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## ACA Repeal Would Leave Inadequate Resources for Replacement and Put Medicaid and Medicare at Risk

By Jacob Leibenluft and Edwin Park

The approach that congressional Republicans are planning to use when repealing the Affordable Care Act (ACA) would leave inadequate resources for funding a replacement that provides at least comparable coverage to a similar number of people. Eliminating the ACA's major coverage expansions — as under the repeal bill that Congress passed and President Obama vetoed a year ago, which GOP leaders say is the model for the repeal bill they will move in early 2017 — would produce roughly \$1 trillion in net savings over the next decade. But rather than devoting all those savings to ensuring that millions of Americans don't lose coverage, Republicans plan to use roughly two-thirds of this money to pay for tax cuts — with the wealthiest households benefitting the most from those tax cuts.

As a result, policymakers would have to find additional savings to pay for coverage if a replacement bill is to come anywhere near matching the ACA's coverage levels — let alone live up to Senate Majority Leader Mitch McConnell's recent pledge that “surely [we] can do better for the American people” than the ACA with respect to coverage. The ACA has cut the number of uninsured Americans by more than 20 million. But the Urban Institute estimates that repealing the ACA without replacing it would lead to the near-collapse of the individual insurance market and increase the number of uninsured by 30 million by 2019, bringing the uninsured rate even higher than before the ACA was passed.<sup>1</sup>

Given Republicans' opposition to revenue increases, such as those used to fund the ACA, they most likely would turn to Medicaid and Medicare as their primary source of savings to finance a “replacement” measure, creating tremendous pressure to radically restructure those programs along the lines of past Republican proposals. Such changes would put the health and financial status of tens of millions of Americans at risk — including low-income families, people with disabilities, and seniors covered through Medicaid and Medicare — on top of the people who would lose coverage due to ACA repeal.

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<sup>1</sup> Linda J. Blumberg, Matthew Buettgens, and John Holahan, “Implications of Partial Repeal of the ACA through Reconciliation,” Urban Institute, December 6, 2016, <http://www.urban.org/research/publication/implications-partial-repeal-aca-through-reconciliation>

## Repealing ACA Revenues Would Use Up Two-Thirds of Savings From Coverage Repeal

The Republican “repeal without replace” bill will likely eliminate the ACA’s major provisions to expand health insurance coverage — the Medicaid expansion and the marketplace subsidies — after two or three years. It likely will also repeal the ACA’s revenue-raising provisions, which primarily target households with incomes above \$250,000 and insurers and other companies benefiting from health reform. The Congressional Budget Office’s (CBO) analysis of the repeal bill that President Obama vetoed in January 2016 found:

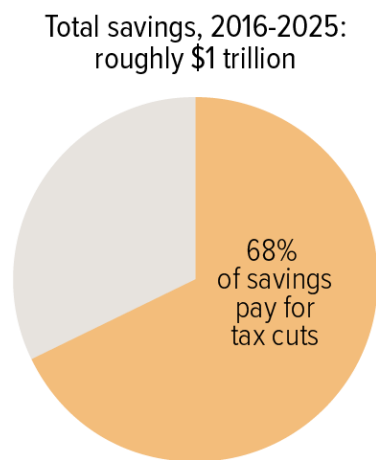
- Rolling back the ACA’s coverage expansions after two years would produce roughly \$1 trillion in net savings over the next decade. (Specifically, repealing the Medicaid expansion and marketplace subsidies would produce gross savings of roughly \$1½ trillion, offset by reduced revenues from the repeal of the individual and employer mandate penalties and other factors.)
- Repealing the ACA’s revenue-raising provisions would *cost* about \$670 billion over the decade.
- The bill’s overall net savings would total \$317 billion over the decade, or roughly one-third of the savings from eliminating the ACA coverage expansions.<sup>2</sup>

Thus, if the vetoed bill is a guide, Republicans will use roughly two-thirds of the net savings from eliminating the coverage expansions to roll back the ACA’s revenue raisers (see Figure 1). (Note that the vetoed bill left largely in place the ACA’s Medicare and Medicaid savings, such as provisions reducing the overpayments to Medicare Advantage plans, which also helped finance the cost of the coverage expansions.)

