

Exhibit 32



March 20, 2010

Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

Dear Madam Speaker:

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) have completed an estimate of the direct spending and revenue effects of an amendment in the nature of a substitute to H.R. 4872, the Reconciliation Act of 2010. The amendment discussed in this letter (hereafter called “the reconciliation proposal”) is the one that was made public on March 18, 2010, as modified by subsequent changes incorporated in a proposed manager’s amendment that was made public on March 20.

This estimate differs from the preliminary estimate that CBO issued on March 18 in that it reflects CBO and JCT’s review of the legislative language of the earlier amendment and the manager’s amendment, as well as modest technical refinements of the budgetary projections.¹ This estimate is presented in two ways:

- An estimate of the budgetary effects of the reconciliation proposal, in combination with the effects of H.R. 3590, the Patient Protection and Affordable Care Act (PPACA), as passed by the Senate; and
- An estimate of the *incremental* effects of the reconciliation proposal, over and above the effects of enacting H.R. 3590 by itself.²

¹ For the preliminary estimate by CBO and JCT of the direct spending and revenue effects of the reconciliation proposal, see Congressional Budget Office, letter to the Honorable Nancy Pelosi providing a preliminary analysis of the reconciliation proposal (March 18, 2010).

² For the estimate by CBO and JCT of the direct spending and revenue effects of H.R. 3590 as passed by the Senate, see Congressional Budget Office, cost estimate of H.R. 3590, Patient Protection and Affordable Care Act (March 11, 2010). JCT’s detailed table of revenue effects is available at www.jct.gov.

CBO and JCT have not yet updated their preliminary and partial estimate of the budgetary impact of the reconciliation proposal under the assumption that H.R. 3590 is not enacted—that is, the reconciliation proposal’s impact under current law.

H.R. 3590 would, among other things, establish a mandate for most residents of the United States to obtain health insurance; set up insurance exchanges through which certain individuals and families could receive federal subsidies to substantially reduce the cost of purchasing that coverage; significantly expand eligibility for Medicaid; substantially reduce the growth of Medicare’s payment rates for most services (relative to the growth rates projected under current law); impose an excise tax on insurance plans with relatively high premiums; and make various other changes to the federal tax code, Medicare, Medicaid, and other programs. The reconciliation proposal includes provisions related to health care and revenues, many of which would amend H.R. 3590. (The changes with the largest budgetary effects are described below.) The reconciliation proposal also includes amendments to the Higher Education Act of 1965, which authorizes most federal programs involving postsecondary education. (Those provisions and their budgetary effects are described below as well.)

Estimated Budgetary Impact of the Legislation

CBO and JCT estimate that enacting both pieces of legislation—H.R. 3590 and the reconciliation proposal—would produce a net reduction in federal deficits of \$143 billion over the 2010–2019 period as result of changes in direct spending and revenues (see Table 1). That figure comprises \$124 billion in net reductions deriving from the health care and revenue provisions and \$19 billion in net reductions deriving from the education provisions. Approximately \$114 billion of the total reduction would be on-budget; other effects related to Social Security revenues and spending as well as spending by the U.S. Postal Service are classified as off-budget. CBO has not completed an estimate of the potential impact of the legislation on discretionary spending, which would be subject to future appropriation action.

CBO and JCT previously estimated that enacting H.R. 3590 by itself would yield a net reduction in federal deficits of \$118 billion over the 2010–2019 period, of which about \$65 billion would be on-budget. The incremental effect of enacting the reconciliation proposal—assuming that H.R. 3590 had already been enacted—would be the difference between the estimate of their combined effect and the previous estimate for H.R. 3590. That

incremental effect is an estimated net reduction in federal deficits of \$25 billion during the 2010–2019 period over and above the savings from enacting H.R. 3590 by itself; almost all of that reduction would be on-budget.³

Additional details on the budgetary effects of the reconciliation proposal and H.R. 3590 are provided in Tables 2 through 7 attached to this letter:

