Potential Impact to the Federal Budget of Not Directly Funding Cost-Sharing Reduction Subsidies

Updated April 26, 2017

Under current law, qualified health plans are required to offer cost-sharing reduction (CSR) subsidies to eligible individuals. Removing direct federal funding — received by carriers for the past three years and budgeted for 2017 — without changing the requirement that health plans in exchanges must offer the CSR Silver-variant plans would have significant negative effects on the federal budget. This projection details the rationale and potential size of those impacts.

Several analysts (including the Office of the Assistant Secretary for Planning and Evaluation) have concluded that the 2018 premium for Silver plans would need to be raised to ensure that premiums adequately cover the cost of coverage for the richer benefits required by the Patient Protection and Affordable Care Act for lower-income enrollees.[1]

Since the direct federal funding of subsidies is linked to the cost of the second-lowest Silver plan, if Silver premiums must be increased by 15 to 20 percent to cover the cost of CSRs, then the Advanced Premium Tax Credit (APTC) will rise by comparable amounts.[2] A recent study conducted by the Kaiser Family Foundation estimated there would be a 19 percent increase in premiums across all states due to the loss of direct federal support for CSRs. An analysis of the impact on California found a similar result (16.6 percent increase), concluding that, compared to the status quo (with direct federal funding of CSR), federal spending on health subsidies would increase by approximately 30 percent if CSRs were defunded.[3]

Currently the funding for CSRs is budgeted into the “baseline” federal spending for health insurance subsidies, which also includes federal spending on APTC. The analysis in Table 1 below applies Yin and Domurat’s (2017) estimates that APTC outlays would increase by 30 percent if CSRs were defunded to the Congressional Budget Office’s 10-year (2018–2027) estimates of APTC and CSR outlays in order to project the budgetary effects of ending CSR funding.[4] [5]

The additional costs of not directly funding CSRs would amount to approximately $851 billion.[6] Based on this projection, in the absence of direct CSR funding, the 10-year outlays to the federal government would amount to $931 billion, representing an increase in total federal spending of $80 billion, or $4 to $10 billion per year over the 10-year period.[7]

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[1] https://aspe.hhs.gov/pdf-report/potential-fiscal-consequences-not-providing-csr-reimbursements
[2] http://kff.org/health-reform/press-release/estimates-average-aca-marketplace-premiums-for-silver-plans-would-need-to-increase-by-19-to-compensate-for-lack-of-funding-for-cost-sharing-subsidies/
[3] Yin and Domurat (2017): http://www.coveredca.com/news/pdfs/CoveredCA_Consequences_of_Terminating_CSR.pdf
[4] https://www.cbo.gov/sites/default/files/recurringdata/51298-2017-01-healthinsurance.pdf
[5] The estimated 30 percent increase in APTC outlays is based on analysis of the California marketplace in consideration of the entire non-group market. The actual increase in outlays could vary, depending on each state’s marketplace compositions and consumer responses to premium increases.
[6] A prior version of the present analysis from Covered California (dated April 14, 2017) included a range with a lower-end estimate using the Congressional Budget Office (CBO) estimate for APTC outlays *only*. Upon review, the best estimate of total federal cost includes *both* outlays and revenue reductions, which is what is reflected in this analysis.
[7] An analysis released April 25, 2017, by the Kaiser Family Foundation finds a similar effect, albeit with a lower magnitude,

TABLE 1 – PROJECTED FEDERAL SPENDING IMPACTS IF COST SHARE REDUCTIONS (CSR) ARE DEFUNDED

($ in billions)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total 2018-2027
CBO's January 2017 baseline											
APTC outlays and revenue reductions[8]	48	56	65	69	73	76	79	81	83	85	**716**
CSR	10	11	12	13	14	14	15	15	15	16	**135**
If CSR Defunded — using Yin and Domurat (2017) analysis											
APTC outlays and revenue reductions	62	73	85	90	95	99	103	105	108	111	**931**
CSR	0	0	0	0	0	0	0	0	0	0	**0**
Difference in Federal Outlays Between CBO Baseline and CSR Defunded											
	4	6	8	8	8	8	9	9	10	10	**80**

This analysis was prepared by Covered California for its ongoing planning and to inform policy making in California and nationally. The analysis relies on research commissioned from independent economists at the University of California, Los Angeles. For more information, contact john.bertko@covered.ca.gov.

estimating that premium increases would cause spending on tax credits to go by 23% (compared to the 30% increase found by Yin and Domurat) which drawn out over the 10 year CBO window resulted in a total additional federal spending of $31 billion. See http://kff.org/health-reform/issue-brief/the-effects-of-ending-the-affordable-care-acts-cost-sharing-reduction-payments/.

[8] See Subtotal, Premium tax credit line in Table 2: https://www.cbo.gov/sites/default/files/recurringdata/51298-2017-01-healthinsurance.pdf