2011 Technical Panel: Effect on OASDI of Affordable Care Act (ACA) in 2010 TR Projections

SSA/OCACT

OCTOBER 1, 2010

Affordable Care Act Enacted March 2010

1) Establish Exchanges, Penalties for Employers, Subsidies, and the Multifactor Productivity Adjustment for Medicare Reimbursement
   a. Very large effect on Medicare Cost, lowering HI long-range actuarial deficit from 3.88 percent of payroll to 0.66 percent. Actuarial deficit estimated at 1.91 percent of payroll if adjustment fades after 10 years.
   b. Small effect of employer penalties for those not offering insurance increases employer-sponsored group health insurance (ESI) in the near term, slightly increasing exclusions from FICA for OASDHI

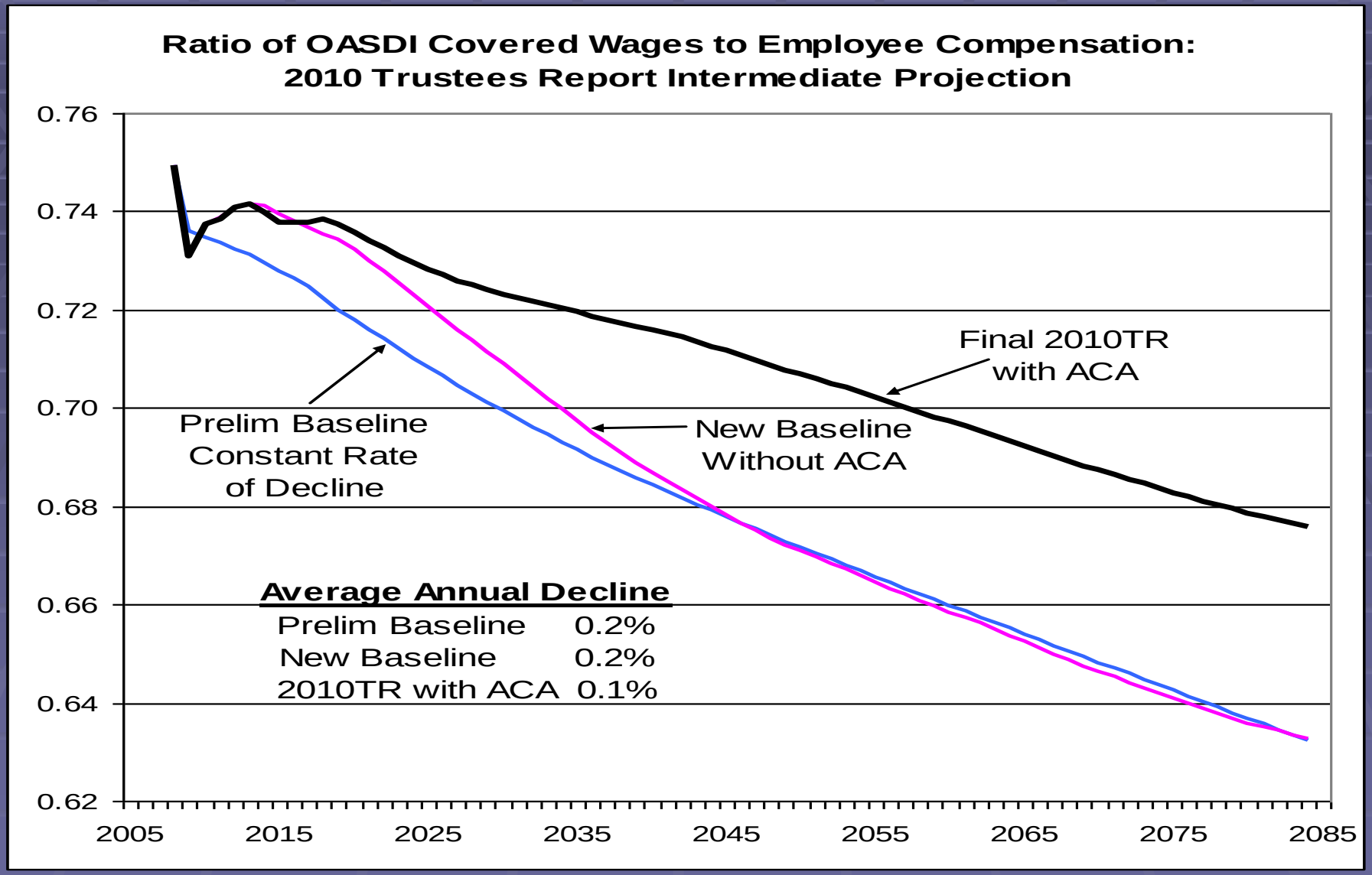
2) Excise tax of 40% on ESI above $10,200 and $27,500 in 2018 for individual and family coverage, with exemptions indexed by all-items CPI.
   a. Reduces tax advantage for ESI
   b. Exemptions gradually decline relative to health insurance costs
   c. Gradual reduction in amount of aggregate ESI offered by employers
   d. Thus, a gradual shift in employee compensation toward wages and other fringes

Affordable Care Act Enacted March 2010

- Assumptions adopted by Trustees for ACA
  - No impact on overall GDP
  - No overall impact on employment or employee compensation
  - No change in total national health care spending for those with private coverage (i.e., those not covered by Medicare or Medicaid)
  - No impact on mortality and disability rates (or morbidity)

- Therefore, the excise tax is assumed to shift an increasing share of ESI expenditures into wages that are subject to OASDHI FICA tax
  - This is gradual as the exemption shrinks relative to health insurance cost gradually
  - This, in fact slows the growth in ESI, which is replaced over time with private individual insurance coverage including individual exchange coverage
  - Individual exchange coverage is particularly attractive for those with family income below 400 percent of poverty threshold because of subsidy.
  - Penalty for employer not offering ESI becomes less than the expected employer contribution toward ESI as the excise tax exemptions shrink

Affordable Care Act (ACA) Effects on OASDI

- Excise tax reduces growth in employer sponsored group health insurance
- Replaced with individual insurance, including exchanges—
  - subject to payroll tax
- Slows decline in wages (taxable) as percent of employee compensation
- Increases long-range (LR) average
  - real earnings growth
  - from 1.1 to 1.2 percent
- Reduces the actuarial deficit
  - by 0.14 percent of payroll

Long-Term Effects: Health Care Legislation