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CBPP STATEMENT

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Health Extenders Agreement Takes a Step Backward

Statement by Robert Greenstein, President

By repealing three major tax provisions of the Affordable Care Act (ACA), the new health extenders agreement between Congress and the Trump Administration takes a significant step backward. At a moment when policymakers should focus on reducing health costs and raising revenues to expand health coverage, this legislation repeals an important cost-reducing measure and sacrifices hundreds of billions of dollars in revenue. In addition, the agreement provides two years of additional Medicaid funding for Puerto Rico and the other territories, short of the four years of funding that lawmakers had previously agreed to on a bipartisan basis.

The agreement repeals the excise tax on high-cost health plans (the "Cadillac tax"), which was one of the ACA's major cost-control elements. That tax would have significantly reduced national health spending, according to the Congressional Budget Office. There are some legitimate concerns about the tax as it was designed, but policymakers could have addressed them through a series of reforms (such as those the Obama Administration proposed) at far less cost than full repeal. Alternatively, policymakers could have replaced the Cadillac tax with a comparable measure to help contain health care costs, such as a well-designed cap on the tax exclusion for employer-based health coverage.

Altogether, repealing the Cadillac tax, the fee on health insurance providers (the "health insurance tax"), and the 2.3 percent excise tax on medical devices will reduce revenues by nearly $400 billion over the next ten years — and far more in later decades — without offsetting the cost. With the economy strong, policymakers should be using budget resources to make productive investments, narrow poverty and inequality, or moderate projected growth in debt relative to the economy. The new agreement, in contrast, swells future deficits and debt without making productive improvements in return.

On a positive note, the package avoids the Medicaid funding cliff that Puerto Rico and other territories would otherwise face early next year. But the package falls significantly short of the bipartisan and bicameral agreements reached in recent months on Capitol Hill to improve Medicaid funding in Puerto Rico and the other territories. Several months ago, the House Energy and Commerce Committee approved, on a bipartisan basis, a proposal that would strengthen Medicaid funding in the territories to a greater degree and for a longer period (four years). Senate Finance Committee Chair Chuck Grassley and Ranking Member Ron Wyden recently issued a similar bipartisan proposal.

Puerto Rico and the territories need stable funding over as long a period as possible to bolster their Medicaid programs, which currently lack sufficient funding to provide Medicaid coverage comparable to the coverage provided on the mainland. Of concern, with another funding cliff looming in two years under the new agreement, Puerto Rico may continue to lack the certainty it needs to commit to long-term increases of its very low payment rates to health care providers to stem their alarming exodus to the mainland, to provide coverage for such key health treatments as drugs to treat Hepatitis C, and to cover more poor, uninsured residents.

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