficit would increase by $34.4 billion over the 2019-2029 period, CBO estimates.

How the Reinsurance Would Work. Reinsurance programs protect insurers from risk by covering a portion of their spending for enrollees with high medical costs. Under H.R. 1425, a program would pay insurers for a share of their costs when enrollees incurred medical claims between a specified threshold and a certain maximum. CBO and JCT estimate that such programs would result in lower premiums for coverage in the nongroup market.

The Proportion of the Population Affected. Based on information provided by state governments, insurers, and others, CBO and JCT estimate that most of the U.S. population resides in states that would use the federal default reinsurance program for 2020. Seven states already operate reinsurance programs through waivers approved under section 1332 of the ACA, four additional states have approved waivers to start a reinsurance program beginning in 2020, and one additional state has submitted a waiver application seeking approval for a reinsurance program that would begin in 2020. CBO and JCT expect that it would be difficult for any other states to establish programs in time to affect premiums for 2020.

After 2020, states would have more time to prepare applications for a program (other than a reinsurance program) that assists with premiums or out-of-pocket costs for coverage purchased through the marketplaces. CBO and JCT expect that, eventually, between 10 percent and 15 percent of the population would reside in states that operate such programs but that in 2021 only about 5 percent of the population would reside in such states. (The rest of the population would live in states with a reinsurance program for the nongroup market.)

How Premiums Would Be Affected. CBO and JCT estimate that premiums for nongroup insurance would be about 8 percent lower in 2020 and later years, on average, under H.R. 1425 than under current law in states with a reinsurance program. The reduction in

premiums would mainly affect people whose income is above 400 percent of the federal poverty level (FPL).[2]

CBO and JCT estimate that insurers would reduce premiums for coverage in the nongroup market based on the amount of funding they expect to be available for reinsurance programs. However, insurers would tend to set premiums conservatively to hedge against uncertainty about how the programs would be implemented and what their enrollees' ultimate health care costs would be. As a result, CBO and JCT expect that total premiums would not be reduced by the entire amount of available federal funding.

Under current law, seven states operate approved reinsurance or similar programs through waivers issued under the ACA's section 1332. CBO and JCT analyzed information about the effects of those programs on premiums for nongroup insurance.[3] In particular, CBO and JCT used data from 2018 and 2019 to identify the share of total reinsurance funding available that led to reduced nongroup premiums. On the basis of CBO and JCT's estimates of total premiums in the nongroup market in the seven states, along with information from state waiver applications, CBO and JCT estimate that about 70 percent of the reinsurance funds available were passed along in the form of lower premiums in the first year that a state operated its reinsurance program. CBO and JCT estimate that the share would rise somewhat in subsequent years as insurers gained experience with the reinsurance programs.

As described above, CBO and JCT estimate that subsidy programs (other than reinsurance) operated by states would not significantly affect nongroup premiums.

Why Federal Costs Differ From Appropriated Amounts. CBO and JCT estimate that under H.R. 1425, about 60 percent of the federal cost for reinsurance programs would be offset by other sources of savings, mainly by reductions in federal subsidies for health insurance. The largest offsetting savings would result from lower premiums in the nongroup market. Because the tax credits for coverage purchased through the marketplaces are directly linked to premiums, any reductions in nongroup premiums would result in lower tax credits for people currently enrolled in that subsidized coverage.

CBO and JCT estimate that under current law, about 13 million people will have coverage through the nongroup market in 2020 and about 8 million of that group will receive a subsidy toward coverage. The agencies also estimate that the average subsidy per subsidized enrollee in 2020 will be about $6,950. Under H.R. 1425, that average subsidy would decline by about

2. Most people with income below that threshold who purchase nongroup insurance receive a premium tax credit and pay a percentage of their income toward the purchase of the benchmark plan in their area—the one used to determine the size of the tax credit—regardless of their plan's gross premiums. Reinsurance would lower the gross premiums but would not generally change the net premiums paid by people whose income was below 400 percent of the FPL.

3. For more information about reinsurance programs in those seven states, see Chris Sloan, Neil Rosacker, and Elizabeth Carpenter, "State-Run Reinsurance Programs Reduce ACA Premiums by 19.9% on Average" (press release, Avalere.com, March 13, 2019), http://tinyurl.com/y5uxs2tb.

the same amount that total premiums would decline, and the savings would account for the bulk of the $57 billion offset to outlays for the reinsurance and other subsidy programs.

For states that instead operated a subsidy program to reduce premiums or out-of-pocket costs, CBO and JCT estimate the appropriated amount would not be offset by lower tax credits because the other subsidy programs would not significantly affect nongroup premiums. (Although reinsurance funding directly reduces premiums, providing additional subsidies or cost sharing to enrollees only indirectly affects premiums to the extent that those subsidies result in a healthier or a less healthy mix of enrollees in the nongroup market.)

How Insurance Coverage Would Be Affected. CBO and JCT estimate that H.R. 1425 would reduce the number of people who are uninsured by 100,000 to 200,000 people in 2020 and in each year thereafter, compared with CBO's current-law projections. The largest portion of that net increase in coverage would come for people whose income would be above 400 percent of the FPL and who would be uninsured under current law; they would purchase unsubsidized coverage in the nongroup market under the bill because the premiums for that coverage would be less expensive.

Uncertainty

Although substantial information is available on the effects of reinsurance programs in the seven states that currently operate those programs, the effects of H.R. 1425 could differ from CBO and JCT's expectations for several reasons. For example, CBO and JCT cannot predict with precision how many states would adopt a reinsurance or other subsidy program nor can we precisely identify the likely consequences for federal costs, nongroup insurance premiums, or insurance coverage. In particular, states could design and implement programs in a variety of ways, which could have different effects. Finally, the costs of H.R. 1425 would depend on the amounts by which insurers reduced premiums in response to a reinsurance program; those amounts could be higher or lower than they are for existing state programs.

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 outlays and revenues that are subject to those pay-as-you-go procedures are shown in Table 2. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

Table 2.
CBO's Estimate of Pay-As-You-Go Effects of H.R. 1425

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
	Net Increase or Decrease (-) in the On-Budget Deficit												
Statutory Pay-As-You-Go Effect	0	-3,706	4,884	4,556	4,757	4,578	4,519	4,322	4,420	4,403	4,421	15,069	37,155
Memorandum:													
Changes in Outlays	0	-3,287	5,531	5,246	5,364	5,113	5,093	4,949	5,053	5,089	5,129	17,967	43,280
Changes in On-Budget Revenues	0	418	648	690	607	535	574	627	633	686	708	2,898	6,125

Increase in Long-Term Deficits

CBO and JCT estimate that enacting H.R. 1425 would increase on-budget deficits by more than $5 billion in each of the four consecutive 10-year periods beginning in 2030.

Mandates: None.

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