

# WebMemo



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## Congress's Health Care Reform Bills: The Unknown Costs

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All five of the congressional committees charged with drafting health care legislation have completed their plans. The congressional leadership will soon consolidate these measures into single pieces of legislation for their respective bodies, and floor votes in both the House and Senate are expected soon.

What is yet unknown is the true cost of these bills. Given the rapid evolution of these measures, the Congressional Budget Office (CBO)—Congress's official scorekeeper—has yet to issue a complete and final cost estimate.

Without such critical information, of course, it is impossible to assess key promises made by President Obama and congressional leaders on whether these bills will rein in costs for families, businesses, and government; not add a “dime to the deficit”; and not raise taxes on those making less than \$250,000 a year.

**The Role of the Congressional Budget Office.** The main role of the CBO is to estimate (or “score”) the budget costs of proposed legislation. It provides estimates of policy impacts that are related to the budget, decides whether proposed policies would affect federal government spending or revenues, and determines whether proposed legislation would impose mandates on either state or local governments or the private sector.

Upon request, the CBO can—and often does—provide supplemental information beyond the scope of its basic cost estimates.<sup>1</sup> Although the CBO provides many services for Congress, it does not en-

courage or discourage particular policy actions. The CBO's role is limited to ensuring that Congress has the best possible information—on budget impacts and related factors—to make policy decisions.

CBO scores are generally made public. Equally important, however, are the confidential, behind-the-scenes estimates that the CBO prepares for staff and Members during the process of developing legislation. While the massive House and Senate health bills were being drafted, many CBO estimates were likely developed and delivered behind the scenes to the majority staff on the relevant committees.

**Knowledge Gaps.** During the national debate over the Clinton health plan in 1994, the CBO published a comprehensive analysis of the President's proposal, including the financial impact, its budgetary treatment, the economic effects, and a detailed discussion of other key considerations.<sup>2</sup> In the current debate, the CBO has so far provided only partial and preliminary scores for some of the draft proposals, focusing almost exclusively on the budgetary impact and issues related to federal health care spending.<sup>3</sup>

But before lawmakers move further toward passing health care legislation, Congress and the Amer-

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ican public need more information on its cost and as well as its economic impact.

*The Senate HELP Bill.* On June 15, the CBO and the Joint Committee on Taxation (JCT) issued a preliminary analysis of the major coverage provisions in the draft Affordable Health Choices Act, more commonly known as the Kennedy–Dodd bill.<sup>4</sup> The initial CBO score caused sticker shock across the country, even among liberal congressional supporters.

The CBO concluded that the bill would add about \$1.3 trillion in new federal spending over 10 years while increasing the federal deficit by roughly \$1 trillion. At the time, the CBO cautioned that its estimates did not “represent a formal or complete cost estimate for the draft legislation.” In addition to other caveats, the score focused solely on certain coverage provisions included in Title I of the draft, and the analysis was based on only discussions with committee staff and not a “full assessment of the legislative language that was released by the committee.”

As a result, the early CBO score did not include the cost of core components of the proposal, such as the massive federal Medicaid expansion. That provision alone would add several hundred billion dollars to the price tag of the plan.

In July, Senate Democrats released updated legislation, along with another preliminary CBO score of the draft proposal.<sup>5</sup> The CBO then estimated that

the bill would cost roughly \$600 billion over 10 years, significantly lower than the previous score, primarily due to reductions in the size and scope of the subsidies offered in the legislation. But, like the previous CBO score, the updated estimate included only *six years of full implementation* and still excluded the roughly \$500 billion cost of a federal Medicaid expansion.<sup>6</sup>

In a Senate hearing, CBO director Douglas Elmendorf testified that the Senate HELP bill would likely “add substantially to the long-term spending burden for health care on the federal government.”<sup>7</sup> Despite the CBO’s assessment, Senators passed the legislation out of committee, leaving the question of how to pay for legislation to the Senate Finance Committee, which has jurisdiction over Medicare, Medicaid, and tax policy.

*The House Tri-Committee Bill.* On July 14, the CBO and JCT completed a preliminary analysis of the coverage provisions included in the America’s Affordable Health Choices Act (H.R. 3200). According to the analysis—which was also not based on actual legislative language—the House proposal would add more than \$1.5 trillion in new federal spending over the next 10 years and would increase the federal deficit by about \$1 trillion.<sup>8</sup>

The JCT then estimated that other tax provisions in the House bill would raise an additional \$580 bil-

