Written by **Michael Tennant** on April 10, 2012

ObamaCare Could Add Over $500 Billion to Deficit, Study Finds

Blahous, a Republican, is a senior research fellow at George Mason University's Mercatus Center. His report, "The Fiscal Consequences of the Affordable Care Act," concludes that "relative to prior law, the ACA would increase an already unsustainable federal commitment to health care spending, exacerbate projected federal deficits, and thus considerably worsen the federal fiscal outlook."

No one, including the law's most ardent supporters, denies that the ACA will lead to greater federal spending. When the law was passed in 2010 the Congressional Budget Office (CBO) estimated that it would cost $940 over the coming decade. In March an updated forecast taking into account two more years of spending found that ObamaCare would now cost almost twice as much, or $1.7 trillion, over the next 10 years.

ObamaCare fans, however, have argued that this increased short-term spending will ultimately lead to decreased long-term spending. Blahous shows that this assertion is false.

The law does not reduce deficit spending, Blahous says, because it counts projected Medicare savings twice. By law Medicare cannot spend more than its trust fund contains; instead, benefits must be reduced or other savings must be found. In either case, the money "saved" is not used to reduce the deficit but to finance further benefits.

"Under the ACA, however, Medicare savings which extend the solvency of the Medicare … trust fund and, thus, expand its future spending authority are also used to finance a new health care entitlement," Blahous writes. "The combination of these two effects exceeds the cost-saving measures in the legislation and worsens federal deficits relative to previous law."

Blahous admits that his method differs from the standard government budget-scoring method for good reason: "While the prevailing scorekeeping practice is useful for many policy evaluation purposes, it obscures the adverse fiscal effects of using Medicare savings to fund a new spending program, as under the ACA."

The White House, eager to discredit any negative reports on the President's crown jewel, nevertheless seized on this difference, calling Blahous's study an exercise in "new math," according to the *Washington Post*. But the *Post*, to its credit, points out that Blahous isn't the only one to recognize that the government's scorekeeping method has the effect of hiding the true outlook for the deficit:

> CBO and Medicare actuaries acknowledge the double-counting issue. "In practice, the improved [trust fund] financing cannot be simultaneously used to finance other federal outlays (such as the coverage expansions) and to extend the trust fund, despite the appearance of this result from" traditional budget rules, Medicare actuary Rick Foster wrote last year.

And in 2010, the CBO wrote that, absent the Medicare savings, the law would increase deficits by $226 billion through 2019 — instead of decreasing them by the commonly cited $132 billion.

Another significant contributor to ObamaCare's alleged deficit reduction over the next decade was to have been the Community Living Assistance Services and Support (CLASS) Act. The program would have paid for long-term in-home care to those who had enrolled and paid premiums for a time prior to collecting benefits. Since the premiums would have been collected for several years before the benefits began, the program was forecast to produce $86 billion in revenue for the government during its first 10 years.

The ACA required the Secretary of Health and Human Services to certify that the program could be implemented in an actuarially sound manner before initiating it. HHS Secretary Kathleen Sebelius was at least honest enough to admit that — as everyone had known all along — the program would become insolvent very shortly after benefits began and thus could not be implemented. "It is now assumed for budget scorekeeping purposes that CLASS will not be revived," Blahous writes, and therefore $86 billion of the law's supposed savings have vanished.

Other promised savings and revenue raisers are also in doubt.

The Independent Payment Advisory Board (IPAB) is charged with recommending ways to keep Medicare spending down so as to keep the program solvent. However, notes Blahous, either IPAB may be unable to find such savings or Congress may override its recommendations, thereby preventing the savings.

The excise tax on so-called "Cadillac" insurance plans — those that provide extensive benefits — "is perhaps the one [ACA provision] that most warrants skepticism," Blahous observes. "It did not survive its initial clash with political pressures. The form of the tax enacted with the ACA was almost simultaneously amended to both postpone the tax's effective date and increase the thresholds below which the tax would not apply. To assume the tax will produce the amount of future revenue now projected is to assume political actors in the future will be far more committed to this tax than the ACA's original authors."

The 3.8-percent dividend tax on high-income individuals, which is supposed to help fund Medicare, may also not produce the projected revenues. It is not indexed to inflation and thus is expected to ensnare more taxpayers as time goes by. "But, as often occurs with the AMT," penned Blahous, "Congress may periodically modify the [tax]'s income threshold to avoid a sudden upward spike in the number of taxpayers subjected to it, resulting in less revenue than under current projections."

ObamaCare simply will not save or raise as much money as its backers would have us believe. It will, on the other hand, spend plenty. Federally subsidized health exchanges are expected to cost $777 billion over the next 10 years, and expansion of Medicaid and the Children's Health Insurance Program (CHIP) is expected to cost $627 billion. If the number of enrollees in these programs increases — a definite possibility given that the CBO expects at least 3 million Americans to lose their employer-based coverage annually under ObamaCare — or if the government mandates increased benefits, the programs could cost considerably more.

All told, ObamaCare is likely to increase the deficit by $346 billion to $527 billion over the next decade, Blahous calculates. He recommends that, at a minimum, two-thirds of the new health exchange subsidies be repealed and, preferably, that all of them plus the Medicaid/CHIP expansion be nixed.

Of course, repealing these provisions would leave many more millions of Americans uninsured — ObamaCare itself leaves at least 26 million in the lurch, according to the CBO's forecast — and subject to the individual-mandate penalty, which would surely be unacceptable.

The only way to solve the myriad problems created by ObamaCare is to repeal the whole thing. Then Congress should get to work on repealing all the other fiscally unsustainable and unconstitutional federal healthcare programs, too. It's the only sure cure for what ails both the federal budget and the American healthcare system.