Health Law Daily Wrap Up, HEALTH CARE REFORM—CBO REPORTS: Senate tax bill cuts Medicaid, CSR, BHP spending; increases it for Medicare, (Nov. 20, 2017)

Health Law Daily Wrap Up

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By Robert Margolis, J.D.

The Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT) concluded that the Tax Cut and Jobs Act (the "Act") advanced by the Senate Finance Committee will result in billions of dollars in reduced spending for Medicaid, cost-sharing reduction (CSR) payments, and the Basic Health Program (BHP), and lead to billions of dollars in increased Medicare spending (CBO Report, November 17, 2017).

In a letter to Sen. Ron Wyden (D-Ore), Ranking Member of the Senate Committee on Finance, the CBO wrote that the bill, which the Finance Committee passed on November 16, 2017, would result in:

• $18 billion less spending for Medicaid;
• $4 billion less spending for CSR payments;
• $1 billion less spending for the BHP; and
• $4 billion more spending for Medicare, due to changes in payments to hospitals serving disproportionately low-income patients.

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The CBO found that the distributional effects of the Act over the next decade would be a reduction in spending allocated to people in tax-filing units having less than $50,000 in income, compared to the CBO’s baseline projections throughout the next decade. The CBO attributes that largely to the reduction in Medicaid spending allocated to those in that income level. The allocation of federal spending would increase for those having greater than $75,000 in income over that same period, resulting from the allocation to them of part of the increase in Medicare spending.

Last week, the JCT published its analysis of the distributional effects of the Act, which examined most effects on revenues and the portion of refundable tax credits recorded as outlays, including the effect of eliminating the individual mandate from the Affordable Care Act. The CBO and JCT then analyzed the distributional effects of changes in spending under the Act, using income categories consistent with JCT’s analysis.

Distributions. The analysis of the distribution by income levels of changes in federal spending under the Act shows the largest allocation of federal spending reductions through 2027 will occur for income levels below $20,000. The largest allocation of spending increases will occur for those with incomes between $100,000 and $200,000.

Allocation methods. According to the letter, the CBO allocated Medicaid, CSR, and BHP spending to tax-filing units based on the number of persons in a unit projected to be enrolled in a program and the average cost per enrollee. Age, income, disability status, and Medicaid eligibility under the Patient Protection and Affordable Care Act (ACA) (P.L. 111-148) are among the factors affecting the average cost per enrollee.

The CBO allocated Medicare spending for hospitals serving low-income populations using the same methods previously used to allocate goods and services not linked to specific beneficiaries. Half was allocated in proportion to each tax-filing unit’s share of the population, and half was allocated in proportion to each tax-filing unit’s share of total income.

The amounts allocated to tax-filing units are measured by the cost to government of the spending, not the value that recipients place on the spending, according to the letter. Nor did the CBO make distributional allocations for
people who would choose to obtain unsubsidized health insurance in nongroup markets with higher premiums compared to what would occur absent eliminating the individual mandate.

The CBO also allocated all federal spending on health care transfers to program enrollees, rather than providers who also benefit from the transfers.