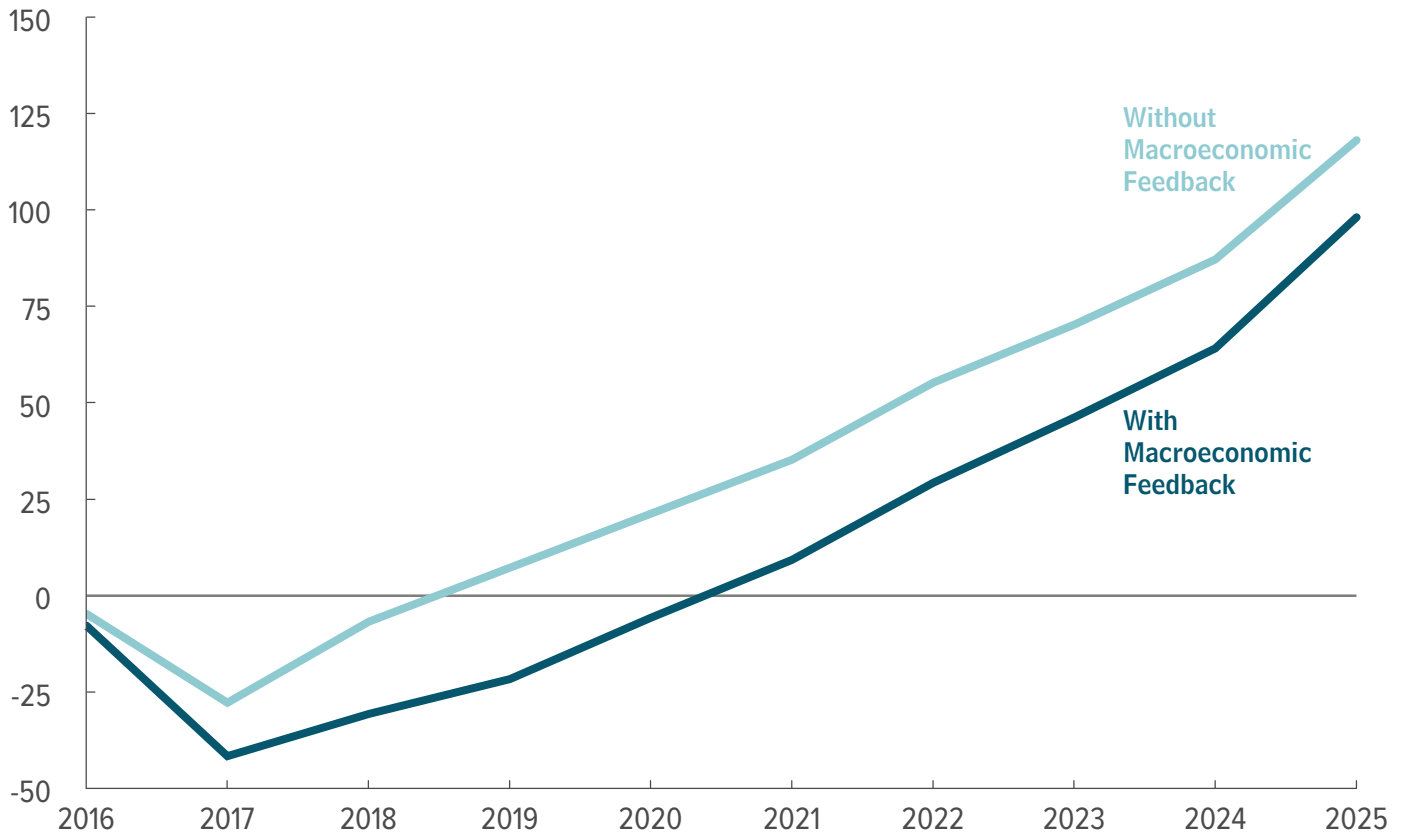


# CBO

## Budgetary and Economic Effects of Repealing the Affordable Care Act

Billions of Dollars, by Fiscal Year



Annual Effects on Deficits of Repealing the ACA

JUNE 2015

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## Notes

Unless otherwise indicated, all years are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

Numbers in the text and tables may not add up to totals because of rounding.

As referred to in this report, the Affordable Care Act comprises the Patient Protection and Affordable Care Act (Public Law 111-148); the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152); and the effects of subsequent judicial decisions, administrative actions, and certain statutory changes. Some statutory changes that have been made subsequently have superseded provisions of the ACA and thus affect the estimated impact of repealing the ACA.

Estimates of insurance coverage reflect average enrollment over the course of a calendar year and include spouses and dependents covered under family policies; people with multiple sources of coverage are assigned to a single category on the basis of their primary coverage.

Additional data—specifically, those underlying the figures in this report—are posted along with the report on CBO’s website ([www.cbo.gov/publication/50252](http://www.cbo.gov/publication/50252)).

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# Contents

<b>Summary</b>	1
What Would Be the Major Effects of Repealing the ACA?	1
How Would a Repeal Affect the Budget and the Economy Over the Next 10 Years?	2
How Would a Repeal Affect the Budget and the Economy Beyond 2025?	5
Why Are These Estimates Uncertain?	5
<b>Estimating the Effects of Repeal Legislation</b>	6
Factors Affecting Implementation	6
How CBO and JCT Developed the Estimates	6
Differences From an Estimate of the ACA’s Effects Since Its Enactment	7
<b>Effects of a Repeal Over the Next 10 Years, Excluding Macroeconomic Feedback</b>	7
Effects on Insurance Coverage	8
Effects on Direct Spending and Revenues Related to Insurance Coverage	8
Effects on Direct Spending for Medicare, Medicaid, and Other Programs	10
Effects on Discretionary Spending	12
Effects on Revenues Not Related to Coverage	12
Comparison With a Prior Estimate	12
<b>The Macroeconomic Feedback Effects of a Repeal and Their Impact on the Federal Budget</b>	15
Macroeconomic Effects from 2021 Through 2025	15
Macroeconomic Effects From 2016 Through 2020	17
Budgetary Feedback From Macroeconomic Effects	17
Other Potential Effects on Output	18
<b>Impact on the Economy and the Federal Budget Beyond 2025</b>	19
Effects Excluding Macroeconomic Feedback	19
Effects Including Macroeconomic Feedback	20
<b>Uncertainty Surrounding the Estimates</b>	20
The Supreme Court’s Ruling	20
Providers’ Responses to Changes in Payment Rates	21
Trends in Health Care Spending	21
Responses in Labor Markets	22
Overall Magnitude of the Uncertainty	22
<b>List of Tables and Figures</b>	23
<b>About This Document</b>	24





# Budgetary and Economic Effects of Repealing the Affordable Care Act

## Summary

Over the past several years, a number of proposals have been advanced for repealing the Affordable Care Act (ACA), which became law in March 2010. In this report, the Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) analyze the main budgetary and economic consequences that would arise from repealing that law.

To conduct the analysis, CBO and JCT first considered the effects of the ACA's repeal on health insurance coverage and on the federal budget over the next 10 years, holding gross domestic product (GDP) and other macroeconomic variables (such as interest rates) constant—assumptions that underlie most cost estimates used in the Congressional budget process. The agencies then examined the macroeconomic effects of repealing the ACA and estimated the consequences of the resulting feedback for the federal budget over the next decade (involving changes in tax revenue, for example, that stem from changes in GDP). Finally, CBO and JCT considered the budgetary and economic effects of repealing the ACA for the period beyond 2025.

As has been the practice for past analyses of the ACA, CBO and JCT estimated the budgetary implications of a repeal in two broad categories: the effects of repealing the act's provisions concerning insurance coverage—including subsidies provided through the insurance exchanges, added costs for Medicaid, revenues from certain penalties and taxes, and related effects—and the effects of repealing other provisions of the act, which would mostly be related to Medicare spending and tax revenues. For the purposes of this analysis, CBO and JCT assumed that a repeal would take effect on January 1, 2016, and would not change federal law retroactively. As discussed below, all of the resulting estimates are subject to substantial uncertainty.

## What Would Be the Major Effects of Repealing the ACA?

CBO and JCT estimate that repealing the ACA would have several major effects, relative to the projections under current law:

- Including the budgetary effects of macroeconomic feedback, repealing the ACA would increase federal budget deficits by \$137 billion over the 2016–2025 period (see Table 1). That estimate takes into account the proposal's impact on federal revenues and direct (or mandatory) spending, incorporating the net effects of two components:
  - Excluding the effects of macroeconomic feedback—as has been done for previous estimates related to the ACA (and most other CBO cost estimates)—CBO and JCT estimate that federal deficits would increase by \$353 billion over the 2016–2025 period if the ACA was repealed.
  - Repeal of the ACA would raise economic output, mainly by boosting the supply of labor; the resulting increase in GDP is projected to average about 0.7 percent over the 2021–2025 period. Alone, those effects would reduce federal deficits by \$216 billion over the 2016–2025 period, CBO and JCT estimate, mostly because of increased federal revenues.
- For many reasons, the budgetary and economic effects of repealing the ACA could differ substantially in either direction from the central estimates presented in this report. The uncertainty is sufficiently great that repealing the ACA could reduce deficits over the 2016–2025 period—or could increase deficits by a substantially larger margin than the agencies have estimated. However, CBO and JCT's best estimate is that repealing the ACA would increase federal budget deficits by \$137 billion over that 10-year period.

**Table 1.****Summary of Estimated Effects on Direct Spending and Revenues of Repealing the Affordable Care Act**

Billions of Dollars, by Fiscal Year

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total, 2016- 2020	Total, 2016- 2025
<b>Estimated Changes Without Macroeconomic Feedback</b>												
Effects on Outlays	-71	-107	-106	-100	-93	-88	-77	-71	-65	-43	-477	-821
Effects on Revenues	-66	-79	-99	-107	-115	-123	-132	-142	-152	-161	-466	-1,174
Effects on the Deficit <sup>a</sup>	-5	-28	-7	7	21	35	55	70	87	118	-12	353
<b>Estimated Budgetary Impact of Macroeconomic Feedback</b>												
Effects on Outlays	*	-2	-3	-2	-1	1	2	4	5	6	-8	9
Effects on Revenues	3	11	21	26	27	27	28	28	27	26	88	225
Effects on the Deficit <sup>a</sup>	-4	-13	-24	-29	-28	-26	-26	-24	-23	-20	-97	-216
<b>Estimated Changes With Macroeconomic Feedback</b>												
Effects on Outlays	-71	-109	-109	-103	-94	-87	-75	-68	-60	-37	-486	-812
Effects on Revenues	-63	-67	-78	-81	-88	-96	-104	-114	-124	-135	-377	-949
Effects on the Deficit <sup>a</sup>	-8	-42	-31	-22	-6	9	29	46	64	98	-108	137

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Notes: Repealing the Affordable Care Act (ACA) would reduce the amounts of future appropriations needed by the agencies responsible for implementing the ACA and would eliminate the authorizations of certain other appropriations; such effects on discretionary spending are not included in this table and would depend on future legislative action. In addition, the results shown here do not include effects on discretionary spending that stem from macroeconomic feedback, which are estimated to be minimal.

Direct spending is the budget authority provided by laws other than appropriations acts and the outlays that result from that budget authority.

\* = between zero and -\$0.5 billion.

a. Positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

■ Repealing the ACA would cause federal budget deficits to increase by growing amounts after 2025, whether or not the budgetary effects of macroeconomic feedback are included. That would occur because the net savings attributable to a repeal of the law's insurance coverage provisions would grow more slowly than would the estimated costs of repealing the ACA's other provisions—in particular, those provisions that reduce updates to Medicare's payments. The estimated effects on deficits of repealing the ACA are so large in the decade after 2025 as to make it unlikely that a repeal would reduce deficits during that period, even after considering the great uncertainties involved.

■ Repealing the ACA also would affect the number of people with health insurance and their sources of coverage. CBO and JCT estimate that the number of nonelderly people who are uninsured would increase by about 19 million in 2016; by 22 million or 23 million in 2017, 2018, and 2019; and by about 24 million in all subsequent years through 2025, compared with the number who are projected to be uninsured under

the ACA. In most of those years, the number of people with employment-based coverage would increase by about 8 million, and the number with coverage purchased individually or obtained through Medicaid would decrease by between 30 million and 32 million.