- Table 2 shows budgetary cash flows for direct spending and revenues associated with the two pieces of legislation combined.
- Table 3 summarizes the incremental changes in direct spending and revenues resulting from the reconciliation proposal, assuming that H.R. 3590 had already been enacted.
- For the two pieces of legislation combined, Table 4 provides estimates of the changes in the number of nonelderly people in the United States who would have health insurance and presents the primary budgetary effects of the provisions related to health insurance coverage.
- For the two pieces of legislation combined, Table 5 displays detailed estimates of the costs or savings from the health care provisions that are not related to health insurance coverage (primarily involving the Medicare program). The table does not include the effects of revenue provisions; those effects are reported separately by JCT in JCX-17-10 at www.jct.gov.
- Table 6 presents details on the incremental effects of the health care and revenue provisions of the reconciliation proposal—that is, the difference between the effects of those provisions in the two pieces of legislation combined and the effects of H.R. 3590 by itself (as shown in CBO’s cost estimate of March 11, 2010).
- Table 7 summarizes the incremental effects of the health care, revenue, and education provisions of the reconciliation proposal, also assuming that H.R. 3590 had been enacted.

³ As originally introduced, the reconciliation proposal would require transfers from on-budget general funds to the off-budget Social Security trust funds to offset any reduction in the balances of those trust funds resulting from other provisions of the proposal. The effects of that provision were reflected in CBO’s preliminary estimate. However, the manager’s amendment to the reconciliation proposal strikes that provision, so its effects are not included in this estimate.

- Increasing the federal share of spending for certain Medicaid beneficiaries;
- Changing eligibility for Medicaid in a way that effectively increases the income threshold from 133 percent of the federal poverty level to 138 percent for certain individuals;
- Reducing overall payments to insurance plans under the Medicare Advantage program;
- Expanding Medicare's drug benefit by phasing out the "doughnut hole" in that benefit;
- Modifying the design and delaying the implementation of the excise tax on insurance plans with relatively high premiums; and
- Increasing the rate and expanding the scope of a tax that would be charged to higher-income households.

Effects of the Legislation on Insurance Coverage

CBO and JCT estimate that by 2019, the combined effect of enacting H.R. 3590 and the reconciliation proposal would be to reduce the number of nonelderly people who are uninsured by about 32 million, leaving about 23 million nonelderly residents uninsured (about one-third of whom would be unauthorized immigrants). Under the legislation, the share of legal nonelderly residents with insurance coverage would rise from about 83 percent currently to about 94 percent.

Approximately 24 million people would purchase their own coverage through the new insurance exchanges, and there would be roughly 16 million more enrollees in Medicaid and the Children's Health Insurance Program than the number projected under current law. Relative to currently projected levels, the number of people purchasing individual coverage outside the exchanges would decline by about 5 million.

Under the legislation, certain employers could allow all of their workers to choose among the plans available in the exchanges, but those enrollees would not be eligible to receive subsidies via the exchanges (and thus are shown in Table 4 as enrollees in employment-based coverage rather than as exchange enrollees). Approximately 5 million people would obtain coverage in that way in 2019, bringing the total number of people enrolled in exchange plans to about 29 million in that year.

On balance, the number of people obtaining coverage through their employer would be about 3 million lower in 2019 under the legislation, CBO and JCT estimate. The net change in employment-based coverage under the proposal would be the result of several flows, which can be illustrated using the estimates for 2019:

- Between 6 million and 7 million people would be covered by an employment-based plan under the proposal who would not be covered by one under current law (largely because the mandate for individuals to be insured would increase workers' demand for coverage through their employers).
- Between 8 million and 9 million other people who would be covered by an employment-based plan under current law would not have an offer of such coverage under the proposal. Firms that would choose not to offer coverage as a result of the proposal would tend to be smaller employers and employers that predominantly employ lower-wage workers—people who would be eligible for subsidies through the exchanges—although some workers who would not have employment-based coverage because of the proposal would not be eligible for such subsidies. Whether those changes in coverage would represent the dropping of existing coverage or a lack of new offers of coverage is difficult to determine.
- Between 1 million and 2 million people who would be covered by their employer's plan (or a plan offered to a family member) under current law would instead obtain coverage in the exchanges. Under the legislation, workers with an offer of employment-based coverage would generally be ineligible for exchange subsidies, but that "firewall" would be enforced imperfectly and an explicit exception to it would be made for workers whose offer was deemed unaffordable.

