Health Law Daily Wrap Up, HEALTH CARE REFORM—CBO REPORTS: Net federal subsidies for healthcare estimated to total $10.8 trillion over next decade, (Sept. 30, 2020)

Health Law Daily Wrap Up

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Joint report of the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) projects federal health subsidies of $920 billion—4.4 percent of the GDP—in 2021, rising to $1.4 trillion (also 4.4 percent of the GDP) by 2030 for Americans under the age of 65.

The CBO together with the JCT has issued a report to Congress that estimates the number of Americans under the age of 65 who will be receiving some form of federal healthcare subsidy over the next ten years, along with projections as to cost, type of subsidy program, and the impact of the Covid-19 pandemic on job loss and the resultant loss of employment-based medical insurance coverage. The report also offers statistics on private health insurance spending per enrollee over the next ten years and private health insurance premium increases (CBO Report, September 29, 2020).

Most Americans under 65 receive subsidies. Each year, the CBO issues a series of publications describing its projections of the federal budget. The instant report provides background information that helps explain some of the projections in the most recent of those publications regarding healthcare subsidies, and also provides updated estimates. The federal government subsidizes health insurance for most Americans under age 65 through various programs and tax provisions. The CBO has updated its baseline projections as to the federal costs associated with each kind of subsidy and the number of people with different types of health insurance. The projections incorporate an assumption that current laws governing health insurance coverage and federal subsidies for that coverage remain in place.

Federal Subsidies. The CBO report projects that net federal subsidies—meaning, the cost of all the subsidies minus the taxes and penalties-- in 2021 for insured people will amount to $920 billion, or 4.4 percent of the GDP. In 2030, that annual amount is projected to reach $1.4 trillion, also 4.4 percent of GDP, and over the 2021–2030 period, subsidies are projected to total $10.8 trillion.

For people under 65, the federal government subsidizes health insurance in several ways: by giving tax benefits for employment-based coverage, by providing a majority of funding for Medicaid and the Children’s Health Insurance Program (CHIP), and by offering tax credits to eligible people who purchase coverage through the health insurance marketplaces established by the Patient Protection and Affordable Care Act (ACA) (P.L. 111-148). The federal government also provides coverage through the Medicare program to people under 65 who receive benefits from the Social Security Disability Insurance program or who have been diagnosed with end-stage renal disease. Medicaid and CHIP account for about 45 percent of the federal subsidies annually; subsidies for employment-based coverage account for about 35 percent; payments for Medicare, about 15 percent; and subsidies for coverage obtained through the ACA marketplaces, about 5 percent.

Employment-based plans. In an average month each year during the projection period, between 238 million and 241 million people are projected to have health insurance, mostly from employment-based plans. Total federal subsidies for employment-based insurance and nongroup coverage depend on total premiums. In the case of employment-based coverage, a person’s contributions toward premiums are excluded from taxable income, so that as premiums rise, the subsidy the person receives increases as his or her contribution toward premiums increases.
Between 2020 and 2030, private health insurance spending per enrollee, which is the basis for nongroup and employment-based premiums, is projected to grow by an average of 5 percent per year. In that same period, premiums for benchmark plans used to determine subsidies in the nongroup market are projected to grow by an average of 4 percent per year. Most of the premium growth over time is attributable to the changes in projected health care spending per person.

**Subsidies relative to FPL.** In 2021, of the 93 million people under age 65 with income below 150 percent of the federal poverty level (FPL), a majority—57 million—are estimated to be enrolled in Medicaid or CHIP. Of the 89 million people under age 65 with income between 150 percent and 400 percent of the FPL, 54 million are estimated to be enrolled in employment-based insurance. Under the ACA, states have the option to establish a Basic Health Program for people whose income is between 138 percent and 200 percent of the FPL. To subsidize that coverage, the federal government provides states with funding equal to 95 percent of the subsidies for which those people would have been eligible through a marketplace.

**Impact of Covid-19 pandemic.** Although the coronavirus pandemic has caused major economic disruptions, less than 30 percent of job losses in 2020 are projected to also result in a loss of access to employment-based insurance, in large part because those job losses are concentrated among small firms and lower-wage service industries where health insurance offers are less common, and because many job losses are temporary, with firms allowing workers to retain their offer during the furlough. Among those losing access to employment-based coverage, about one-third are projected to enroll in Medicaid or subsidized nongroup coverage.

On March 18, 2020, the President signed into law the Families First Coronavirus Response Act which increased the federal medical assistance percentage, (FMAP)—the formula that determines the matching rate for Medicaid—by 6.2 percentage points for the duration of the public health emergency for most enrollees. The law also increased the matching rate for CHIP by about 5 percentage points for the same period. Additionally, the law required states to allow people to remain enrolled in Medicaid and CHIP during that period regardless of changes in their circumstances. The projections also take into account the effect of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and the Paycheck Protection Program and Health Care Enhancement Act which provided forgivable loans and new tax credits to offset employers’ payroll costs and some of their other expenses.