1. Donald B. Marron, “Understanding CBO Health Cost Estimates,” Heritage Foundation *Backgrounder* No. 2298, July 15, 2009, at <http://www.heritage.org/Research/HealthCare/bg2298.cfm>.
2. Congressional Budget Office, “An Analysis of the Administration’s Health Proposal,” February 1994, at <http://www.cbo.gov/ftpdocs/48xx/doc4882/doc07.pdf> (October 7, 2009).
3. Congressional Budget Office, “The Budgetary Treatment of Proposals to Change the Nation’s Health Insurance System,” May 27, 2009, at <http://www.cbo.gov/ftpdocs/102xx/doc10243/05-27-healthInsuranceProposals.pdf> (October 9, 2009). See also Congressional Budget Office, “Health Care Reform and the Federal Budget,” June 16, 2009, at <http://www.cbo.gov/ftpdocs/103xx/doc10311/06-16-HealthReformAndFederalBudget.pdf> (October 9, 2009).
4. Congressional Budget Office, “Preliminary Analysis of Major Provisions Related to Health Insurance Coverage Under the Affordable Health Choices Act,” June 15, 2009, at <http://www.cbo.gov/ftpdocs/103xx/doc10310/06-15-HealthChoicesAct.pdf> (October 7, 2009).
5. Congressional Budget Office, “A Preliminary Analysis of the HELP Committee’s Health Insurance Coverage Provisions,” July 2, 2009, at <http://www.cbo.gov/ftpdocs/104xx/doc10431/07-02-HELPltr.pdf> (October 9, 2009).
6. Congressional Budget Office, “Supplemental Information on Potential Effects of the Affordable Health Choices Act,” September 10, 2009, at [http://www.cbo.gov/ftpdocs/105xx/doc10553/09-10-Response\\_to\\_Enzi\\_for\\_Web.pdf](http://www.cbo.gov/ftpdocs/105xx/doc10553/09-10-Response_to_Enzi_for_Web.pdf) (October 9, 2009). See also Congressional Budget Office, “Likely Effects of Substantially Expanding Eligibility for Medicaid,” July 7, 2009, at <http://www.cbo.gov/ftpdocs/104xx/doc10445/07-07-2009-ExpandingMedicaid.pdf> (October 9, 2009).
7. Douglas Elmendorf, director, Congressional Budget Office, testimony before the Committee on Health, Education, Labor, and Pensions, U.S. Senate, July 8, 2009.

lion in revenues, mostly due to the “surtax” imposed on certain individuals and small businesses under the plan.<sup>9</sup>

On July 17, the CBO and JCT released a subsequent analysis finding that the bill would still increase the federal deficit by \$239 billion in the first 10 years alone.<sup>10</sup> The estimate represented the net effect of the \$1.042 trillion cost of the coverage provisions in the bill, the \$219 billion in offsetting cuts in spending and other savings coming mainly from Medicare,<sup>11</sup> and the \$583 billion in new revenues raised primarily from the surtax proposal.

The CBO cited several reasons why the proposal would not “bend the cost curve” down and health care costs would likely continue to grow rapidly. A clarifying letter issued by CBO concluded that “relative to current law, the proposal would probably generate substantial increases in federal budget deficits during the decade beyond the current 10-year budget window.”<sup>12</sup>

*The Baucus Bill.* On September 16, the CBO and JCT released a “preliminary assessment” of the Senate Finance Committee proposal. This initial score, like all the others to date, was not final or com-

plete.<sup>13</sup> The estimates were based on specifications provided by committee staff, not the actual chairman’s mark or the revisions later made to it, let alone full legislative text.

In its preliminary score, the CBO estimated that the Baucus proposal would cost \$856 billion over 10 years. These costs would have been offset in part by revenues from an excise tax on high premium insurance plans and penalties paid by uninsured individuals and employers whose workers obtain a subsidy. Other budget savings were expected to come from cuts to Medicare Advantage and reductions in Medicare and Medicaid payments to hospitals and other health care providers.

Altogether, the CBO found the proposal could result in a net reduction in the federal deficit of \$49 billion over 10 years. Through a qualitative assessment, the CBO also suggested that outside the traditional 10-year budget window, the net effect of the bill would probably be “continued reduction in federal budget deficits.”

However, a major problem with the CBO score of the Baucus proposal is that the legislation would provide for only a one-year waiver of the reductions