Moreover, the wealthiest families would be the greatest beneficiaries of these tax cuts. New analysis by the Urban-Brookings Tax Policy Center finds that people with incomes above \$1 million

FIGURE 1

### Most Savings From Repealing Affordable Care Act Coverage Expansions Go for Regressive Tax Cuts



Note: Figure uses Congressional Budget Office definition of coverage provisions except for excise tax on high-premium health plans, which we treat as a revenue provision.

Source: Congressional Budget Office, CBPP calculations

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<sup>2</sup> CBO also found that the effects of the bill on the economy would yield nearly \$200 billion of additional savings over the decade. If these savings are also included, the overall net savings would be closer to \$500 billion over the decade. However, if the macroeconomic effects of a repeal bill yield savings, the effects of a future replacement bill would be the *opposite*, yielding higher costs. Therefore, the macroeconomic effects of the separate repeal and replacement bills likely would largely offset one another, assuming the replacement bill achieves similar levels of coverage to the ACA.

would receive tax cuts averaging over \$50,000 apiece.<sup>3</sup> The top 0.1 percent of households — those with incomes over roughly \$3.3 million in 2017 — would receive tax cuts averaging almost \$200,000 apiece.<sup>4</sup>

The majority of these tax cuts would come from eliminating two so-called “Medicare taxes” faced by only the highest-earning and wealthiest taxpayers.<sup>5</sup> Millionaire households would receive over 80 percent of the benefits from repealing these two taxes. The top 0.1 percent of households alone would receive over 60 percent of the benefits. Moreover, these tax cuts for high earners and the wealthy — and for pharmaceutical companies and insurers, among other corporations — would take effect immediately, even as repeal would create uncertainty for millions of working Americans regarding their access to coverage.

## **Fiscal Bind Created by “Repeal Without Replace” Would Create Pressure to Radically Restructure Medicaid and Medicare**

With two-thirds of the net savings achieved by repealing coverage expansions likely to be used to roll back the ACA’s revenue provisions, crafting an adequate ACA replacement bill that doesn’t leave tens of millions more Americans uninsured than under the ACA would require hundreds of billions of dollars in *new* budgetary offsets, or would increase deficits by that amount. Further, Republican leaders’ approach of repealing the ACA in one bill and replacing it in some future bill faces roadblocks under congressional budget rules, in terms of even using the remaining savings from the repeal bill to help pay for a replacement plan. Conceivably, *none* of the savings from the repeal bill would be available to help pay for a replacement bill, further jeopardizing coverage for millions of Americans. (See box.)

Without the benefit of new revenues (which Republicans have consistently taken off the table) and with many of the most politically acceptable spending cuts in the health area already having been enacted in the ACA and other recent health legislation, Republicans will need to seek a new source of savings to replace the coverage provisions that would disappear as a result of repeal. Moreover, depending on the need for *additional* offsets to pay for lost revenue due to tax cuts in a separate tax plan, Republicans could require hundreds of billions in spending cuts *beyond* what they may need to pay for a replacement bill.

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<sup>3</sup> Chye-Ching Huang and Paul Van de Water, “Millionaires the Big Winners From Repealing the Affordable Care Act, New Data Show,” Center on Budget and Policy Priorities, December 15, 2016, <http://www.cbpp.org/research/federal-tax/millionaires-the-big-winners-from-repealing-the-affordable-care-act-new-data>.

<sup>4</sup> Tax Policy Center tables T16-0293 and T16-0294. High-income households would also receive the largest tax cuts relative to their after-tax incomes. The tax cuts would increase the after-tax incomes of millionaire households by 2.2 percent in 2017, and would increase the after-tax incomes of the top 0.1 percent of households by 2.6 percent.