**How Would a Repeal Affect the Budget and the Economy Over the Next 10 Years?**

CBO and JCT's estimate that repealing the ACA would increase deficits by \$353 billion over the 2016–2025 period, excluding the budgetary impact of macroeconomic feedback, has four major components (see Table 2):

■ An end to the ACA's subsidies for health insurance coverage would generate gross savings for the government of \$1,658 billion over the 2016–2025 period, CBO and JCT estimate. Those savings would stem primarily from eliminating federal subsidies for insurance purchased through exchanges and from reducing outlays for Medicaid.

**Table 2.****Estimate of the Direct Spending and Revenue Effects of Repealing the Affordable Care Act, Without Macroeconomic Feedback**

Billions of Dollars, by Fiscal Year

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total, 2016- 2020	Total, 2016- 2025
<b>Net Changes in the Deficit From Repealing Insurance Coverage Provisions</b>												
Exchange Subsidies <sup>a</sup>	-41	-69	-78	-82	-83	-86	-91	-94	-98	-101	-353	-822
Medicaid and CHIP Outlays	-44	-66	-71	-75	-82	-88	-93	-97	-102	-106	-339	-824
Small-Employer Tax Credits <sup>b</sup>	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-5	-11
Subtotal	-86	-136	-150	-158	-166	-175	-184	-193	-201	-208	-697	-1,658
Penalty Payments by Uninsured People	4	4	4	4	4	4	5	5	5	5	19	43
Penalty Payments by Employers <sup>b</sup>	9	13	15	16	16	17	18	20	21	22	69	167
Excise Tax on High-Premium Insurance Plans <sup>b</sup>	0	0	3	6	7	9	11	14	17	21	16	87
Other Effects on Revenues and Outlays <sup>c</sup>	7	15	19	20	21	22	23	25	26	27	81	204
Subtotal	19	32	40	45	48	52	58	63	69	75	185	502
<b>Net Decrease in the Deficit From Repealing Coverage Provisions</b>	<b>-67</b>	<b>-104</b>	<b>-110</b>	<b>-113</b>	<b>-118</b>	<b>-123</b>	<b>-127</b>	<b>-130</b>	<b>-132</b>	<b>-133</b>	<b>-512</b>	<b>-1,156</b>
<b>Net Increase in the Deficit From Repealing Other Provisions Affecting Direct Spending and Revenues</b>												
Increase in the Deficit From Changes in Outlays <sup>d</sup>	24	35	46	61	77	91	111	125	140	168	243	879
Increase in the Deficit From Changes in Revenues	39	40	57	59	62	66	70	75	79	83	258	631
<b>Net Increase or Decrease (-) in the Deficit</b>												
<b>Net Effect on the Deficit</b>	<b>-5</b>	<b>-28</b>	<b>-7</b>	<b>7</b>	<b>21</b>	<b>35</b>	<b>55</b>	<b>70</b>	<b>87</b>	<b>118</b>	<b>-12</b>	<b>353</b>
On-budget	-8	-34	-14	-1	13	26	45	59	75	104	-44	265
Off-budget <sup>e</sup>	3	6	7	7	8	9	10	11	12	14	32	88

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Notes: Positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

CHIP = Children's Health Insurance Program.

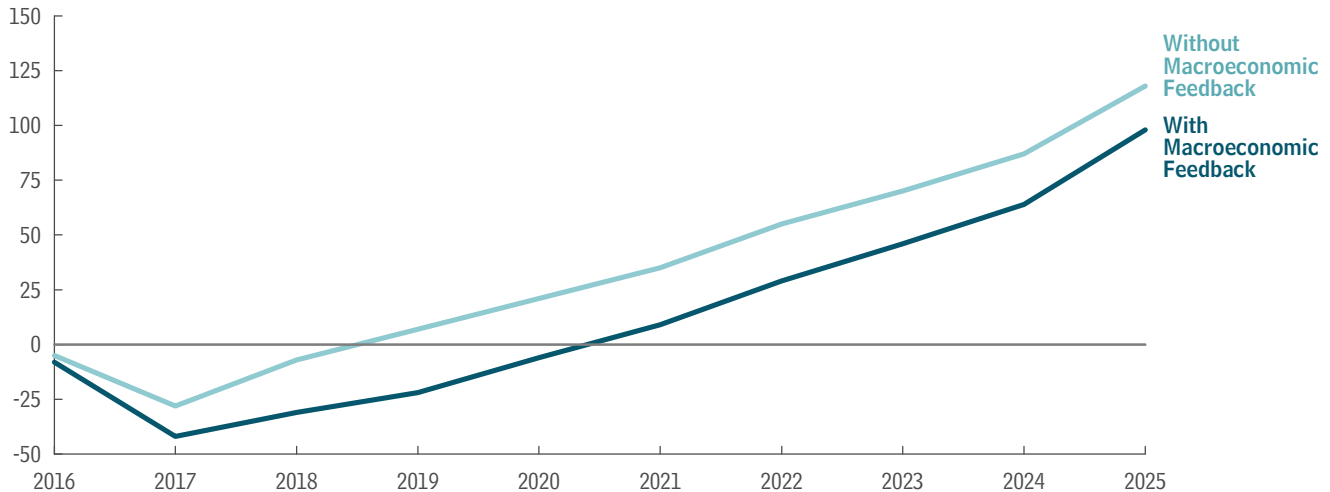
- a. Includes spending for exchange grants to states and net spending and revenues for risk adjustment and reinsurance.
- b. Includes the associated effects on revenues of changes in taxable compensation.
- c. Consists mainly of the effects on revenues of changes in taxable compensation. CBO estimates that repealing the coverage provisions would reduce outlays for Social Security benefits by about \$9 billion over the 2016–2025 period and would have negligible effects on outlays for other federal programs.
- d. These estimates reflect the effects of provisions affecting Medicare, Medicaid, and other federal health programs, and they include the effects of interactions between insurance coverage provisions and those programs.
- e. Off-budget effects include changes in Social Security spending and revenues as well as in spending by the U.S. Postal Service.

■ Those gross savings would be partially offset by the effects of eliminating several ACA provisions related to insurance coverage that are projected to reduce federal deficits—including the provisions that impose penalties on some employers and uninsured people and that impose an excise tax on certain high-premium insurance plans. In addition, increases in employment-based coverage stemming from a repeal

would reduce revenues because most payments for that coverage are exempt from income and payroll taxes. In sum, those effects of repealing the ACA would increase federal deficits by \$502 billion over the 2016–2025 period, CBO and JCT estimate, and the net savings from repealing the ACA's coverage provisions would thus be \$1,156 billion.

**Figure 1.****Estimated Effects on Deficits of Repealing the Affordable Care Act**

Billions of Dollars, by Fiscal Year



Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: The term “macroeconomic feedback” refers to the estimated effects on the federal budget that would arise from changes in economic output or other macroeconomic variables—such as changes in the number of hours that people work and in their aggregate compensation, which would change revenues, or changes in interest rates, which would change interest payments.

- The ACA also includes many other provisions related to health care that are estimated to reduce net federal outlays, primarily for Medicare. The provisions with the largest effects reduced payments to hospitals, to other providers of care, and to private insurance plans delivering Medicare’s benefits, relative to what they would have been under prior law. Repealing all of those provisions would increase direct spending in the next decade by \$879 billion, CBO estimates.
- The ACA also includes many provisions that are estimated to increase federal revenues (apart from the effect of the provisions related to insurance coverage). Those with the most significant budgetary effects increased the Hospital Insurance payroll tax rate for high-income taxpayers, added a surtax on those taxpayers’ net investment income, and imposed annual fees on health insurers. JCT estimates that repealing all of those provisions would reduce revenues by a \$631 billion over the 2016–2025 period.

CBO and JCT also analyzed the macroeconomic effects of repealing the ACA and then estimated the impact of their feedback to the federal budget. According to the

agencies’ estimates, repealing the ACA would increase GDP by about 0.7 percent in the 2021–2025 period, mostly because provisions of the law that are expected to reduce the supply of labor would be repealed. Over the next few years, however, repealing the ACA would have smaller estimated effects on output—partly because responses to a repeal would be expected to occur gradually and partly because the effects would be muted while the economy is operating below its potential (maximum sustainable) output. Over the 2016–2025 period, that macroeconomic feedback would reduce federal deficits by \$216 billion, CBO and JCT estimate, largely because of the additional revenues attributable to the increases in the supply of labor (which would in turn increase employment and taxable income).

All told, CBO and JCT estimate that repealing the ACA would raise federal deficits by \$137 billion over the 2016–2025 period through its impact on direct spending and on revenues. A repeal would *reduce* deficits during the first half of the decade but would *increase* them by steadily rising amounts from 2021 through 2025. Including the effects of macroeconomic feedback, a repeal of the ACA would increase the federal budget deficit by \$9 billion in 2021, rising to \$98 billion in 2025 (see Figure 1).



That growth in projected increases in deficits from repealing the ACA reflects the agencies' estimates that, toward the end of the 10-year budget window, the net savings from repealing the law's coverage provisions would increase more slowly than the net costs of repealing the act's other provisions. Although many factors would affect the rate of growth of the savings from repealing the coverage provisions, one reason they would grow slowly is that the annual updates to exchange subsidies are structured in a way that slows their growth, which limits the savings from eliminating them; another is that the revenue loss from repealing the excise tax on certain high-premium insurance plans would grow very rapidly as more plans were affected each year. However, the revenue losses and spending increases that would result from repealing the act's other provisions would grow more rapidly than the net savings from repealing the coverage provisions. Most significantly, the costs of repealing the ACA's reductions in updates to Medicare's payment rates would compound over the next decade because those reductions lower the growth rate of Medicare's costs.

### **How Would a Repeal Affect the Budget and the Economy Beyond 2025?**

CBO and JCT expect that the trend projected for the latter part of the coming decade would probably continue after 2025, whether or not the effects of macroeconomic feedback are incorporated into the analysis. To generate rough estimates for the decade beyond 2025, CBO and JCT extrapolated the budgetary effects that a repeal of the ACA would have in the years before 2025. According to that analysis, and excluding the budgetary effects of macroeconomic feedback, a repeal would increase annual deficits over the 2026–2035 period by amounts that lie within a broad range around one percent of GDP. Although the macroeconomic feedback stemming from a repeal would continue to reduce deficits after 2025, the effects would shrink over time because the increase in government borrowing resulting from the larger budget deficits would reduce private investment and thus would partially offset the other positive effects that a repeal would have on economic growth. Consequently, taking that feedback into account would not substantially alter the increases estimated for federal deficits that would occur over that period. A repeal of the ACA would probably increase deficits in subsequent decades as well, whether or not the effects of macroeconomic feedback are included.

### **Why Are These Estimates Uncertain?**

Estimates of the effects of repealing the ACA are subject to substantial uncertainty, which stems at least in part from the difficulty in projecting the effects of the ACA itself. Although initial data are available about some particular effects, the ways in which individuals, employers, states, insurers, doctors, hospitals, and other affected parties will respond to the changes made by the ACA—and the ways in which those same people and organizations would respond to its repeal—are all difficult to predict, and the responses could deviate in either direction from CBO and JCT's estimates. It also is a difficult task—and one subject to considerable uncertainty—to predict how repealing a law as complex as the ACA would be interpreted and implemented by executive branch agencies without some specific statutory guidance.

The Supreme Court's forthcoming ruling about subsidies provided through insurance exchanges constitutes another major source of uncertainty. CBO and JCT's baseline projections and the estimates in this report reflect the way the law is currently being implemented, with subsidies available through all exchanges, but the Court could rule that the law does not authorize subsidies in some states. If that happened, CBO and JCT would reduce their projections of spending on those subsidies under current law and would reduce their estimates of the savings generated by repealing the ACA's coverage provisions—although the magnitude of those reductions is uncertain and would depend in part on the specific details of the Court's opinion.