8. Congressional Budget Office, “Preliminary Analysis of the Insurance Coverage Specifications Provided by the House Tri-Committee Group,” July 14, 2009, at [http://www.cbo.gov/ftpdocs/104xx/doc10430/House\\_Tri-Committee-Rangel.pdf](http://www.cbo.gov/ftpdocs/104xx/doc10430/House_Tri-Committee-Rangel.pdf) (October 9, 2009).
9. Joint Committee on Taxation, “Estimated Effects of the Revenue Provisions of H.R. 3200, the ‘America’s Affordable Health Choices Act of 2009,’” JCX-31-09, July 14, 2009, at <http://www.jct.gov/publications.html?func=startdown&id=3570> (October 9, 2009); “Estimated Effects of the Chairman’s Amendment in the Nature of a Substitute to the Revenue Provisions of H.R. 3200, the ‘America’s Affordable Health Choices Act of 2009,’ Scheduled for Markup by the Committee on Ways and Means on July 16, 2009,” JCX-33-09, July 16, 2009, at <http://www.jct.gov/publications.html?func=startdown&id=3572> (October 9, 2009).
10. Congressional Budget Office, “Preliminary Analysis of America’s Affordable Health Choices Act of 2009,” July 17, 2009, at <http://www.cbo.gov/ftpdocs/104xx/doc10464/hr3200.pdf> (October 9, 2009).
11. For an initial analysis of the Medicare provisions see Congressional Budget Office, “Preliminary Estimate of the Effects on Direct Spending and Revenues of Division B, Titles I-VII and Section 1872, of the House Tri-Committee Health Reform Discussion Draft,” July 8, 2009, at <http://www.cbo.gov/ftpdocs/104xx/doc10446/PreliminaryEstimateDivisionB.pdf> (October 9, 2009).
12. Congressional Budget Office, “Additional Information Regarding the Effects of Specifications in the America’s Affordable Health Choices Act Pertaining to Health Insurance Coverage,” July 26, 2009, at <http://www.cbo.gov/ftpdocs/104xx/doc10400/07-26-InfoOnTriCommProposal.pdf> (October 9, 2009).
13. Congressional Budget Office, “Preliminary Analysis of Specifications for the Chairman’s Mark of the America’s Healthy Future Act,” September 16, 2009, at [http://www.cbo.gov/ftpdocs/105xx/doc10572/09-16-Proposal\\_SFC\\_Chairman.pdf](http://www.cbo.gov/ftpdocs/105xx/doc10572/09-16-Proposal_SFC_Chairman.pdf) (October 9, 2009). See also Joint Committee on Taxation, “Estimated Revenue Effects of the Revenue Provisions Contained in the Chairman’s Mark of the ‘America’s Healthy Future Act of 2009,’ Scheduled for Markup by the Committee on Finance on September 22, 2009,” September 16, 2009, at [http://finance.senate.gov/sitepages/leg/LEG%202009/091609%20JCT\\_Analysis.pdf](http://finance.senate.gov/sitepages/leg/LEG%202009/091609%20JCT_Analysis.pdf) (October 9, 2009).

in Medicare payments to physicians that would otherwise automatically take effect under the “sustainable growth rate formula” in current law. Because the legislation is drafted in this manner, CBO is forced to assume that in future years Congress will allow those payment cuts to take effect, despite the fact that every year Congress intervenes to prevent that from happening.

The result is that CBO estimates that the new spending in the legislation will be offset in future years by substantial savings from lower Medicare payments to doctors. As former assistant CBO director Joseph Antos has warned, the estimates are assuming unrealistic actions taken by Congress in future years. In fact, says Antos, the bill is likely to add at least \$270 billion to the federal deficit in the first 10 years.<sup>14</sup>

The latest estimate of the amended Baucus bill, released by the CBO on October 7, pegged the cost of the plan at roughly \$900 billion over the next 10 years.<sup>15</sup> While the CBO score found that the bill would reduce the deficit by \$81 billion over the same 10-year window, the CBO and JCT analysis was still preliminary because the amended proposal “has not yet been embodied in legislative language.” And, as with the earlier version of the bill, serious concerns remain as to whether the predicted savings are realistic. Although the CBO suggested that the Baucus bill would potentially lead to continued reductions in the federal deficit, its assessment ends by saying that “those estimates are all subject to substantial uncertainty.”

**Americans’ Right to Know.** President Obama and congressional leaders who support his health reform agenda have pledged to pass health care legislation that reins in the growth in health care costs, does not add a dime to the deficit, and is fully paid for without raising taxes on those making less than \$250,000 a year. Therefore, it is not enough for Congress to simply show that any spending increases are offset by spending reductions or revenue increases elsewhere. Congress must also take account of the trajectory of national health expenditures, both public and private, and how it might change under reform.

When the CBO completes its official estimates of the impact of Congress’s health care legislation, it will likely be based on a merged product of proposals in both the House and Senate. The cost of the legislation will almost certainly become a major focal point of the debate. Beyond looking at the budgetary impact of the plan, the CBO should take a closer look at both the short-term and long-term impact of the legislation. With a final cost estimate in hand, the American people should also have a comprehensive assessment of the economic effects of the reform proposals—similar to the one produced by the CBO during the Clinton era—before any legislation moves forward to passage. Only then will Congress and the American people know whether the President and congressional leaders are likely to deliver on their many high-profile promises.

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14. Press release, “The Cost of Health Reform,” American Enterprise Institute, at <http://www.aei.org/press/100030> (October 9, 2009).

15. Congressional Budget Office, “Preliminary Analysis of Specifications for the Chairman’s Mark of the America’s Healthy Future Act, As Amended,” Letter to the Honorable Max Baucus, October 7, 2009, at [http://www.cbo.gov/ftpdocs/106xx/doc10642/10-7-Baucus\\_letter.pdf](http://www.cbo.gov/ftpdocs/106xx/doc10642/10-7-Baucus_letter.pdf)