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**TESTIMONY OF PAUL N. VAN DE WATER
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**Before the
Committee on Education and the Workforce
U.S. House of Representatives**

Mr. Chairman, Mr. Miller, and members of the committee, I appreciate the invitation to appear before you today to discuss the impact of health reform on the economy, employers, and the workforce. My testimony draws on a letter that I and over 250 other economists have submitted to the committee (a copy of which is attached).

The Affordable Care Act (ACA) will significantly strengthen our nation's economy over the long haul, although initially its effects will be modest. The law takes essential steps to slow the growth of health care costs, which are consuming an ever-increasing share of our economic output and have contributed significantly to the stagnation in workers' real wages in recent years.

The Congressional Budget Office (CBO) estimates that health reform will *slightly reduce premiums for employer-sponsored health insurance* in the near term. For employers with more than 50 workers (who account for 70 percent of the total insurance market), CBO estimates that the law will reduce average premiums by up to 3 percent in 2016. For small employers, the estimated change in premiums ranges from an increase of 1 percent to a reduction of 2 percent.¹ Many small businesses will pay less for a given package of benefits and are likely to provide more comprehensive health coverage than they do today. Qualified small businesses are also eligible for federal tax credits for health insurance contributions. The early retiree reinsurance program will provide interim financial relief to employers for the cost of covering retirees between ages 55 and 65.

Even if health reform were to impose some costs on employers, economic principles strongly suggest that *the impact on business hiring decisions would be small*. Any such effect would instead ultimately be passed on to workers in the form of slower growth in their after-tax compensation. CBO draws that conclusion with respect to both the Affordable Care Act's excise tax on high-cost health insurance plans beginning in 2018 and its penalty on firms with 50 or more employees that do not offer affordable health insurance.² And because the major impact of health reform does not begin

¹ Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Evan Bayh, November 30, 2009.

² Congressional Budget Office, "Box 2-1: Effects of Recent Health Care Legislation on Labor Markets," *The Budget and Economic Outlook: An Update*, August 2010, pp.48-49.

until 2014, businesses will have time to adjust, increasing the likelihood that any impact will primarily be on employees' after-tax compensation, not on hiring. In the following years, as health reform begins to slow the growth of health care costs, workers will see larger increases in their take-home pay.

All in all, the short-term economic effects of health reform will be quite small. Moody's Analytics terms the law's economic impact "minor" and says that any disincentives from higher taxes and fees "will hardly make a difference."³ CBO foresees a small net reduction in labor supply, because some people who now work mainly to obtain health insurance will choose to retire earlier or work somewhat less, not because employers will eliminate jobs.⁴ That effect could be partly offset, however, by *increased* incentives to work for people who now face losing Medicaid coverage if they work more.

Over the longer run, the health reform law will have many positive impacts on the economy. First, CBO estimates that health reform will *reduce the budget deficit* — modestly in its first ten years, but substantially in the following decade.⁵ In a letter to Speaker Boehner a few weeks ago, CBO stated that repealing the ACA would add \$230 billion to the federal deficit between now and 2021.⁶ According to Moody's Analytics, the lower budget deficits stemming from health reform will hold down interest rates, free up more capital for private investment, and potentially boost long-term economic growth.

Second, health reform will *increase labor market flexibility*. Moody's Analytics also points out that "there is the potential for the new law to reduce 'job lock,' when workers stay in a particular job because they are afraid of losing their insurance. . . . If the bill works as planned, Americans will be more able to switch jobs and open new businesses."⁷ As CBO says, "making it easier for some workers to obtain health insurance outside the workplace . . . enabl[es] workers to take jobs that better match their skills."⁸ The result will be a more productive economy.

Third, expanding health coverage to 32 million uninsured people will *improve health outcomes* by helping people obtain preventive and other health services and improving continuity of care.⁹ CBO suggests that this could also enhance the nation's economic productivity.

³ Augustine Faucher, "Healthcare Reform Doesn't Alter the Outlook," Moody's Analytics, March 26, 2010.

⁴ CBO, Box 2-1.

⁵ James R. Horney and Paul N. Van de Water, *Health Reform Will Reduce the Deficit*, Center on Budget and Policy Priorities, March 25, 2010, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3134>.

⁶ Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable John Boehner, January 6, 2011.

⁷ Faucher.

⁸ CBO, Box 2-1.

⁹ Jill Bernstein, Deborah Chollet, and Stephanie Peterson, *How Does Insurance Coverage Improve Health Outcomes?*, Mathematica Policy Research, April 2010, http://www.mathematica-mpr.com/publications/PDFs/Health/Reformhealthcare_IB1.pdf.

Finally, and most important, the Affordable Care Act *contains almost every cost-containment provision* that policy analysts have considered effective in reducing the growth of medical spending. These include:

- *Payment innovations*, such as bundled payments and accountable care organizations, to reward providers based on the value of their care, not just the volume of their procedures;
- *An excise tax on high-cost insurance plans* to make consumers more cost-sensitive and discourage excess utilization;
- *An Independent Payment Advisory Board* that will develop and submit proposals to reduce cost growth and improve quality in both Medicare and the health care system as a whole;
- *A Center for Medicare and Medicaid Innovation* that will test, evaluate, and foster rapid expansion of new ways to increase the value of care;
- *Measures to inform patients and payers about the quality of health care providers*;
- *Increased funding for comparative effectiveness research*; and
- *Promoting wellness and prevention*.

Slowing the growth of health care costs is one of our nation's most pressing economic challenges, and success will benefit employers, workers, and taxpayers. Health care experts agree that the effort will require an ongoing process of testing, experimentation, and rapid implementation of what is found to work. The health reform law begins that process.