Over the longer term, there is particular uncertainty about the ways that providers of health care will respond to the ACA's reductions in the updates to Medicare's payment rates and about whether repealing the ACA would weaken pressures for cost control that may have contributed to a broad slowdown in spending growth for health care. The effects on labor markets, GDP, and other macroeconomic variables—and the resulting budgetary feedback—also could be smaller or larger than the agencies have estimated.

On balance, CBO and JCT estimate that the most likely outcome of repealing the ACA would be to increase budget deficits over the 2016–2025 period, but that estimate is designed to represent the middle of a broad range of possible outcomes. In light of the myriad uncertainties involved, it is possible that repealing the ACA could

reduce deficits over that period or could increase them by substantially more than the agencies have estimated.

## Estimating the Effects of Repeal Legislation

Implementing a repeal of the ACA would present major challenges. In the five years since its enactment, nearly every key provision of the law has taken effect and has been incorporated into final rules and other administrative actions. Undoing the ACA would thus be quite complicated. As a result, CBO and JCT's budgetary and economic analyses have had to incorporate many assumptions about the ways in which legislation to repeal the ACA would be interpreted and implemented. For several reasons, the budgetary effects of a repeal would not simply be the opposite of the budgetary effects of the ACA itself.

### Factors Affecting Implementation

Although the proposals for repealing the ACA have varied slightly, they have shared many key elements. Generally, they have specified that the provisions of prior law would be "restored or revised as if such Act had not been enacted," but they have not detailed how that would be accomplished.<sup>1</sup> As a result, executive branch agencies would have considerable discretion in determining how to implement a repeal. Some proposals have specified that the repeal would be effective as of the original enactment date of the ACA, indicating that the revisions would be applied retroactively.<sup>2</sup> Others have set effective dates in the future. For purposes of this analysis, CBO and JCT assumed that the repeal of the ACA would take effect on January 1, 2016, and that it would not affect federal spending incurred or federal revenues collected in prior years.

CBO and JCT cannot anticipate with any certainty what choices federal agencies would make to implement such legislation to repeal the ACA. Medicare, for example, would be affected in several fairly complicated ways. In

many cases, the program's payment rates reflect base payment amounts that are increased or updated each year according to formulas specified in law. The ACA reduced those updates, and repealing the relevant provisions would clearly cancel the reductions that are currently scheduled to take place in future years. The complication that arises is that the base payment amounts to which the updates will apply are currently lower than they would have been had the ACA never been enacted. If the ACA was repealed, it is unclear whether those base amounts would be adjusted upward so that future payments would not be affected by past update reductions. In other cases, repealing the ACA would require payment mechanisms for Medicare to revert to those used under prior law, but the Department of Health and Human Services (HHS) would need to decide how to calculate those payments once the law was repealed. (Legislation to repeal the ACA could reduce the scope of such discretion, however, by specifying the manner of restoration or revival of the provisions of prior law.)

### How CBO and JCT Developed the Estimates

The analysis presented in this report is based on the spending and revenue projections contained in CBO's March 2015 baseline, as adjusted for subsequently enacted legislation (in particular, Public Law 114-10, the Medicare Access and CHIP Reauthorization Act of 2015).<sup>3</sup> The estimates thus reflect all of the previous administrative actions, judicial decisions, and enacted legislation modifying the ACA's provisions or affecting its implementation that were incorporated into that baseline.

In some cases, provisions of the ACA have been superseded by subsequent legislation, so repealing those provisions would not have a budgetary impact. For example, the ACA extended funding for the Children's Health Insurance Program (CHIP) through 2015. However, P.L. 114-10 extended that funding through 2017, so repealing the ACA would not reverse the extension of CHIP that was enacted as part of the ACA. Similarly, P.L. 114-10 modified provisions governing the premiums that enrollees with higher income must pay for Part B of Medicare, superseding changes to those premiums made by the ACA. Several tax provisions that were enacted as

1. For example, see H.R. 596, a bill to repeal the Patient Protection and Affordable Care Act and health care-related provisions in the Health Care and Education Reconciliation Act of 2010, and for other purposes, 114th Cong. (2015), [www.congress.gov/bill/114th-congress/house-bill/596](http://www.congress.gov/bill/114th-congress/house-bill/596).

2. For example, see H.R. 6079, Repeal of Obamacare Act, 112th Cong. (2012), [www.congress.gov/bill/112th-congress/house-bill/6079](http://www.congress.gov/bill/112th-congress/house-bill/6079). For a discussion of the challenges involved in repealing the ACA retroactively, see Congressional Budget Office, letter to the Honorable John Boehner providing an estimate for H.R. 6079, the Repeal of Obamacare Act (July 24, 2012), [www.cbo.gov/publication/43471](http://www.cbo.gov/publication/43471).

3. See Congressional Budget Office, *Updated Budget Projections: 2015 to 2025* (March 2015), [www.cbo.gov/publication/49973](http://www.cbo.gov/publication/49973), and cost estimate for H.R. 2, the Medicare Access and CHIP Reauthorization Act of 2015 (March 25, 2015), [www.cbo.gov/publication/50053](http://www.cbo.gov/publication/50053).

part of the ACA also have been repealed or modified, thus reducing some of the revenue consequences of repealing the ACA.

Furthermore, CBO and JCT anticipate that some changes induced by the ACA would be sustained in the event of its repeal, at least for some period. For example, the ACA established deadlines that accelerated implementation of Medicare's bidding program for durable medical equipment, and CBO expects that if the ACA was repealed, that program would not revert to the slower schedule anticipated under prior law. Similarly, some of the people projected to enroll in Medicaid as a result of the ACA were eligible for the program under prior law and thus would remain eligible in the event of a repeal; CBO and JCT estimate that rates of enrollment among those previously eligible people would remain elevated for a few years. Whether a repeal of the ACA would have broader effects on the rate of cost growth in health care—beyond the effects already captured in CBO and JCT's estimates—is discussed further below.

Because the ACA was a large, complex piece of legislation, estimating the effects of its repeal also is complicated, although the degree of difficulty varies somewhat depending on the provision. For example, estimating the effects of repealing the ACA's insurance coverage provisions is simplified by the fact that those provisions created many new flows of funds that CBO and JCT can distinguish and estimate separately from one another—in particular, the subsidies for insurance purchased through exchanges and federal payments for Medicaid beneficiaries made newly eligible by the law—in constructing baseline budget projections. In those cases, the effect of repeal can be readily estimated by reversing the signs of those amounts as projected in CBO's baseline (with some adjustments, described elsewhere in this report).

However, some of those provisions and many others in the ACA modified existing programs or existing tax law or affected other spending or revenues indirectly. Those budgetary effects are not projected separately in CBO's baseline and must be newly estimated for each repeal proposal, relative to current baseline projections of spending and revenues. For example, Medicare's total payments to hospitals change from year to year for various reasons, and there is no identifiable stream of payments or savings that is specifically attributable to the ACA's provisions—so those savings must be estimated anew. The ACA includes dozens of such provisions that affect payments to different types of providers. Likewise, various provisions

of the ACA governing revenues affect the ways that households and businesses arrange their finances and thus alter income or payroll tax revenues. However, the effects of the ACA on those continuing revenue streams cannot be easily identified and are not projected separately, so they must be newly estimated in any analysis of repeal legislation.

### **Differences From an Estimate of the ACA's Effects Since Its Enactment**

A related question that sometimes arises is whether CBO and JCT could provide an updated estimate of the ACA's budgetary impact from its inception that would be similar to the analyses that the agencies provided when the law was enacted. A retrospective analysis of the effects of a current law is quite different from a cost estimate for proposed legislation because such an analysis requires the formulation of a counterfactual benchmark to represent what would have happened over the past few years if the law had not been enacted; that would be a challenging undertaking that is beyond the scope of CBO and JCT's usual analytic methods. The agencies therefore cannot readily provide a retrospective analysis of the ACA that is analogous to the cost estimate that was provided in 2010. That problem is not unique to the ACA—it is common to most legislation that affects preexisting federal programs and taxes.<sup>4</sup>

### **Effects of a Repeal Over the Next 10 Years, Excluding Macroeconomic Feedback**

To estimate the budgetary effects of the ACA's repeal, CBO and JCT first examined the impact on health insurance coverage and on the federal budget over the next decade, holding GDP and other macroeconomic variables constant—which is the only approach that the agencies take for most cost estimates. As with past analyses of the ACA, the current budgetary analysis involved grouping the ACA's provisions into two broad categories: The provisions concerning insurance coverage, including subsidies provided through the insurance exchanges, increased outlays for Medicaid, revenues from certain penalties and taxes, and related budgetary effects; and the various noncoverage provisions, mostly affecting direct

4. For additional discussion, see Congressional Budget Office, answers to questions for the record following a hearing on the budget and economic outlook for 2014 to 2024 conducted by the Senate Committee on the Budget (June 10, 2014), pp. 14–19, [www.cbo.gov/publication/45396](http://www.cbo.gov/publication/45396).

spending for Medicare and making changes in the tax code that are not directly related to insurance coverage.

Taking into account the effects on federal revenues and direct spending but *excluding* the budgetary effects of macroeconomic feedback, CBO and JCT estimate that a repeal of the ACA would increase federal deficits by \$353 billion over the 2016–2025 period.<sup>5</sup> That figure reflects an estimated reduction in outlays of \$821 billion that is more than offset by an estimated reduction in revenues of \$1,174 billion. The resulting estimate of the effects on deficits is substantially larger than the one CBO and JCT issued in July 2012 for a similar proposal to repeal the ACA—a difference that mostly reflects a shift in the budget window to encompass later years in which repealing the ACA would increase budget deficits sharply. As with past analyses of the ACA, the estimates in this report do not include any savings or costs associated with changes in discretionary spending—even though future appropriations to administer the ACA’s provisions would no longer be needed if that law was repealed.<sup>6</sup>

### Effects on Insurance Coverage

A repeal of the ACA would include a repeal of various provisions that, under current law, are projected to increase the number of nonelderly people who have health insurance. Those provisions include an expansion of eligibility for Medicaid, subsidies for nongroup coverage purchased through health insurance exchanges, a requirement that most U.S. residents obtain insurance coverage or pay a penalty, and a penalty on certain employers that do not offer their full-time workers health insurance that meets specified standards for coverage and affordability. In addition, an excise tax on certain employment-based health plans with relatively high premiums will take effect starting in 2018. The ACA also contains a range of provisions that affect the types and prices of insurance policies that can be sold. Those—and

many other provisions affecting insurance coverage—also would be repealed.

If the ACA was repealed, many people would obtain their coverage from a source that differs from current projections, and many others who are projected to retain or gain insurance coverage in the future would instead be uninsured (see Table 3). On average, over the 2021–2025 period, the following changes would occur, relative to CBO and JCT’s current-law projections:

- About 14 million fewer people would be enrolled in Medicaid.
- About 18 million fewer people would have nongroup coverage. That reduction is the net effect of a projected decline of about 22 million in nongroup coverage purchased through exchanges (which would no longer serve as a conduit for federal subsidies and might not exist at all) and a projected increase of about 4 million enrollees in nongroup coverage purchased directly from insurers.
- About 8 million more people, on net, would have employment-based coverage—roughly mirroring the agencies’ estimate of the extent to which the ACA will reduce employment-based coverage in future years.
- About 24 million more nonelderly U.S. residents would be uninsured.<sup>7</sup>

The effects on sources of insurance coverage in earlier years would generally be similar or slightly smaller, but the effects of repealing the ACA are estimated to be noticeably smaller in 2016—partly because the ACA is not projected to increase insurance coverage as much in that year. For reasons that are discussed below, the effects of repealing the ACA on people’s sources of insurance coverage differ slightly from the estimated effects of implementing the coverage provisions that are shown in the agencies’ most recent baseline projections.