<sup>5</sup> These taxes are the 0.9 percent Medicare payroll tax on high earners and the 3.8 percent “Net Investment Income Tax.” CBO estimated in January 2016 that repealing these two taxes would cost \$346 billion over 2016 to 2025.

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## Would Any Savings From ACA Repeal Be Available for Replacement Bill?

Congressional Republican leaders say they plan to repeal the ACA quickly in January, before developing any replacement plan. However, repealing the ACA without replacing it *in the same legislation* would create special budget problems. Savings generated by the repeal bill could not help pay for new coverage provisions in a later bill without violating congressional budget rules. In particular, Republicans would likely run afoul of Senate “pay-as-you-go” rules. And if they chose to do the replacement bill through the expedited “reconciliation” process, they would face additional procedural hurdles.

Media reports indicate that Republicans are considering ways to circumvent these budget rules, hoping to “bank” the savings from the repeal bill to make them available for an eventual replacement bill. However, some Republican members may oppose such an approach in order to increase their ability to force radical restructuring of Medicaid and Medicare that produces funding reductions that grow increasingly large over time.

Even if a replacement bill *could* use the savings from an ACA repeal bill, significant additional offsets would be needed, as this analysis explains. But if it couldn’t use the savings from an earlier repeal bill, policymakers would face even greater pressure to subject Medicaid and Medicare to draconian cuts.

This dynamic could create pressure to enact measures, such as those included in past Republican budgets, to radically restructure and cut Medicaid and Medicare. Such measures could be particularly attractive to congressional Republicans not only because they would provide health care savings to offset health care spending, but because these deep cuts could generate significant savings beyond the ten-year budget window, which may be necessary if Republicans seek to enact a replacement plan through the expedited “reconciliation” process.<sup>6</sup> In particular, two likely paths that Republicans might pursue are:

- **Converting Medicaid to a block grant or per-capita cap.** President-elect Trump, House Speaker Paul Ryan, and Health and Human Services nominee Tom Price have all supported radically restructuring Medicaid by converting it to a block grant or per-capita cap.<sup>7</sup> Under such approaches, in order to generate substantial federal savings, the federal government would provide states with a fixed amount of funding (as opposed to covering a fixed share of

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<sup>6</sup> Under the Senate’s so-called “Byrd Rule,” senators can block provisions of a reconciliation bill that raise deficits in any year after the period covered by the reconciliation instructions (generally, after the ten-year budget “window”), unless other provisions fully offset those “out-year” costs. See Richard Kogan and David Reich, “Introduction to Budget ‘Reconciliation,’” Center on Budget and Policy Priorities, November 9, 2016, <http://www.cbpp.org/research/federal-budget/introduction-to-budget-reconciliation>.

<sup>7</sup> See Edwin Park, “Medicaid Block Grants Would Slash Federal Funding, Shift Costs to States, and Leave Millions More Uninsured,” Center on Budget and Policy Priorities, November 30, 2016, <http://www.cbpp.org/research/health/medicaid-block-grant-would-slash-federal-funding-shift-costs-to-states-and-leave>; and Edwin Park, “Commentary: Like a Block Grant, Medicaid Per Capita Cap Would Shift Costs to States and Place Beneficiaries at Risk,” Center on Budget and Policy Priorities, June 16, 2016, <http://www.cbpp.org/health/commentary-like-a-block-grant-medicaid-per-capita-cap-would-shift-costs-to-states-and-place>.

state Medicaid costs, as it does now), with those amounts set at levels well below what would be provided under current law and with the cuts growing larger each year.

Prior congressional Republican plans have proposed converting Medicaid to a block grant or per-capita cap. For example, the House Republican 2017 budget plan would have given states a choice of a block grant or per-capita cap and cut federal Medicaid funding by \$1 trillion, or 25 percent, over ten years, with the cuts growing to 33 percent by the tenth year. (Those cuts would come *on top of* the cut from repealing the ACA's Medicaid expansion.)

