DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
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CMS CENTERS for MEDICARE & MEDICAID SERVICES

Office of the Actuary

DATE: March 11, 2011

FROM: Richard S. Foster
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TO: Senator John Cornyn
Senator Orrin Hatch

SUBJECT: Updated Sensitivity Testing of the Employer Assumption in the Office of the Actuary's Health Reform Model, Based on the President's 2012 Budget

On February 23, 2011, we provided a sensitivity analysis of the effects of the Affordable Care Act on Federal expenditures and insurance coverage of the U.S. population under varying assumptions about the number of employees who might lose their employer-sponsored insurance as a result of their employer no longer offering health insurance coverage. That analysis was based on the estimated impacts of the ACA included in an April 22, 2010 memorandum by Richard S. Foster titled "Estimated Financial Effects of the 'Patient Protection and Affordable Care Act,' as Amended." At the request of Stephanie Carlton of your staff, this memorandum provides an update of those estimates based on the expenditure projections used in the President's Fiscal Year 2012 Budget and extends them through 2021. Please note that we are not able at this time to provide complete information on the distribution of the population by insurance coverage under the various employee scenarios; however, the estimated *changes* in insured status relative to our baseline estimate are available and are included in this memorandum.

The estimated Federal expenditures in the Fiscal Year 2012 Budget for expansion of health insurance coverage under the Affordable Care Act are based in part on assumptions regarding employer behavior by firm size and industry. Overall, we assumed that roughly 20 percent of small employers would no longer offer health insurance due to the availability of coverage through a Health Insurance Exchange in each State. For large employers, we assumed that about 5 percent would terminate coverage. Specifically, the large employers assumed to no longer offer coverage would be those with predominantly low-wage employees. In such instances, the employer could reduce his or her costs by paying the penalty rather than the higher cost of sponsoring health insurance; the employer would also gain a more stable and predictable, payroll-based liability for health care benefits. Moreover, without an employer offer of coverage, low-wage employees could acquire health insurance coverage on the Exchange or through Medicaid, sometimes with a significant reduction in their share of the total premium as well as cost-sharing amounts. We assumed that this reduction in the employer offer rate would occur over a 5 year period, meaning that the full impact would not take effect until 2018. These assumptions represent our best estimate, recognizing the considerable degree of uncertainty inherent in the process.

For the sensitivity analysis of this assumption, we looked at several scenarios based on the range of assumptions you requested in your letter. Specifically, we analyzed the impact of the Affordable Care Act using the OACT Health Reform Model and based on alternative assumptions regarding the percentages of employees, with incomes less than 400 percent of the Federal Poverty Level, who would lose their employer coverage and become eligible for either Medicaid or for subsidized coverage through the Exchanges. Per your specifications, the impact on workers is assumed to occur in 2014, the first year of the coverage expansions. The percentages chosen for this purpose ranged from 0 percent to 50 percent. Table 1 shows the results of this analysis on estimated Federal costs and savings for the coverage expansion provisions under the Affordable Care Act.[1] These estimates now extend through 2021 and reflect later data and other information that has become available since April 2010. These changes do not have a significant impact on the estimated annual Federal expenditures for the coverage expansions overall, but they do affect the individual components. In particular, the estimated Federal cost of the Medicaid eligibility expansion is significantly greater in the updated estimates, while the corresponding cost for Exchange subsidies is significantly lower.

The results of the sensitivity analysis indicate that if all employers who currently offer coverage continued to do so (i.e., 0 percent terminate coverage), then the estimated Federal cost of the coverage expansions would decrease by a total of $45 billion for fiscal years 2010 through 2021 compared to the Fiscal Year 2012 Budget estimate. In other words, our assumption regarding employer behavior added $45 billion to the estimated cost of the Affordable Care Act. In the scenario at the opposite extreme, where 50 percent of employers would drop their insurance coverage, total Federal costs for fiscal years 2010 through 2021 would increase by $88 billion relative to our best estimate.

Compared to the Fiscal Year 2012 Budget estimates, the scenarios presented here have a relatively large financial impact for fiscal years 2014-2016 and a much smaller impact in 2017-2021. This pattern results for two reasons. First, for the Budget estimates we continued to assume that the employees whose employers no longer offer coverage would be heavily skewed towards those with lower incomes, who will receive substantial subsidies through Medicaid or the Exchanges. By contrast, the sensitivity analysis assumes the stated percentages of all workers (below 400 percent of the FPL) would lose employer coverage. The other reason is that the scenarios presented here are assumed to occur immediately in 2014, as opposed to our normal assumption that employers will take several years to decide on and implement any coverage reductions.

Table 2 shows the estimated increase or decrease in the number of people by insurance coverage in 2019 under the various scenarios compared to our best estimate. Enrollment in employer-sponsored insurance (ESI) increases by about 12 million people in the scenario where all

[1] These provisions include the expansion of Medicaid eligibility, extension of funding for the Children's Health Insurance Program (CHIP), and the Federal subsidies for Exchange premiums and cost-sharing amounts. The estimates shown in table 1 represent the Federal expenditures for these provisions, less the penalties paid by non-participating employers and individuals.

employers maintain their coverage. This increase causes corresponding decreases of 1 million people with Medicaid, 7 million people enrolled through the Exchanges, and 3 million uninsured. In contrast, for the scenario where half of the employers terminate their coverage, ESI enrollment falls by about 14 million people compared to our standard estimate. This reduction in individuals with employer coverage would increase estimated enrollment in Medicaid by 250,000, Exchange coverage by 8 million individuals, and the number of uninsured people by 6 million.