### Effects on Direct Spending and Revenues Related to Insurance Coverage

CBO and JCT estimate that repealing the provisions of the ACA affecting health insurance coverage would yield a net decrease in federal deficits of \$1,156 billion over

5. Direct, or mandatory, spending is the budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority. CBO and JCT estimate that on-budget deficits would increase by \$265 billion over the 2016–2025 period and that off-budget deficits would increase by \$88 billion over that period. Off-budget effects include changes in Social Security spending and revenues as well as spending by the U.S. Postal Service.

6. Discretionary spending is the budget authority provided and controlled by appropriation acts and the outlays that result from that budget authority.

7. As a result, the overall share of the nonelderly population with health insurance would drop from about 90 percent under current law to about 82 percent if the ACA was repealed.

**Table 3.**

**Estimate of the Effects on Health Insurance Coverage of Repealing the Affordable Care Act**

Millions of Nonelderly People, by Calendar Year

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Insurance Coverage Under Current Law<sup>a</sup></b>										
Insurance exchanges	20	23	23	23	23	23	23	22	22	22
Medicaid and CHIP	51	52	52	52	53	53	54	54	54	55
Employment-based coverage	149	149	150	151	152	153	153	153	154	155
Nongroup and other coverage <sup>b</sup>	22	22	22	23	23	23	23	23	24	24
Uninsured	29	27	27	26	26	26	26	27	27	27
<b>Total</b>	<b>271</b>	<b>272</b>	<b>274</b>	<b>275</b>	<b>276</b>	<b>277</b>	<b>278</b>	<b>280</b>	<b>281</b>	<b>282</b>
<b>Change in Insurance Coverage With Repeal of the ACA</b>										
Insurance exchanges	-20	-23	-23	-23	-23	-23	-23	-22	-22	-22
Medicaid and CHIP	-8	-11	-11	-12	-14	-14	-14	-14	-14	-14
Employment-based coverage <sup>c</sup>	6	8	8	8	8	8	8	8	8	8
Nongroup and other coverage <sup>b</sup>	4	4	4	4	4	5	4	5	4	4
Uninsured	19	22	22	23	24	24	24	24	24	24
<b>Number of Uninsured Nonelderly People With Repeal of the ACA</b>	<b>48</b>	<b>49</b>	<b>49</b>	<b>49</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Notes: Estimates of the nonelderly population include residents of the 50 states and the District of Columbia who are younger than 65.

ACA = Affordable Care Act; CHIP = Children’s Health Insurance Program.

- a. Amounts reflect average annual enrollment over the course of a year and include spouses and dependents covered under family policies; people reporting multiple sources of coverage are assigned a primary source. Amounts represent CBO’s March 2015 baseline, adjusted for enactment of Public Law 114-10, the Medicare Access and CHIP Reauthorization Act of 2015.
- b. “Other coverage” includes Medicare; the changes from repealing the ACA would be almost entirely for nongroup coverage.
- c. The change in employment-based coverage is the net result of projected increases and decreases in offers of health insurance from employers and changes in enrollment by workers and their families.

fiscal years 2016 through 2025 because of those provisions’ effects on direct spending and revenues (see Table 2 on page 3). That amount includes the following:

- A total of \$822 billion in savings resulting from eliminating exchange subsidies,
- A net reduction of \$824 billion in federal outlays for Medicaid and CHIP, and
- Additional savings totaling \$11 billion from the repeal of a tax credit for certain small employers that provide health insurance to their employees.<sup>8</sup>

Those gross savings of \$1,658 billion over the 2016–2025 period would be partly offset by costs totaling \$502 billion stemming from four sources related to insurance coverage:

- A reduction in revenues of \$43 billion from eliminating penalty payments by uninsured people,
- A decline in revenues of \$167 billion from eliminating penalty payments by employers,
- A reduction in revenues of \$87 billion from eliminating the excise tax on certain high-premium insurance plans, and

8. The ACA’s premium subsidies for health insurance purchased through exchanges are structured as refundable tax credits; CBO and JCT treat the portions of such credits that exceed taxpayers’ other income tax liabilities as outlays and the portions that reduce tax payments as reductions in revenues—just as other refundable tax credits are treated. Subsidies to reduce enrollees’ cost-sharing liabilities are classified as outlays. A small portion of the cost of the tax credit for certain small employers (and the savings that would arise from its repeal) reflects its effects on outlays.

- Other budgetary effects, mostly involving revenues, associated with shifts in the mix of taxable and nontaxable compensation resulting from net increases in employment-based health insurance coverage—which would, on net, increase deficits by \$204 billion.<sup>9</sup>

Those figures differ by about \$51 billion from the estimated effects of the ACA's coverage provisions that are reflected in CBO's March 2015 baseline, for three main reasons.<sup>10</sup> First, the costs for exchange subsidies and additional Medicaid payments over the first three months of fiscal year 2016 will be incurred during calendar year 2015 and thus would not be eliminated by a repeal (which, for the purposes of this analysis, is assumed to take effect on January 1, 2016). Second, for the next few years, some proportion of the people who have enrolled or are expected to enroll in Medicaid as a result of the ACA—and who would have been eligible even if the ACA had never been enacted—probably would still enroll in Medicaid if the ACA was repealed, and the savings attributable to the repeal would be reduced as a result. Third, enactment of P.L. 114-10 increased the projections of enrollment in Medicaid and CHIP, relative to the March 2015 baseline, and correspondingly reduced the costs of coverage obtained through exchanges and employment-based plans. On net, those changes also reduced the savings that would be generated by repealing the ACA. (Those factors largely explain why the estimated effects that a repeal would have on the number of people with various types of insurance coverage differ slightly in magnitude from CBO and JCT's baseline projections of the ACA's effects.)

### Effects on Direct Spending for Medicare, Medicaid, and Other Programs

The ACA made numerous changes to payment rules and rates for Medicare and Medicaid, and it made other

changes to certain other federal health programs as well. On net, CBO estimates, repealing those provisions would increase direct federal spending by \$879 billion over the 2016–2025 period, mostly because of changes in spending for Medicare, which would rise by an estimated \$802 billion (see Table 4). Repealing the provisions of the ACA that are not related to insurance coverage would increase federal spending for Medicaid by about \$66 billion over that period, mostly because of increases in payments for prescription drugs and payments to hospitals that treat a disproportionate share of uninsured or low-income patients.<sup>11</sup> On net, direct spending for other health programs would increase by about \$10 billion, CBO estimates.

Nearly all of the net increase estimated for direct spending for Medicare—about \$715 billion of the estimated \$802 billion—would stem from repealing provisions of the ACA that imposed reductions in payment rates or slowed increases in payment rates (relative to prior law) for services covered under Parts A and B of Medicare; those benefits are provided either through the traditional fee-for-service sector of the Medicare program or through private insurance plans.<sup>12</sup> (Those private plans are generally known as Medicare Advantage plans; they receive payments under Medicare's Part C.) Roughly one-half of that net increase in spending would stem from repealing provisions that changed payment rates in the fee-for-service sector; the other half would be attributable to repealing provisions that changed the rules for setting payment rates for Medicare Advantage plans.<sup>13</sup> Because the ACA reduced the rate at which many payments are updated annually, the effects of those provisions on

9. Changes in the extent of employment-based health insurance affect federal revenues because most payments for that coverage are exempt from income and payroll taxes. If employers increase or decrease the amount of nontaxable compensation they provide in the form of health insurance (relative to current-law projections), CBO and JCT estimate that offsetting changes will occur in wages and other forms of compensation—which generally are taxable—to hold total compensation roughly the same. Such effects also arise with respect to other provisions of law (such as the excise tax on certain high-premium insurance plans), and those effects are included in the estimates for those elements.
10. See Congressional Budget Office, “Effects of the Affordable Care Act on Health Insurance Coverage—Baseline Projections” (March 2015), [www.cbo.gov/publication/43900](http://www.cbo.gov/publication/43900).

11. In total, federal spending for Medicaid and CHIP would be reduced by \$758 billion over the 2016–2025 period, combining the effects of repealing the provisions related to and those not related to insurance coverage.
12. Medicare Part A covers inpatient services provided by hospitals, care in skilled nursing facilities, home health care, and hospice care. Part B mainly covers services provided by physicians, other practitioners, and hospitals' outpatient departments.
13. Payments in the fee-for-service sector affect payments to Medicare Advantage plans, and changes in either of those types of payments affect the premiums that enrollees pay for Part B of Medicare. In previous estimates, CBO calculated the aggregate effects of those interactions separately, but now the agency incorporates those interactions into the estimates for each provision. As a result, the current estimates for the effects of repealing specific provisions of the ACA affecting Medicare are not comparable to previous estimates.

**Table 4.****Estimated Changes in Direct Spending and Revenues That Would Result From Repealing the Affordable Care Act, Without Macroeconomic Feedback**

Billions of Dollars, by Fiscal Year

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total, 2016- 2020	Total, 2016- 2025
<b>Changes in Outlays</b>												
<b>Coverage Provisions</b>												
Exchange subsidies and state exchange grants	-35	-59	-67	-71	-71	-74	-78	-82	-85	-89	-303	-712
Payments for risk adjustment and reinsurance	-15	-17	-13	-15	-16	-16	-17	-17	-17	-16	-75	-158
Medicaid and CHIP	-44	-66	-71	-75	-82	-88	-93	-97	-102	-106	-339	-824
Other changes in direct spending <sup>a</sup>	*	*	*	-1	-1	-1	-1	-1	-1	-1	-2	-6
Subtotal	-94	-142	-152	-161	-170	-179	-189	-197	-205	-211	-720	-1,700
<b>Other Provisions</b>												
Medicare provisions	23	34	44	58	69	82	100	113	126	153	228	802
Other Medicaid provisions	2	2	3	4	7	8	9	10	11	11	17	66
Other changes in direct spending	-1	-1	-1	-1	1	2	2	3	3	4	-3	10
Subtotal	24	35	46	61	77	91	111	125	140	168	243	879
<b>Total Outlays</b>	<b>-71</b>	<b>-107</b>	<b>-106</b>	<b>-100</b>	<b>-93</b>	<b>-88</b>	<b>-77</b>	<b>-71</b>	<b>-65</b>	<b>-43</b>	<b>-477</b>	<b>-821</b>
On-budget	-70	-106	-105	-100	-92	-87	-76	-70	-64	-42	-474	-813
Off-budget <sup>b</sup>	*	-1	-1	-1	-1	-1	-1	-1	-1	-1	-4	-9
<b>Changes in Revenues</b>												
<b>Coverage Provisions</b>												
Exchange premium credits	6	10	11	11	11	12	12	12	12	13	48	109
Collections for risk adjustment and reinsurance	-14	-16	-13	-15	-16	-16	-17	-17	-17	-16	-74	-157
Small-employer tax credits	1	1	1	1	1	1	1	1	1	1	4	10
Penalty payments by uninsured people	-4	-4	-4	-4	-4	-4	-5	-5	-5	-5	-19	-43
Penalty payments by employers	-9	-13	-15	-16	-16	-17	-18	-20	-21	-22	-69	-167
Excise tax on high-premium insurance plans	0	0	-3	-6	-7	-9	-11	-14	-17	-21	-16	-87
Other changes in revenues	-7	-16	-19	-20	-21	-22	-24	-25	-27	-28	-83	-209
Subtotal	-27	-38	-42	-48	-52	-56	-62	-67	-73	-78	-208	-544
<b>Other Provisions</b>												
High-income surtaxes	-22	-17	-31	-33	-35	-37	-39	-42	-44	-47	-136	-346
Fees on certain manufacturers and insurers <sup>c</sup>	-14	-18	-19	-18	-19	-20	-21	-22	-23	-23	-87	-196
Other revenue provisions	-3	-6	-8	-8	-9	-10	-10	-11	-12	-13	-34	-89
Subtotal	-39	-40	-57	-59	-62	-66	-70	-75	-79	-83	-258	-631
<b>Total Revenues</b>	<b>-66</b>	<b>-79</b>	<b>-99</b>	<b>-107</b>	<b>-115</b>	<b>-123</b>	<b>-132</b>	<b>-142</b>	<b>-152</b>	<b>-161</b>	<b>-466</b>	<b>-1,174</b>
On-budget	-62	-72	-91	-99	-106	-113	-121	-130	-138	-146	-430	-1,078
Off-budget <sup>b</sup>	-4	-7	-8	-8	-9	-10	-11	-12	-13	-15	-36	-96
<b>Net Increase or Decrease (-) in the Deficit<sup>d</sup></b>												
<b>Net Effect on the Deficit</b>	<b>-5</b>	<b>-28</b>	<b>-7</b>	<b>7</b>	<b>21</b>	<b>35</b>	<b>55</b>	<b>70</b>	<b>87</b>	<b>118</b>	<b>-12</b>	<b>353</b>
On-budget	-8	-34	-14	-1	13	26	45	59	75	104	-44	265
Off-budget <sup>b</sup>	3	6	7	7	8	9	10	11	12	14	32	88

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: CHIP = Children's Health Insurance Program; \* = between \$0 and -\$0.5 billion.

