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Researchers: Obamacare cost estimates hide up to $50 billion per year

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Federal payments required by President Barack Obama's health care law are being understated by as much as $50 billion per year because official budget forecasts ignore the cost of insuring many employees' spouses and children, according to a new analysis. The result could cost the U.S. Treasury hundreds of billions of dollars during the first ten years of the new health care law's implementation.

"The Congressional Budget Office has never done a cost-estimate of this [because] they were expressly told to do their modeling on single [person] coverage," said Richard Burkhauser in a telephone interview Monday. Burkhauser is an economist who teaches in Cornell University's department of policy analysis and management. On Monday the National Bureau of Economic Research published a working paper on the subject that Burkhauser co-authored with colleagues from Cornell and Indiana University.

Employees and employers can use the rules to their own advantage, he said. "A very large number of workers" will be able to apply for federal subsidies, "dramatically increasing the cost" of the law, he said.

In May a congressional committee set the accounting rules that determine who will qualify for federal health care subsidies under the 2010 Patient Protection and Affordable Care Act. When the committee handed down the rules to the Congressional Budget Office, its formula excluded the health care costs of millions of workers' spouses and children. The result was a final estimate for 2010 that hides those costs.

"This is a very important paper," Heritage Foundation health care expert Paul Winfree told TheDC. These hidden costs, he said, "will almost certainly add to the deficit, contrary to what the Congressional Budget Office and others have estimated."

That's especially important, Winfree added, because Congress's 12-member "super committee" is about to draft another round of cuts to 10-year spending plans.

Burkhauser says his paper will be expanded later this year because "we have gotten so much heat for this work, that in our final version we are more clearly explaining how we came to find out about the change in the Committee's [the Joint Committee on Taxation's] interpretation of the law."

The president's health care law provides government subsidies for, among others, private-sector employees who earn between 1.33 times and 4 times the poverty level, and who also spend more than 9.5 percent of their family income on health care.

On May 4, 2010, the Joint Committee on Taxation directed the Congressional Budget Office to ignore family members when determining whether employees actually pay more than 9.5 percent of their household income on insurance.

The instruction was included in a correction of a complex, 150-page March 21 document. The correction read: "ERRATA FOR JCX-18-10 … On page 15, Minimum essential coverage and employer offer of health insurance coverage, in the second sentence of the second paragraph, 'the type of coverage applicable (e.g., individual or family coverage)' should be replaced with 'self-only coverage.'"

Because of this rule change, Burkhauser said, employees who otherwise meet the eligibility requirements to receive the federal subsidy can be denied it, if their own share of the family's insurance costs total less than 9.5 percent of their families' incomes.

If theory, he added, "this will mean that millions of families that are not provided with affordable insurance [by companies] will be ineligible to go to the federal exchanges," he said.

But companies and their employees share great incentives to rearrange workers' compensation to win more of these federal subsidies, he said.

For example, he explained, an employee can ask his employer to raise the price of company-provided insurance in exchange for an equal increase in salary. In many cases, that would boost the share of his income spent on health insurance to a percentage above the 9.5 percent threshold.

Such an arrangement, Burkhauser added, would make the employee, his spouse, and his children all eligible for federal health care subsidies while enriching both employer and employee — even after the Treasury Department collects fines from U.S. workers.

Burkhauser's research found that because of the law's incentives, an extra one-sixth of workers who get their health insurance from employers — or roughly an additional 12.7 percent of all workers — would gain by transfering themselves and their families into the federal exchanges.

Current projections suggest 75 percent of all employees will avoid the federal subsidies and stay in employer-backed health insurance plans. Burkhauser's estimate, however, suggests that only about 65 percent of employees would have an adequate incentive to remain in privately funded health plans.

The May 4 federal health care rule ignored these incentives, he said, causing the CBO to underestimate the cost of Obama's program by as much as $50 billion per year. If subsidy costs were to remain consistent, the ten-year total would be $500 billion; the government would likely recoup some of that in noncompliance penalties.

"Every day seems to bring a new Obamacare eruption that demonstrates the law's authors had no idea what they were doing," said Michael Cannon. Cannon directs the Cato Institute's health policy studies program.

"This study shows yet another way that ObamaCare's cost will be much, much higher than supporters led the American people to believe," Cannon warned.

"Anyone who's serious about the federal debt should make Obamacare's trillion-plus dollars of new entitlement spending the first item to put on the chopping block."

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