

The Beacon Hill Institute

The Economic Effects of Repealing and Replacing the ACA

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David G. Tuerck, PhD
President
The Beacon Hill Institute

Paul Bachman, MSIE
Director of Research
The Beacon Hill Institute



The Economic Case for Health Care Reform (circa 2009)*

- Health care reform would increase real gross domestic product (GDP), relative to the no-reform baseline, by over 2 percent in 2020 and nearly 8 percent in 2030.
- The beneficial impact on employment in the short and medium run (relative to the no-reform baseline) is estimated to be approximately 500,000 each year that the effect is felt.
- Expanding health insurance coverage to the uninsured would increase net economic well-being by roughly \$100 billion a year, which is roughly two-thirds of a percent of GDP.

* Council of Economic Advisors

Today's Presentation

- **How we model economic effects**
 - Repeal the Affordable Care Act taxes.
 - Replace with the American Health Care Act (House Plan).
- **Economic effects**
 - Revenue effects.
 - Effects on key economic indicators.

The NCPA DCGE Model

Elements of a DCGE Model

- ***Dynamic:*** Future economic conditions respond to current-period policy changes through a dynamic optimization process by households and firms.
- ***Computable:*** The model utilizes computer algorithms that make it possible to solve a system of nonlinear equations.
- ***General Equilibrium:*** Prices adjust to a policy change across all sectors to equate supply with demand.

Features of the DCGE Model

- **Builds on a “Social Accounting Matrix” for 2017.**
- **Divides U.S. industries into 27 sectors.**
- **Divides U.S. households into income deciles.**
- **Has 50,662 variables and equations.**
- **Projects results to 2050, and**
- **Estimates variables and compares them to their baseline values.**

Purpose of the DCGE Model

- **Purpose: to simulate the effects on key economic variables on changes in tax policy**
 - The level and distribution of household income;
 - Real GDP, capital investment, and employment;
 - Government tax revenues, employment and spending
- **Key point: a DCGE model is a long-run model – no Keynesian elements.**

Core Assumptions

- Taxes shrink the economic activities on which they are imposed. For example, a tax on labor income will cause a reduction in the number of workers hired. We estimate the effects on jobs and revenue of repealing eight ACA taxes
- Repeal of the ACA will end the exchange subsidies. Under these subsidies, some 33 million full-time workers can qualify for exchange subsidies only by working part-time or reducing their incomes below 400% of the poverty level. This creates an implicit “full-time employment tax” of 4.5% on payrolls.*
- The House plan tax credits impose an implicit 10% tax on the benefits received by eligible taxpayers.

* Casey B. Mulligan, *Side Effects and Complications: The Economic Consequences of Health Care Reform* (Chicago: University of Chicago Press, 2015), pp. 117-18.

Income Taxes Eliminated by ACA Repeal

- Medicare tax of 0.9% on incomes over \$200,000.
- Net investment tax of 3.8% on income over \$200,000.
- Premium tax credits and exchange subsidies to help pay for health insurance for low income taxpayers.
- Higher AGI floor for medical reimbursement of 10%, up from 7.5%.

Excise Taxes Eliminated by ACA Repeal

- **Tax of 40% on high cost health insurance plans (delayed to 2020).**
- **Tax on branded prescription drug manufactures and importers.**
- **Tax of 2.3% on medical devices (delayed to 2018).**
- **Tax 10% on tanning services,**
- **Patient-Centered outcomes research trust fund fee tax (ends 2019).**

The House Plan for Replacing the ACA: Individuals

- **Age based tax credits per family member:**
 - \$2,000 under age of 30 years
 - \$2,500 between 30 and 39 years
 - \$3,000 between 40 and 49 years
 - \$3,500 between 50 and 59 years
 - \$4,000 age 60 years and over
 - capped at \$14,000 per family
- **Credits phase out by \$100 per \$1,000 of income over \$75,000 for a single filer and \$150,000 for joint filers.**
- **Increases HSA contribution level to match the out-of-pocket expenses for high deductible plan and allows both spouses to make catch-up contributions.**
- **Repeals the contribution limits on Flexible Spending Accounts (FSA).**

The House Plan for Replacing the ACA: Employers

- **Delays the tax of 40% on high cost health insurance plans until 2025.**
- **Delays tax on branded prescription drug manufactures and importers until 2022.**
- **Re-instates the business-expense deduction for retiree prescription drug costs without reduction by the amount of any federal subsidy.**

Revenue Effects of Repealing and Replacing ACA

	Change in revenue					
	2018		2027		Cumulative, 2018-27	
	<i>\$ billion</i>	<i>%</i>	<i>\$ billion</i>	<i>%</i>	<i>\$ billion</i>	<i>%</i>
Federal Revenue	(84.03)	(2.39)	(131.45)	(2.51)	(1,049.58)	(2.43)
Payroll Tax	3.69	0.29	8.36	0.38	58.46	0.34
Personal Income Tax	(72.69)	(4.34)	(95.10)	(4.36)	(834.59)	(4.35)
Corporate Income Tax	0.80	0.24	1.93	0.34	13.21	0.30
Excise Taxes	(17.62)	(16.97)	(49.16)	(36.65)	(307.98)	(25.28)
Estate and Gift Taxes	0.07	0.30	0.16	0.39	1.11	0.36
Other Taxes and Fees	1.71	1.23	2.35	1.33	20.22	1.31
State and Local Revenue	26.14	0.76	39.63	1.09	325.25	1.07
Total Government Revenue	(57.89)	(0.97)	(91.82)	(1.03)	(724.33)	(0.99)

Source: Based on NCPA-DCGE model simulations.

Effects on Key Economic Indicators of Repealing and Replacing ACA

	Change relative to CBO baseline			
	2018		2027	
	<i>'000 jobs</i>	%	<i>'000 jobs</i>	%
Total Employment	544	0.350	755	0.34
Private Employment	745	0.49	940	0.47
Public Employment	(201)	(7.77)	(83)	(3.2)
	<i>\$ billion</i>	%	<i>\$ billion</i>	%
Real GDP (\$billion)	239	1.34	426	1.50
Personal Income	111	0.62	185	0.76
Business Investment	22	0.77	67	0.99
Imports	2	0.05	7	0.15
Exports	5	0.17	11	0.27

Source: NCPA-DCGE model.

Conclusion

- **Repealing ACA and replacing it with the House Plan would by 2027:**
 - Increase real GDP by \$426 billion, or 1.5%.
 - Increase private sector employment by 940,000, or 0.49%.
 - Increase personal income by \$185 billion, or 0.76%.
 - Reduce federal revenue by \$132 billion, or 2.51%.

The Beacon Hill Institute

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The Beacon Hill Institute
165 Main Street, Suite 306
Medway, MA 02053
617-821-7698
dtuerck@beaconhill.org
<http://www.beaconhill.org>