



May 10, 2010

How Health Reform Helps Reduce the Deficit

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The new health reform law will extend coverage to over 30 million uninsured Americans and provide important consumer protections to tens of millions of insured Americans whose coverage may have critical gaps. These coverage expansions will be more than paid for by specific reductions in spending for Medicare, Medicaid, and other federal programs and by additional tax revenues.

Overall, health reform will reduce the deficit by \$143 billion over 2010-2019, according to the Congressional Budget Office.¹ Excluding CLASS, the new long-term care insurance program, health reform will still reduce the deficit by \$73 billion over that period, as shown in the table on the next page.² In the 2020-2029 decade, the law will reduce deficits by about one-half of 1 percent of gross domestic product, or about \$1.3 trillion.

Major Sources of Savings

- **Reducing Medicare Advantage overpayments.** The Medicare Advantage program provides coverage to about one-quarter of Medicare beneficiaries through private insurance companies. Currently, Medicare pays those insurers about 13 percent more per beneficiary, on average, than it would cost to cover these beneficiaries in traditional Medicare. The health reform law scales back these overpayments.
- **Reducing Medicare fee-for-service payment rates.** The health reform law reduces Medicare's annual payment updates to hospitals, skilled nursing facilities, and certain other providers, in part to account for improvements in economy-wide productivity. It also reduces payments to home health agencies and inpatient rehabilitation facilities, as the Medicare Payment Advisory Commission (Congress's expert advisory body on Medicare payment policies) has recommended.
- **Reducing Medicaid prescription drug costs.** To participate in Medicaid, drug manufacturers must pay rebates to the federal and state governments for prescription drugs dispensed to beneficiaries. The health reform law will increase those rebates to continue to ensure that state Medicaid programs pay no more than private purchasers for the same drugs.
- **Reducing spending for hospitals serving the uninsured.** Because the health reform law expands coverage and shrink the ranks of the uninsured, it will reduce the amounts that Medicare and Medicaid provide hospitals for treating uninsured patients.

Major Sources of Revenue

- **Increasing the Medicare tax on high-income people.** The health reform law raises the Medicare tax rate for individuals with incomes over \$200,000 and couples with incomes over \$250,000. It also extends the tax to these households' dividend, capital gains, and other unearned income.
- **Charging fees to the health industry.** Drug companies, medical device manufacturers, and health insurers will gain new customers as a result of the expansion of health coverage. The health reform law



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imposes fees on these industries so they contribute to financing the coverage expansions.

- **Imposing employer and individual responsibility requirements.** The health reform law requires larger employers to share the responsibility for assuring that their employees have health coverage. Large firms that employ full-time workers who get subsidized health insurance in the new insurance exchanges — rather than through their employer — will pay a penalty. In addition, individuals who do not have health coverage will face a modest penalty, unless coverage would not be affordable for them.
- **Imposing an excise tax on high-cost health plans.** To help reduce the growth in health care costs over time, the health reform law imposes an excise tax on very high-cost plans offered through employers.

Paying for Health Reform, 2010-2019 (in billions of dollars)

Gross Cost of Expanding Health Coverage	
Subsidies to participants in health insurance exchanges	\$464
Medicaid expansion	434
Small-employer tax credits	<u>40</u>
Subtotal	938
Less: Medicare, Medicaid, and Other Program Savings	
Curb Medicare Advantage overpayments	136
Adjust payments to Medicare providers	196
Reduce Medicaid drug costs	38
Reduce subsidies for hospitals serving the uninsured	36
Increase Medicare premiums for the affluent	36
Other outlay changes (net)	<u>-1</u>
Subtotal	441
Less: Additional Revenues	
Medicare tax on high-income people	210
Health industry fees	107
Penalty payments by employers and uninsured individuals	69
Excise tax on high-cost insurance plans	32
Other revenue changes	<u>152</u>
Subtotal	570
Net Deficit Effect (excluding CLASS Act)	-73

¹ Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Nancy Pelosi, March 20, 2010; Joint Committee on Taxation, *Estimated Revenue Effects of the Amendment in the Nature of a Substitute to H.R. 4872*, JCX-17-10, March 20, 2010.

² Benefit payments from CLASS will be fully financed by premiums that beneficiaries pay and interest earnings. In its early years, as the program starts up, premium collections will substantially exceed benefit payments.