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

Under current law, Qualified Health Plans (QHPs) are required to offer Cost Sharing Reduction subsidies (CSR) to eligible individuals. Removing the direct federal funding – received by carriers for the past three years and budgeted for 2017 – without changing the requirement that QHPs 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 Affordable Care Act for lower-income enrollees.[1]

Since the direct federal funding of subsidies is linked to the cost of the 2nd 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 to California found a similar result (16.6 percent increase), concluding that, compared to the status quo (with direct federal funding of CSRs), 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 additional costs of not directly funding CSRs would depend on how the Congressional Budget Office (CBO) characterizes the total APTC spending. Under a conservative baseline scenario where direct CSR funding continues and the funding only reflects "direct APTC outlays," the 10-year spending of the federal government would amount to approximately $741 billion (see Table 1) or up to $851 billion when also accounting for related "revenue reductions" projected by the CBO (see Table 2). Based on these two projections, in the absence of direct CSR funding, the 10-year outlays to the federal government would amount to between $788 billion and $931 billion, representing an increase in total federal spending of between $47 and $80 billion, or $2 billion to $10 billion per year over the 10-year period.

This analysis is based on the Congressional Budget Office's 10-year (2018-2027) estimates of APTC and CSR outlays to project the budgetary effects of ending CSR funding,[4] and draws on Yin and Domurat's (2017) estimates that APTC outlays would increase by 30 percent if CSRs are defunded.[5]

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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] 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 when considering the entire non-group market. The actual increase in outlays could vary, depending on each states' marketplace compositions and consumer responses to premium increases.

**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 only | 41 | 47 | 54 | 59 | 62 | 64 | 67 | 69 | 71 | 72 | **606** |
| CSR | 10 | 11 | 12 | 13 | 14 | 14 | 15 | 15 | 15 | 16 | **135** |
| **If CSR Defunded - using Yin and Domurat (2017) analysis** | | | | | | | | | | | |
| APTC outlays only[6] | 53 | 61 | 70 | 77 | 81 | 83 | 87 | 90 | 92 | 94 | **788** |
| CSR | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Difference in Federal Outlays Between CBO Baseline and CSR Defunded** | | | | | | | | | | | |
| | 2 | 3 | 4 | 5 | 5 | 5 | 5 | 6 | 6 | 6 | **47** |

**TABLE 2 –**
**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[7] | 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** |

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