As indicated in our April 22, 2010 memorandum, there is substantial uncertainty surrounding the estimates of the Affordable Care Act. Performing a sensitivity analysis of the important assumptions used in estimating the impact of the legislation provides a useful measure of the range of the potential outcomes should actual experience differ from our assumptions. However, we continue to believe that firms employing lower-wage workers will be more likely to terminate their coverage than those employing higher-wage workers. In addition, these actions will likely take a number of years to occur, postponing the full effect. As a result, we do not consider the extreme scenarios, in which either no employers drop coverage or 40-50 percent of all employers drop coverage immediately in 2014, to be likely. While recognizing the possibility that a greater proportion of employers could terminate their current health insurance, we expect that most large firms will continue to use such coverage as part of their compensation package to attract and retain a qualified workforce.

Please let us know if you have any question regarding this analysis.

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Attachments (2)

Table 1—Updated Sensitivity Test: Estimated Federal Costs (+) or Savings (-) under the Affordable Care Act based on Alternative Employer Response Assumptions

(in billions)

	Total Impact, Fiscal Years 2010 - 2021						
	OACT	Scenarios (X% of employers drop coverage)					
Estimated Federal Cost or Savings[1]	Estimate	0.0	0.1	0.2	0.3	0.4	0.5
Coverage Provisions:	$1,107.1	1062.5	1088.9	1115.4	1141.8	1168.3	1194.7
Medicaid Expansion and CHIP Funding	725.3	666.6	680.8	695.1	709.4	723.7	738.0
Credits:	593.3	532.3	590.4	648.6	706.7	764.9	823.0
Individual Exchange Subsidies:	564.8	501.0	560.3	619.7	679.1	738.5	797.9
Refundable Premium Tax Credits	518.0	466.6	520.9	575.3	629.6	683.9	738.2
Reduced Cost-Sharing Requirements	46.8	34.3	39.4	44.5	49.6	54.6	59.7
Small Employer Credits	28.6	31.3	30.1	28.9	27.6	26.4	25.1
Penalties:	-211.5	-136.3	-182.3	-228.3	-274.3	-320.3	-366.3
Individual Penalties	-48.0	-42.0	-44.4	-46.7	-49.1	-51.5	-53.9
Employer Penalties	-163.5	-94.4	-138.0	-181.6	-225.2	-268.8	-312.4

[1] For coverage-expansion provisions only.

	Total Impact, Fiscal Years 2010 - 2021						
Difference Between	OACT	Scenarios (X% of employers drop coverage)					
Scenario and the OACT Estimate	Estimate	0%	10%	20%	30%	40%	50%
Coverage Provisions:	—	-$44.6	-$18.2	$8.3	$34.7	$61.2	$87.6
Medicaid Expansion and CHIP Funding	—	-58.7	-44.4	-30.2	-15.9	-1.6	12.7
Credits:	—	-61.1	-2.9	55.2	113.4	171.5	229.7
Individual Exchange Subsidies:	—	-63.8	-4.4	55.0	114.3	173.7	233.1
Refundable Premium Tax Credits	—	-51.4	2.9	57.3	111.6	165.9	220.2
Reduced Cost-Sharing Requirements	—	-12.4	-7.4	-2.3	2.8	7.8	12.9
Small Employer Credits	—	2.7	1.5	0.3	-1.0	-2.2	-3.4
Penalties:	—	75.2	29.2	-16.8	-62.8	-108.8	-154.8
Individual Penalties	—	6.0	3.7	1.3	-1.1	-3.5	-5.9
Employer Penalties	—	69.1	25.5	-18.1	-61.7	-105.3	-148.9

	Total Impact, Fiscal Years 2010 - 2021						
Percentage Difference Between	OACT	Scenarios (X% of employers drop coverage)					
Scenario and the OACT Estimate	Estimate	0%	10%	20%	30%	40%	50%
Coverage Provisions:	—	-4%	-2%	1%	3%	6%	8%
Medicaid Expansion and CHIP Funding	—	-8%	-6%	-4%	-2%	0%	2%
Credits:	—	-10%	0%	9%	19%	29%	39%
Individual Exchange Subsidies:	—	-11%	-1%	10%	20%	31%	41%
Refundable Premium Tax Credits	—	-10%	1%	11%	22%	32%	43%
Reduced Cost-Sharing Requirements	—	-27%	-16%	-5%	6%	17%	28%
Small Employer Credits	—	10%	5%	1%	-3%	-8%	-12%
Penalties:	—	-36%	-14%	8%	30%	51%	73%
Individual Penalties	—	-13%	-8%	-3%	2%	7%	12%
Employer Penalties	—	-42%	-16%	11%	38%	64%	91%

Note: See cover memorandum concerning the definition and nature of these sensitivity tests and the source for the updated OACT estimates.

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Table 2—Sensitivity Test: Estimated Enrollment by Insurance Coverage in 2019 based on Alternative Employer Response Assumptions

(in millions)

Difference Between Scenario and the OACT Estimate	Enrollment Impact, Calendar Year 2019						
	OACT Estimate	Scenarios (X% of employers drop coverage)					
		0%	10%	20%	30%	40%	50%
Medicare	—	0.0	0.0	0.0	0.0	0.0	0.0
Medicaid/CHIP	—	-1.1	-0.9	-0.6	-0.3	0.0	0.2
Other Public	—	0.0	0.0	0.0	0.0	0.0	0.0
Employer-Sponsored Insurance	—	11.8	6.7	1.5	-3.6	-8.8	-13.9
Other Private	—	0.0	0.0	0.0	0.0	0.0	0.0
Exchanges	—	-6.9	-4.1	-1.3	1.6	4.7	7.9
Uninsured	—	-2.5	-0.7	1.1	2.8	4.3	5.6

Note: See cover memorandum concerning the definition and nature of these sensitivity tests and the source for the updated OACT estimates.

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