- Represents the outlay portion of several coverage-related provisions, including small-employer tax credits, and associated effects of coverage provisions on outlays for Social Security benefits.
- Off-budget effects include changes in Social Security spending and revenues as well as in spending by the U. S. Postal Service.
- Amounts reflect repeal of fees on manufacturers and importers of branded drugs and on health insurance providers and repeal of an excise tax on manufacturers and importers of certain medical devices.
- Positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

federal spending will compound over the next decade; as a consequence, the costs of repealing them would grow relatively rapidly.

The ways in which HHS would implement a repeal of the ACA's Medicare provisions governing payment updates are uncertain, however. For this analysis, CBO assumed that repealing the provisions that reduced payment updates in the fee-for-service sector would increase the payment updates in 2016 and beyond—but it also assumed that HHS would not adjust the current base payment amounts to remove the effects of past update reductions implemented under the ACA. If instead HHS also adjusted those base payment amounts upward for the purposes of determining future payments, the cost of repealing the ACA's provisions would be roughly \$160 billion higher over the 2016–2025 period than is estimated above.

### Effects on Discretionary Spending

The estimates discussed elsewhere in this report do not include any savings or costs associated with changes in discretionary spending. CBO's original cost estimate for the ACA, issued in March 2010, focused on direct spending and revenues because those effects are relevant for budgetary procedures affecting Congressional debate and occur without any additional legislative action (as contrasted with discretionary spending, which is subject to future appropriation action). However, that estimate noted that additional funding would be necessary for agencies to carry out the responsibilities required of them by the legislation and that the legislation also included explicit authorizations for a variety of grants and other programs.<sup>14</sup>

Repealing the ACA would reduce the amounts of future appropriations that are needed for implementation or that are specifically authorized in the act for other purposes. (Some funds would be needed in 2016 to implement a repeal.)<sup>15</sup> However, the impact of a repeal on total discretionary appropriations over the next several years

would depend on future legislative actions. Moreover, the potential impact of such legislation on future appropriations is affected by the caps on annual appropriations that were established by the Budget Control Act of 2011. Eliminating the need to implement the ACA might lead to reductions in total discretionary spending, on net, or it might create some room under those caps for additional spending for other discretionary programs.

### Effects on Revenues Not Related to Coverage

The ACA made many changes to the Internal Revenue Code that were not directly related to the law's insurance coverage provisions. JCT estimates that repeal of those noncoverage revenue provisions would reduce revenues by a total of \$631 billion over the 2016–2025 period (see Table 4). The largest components of those revenue effects include the following:

- The ACA increased the Hospital Insurance payroll tax for certain high-income taxpayers and applied a surtax to their net investment income. Repeal of those provisions is projected to reduce revenues by \$346 billion.
- Repeal of an annual fee on health insurance providers is estimated to reduce revenues, on net, by \$142 billion (reflecting both the loss of fee collections and the indirect effects of those fees on health insurance premiums that are either tax-preferred or subsidized).
- The repeal of an annual fee on manufacturers and importers of branded drugs is projected to reduce revenues by \$30 billion, and the repeal of an excise tax on manufacturers and importers of certain medical devices is projected to reduce revenues by \$24 billion.

### Comparison With a Prior Estimate

CBO and JCT's current estimate that repealing the ACA would increase deficits by \$353 billion over 10 years (excluding the effects of macroeconomic feedback) differs from the estimate that the agencies released in July 2012 for H.R. 6079—the last time they analyzed a proposal to

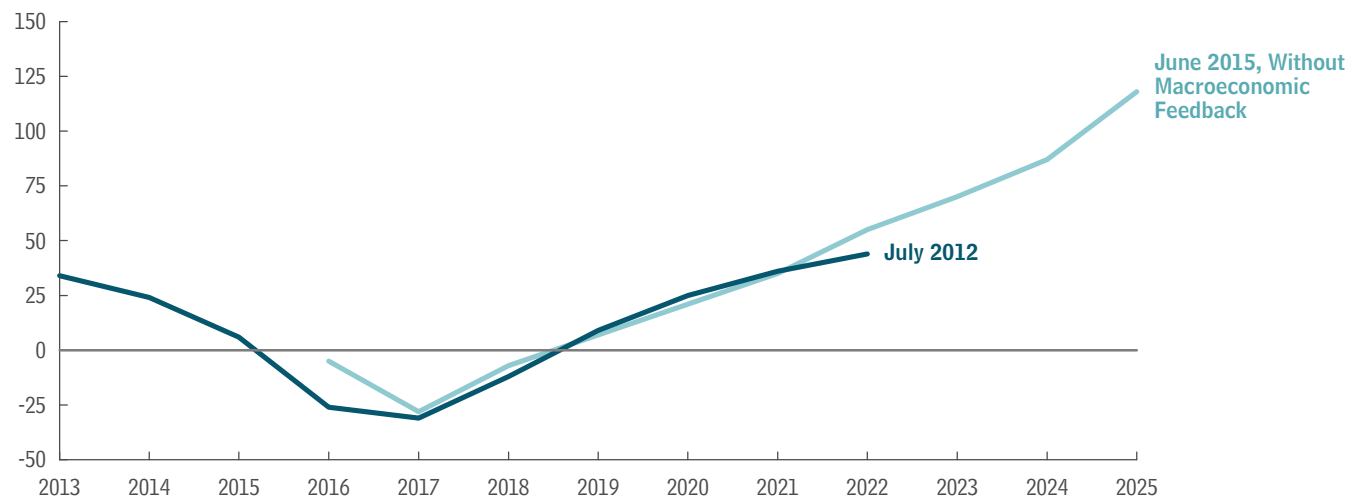
14. For more information, see Congressional Budget Office, cost estimate for H.R. 4872, the Reconciliation Act of 2010 (final health care legislation) (March 20, 2010), pp. 10–11, [www.cbo.gov/publication/21351](http://www.cbo.gov/publication/21351), letter to the Honorable Jerry Lewis about potential effects of H.R. 3590, the Patient Protection and Affordable Care Act, on discretionary spending (May 11, 2010), [www.cbo.gov/publication/21457](http://www.cbo.gov/publication/21457), and “H.R. 3590, Patient Protection and Affordable Care Act, Additional Information on the Potential Discretionary Costs of Implementing PPACA” (May 12, 2010), [www.cbo.gov/publication/21460](http://www.cbo.gov/publication/21460).

15. In 2012, CBO estimated that, over the 2013–2022 period, repealing the ACA would reduce the need for appropriations to the Internal Revenue Service by between \$5 billion and \$10 billion and would reduce the need for appropriations to HHS by between \$5 billion and \$10 billion. CBO has not updated those estimates.



**Figure 2.****Comparison of Estimated Effects on Deficits of Repealing the Affordable Care Act**

Billions of Dollars, by Fiscal Year



Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Notes: The term “macroeconomic feedback” refers to the estimated effects on the federal budget that would arise from changes in economic output or other macroeconomic variables—such as changes in the number of hours that people work and in their aggregate compensation, which would change revenues, or changes in interest rates, which would change interest payments.

June 2015 estimates were developed for this report; 2012 estimates are from Congressional Budget Office, letter to the Honorable John Boehner providing an estimate for H.R. 6079, the Repeal of Obamacare Act (July 24, 2012), [www.cbo.gov/publication/43471](http://www.cbo.gov/publication/43471).

repeal all of the ACA’s provisions.<sup>16</sup> At that time, CBO and JCT estimated that changes in direct spending and revenues would increase deficits by \$109 billion over the period from 2013 through 2022.

Most of the difference between that earlier estimate and the current one stems from a shift in the budget window to encompass later years—in which repealing the ACA is estimated to increase budget deficits sharply. In fact, over the 2016–2022 period, which is encompassed by both estimates, the estimated budgetary effects of repeal are quite similar (see Figure 2): In 2012, CBO and JCT estimated that repealing the ACA would increase budget deficits by a total of \$46 billion from 2016 through 2022; the agencies now estimate that repeal would boost deficits by \$78 billion over that period (excluding the effects of macroeconomic feedback). In 2012, CBO and JCT estimated that repealing the ACA would increase the deficit

substantially in the decade after 2022, but they did not quantify the annual effects. CBO and JCT now estimate that repealing the ACA would increase deficits by \$275 billion over the 2023–2025 period.

It is difficult to identify all of the specific reasons for the differences between the two estimates for the 2016–2022 period because CBO and JCT have made many changes in their baseline projections since 2012 to account for such factors as changes in economic conditions and projections, technical changes and improvements in the agencies’ models, administrative actions, judicial decisions, and statutory changes. One item of significance is that, since 2012, the agencies have substantially lowered their projections of per capita spending on health care. That change in particular has contributed importantly to substantial but offsetting changes in the estimated effects of repealing various components of the ACA:

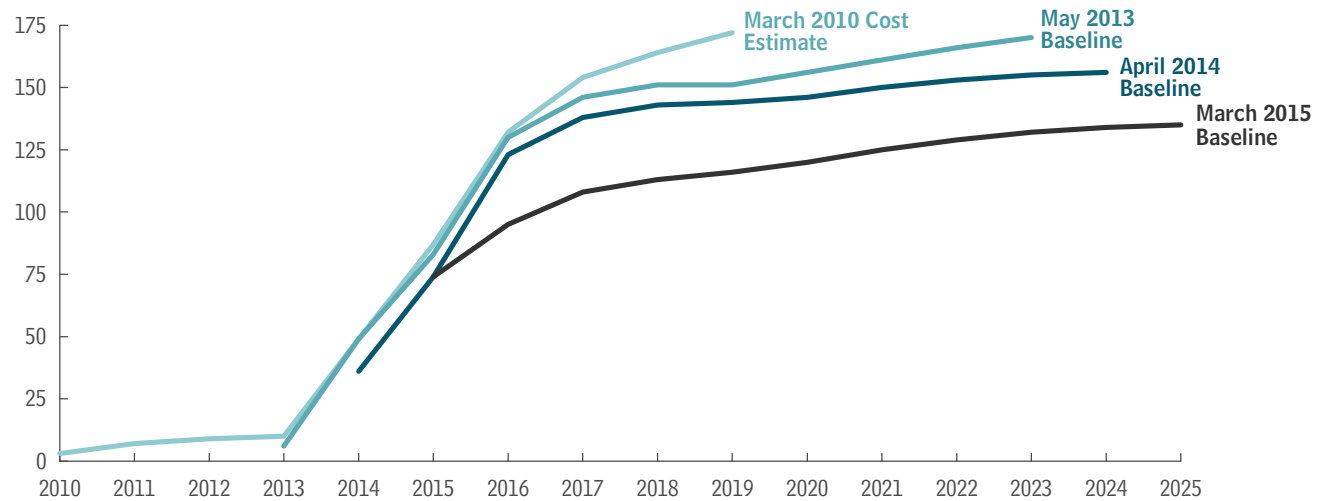
16. The 2012 estimate was issued shortly after the Supreme Court ruling that made the ACA’s Medicaid expansion optional for states. See Congressional Budget Office, letter to the Honorable John Boehner providing an estimate for H.R. 6079, the Repeal of Obamacare Act (July 24, 2012), [www.cbo.gov/publication/43471](http://www.cbo.gov/publication/43471).

