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Can We Trust the CBO's Healthcare Figures?

House Majority Whip James Clyburn and House Speaker Nancy Pelosi were positively giddy on Thursday morning when the Congressional Budget Office (CBO) released preliminary estimates of the financial impact of the House reconciliation package on national healthcare. The package is said to mirror the proposal President Obama outlined in February as a compromise between the bills passed in the House and Senate last year.

Because the Democrats were unwilling to share the actual reconciliation language prior to the release of the estimates, the CBO's estimates were based on what they were told to expect in the package. Since then, the language has been posted online, providing little time for the CBO to produce more accurate figures.

According to the CBO, the bill is expected to cost $940 billion over the next 10 years — and reduce the projected budget deficit by $130 billion over the same period ($1.2 trillion over the second decade) via tax increases and a reduction in projected Medicare spending by more than $400 billion.

Ross Kaminsky of *Human Events* raises some serious questions about the supposed savings. "Much of the savings and tax revenue which Democrats are counting on to fund their government takeover of health care will never be realized."

Alex Wayne of Congressional Quarterly explains that the deficit reductions are contingent upon two future policy changes, which may or may not happen. The changes involve growth in federal subsidies and an excise tax on high-cost insurance plans:

> Democrats propose indexing to inflation only, rather than inflation plus one percentage point, the threshold at which high-cost "Cadillac" health insurance plans would trigger an excise tax. That means the tax's scope would grow even faster than in the Senate bill, because health insurance premiums tend to rise faster than inflation. The bill would create state-based exchanges, or marketplaces, where individuals without employer-provided insurance could buy health coverage. Federal subsidies would be available to help cover the cost for many purchases. But in 2019, they propose to suddenly reduce the rate of growth of the subsidies to something closer to that of the Senate bill.

The subsidies would start at $5,200 per person in 2015 and rise anywhere from $100 to $300 per year until it rests at a growth of $200 in 2019. However, the Democrats expect future Congresses to decrease the number of new subsidies to help people buy insurance in 2019.

At the same time, premium costs would "trigger the excise tax by the rate of inflation plus one percentage point in 2019." By 2020, however, it would grow at the general inflation rate, causing the reach of the tax to expand faster. When this happens, future Congresses would more than likely be pressured to increase subsidies and slow the growth of the tax once again.

The bill delays the tax for all plans until 2018, which was originally intended to begin sooner, and the delay results in reduction of savings from $148 billion to $39 billion in the first 10 years. To compensate for that loss, the legislation enacts an additional .9 percent payroll tax on individuals who earn $200,000 and married couples earning more than $250,000 per year, to begin in 2013.

In addition to the income tax, the bill includes a 3.8 percent tax on "unearned income," including interest, capital gains, dividends, etc., on the same taxpayers.

Skeptics like Republican Representative Tom Price of Georgia believe that the odds of a reduction in projected Medicare spending coupled with the two policy changes are slim to none. Likewise, Republicans have targeted the tax increases in the bill indicating that the increases will discourage investments.

Additionally, the bill's plans to slow the growth of payments to healthcare providers while cutting payments to insurers for those who participate in the Medicare Advantage program is expected to "cause massive disruption for the million seniors enrolled in the plan," says the insurance industry's trade association.

The question of the accuracy of the CBO's estimates remains. Daniel Mitchell of the Cato Institute asserts that the CBO has a reputation for making mistakes, "in part because there is no attempt to measure how a bigger burden of government has negative macroeconomic effects, but also because the number crunchers do a poor job of measuring the degree to which people (recipients, health care providers, state and local politicians, etc.) will modify their behavior to become eligible for other people's money." Mitchell adds that this issue is "compounded by similar mistakes for revenue estimates from the Committee on Taxation," who also overlooks macroeconomic effects and behavioral changes.

Likewise, Mitchell asserts that all of the estimates are incorrect, specifically that new spending will be more than predicted, the tax increases won't generate as much as expected, and future restraints in spending are highly unlikely.

Mitchell also explains that if there is indeed a phase-out of subsidies in 2019, taxpayers with modest incomes will face marginal tax rates of nearly 70 percent.

Overall, the government is inept at predicting healthcare spending. When Medicare was created in 1965, the government estimated that the cost of the program would be $12 billion by the year 1990. In actuality, the program cost $110 billion in 1990, and to date costs $500 billion. Also in 1965, Medicaid was created and was expected to cost $1 billion annually, but has developed into a $250 billion program.

If the CBO estimates are as inaccurate as predicted and this legislation is enacted, the stability of the American economy faces irreparable damage.