Unless states responded by raising their own Medicaid funding significantly, a federal funding cut of this magnitude would likely result in major cuts in coverage that would put low-income families and children, people with disabilities, and seniors (including those in nursing homes) at risk. Because block-grant and per-capita cap proposals also typically drop or severely curtail federal requirements and beneficiary protections — including the guarantee that every eligible applicant can receive benefits — states could be free to cap enrollment or institute waiting lists, for example. States also could likely eliminate coverage altogether for certain groups (as well as certain benefits) that they are required to cover now. The Urban Institute estimated that the block grant in Speaker Ryan's 2012 budget would have led states to drop roughly 14-21 million people from Medicaid by the tenth year.<sup>8</sup>

Moreover, a block grant or per-capita cap would likely lead to major cuts in reimbursements to health care providers; the Urban Institute estimated roughly a 30 percent average reduction in provider reimbursement rates under the 2012 Ryan block grant proposal. And it would hamper states' ability to respond to coverage losses in a recession or increased costs due to a new epidemic or a breakthrough treatment, since states wouldn't receive any additional federal funds to help cover those large unanticipated costs and thus would likely feel pressure to institute even deeper Medicaid cuts in such circumstances.

- **Converting Medicare to a “premium support” system.** House Republicans have put forward plans for Medicare that include “premium support,” raising the Medicare eligibility age, and increasing the out-of-pocket costs that people would have to pay.<sup>9</sup> A premium support system would give each beneficiary a fixed-dollar payment, or voucher, to cover part of the cost of health insurance, whether through a private plan or a form of traditional Medicare. According to CBO, most enrollees in traditional Medicare would pay more than under current law. This approach would generate federal savings because the value of the premium-support voucher would rise more slowly than health care costs, shifting more of those premium costs to beneficiaries with each passing year.

Premium support also would likely undermine the sustainability of traditional Medicare over time. Insurance companies would almost certainly design plans to attract healthier enrollees (for example, by subsidizing gym memberships while providing less coverage for certain costly medical conditions), siphoning off such beneficiaries and thereby making the beneficiary pool

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<sup>8</sup> See John Holahan *et al.*, “National and State-by-State Impact of the 2012 House Republican Budget Plan for Medicaid,” Kaiser Commission on Medicaid and the Uninsured, October 1, 2012, <http://kff.org/health-reform/report/national-and-state-by-state-impact-of/>.

<sup>9</sup> Paul Van de Water, “House Republican Health Plan Would Radically Restructure Medicare,” Center on Budget and Policy Priorities, July 26, 2016, <http://www.cbpp.org/blog/house-republican-health-plan-would-radically-restructure-medicare>.

for traditional Medicare older and sicker and hence driving up their premiums. Those premium increases, in turn, would drive still more people out of traditional Medicare, setting off a cycle of more premium increases and reduced enrollment. Traditional Medicare would risk unraveling over time.

The House Republican health plan would also raise Medicare's eligibility age from 65 to 67. Depending on the nature of an ACA replacement plan, many 65- and 66-year-olds would likely find private coverage unaffordable (or unavailable at any price due to their health conditions) and become uninsured, especially if the ACA's insurance market reforms and subsidies were rolled back.

In addition, the House Republican plan would increase cost-sharing for many Medicare beneficiaries by establishing a single unified deductible as well as uniform 20 percent coinsurance. The Kaiser Family Foundation has estimated that under one approach, a unified deductible could raise out-of-pocket costs for 35 percent of Medicare beneficiaries, relative to current law.<sup>10</sup>

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<sup>10</sup> Juliette Cubanski *et al.*, "Modifying Medicare's Benefit Design: What's the Impact on Beneficiaries and Spending," Kaiser Family Foundation, June 29, 2016, <http://kff.org/medicare/report/modifying-medicares-benefit-design-whats-the-impact-on-beneficiaries-and-spending/>.