- Holding other factors equal, the changes in projections of per capita spending on health care have lowered the total cost for any given year of subsidizing coverage through the exchanges or Medicaid; correspondingly, the gross and net savings estimated to

**Figure 3.**

### Evolution of CBO and JCT's Estimates of the Net Budgetary Effects of the Insurance Coverage Provisions of the Affordable Care Act

Billions of Dollars, by Fiscal Year



Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Notes: Effects on the deficit of provisions of the Affordable Care Act that are not related to insurance coverage and effects on discretionary spending are not shown.

Estimates for the various years are from Congressional Budget Office, "Effects of the Affordable Care Act on Health Insurance Coverage—Baseline Projections" (March 2015), "Insurance Coverage Provisions of the Affordable Care Act—CBO's April 2014 Baseline" (April 2014), "May 2013 Baseline" (May 2013) [www.cbo.gov/publication/43900](http://www.cbo.gov/publication/43900), and cost estimate for H.R. 4872, the Reconciliation Act of 2010 (final health care legislation) (March 20, 2010), [www.cbo.gov/publication/21351](http://www.cbo.gov/publication/21351).

result from repealing the ACA's insurance coverage provisions are smaller. Many other factors also have affected the agencies' projections since 2012, including reductions in the number of people projected to purchase coverage through exchanges and increases in the number of people projected to obtain coverage through Medicaid—but the net effect has been a reduction in the projected costs of the coverage provisions (see Figure 3). Taking into account all of those factors, the net savings from repealing the coverage provisions are now projected to total \$762 billion over the 2016–2022 period, as compared with \$1,027 billion in the previous estimate (a 26 percent reduction).

- At the same time, lower projections of spending on health care are reflected in lower projections of outlays for Medicare, Medicaid, and other federal health care programs—and thus in lower estimated costs in any given year from repealing the ACA provisions that reduced those outlays. Taking into account those and other factors, and again focusing on the 2016–2022 period covered by both estimates, the net costs of

repealing those provisions are now projected to total \$445 billion, as compared with \$623 billion in the previous estimate (a 28 percent reduction).

- The increase in deficits that stems from repealing the noncoverage revenue provisions is now projected to total \$394 billion over the 2016–2022 period, as compared with \$450 billion in the previous estimate (a 12 percent reduction). Changes to the overall macroeconomic forecast, additional data, and changes to the tax code that have occurred since 2012 have resulted in revisions to estimates of the effects of repealing several of those revenue provisions. The projections of an overall reduction in health spending also have affected the estimates for several of those provisions, thus contributing to a smaller estimate for costs that would be attributable to a repeal.

In sum, CBO and JCT now estimate that repealing the insurance coverage provisions of the ACA would generate \$762 billion in net savings over the 2016–2022 period, an amount that would be offset by \$840 billion in estimated costs from repealing the other provisions, to yield a

net increase in deficits of \$78 billion over that period. In 2012, the estimate of \$1,027 billion in net savings from repealing the ACA's coverage provisions was offset by \$1,073 billion in estimated costs from repealing the other provisions—yielding an estimated net increase in deficits of \$46 billion for the 2016–2022 period.

## The Macroeconomic Feedback Effects of a Repeal and Their Impact on the Federal Budget

CBO and JCT also have analyzed the effects that repealing the ACA would have on the U.S. economy and estimated the budgetary impact—or feedback effects—of those macroeconomic changes. CBO and JCT estimate that the net effect on the economy's output would be negligible in 2016 but would grow after that. According to the agencies' estimates, from 2021 through 2025, a repeal would increase GDP by about 0.7 percent, on average—mostly by repealing provisions that, under current law, are expected to reduce the supply of labor.

The macroeconomic feedback effects of repealing the ACA would lower federal deficits by \$216 billion over the 2016–2025 period, CBO and JCT estimate (see Table 1 on page 2). The largest effect would be an increase in revenues arising from the increased supply of labor, which in turn would boost employment and taxable income. After accounting for the feedback effects, CBO and JCT estimate that the total impact on direct spending and revenues of repealing the ACA would be to increase federal deficits by \$137 billion over the 2016–2025 period. The estimates of the macroeconomic effects and of their consequences for the federal budget are highly uncertain, however, and actual results could be substantially different.

In general, CBO and JCT analyze the macroeconomic effects of changes in fiscal policy by examining similar policies that have been implemented previously and by using results from a variety of economic models. Both agencies also distinguish between longer- and shorter-term effects. Changes in fiscal policy affect output over the longer term by altering people's incentives to work and save and by changing businesses' incentives to invest, thereby changing potential output over the longer term. In the shorter term, changes in fiscal policies also can affect the economy by influencing the demand for goods and services, leading to changes in actual output relative to potential output (the maximum sustainable output of the economy).

For this report, CBO and JCT collaborated to examine the macroeconomic effects of repealing the ACA and those effects' feedback to the federal budget, with each agency focusing on different components of the analysis. JCT primarily analyzed the macroeconomic effects and feedback to federal revenues stemming from the revenue provisions not related to insurance coverage and from the excise tax on certain high-premium insurance plans.<sup>17</sup> CBO primarily analyzed the macroeconomic effects and feedback to federal revenues arising from the other changes in fiscal policy that would stem from repealing the ACA, as well as the feedback effects to federal outlays stemming from a repeal.<sup>18</sup> The estimates of macroeconomic effects and of their feedback to the federal budget presented in this report constitute a synthesis of those analyses.

### Macroeconomic Effects from 2021 Through 2025

The largest macroeconomic effects of repealing the ACA would take several years to arise. CBO and JCT estimate that, over the final five years of the current budget window—the period from 2021 to 2025—repealing the ACA would boost GDP by about 0.7 percent, on average, relative to current-law projections. During that period, the estimated effects on output stem from two main sources:

17. JCT used its macroeconomic equilibrium growth (MEG) model, in which economic output in the longer run is determined by the supply of labor and capital, which in turn respond to the rates of taxation on wages and capital income. In the shorter run, output may be influenced by changes in consumer demand stemming from changes in after-tax income. For a description, see Joint Committee on Taxation, *Overview of the Work of the Staff of the Joint Committee on Taxation to Model the Macroeconomic Effects of the Proposed Tax Legislation to Comply with House Rule XIII.3.(b)(2)*, JCX-105-03 (December 2003), <http://go.usa.gov/3XS2R>. For a discussion of the values currently used in the MEG model, see Joint Committee on Taxation, *Macroeconomic Analysis of the "Tax Reform Act of 2014,"* JCX-22-14 (February 2014), <http://go.usa.gov/3XSTJ>.
18. To estimate the effects of repealing the ACA over the longer term, CBO employed a version of a widely used Solow-type growth model in which economic output is determined by the number of hours of labor that workers supply, the size and composition of the capital stock (such as factories and equipment), and the combined productivity of labor and capital (known as total factor productivity). In the short term, changes in fiscal policies also can affect the economy by influencing the demand for goods and services by consumers, businesses, and governments, which leads to changes in actual output relative to potential output. For a description see Congressional Budget Office, *How CBO Analyzes the Effects of Changes in Federal Fiscal Policies on the Economy* (November 2014), [www.cbo.gov/publication/49494](http://www.cbo.gov/publication/49494).

- The ACA's largest effects on output are projected to result from several provisions that reduce the supply of labor by decreasing some people's incentives to work; repealing those provisions would thus increase the supply of labor and increase output relative to baseline projections.
- Implementation of the ACA is also expected to shrink the capital stock, on net, over the next decade, so a repeal would increase the capital stock and output over that period. In particular, repealing the ACA would increase incentives for capital investment, both by increasing labor supply (which makes capital more productive) and by reducing tax rates on capital income. However, the net increase in deficits that would be caused by a repeal—even after accounting for macroeconomic feedback—would increase government borrowing and thus would reduce capital investment somewhat in the longer term.

**Labor Supply.** CBO and JCT estimate that repealing the ACA would increase the supply of labor and thus increase aggregate compensation (wages, salaries, and fringe benefits) by an amount between 0.8 percent and 0.9 percent over the 2021–2025 period. Those effects would be the result of repealing various provisions of the ACA that are estimated to reduce the amount of labor that people choose to supply. In particular, the subsidies and tax credits for health insurance that the ACA provides to some people are phased out as their income rises—creating an implicit tax on additional earnings—and those subsidies, along with expanded eligibility for Medicaid, generally make it easier for some people to work less or to stop working without losing health insurance coverage.<sup>19</sup> For other people, the act directly imposes higher taxes on labor income, thus discouraging work. Repealing the ACA would reverse those effects. In percentage terms, the increase in total hours worked is estimated to be larger than the increase in aggregate compensation because the largest increases in labor supply would occur among the lower-wage workers whose incentives would be most strongly affected. Specifically, repealing the ACA would increase the aggregate number of hours worked by about 1.5 percent over the 2021–2025 period, CBO and JCT estimate.

19. Because such people would still be insured, CBO and JCT estimate that the changes in labor supply stemming from repeal of the ACA would not significantly affect the *number* of people who had health insurance, although the changes would affect the *sources* of health insurance for some people.

CBO previously estimated that implementation of the ACA will have larger effects on hours worked and compensation.<sup>20</sup> To update that analysis for this estimate, CBO and JCT first considered the agencies' most recent baseline projections of the number of people affected by the ACA's provisions—including projections of enrollment in subsidized exchange plans and in Medicaid. The agencies also considered more recent evidence about the ACA's likely effects on labor markets and extended that analysis to 2025. As a result, the estimated effects of the ACA on total hours worked and compensation in the second half of the 10-year budget window were reduced by about 15 percent, mostly because fewer people are now projected to receive subsidies through exchanges under current law.

**Capital Stock.** CBO and JCT estimate that repealing the ACA would increase the capital stock over the 2021–2025 period, on net, for two main reasons. First, the projected reduction in labor supply stemming from the ACA is expected to cause a gradual reduction in the capital stock as businesses adjust the amount of capital available for workers to use—so repealing the ACA would undo that effect. Second, repealing the ACA also would eliminate several taxes that reduce people's incentives to save and invest—most notably the 3.8 percent tax on various forms of investment income for higher-income individuals and families. The resulting increase in the incentive to save and invest—relative to current law—thus would gradually boost the capital stock; consequently, output would be higher.

CBO and JCT also considered the extent to which repealing the ACA would affect output through its effects on federal deficits. As discussed in more detail below, the agencies estimate that repealing the act ultimately would increase federal deficits—even after accounting for other macroeconomic feedback. Larger deficits would leave less money for private investment (a process sometimes called crowding out), which reduces output. Over the 2021–2025 period, however, that effect would not be large enough to offset the effects of repealing the ACA that would boost investment.

20. CBO had estimated that the ACA will cause a reduction of roughly 1 percent in aggregate labor compensation over the 2017–2024 period and will reduce the total number of hours worked, on net, by 1.5 percent to 2.0 percent during that period. See Congressional Budget Office, *The Budget and Economic Outlook: 2014 to 2024* (February 2014), Appendix C, [www.cbo.gov/publication/45010](http://www.cbo.gov/publication/45010).

CBO and JCT thus estimate that, on balance, repealing the ACA would yield a larger capital stock, which would boost output over that period. The effects on output of those changes in the capital stock would be smaller than the increases in output stemming from changes in the supply of labor.

### **Macroeconomic Effects From 2016 Through 2020**

CBO and JCT estimate that repealing the ACA would have smaller effects on output in the next few years than would occur later in the coming decade, in part because the ACA's adverse effects on output are projected to be smaller as the responses to its provisions phase in. Correspondingly, repealing the law would have smaller effects over the 2016–2020 period. The macroeconomic effects of implementing or repealing the ACA also are different when the economy operates below its potential, as is projected for the next two years or so. CBO and JCT estimate that a repeal would have a negligible effect on output in 2016 and would increase output by about 0.1 percent in 2017, rising to about 0.6 percent in 2020.

