Moving Forward with Health Reform

Center on Budget and Policy Priorities

May 17, 2010

Understanding the CMS Actuary's Report on Health Reform

By Paul N. Van de Water

The analysis of the health reform legislation prepared by the chief actuary of the Centers for Medicare & Medicaid Services (CMS) has been widely misrepresented and misunderstood.[1] This brief paper describes some of that report's key findings and clears up some of the most common misunderstandings.

Does the actuary estimate that health reform will increase the federal deficit?

No. The actuary's report doesn't address the issue. It covers the health reform law's impact on spending, but it does not include many of the provisions that will affect revenues. The Congressional Budget Office (CBO) estimates that health reform will reduce deficits by $143 billion over its first decade and by about $1.3 trillion in its second decade.[2]

Does the actuary estimate that health reform will cost more than CBO estimates?

No. On an apples-to-apples basis, the estimates by the CMS actuary and CBO are almost identical. The estimated gross cost of expanding health coverage is $938 billion over the 2010-2019 period according to CBO and $948 billion according to the actuary — a difference of only 1 percent. The net savings in Medicare and Medicaid total $455 billion according to CBO and about $457 billion according to the actuary.

What about the estimated increase in health insurance coverage?

Again, the CMS actuary's estimate is similar to CBO's. The actuary estimates that health reform will insure 34 million more people and extend coverage to 93 percent of the U.S. population by 2019. CBO estimates that 32 million people will gain coverage in that year.

Will health reform slow the growth of national health expenditures?

Yes. Health reform will increase national health spending slightly at first because it greatly expands health insurance coverage, and insured people use more health services than uninsured ones. It is therefore no surprise that the CMS actuary estimates that the health reform legislation will increase national health expenditures by 2 percent in 2016, when its coverage expansions will be fully phased in.

But health reform will also slow the *growth rate* of health care costs, generating savings that will grow over time. The actuary finds that health reform will cut the rate of growth of health spending after the initial increase, so that by 2019 national health expenditures will be only 1 percent higher than they would have been without health reform. Although the actuary's report does not provide estimates beyond 2019, the trend suggests that national health expenditures are likely to fall below levels projected previously (in the absence of health reform) during health reform's second decade.

Will health reform cause a large drop in employer-sponsored health coverage?

No. The requirement in health reform that most individuals obtain health insurance will encourage workers to seek and participate in employer-sponsored coverage, and the employer responsibility requirement will encourage some employers to start offering coverage.

However, some other firms with large numbers of low-wage workers who would qualify for subsidies to help them buy coverage through the health insurance exchange may decide that it would be beneficial to them and their workers for the firm not to continue offering coverage. On balance, the actuary estimates that employer-sponsored coverage will decline by less than 1 percent in 2019, compared to the level in the absence of health reform.

Will health reform improve the financial status of Medicare?

Yes. The actuary estimates that the health reform legislation will extend by 12 years the solvency of Medicare's Hospital Insurance trust fund. Without health reform, the trust fund would have become insolvent in 2017. It is now projected to remain solvent through 2029.

Will Congress allow the enacted reductions in Medicare spending to go into effect?

The historical record demonstrates that the vast majority of the provisions enacted in the past 20 years to produce Medicare savings were successfully implemented.[3] Projected federal budget deficits will also create pressure on Congress to maintain the enacted Medicare spending cuts and to seek even greater efficiencies in the future.

Specific payment policies may need to be adjusted periodically, however, in response to developments in the health care sector. For example, if some of the enacted reductions in Medicare payment rates lead to unintended results, such as reduced participation by providers — a possibility that both the CMS actuary and CBO have raised — the new Independent Payment Advisory Board could propose alternatives ways of meeting the targets for Medicare spending growth established in the health reform legislation. The board's recommendations would go into effect automatically unless both houses of Congress passed, and the President signed, legislation to modify or overturn them.

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[1] Richard S. Foster, Chief Actuary, Centers for Medicare & Medicaid Services, *Memorandum, Estimated Financial Effects of the "Patient Protection and Affordable Care Act," as Amended,* April 22, 2010.

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

[3] James R. Horney and Paul N. Van de Water, *House-Passed and Senate Health Bills Reduce Deficit, Slow Health Care Costs, and Include Realistic Medicare Savings*, Center on Budget and Policy Priorities, December 4, 2009.