**Labor Supply.** One reason that the effects of repealing the ACA would be smaller over the next few years is that the law's influence on labor supply will probably be smaller over that period. That conclusion reflects an expectation that the number of people who will receive exchange subsidies under the ACA will be somewhat smaller next year than in later years. The number of additional Medicaid enrollees also is projected to rise over the next several years under current law. Moreover, people will probably adjust gradually to the incentives under current law, and CBO and JCT estimate that affected people would probably adjust gradually to a repeal of the ACA as well. Consequently, the estimated effects on labor supply over the shorter term—both for current law and for a repeal of the ACA—are smaller.

A second consideration is that the reductions in labor supply stemming from the ACA are expected to have a somewhat muted effect on total hours worked over the next two years or so, when there will still be some slack in the labor market. Thus, if some workers reduce the number of hours they work or leave the labor force altogether, some underemployed workers or people who are not actively looking for employment but are willing to work will probably be available to take their place. As a result, the ACA's effects on labor markets are projected to be smaller in the near term—so the effects of repealing the ACA also would be smaller.

**Aggregate Demand.** CBO and JCT estimate that repealing the ACA would decrease aggregate demand for goods and services in the short-term—reversing the projected effects of the ACA and slightly dampening output over the next two years or so. On balance, implementation of the ACA is expected to boost overall demand because the people who will benefit from the expansion of Medicaid or from access to the exchange subsidies are predominantly in lower-income households and thus are likely to spend a large fraction of their additional resources on goods and services—whereas the people who will pay higher taxes are predominantly in higher-income households and are likely to change their spending to a lesser degree. Similarly, reduced Medicare payments to hospitals and other providers under the provisions of the ACA will reduce income and profits, but those changes are likely to decrease demand by a relatively small amount. Given the projected effects of the ACA in spurring demand and output to a small degree over the next few years, CBO and JCT estimate, repealing the ACA would have the opposite effect.

**Combined Short-Term Effects on Output.** On balance, CBO and JCT estimate, the reduction in aggregate demand in 2016 that would stem from repeal of the ACA would roughly offset the rise in output caused by increases in labor supply and by the other factors described above, so projected output would be about the same in 2016 whether or not the law was repealed. Output would be higher, on net, in later years because the dampening effect on aggregate demand would wane and the other effects of repealing the ACA that boost output would strengthen—particularly the effects on labor supply.

### **Budgetary Feedback From Macroeconomic Effects**

Taking into account the factors described above, CBO and JCT estimate that the macroeconomic effects of repealing the ACA would lower federal deficits by \$216 billion over the 2016–2025 period. Most of that reduction would stem from an increase in revenues resulting from higher employment and taxable income, relative to projections under current law. Combined with the estimated effects of a repeal on federal deficits excluding macroeconomic feedback, the total result of changes in direct spending and revenues would amount to an increase in federal deficits of \$137 billion over 10 years.

CBO and JCT's estimates of those macroeconomic feedback effects and the methods used to generate them depend in part on the types of provisions and categories

of feedback being analyzed. In estimating the feedback effects on revenues of repealing the noncoverage revenue provisions and the excise tax on certain high-premium insurance plans, JCT projected macroeconomic effects and net effective tax rates for several different types of taxable income (including wages, interest, dividends, capital gains, and business income). In analyzing the coverage provisions—which affect the economy primarily through their impact on labor supply—CBO estimated that the resulting increases in GDP would raise revenues in a roughly proportional way, primarily because income and payroll taxes would rise with higher compensation and income.

To estimate the effects of macroeconomic feedback on federal spending, CBO generally uses a simplified method that accounts for changes in GDP and interest rates, among other factors, but does not involve the sort of detailed program-by-program analysis that the agency uses for official cost estimates. As a rule, increases in GDP would have much smaller effects on federal spending than on revenues. CBO's estimates for discretionary programs incorporate the assumption that spending generally remains at the amounts projected in its budgetary baseline even if output changes.<sup>21</sup> For mandatory programs, CBO estimates, aggregate spending would be affected only slightly by a change in the rate of economic growth.<sup>22</sup>

The agencies' analysis of macroeconomic effects on the federal budget includes effects on interest payments caused by changes in interest rates. In 2016 and 2017, the reduction in overall demand estimated in the event of a repeal of the ACA would slightly reduce interest rates and, as a result, federal interest payments. Over the longer term, however, repealing the ACA would be expected to increase interest rates slightly—by roughly 5 basis

points, or five one-hundredths of a percent—because of the resulting increase in federal borrowing. Under current law, federal debt held by the public (on which interest payments are made) is projected to be about \$14 trillion in 2016 and about \$21 trillion in 2025, so even small changes in interest rates can have a noticeable effect on interest payments as that debt is refinanced.<sup>23</sup>

Overall, CBO and JCT estimate, the macroeconomic effects of repealing the ACA would increase federal revenues much more than they would affect federal outlays. Specifically, the increase in output that would result from repealing the ACA would boost revenues by \$225 billion over the 2016–2025 period.<sup>24</sup> By 2021, when the increase in output attributable to the legislation is estimated to reach 0.7 percent, the macroeconomic effects would boost federal revenues by nearly the same percentage—or by about \$27 billion. (Under current law, federal revenues are projected to total about \$4.2 trillion in 2021.) In subsequent years, however, the feedback to federal revenues would shrink slightly as a share of total revenues because of the macroeconomic effects of the projected increases in federal borrowing. Outlays would primarily be affected by the estimated changes in interest rates, falling initially and then rising slightly in later years. On net, CBO estimates, the macroeconomic effects of repealing the ACA would increase outlays by \$9 billion over the 2016–2025 period.

### Other Potential Effects on Output

Implementation of the ACA—and consequently, its repeal—could affect GDP and other aspects of the economy in several other ways. In CBO and JCT's judgment, however, those other effects generally would be small and probably would offset one another. For example, increases in insurance coverage stemming from the ACA could improve workers' health or their job matches, which could in turn make them more productive. In that case, repealing the law would have the opposite effect. The evidence about such effects is limited, however. One recent study also found that past extensions of Medicaid

21. Changes in projected prices and rates of inflation affect CBO's projections of discretionary spending. CBO estimates that if the ACA was repealed, those macroeconomic effects would be small, resulting in an estimated reduction in discretionary spending of less than a billion dollars over the next decade.

22. For GDP growth, CBO recently estimated that a reduction in the real (inflation-adjusted) growth rate of 0.1 percentage point per year over the next decade—which would reduce GDP by about 1 percent in 2025—would reduce mandatory spending only by \$4 billion over that period. According to that rule of thumb, a corresponding increase in the rate of GDP growth over the next decade would be expected to increase mandatory spending by roughly the same amount. See Congressional Budget Office, *The Budget and Economic Outlook: 2015 to 2025* (January 2015), Appendix C, [www.cbo.gov/publication/49892](http://www.cbo.gov/publication/49892).

23. Reflecting a long-standing convention, CBO does not include in cost estimates the budgetary effects of changes in interest payments stemming from changes in the amount of debt incurred. However, the macroeconomic effects of those changes in interest payments are incorporated into the agency's macroeconomic analysis.

24. A portion of the \$225 billion increase in revenues would come from increases in payments of Social Security payroll taxes, which are off-budget, but CBO cannot provide an estimate of that portion at this time.

eligibility for children increased their earnings and tax payments as adults.<sup>25</sup> However, the ACA did not substantially change the number of children eligible for Medicaid, so that finding is not directly relevant to an analysis of the ACA or its repeal.

At the same time, repealing the ACA could increase productivity through other channels. For example, productivity could fall, under current law, if businesses hired more part-time workers and fewer full-time workers as a way to avoid paying the penalties that the ACA imposes on larger businesses that do not offer health insurance to their full-time employees. In addition, businesses might invest less in their workers' training because workers will find it easier than they did under prior law to change jobs without losing health insurance, and the resulting higher turnover reduces the return on such investments. Repealing the ACA could thus reverse those effects, but in any event such effects would probably be small.

A repeal of the ACA also could affect saving rates by encouraging people to save more of their income to cover the expected costs of health care, which would in turn lower interest rates and boost output. Such effects would probably be small, however, and could be offset by the reinstatement of certain prior-law tests for Medicaid eligibility. Those tests limited the amount of assets that certain people could hold and still qualify for Medicaid, and reinstating those limits would, to a small degree, discourage savings.

## Impact on the Economy and the Federal Budget Beyond 2025

Detailed, year-by-year projections of the effects of a repeal in years beyond 2025 would not be meaningful because the uncertainties involved are simply too great. Instead, CBO and JCT have made a rough assessment of the likely budgetary consequences in the decade after 2025 of repealing the ACA, with and without the effects of macroeconomic feedback. Both types of analysis indicate that repealing the act would increase deficits over the 2026–2035 period, and it seems likely that such legislation would result in higher budget deficits in later years as well.

25. David W. Brown, Amanda E. Kowalski, and Ithai Z. Lurie, *Medicaid as an Investment in Children: What is the Long-Term Impact on Tax Receipts?* Working Paper 20835 (National Bureau of Economic Research, January 2015), [www.nber.org/papers/w20835](http://www.nber.org/papers/w20835).

## Effects Excluding Macroeconomic Feedback

To assess budgetary effects in the decade after 2025, CBO and JCT grouped the elements of the estimate into broad categories, examining their rates of growth towards the end of the 10-year budget window, and projecting the rate at which the budgetary impact of each category would increase over time—as the agencies did during consideration of the ACA and similar legislation in 2009 and 2010, and when preparing their 2012 estimate of the effects of a repeal. Overall, CBO and JCT estimate that the direct spending and revenue effects of repealing the ACA would increase the federal deficit by \$55 billion in 2022 and by amounts that would rise to \$118 billion in 2025 (excluding the effects of macroeconomic feedback). For this analysis, the effects were grouped as follows:

- Net savings from repealing the ACA's coverage provisions would total \$133 billion in 2025, and CBO and JCT estimate that the savings would be growing by about 2 percent per year toward the end of the 10-year budget window. That estimate of slow growth reflects several factors, but one reason those savings would grow relatively slowly in that period (and in later years) is that the annual updates to exchange subsidies are structured in a way that will tend to slow their growth—which would limit the savings from a repeal.<sup>26</sup> Another reason is that the revenues stemming from the excise tax on certain high-premium insurance plans will grow rapidly as more plans are affected by that tax, and the loss of those revenues would reduce the net savings from repealing the coverage provisions.
- Repealing changes that the ACA made to Medicare, Medicaid, and other federal health programs—other than those associated directly with expanded insurance coverage—would cost a total of \$168 billion in 2025, and CBO estimates that those costs would be growing by about 15 percent per year toward the end of the 10-year budget window. That rapid growth would occur because repealing the ACA's reductions in updates to Medicare's payment rates would increase the growth rate of that program's spending, and thus the costs of repealing those provisions would compound over the next decade.

26. For additional discussion of the provisions that govern the annual updates for exchange subsidies, see Congressional Budget Office, *The 2015 Long-Term Budget Outlook* (June 2015), pp. 33–34, [www.cbo.gov/publication/50250](http://www.cbo.gov/publication/50250).

- Repealing the ACA's revenue provisions that are not related to insurance coverage would result in revenue losses totaling \$83 billion in 2025, and JCT estimates that those losses would be growing by about 6 percent per year toward the end of the 10-year budget window.

Extrapolating the budgetary effects for each category using the growth rates described above yields an estimate that repealing the ACA would continue to increase federal deficits substantially in subsequent years. In particular, CBO and JCT conclude that repealing the ACA would increase federal budget deficits over the 2026–2035 period, relative to the deficits that would occur under current law, by amounts that lie within a broad range around one percent of GDP. The imprecision of that calculation reflects the greater degree of uncertainty surrounding it relative to CBO and JCT's 10-year estimates.

### Effects Including Macroeconomic Feedback

The same macroeconomic effects that would generate budgetary feedback over the 2016–2025 period also would operate farther into the future. However, the net savings stemming from those effects would start to decline after 2019, CBO and JCT estimate, and would continue to shrink after 2025. Although the increase in labor supply would continue to boost output and revenues in a roughly proportional way, the growing increases in federal deficits that are projected to occur if the ACA was repealed would increasingly crowd out private investment and boost interest rates. Both of those developments would reduce private investment and thus would dampen economic growth and revenues; the increase in interest rates also would increase federal interest payments.

On balance, output would probably be higher over the 2026–2035 period as a result of repeal, but incorporating the budgetary effects of macroeconomic feedback would not substantially alter the estimated increase in federal deficits over that period—which would remain within a broad range around one percent of GDP. Including the effects of macroeconomic feedback, a repeal of the ACA would probably increase deficits in subsequent years as well.

### Uncertainty Surrounding the Estimates

Although CBO and JCT have endeavored to develop estimates that are in the middle of the distribution of potential outcomes, that distribution spans a wide range.

Estimates of the budgetary impact of repealing the ACA are based in large part on projections of the law's effects, which are themselves highly uncertain. Assessing the effects of broad changes made by the ACA in the nation's health care and health insurance systems requires estimates of a broad array of technical, behavioral, and economic factors that are difficult to predict. For example, the effects of the ACA on insurance coverage depend on how individuals, employers, and insurers respond to the subsidies and penalties and related changes instituted by the act. Uncertainty about those factors translates into still more uncertainty regarding the budgetary effects of repealing the act's insurance coverage provisions.<sup>27</sup>

As for the other provisions of the ACA, separating their incremental effects on outlays for continuing programs and existing revenue streams from other factors that affect those outlays and revenues can become more difficult and uncertain over time because more of those other factors may arise. The substantial discretion that would be given to executive branch agencies to determine how to implement a repeal of the ACA is yet another source of uncertainty.

Several other sources of uncertainty stand out: the Supreme Court's forthcoming ruling on exchange subsidies; the responses of providers over the longer term to the ACA's reductions in Medicare's payment updates; the degree to which the recent slowdown in overall spending on health care will persist, and the nature of the ACA's role in that slowdown; and the law's macroeconomic effects, particularly concerning labor markets.

### The Supreme Court's Ruling

Currently, a particular source of uncertainty involves the outcome of litigation regarding whether people may receive subsidies for coverage purchased through exchanges that are operated by the federal government rather than by a state government. The Supreme Court is expected to rule on that case later in June 2015. Until that

27. One area of uncertainty involves the extent to which employers will continue to offer health insurance coverage to their workers under current law. However, CBO and JCT's analysis found that even if the changes in employment-based health insurance differed substantially from those projected, they would have limited effects on the budgetary impact of the ACA because changes in the availability and take-up of such insurance affect the federal budget in several ways that are partly offsetting. See Congressional Budget Office, "The Effects of the Affordable Care Act on Employment-Based Health Insurance," *CBO Blog* (March 15, 2012), [www.cbo.gov/publication/43090](http://www.cbo.gov/publication/43090).



ruling is issued, CBO and JCT's baseline projections reflect the way the ACA is currently implemented, which involves people in many states receiving subsidies through what are known as federally facilitated marketplaces or through exchanges established in partnership between the federal government and a state government. In the event that the Supreme Court ruled that those subsidies must cease, CBO and JCT would reduce their projections of spending under current law and would reduce their estimates of the savings generated by repealing the ACA's coverage provisions. The magnitude of such changes would depend on the specifics of the Court's ruling. If instead the Court ruled that the exchange subsidies are being issued properly, CBO and JCT's baseline projections—and the estimates contained in this report—would not be affected by the Court's ruling.

### Providers' Responses to Changes in Payment Rates

An important source of uncertainty in projecting health care spending under current law for the long term involves the way that providers will respond to scheduled restraint in annual updates to Medicare's payment rates—and whether those responses will lead to offsetting increases or further reductions in spending for Medicare and other health care programs. The scheduled updates in the payment rates would generally fall below increases in the prices of inputs (namely, labor and supplies) used to deliver care. To keep the growth of their costs in line with the growth in those payment rates, providers could use fewer inputs per patient over time—that is, they could raise their productivity—or seek to control costs in other ways. If providers cannot achieve significant gains in productivity, they might reduce the quality of care offered to Medicare enrollees, reduce enrollees' access to care (which might reduce spending), or seek to increase revenues by other means (which might increase spending).<sup>28</sup> The nature of such responses, if any, under current law would also affect the budgetary consequences of repealing the ACA.

### Trends in Health Care Spending

Substantial uncertainty also surrounds the question of whether repealing the ACA would affect spending for health care in ways that are not captured directly in the estimates presented above. Health care spending has grown more slowly in recent years than it has historically, both in absolute terms and relative to the pace of economic

growth. But that slow growth might not persist under current law. Although many analysts attribute at least a portion of the slowdown to the effects of the recent recession and slow recovery, there is debate about the role of structural or other changes in the health sector and whether and how enactment of the ACA has encouraged those changes. Some considerations suggest that the effect of the ACA's enactment may be limited:

- CBO's own analyses and other studies have shown that Medicare spending began to slow before the enactment of the ACA—and before the recession—and CBO also found that the direct effects of the recession explained very little of that slowdown, suggesting that other factors were at work.<sup>29</sup>
- The overall slowdown in the growth of spending occurred when very few of the ACA's provisions had been implemented in any substantial way, making it difficult to attribute much of the slowdown to the effects of specific provisions of that law.
- At a more qualitative level, the last time health care spending grew at roughly the same rate as the economy for an extended period was in the mid- to late-1990s—after an unsuccessful attempt to enact major health care legislation—which suggests that attention to the issue rather than enactment of legislation could be an important factor.

Nevertheless, it is difficult to dismiss the argument that implementation of the ACA's provisions has in some way fostered a focus on cost control that has encouraged slower growth in spending. As one analysis concluded recently, however, “it is impossible to quantify how much the ACA has truly contributed to the reduced spending projections over time”—at least until more extensive data and analyses are available.<sup>30</sup> Reflecting that view, CBO

28. For additional discussion, see Congressional Budget Office, *The 2015 Long-Term Budget Outlook* (June 2015), pp. 38–40, [www.cbo.gov/publication/50250](http://www.cbo.gov/publication/50250).

29. See Michael Levine and Melinda Buntin, *Why Has Growth in Spending for Fee-for-Service Medicare Slowed?* Working Paper 2013-06 (Congressional Budget Office, August 2013), [www.cbo.gov/publication/44513](http://www.cbo.gov/publication/44513); and Chapin White and Paul Ginsburg, “Slower Growth in Medicare Spending—Is This the New Normal?” *New England Journal of Medicine*, vol. 366, no. 12 (March 22, 2012), pp. 1073–1075, [www.nejm.org/doi/full/10.1056/NEJMp1201853](http://www.nejm.org/doi/full/10.1056/NEJMp1201853).

30. See John Holahan and Stacey McMorro, *The Widespread Slowdown in Health Spending Growth: Implications for Future Spending Projections and the Cost of the Affordable Care Act* (Robert Wood Johnson Foundation and Urban Institute, April 2015), p. 11, <http://tinyurl.com/q7j6kkc>.

and JCT have not incorporated such an effect into this estimate. But to the extent that such an effect has occurred and would continue under current law, repealing the ACA would generate a larger increase in federal deficits than is estimated here. Specifically, repealing the ACA would cause spending on Medicare and Medicaid to grow more rapidly—and the substantial costs of the tax preference for employment-based health insurance to grow more quickly—than is reflected in this estimate.

### Responses in Labor Markets

Finally, there is considerable uncertainty surrounding CBO and JCT's estimates of the macroeconomic effects of repealing the ACA, largely because of the uncertainty concerning the consequences of that law for labor markets. That uncertainty arises in part because many of the ACA's provisions have been in place for less than two years and in part because estimates of how workers and businesses might respond vary considerably. CBO and JCT seek to provide estimates of macroeconomic effects that lie in the middle of the distribution of potential outcomes, but the actual effects of the ACA could differ notably from their estimates. For example, if fewer people obtain subsidized insurance coverage through exchanges under the ACA than CBO and JCT expect—or if those people respond less strongly to incentives regarding work than the agencies have estimated—then the effects of the ACA on employment and output would be smaller than estimated in this report (the same would be true for the cost of those subsidies). Alternatively, if more people obtain subsidized coverage through exchanges, or if the subsidy system affects their labor supply more strongly, then the ACA's impact on the labor market and the economy (and the cost of subsidies) would be larger. The effects of repealing the ACA could thus be smaller or larger as well.

### Overall Magnitude of the Uncertainty

Quantifying the variation in budgetary effects that might stem from any source of uncertainty is difficult, and trying to capture the likely effects for all of them simultaneously would be harder still. As a qualitative matter, however, the range of important uncertainties and the large flows of funds that are affected by the ACA suggest that the variation in budgetary effects of repealing that law could be substantial. Although CBO and JCT's best estimate is that repealing the ACA would increase federal budget deficits by \$137 billion over the 2016–2025 period through its effects on direct spending and revenues, the effects on federal deficits of repealing the ACA could differ, in either direction, from the central estimates presented in this report by a sum that exceeds that amount. Thus, the uncertainty is sufficiently great that repealing the ACA could in fact reduce deficits over that period—or could increase deficits by a substantially larger margin than the agencies have estimated.

For the decade after 2025, the estimated effects on deficits of repealing the ACA are so large as to make it substantially less likely that a repeal could reduce deficits. The range of uncertainty grows wider over time, however, because it becomes more and more difficult to project health care spending—a key driver of both the costs and the savings generated by the ACA. Over a long horizon, a wide range of changes could occur in people's health, in the sources and extent of their insurance coverage, and in the delivery of medical care (reflecting factors such as advances in medical research, developments in technology, and changes in patterns of medical practice) that are likely to be significant but that are very difficult to predict, both under current law and under any proposal to repeal the ACA.

# List of Tables and Figures

## Tables

1. Summary of Estimated Effects on Direct Spending and Revenues of Repealing the Affordable Care Act	2
2. Estimate of the Direct Spending and Revenue Effects of Repealing the Affordable Care Act, Without Macroeconomic Feedback	3
3. Estimate of the Effects on Health Insurance Coverage of Repealing the Affordable Care Act	9
4. Estimated Changes in Direct Spending and Revenues That Would Result From Repealing the Affordable Care Act, Without Macroeconomic Feedback	11

## Figures

1. Estimated Effects on Deficits of Repealing the Affordable Care Act	4
2. Comparison of Estimated Effects on Deficits of Repealing the Affordable Care Act	13
3. Evolution of CBO and JCT's Estimates of the Net Budgetary Effects of the Insurance Coverage Provisions of the Affordable Care Act	14

## About This Document

This Congressional Budget Office report was prepared at the request of the Chairman of the Senate Budget Committee. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

Philip Ellis wrote the report and contributed to the analysis with significant input from Benjamin Page. Thomas Bradley, Lori Housman, Paul Masi, Kevin McNellis, Jamease Miles, Lara Robillard, Erica Socker (formerly of CBO), Zoe Williams, and Rebecca Yip prepared the analysis of effects on Medicare. Chad Chirico, Julia Christensen, Kate Fritzsche, Daniel Hoople, Sarah Masi, Andrea Noda, Lisa Ramirez-Branum, Robert Stewart, and Ellen Werble prepared the analysis of effects on Medicaid, exchange subsidies, and other federal health programs. Jessica Banthin, Sean Lyons, Alexandra Minicozzi, Eamon Molloy, Romain Parsad, Allison Percy, Sam Trachtman (formerly of CBO), and Christopher Zogby contributed to the analysis of effects on Medicaid and exchange subsidies. The staff of the Joint Committee on Taxation contributed to the analysis of effects on exchange subsidies and revenue changes associated with employment-based health insurance and prepared the analysis involving revenue provisions. Paul Burnham, Devrim Demirel, Ed Harris, Janet Holtzblatt, Jonathan Huntley, Leah Loversky, Shannon Mok, Frank Russek, and the staff of the Joint Committee on Taxation prepared the analysis of the macroeconomic feedback. Linda Bilheimer, Wendy Edelberg, Theresa Gullo, Mark Hadley, Holly Harvey, and David Weiner provided guidance and helpful comments.

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