Effects of the Legislation on Discretionary Costs

CBO has not completed an estimate of the potential impact of the legislation on discretionary spending, which would be subject to future appropriation action. Discretionary costs would arise from the effects of the legislation on several federal agencies and on a number of new and existing programs subject to future appropriation. Those discretionary costs fall into three general categories.

“federal budgetary commitment to health care,” a term that CBO uses to describe the sum of net federal outlays for health programs and tax preferences for health care.¹⁰ CBO estimated that H.R. 3590, as passed by the Senate, would increase the federal budgetary commitment to health care over the 2010–2019 period; the net increase in that commitment would be about \$210 billion over that 10-year period. The combined effect of enacting H.R. 3590 and the reconciliation proposal would be to increase that commitment by about \$390 billion over 10 years. Thus, the incremental effect of the reconciliation proposal (if H.R. 3590 had been enacted) would be to increase the federal budgetary commitment to health care by about \$180 billion over the 2010–2019 period.

In subsequent years, the effects of the provisions of the two bills combined that would tend to decrease the federal budgetary commitment to health care would grow faster than the effects of the provisions that would increase it. As a result, CBO expects that enacting both proposals would generate a reduction in the federal budgetary commitment to health care during the decade following the 10-year budget window—which is the same conclusion that CBO reached about H.R. 3590, as passed by the Senate.

Members have also requested information about the effect of the legislation on health insurance premiums. On November 30, 2009, CBO released an analysis prepared by CBO and JCT of the expected impact on average premiums for health insurance in different markets of PPACA as originally proposed.¹¹ Although CBO and JCT have not updated the estimates provided in that letter, the effects on premiums of the legislation as passed by the Senate and modified by the reconciliation proposal would probably be quite similar.

CBO and JCT previously determined that H.R. 3590, as passed by the Senate, would impose several intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO and JCT estimated that the total costs of those mandates to state, local, and tribal governments and the private sector would greatly exceed the annual thresholds established in UMRA (\$70 million and \$141 million,

¹⁰ For additional discussion of that term, see Congressional Budget Office, letter to the Honorable Max Baucus regarding different measures for analyzing current proposals to reform health care (October 30, 2009).

¹¹ See Congressional Budget Office, letter to the Honorable Evan Bayh providing an analysis of health insurance premiums under the Patient Protection and Affordable Care Act (November 30, 2009).

TABLE 2. Estimate of Changes in Direct Spending and Revenue Effects of the Reconciliation Proposal Combined with H.R. 3590 as Passed by the Senate

	By Fiscal Year, in Billions of Dollars											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2014	2010-2019
CHANGES IN REVENUES												
Coverage-Related Provisions	0	0	0	0	-5	-11	-18	-22	-24	-26	-5	-107
Exchange Premium Credits												
Reinsurance and Risk Adjustment Collections	0	0	0	0	12	16	18	18	19	22	12	106
Small Employer Tax Credit	-2	-4	-5	-6	-5	-3	-3	-3	-4	-4	-21	-37
Penalty Payments by Employers and Uninsured Individuals	0	0	0	0	3	9	12	13	13	14	3	65
Excise Tax on High-Premium Plans	0	0	0	0	0	0	0	0	12	20	0	32
Associated Effects of Coverage Provisions on Revenues	*	-1	-2	-5	1	6	14	18	10	7	-8	46
Other Provisions												
Fees on Certain Manufacturers and Insurers ^b	0	2	3	5	12	15	15	18	19	18	22	107
Additional Hospital Insurance Tax	0	0	1	21	17	29	33	35	37	39	38	210
Other Revenue Provisions ^c	*	7	8	13	22	4	11	12	13	14	49	103
Total Revenues	-3	3	5	27	57	65	83	89	95	104	89	525
On-Budget	-3	4	5	27	55	62	78	82	87	95	88	492
Off-Budget	*	*	-1	1	2	3	5	7	8	9	1	33
NET IMPACT ON THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES^d												
Net Change in the Deficit	6	1	-10	-56	-51	-20	3	4	-5	-15	-109	-143
On-Budget	6	1	-10	-55	-50	-18	8	10	2	-6	-108	-114
Off-Budget	*	*	1	-1	-1	-2	-5	-6	-7	-9	-1	-29

Sources: Congressional Budget Office and staff of the Joint Committee on Taxation (JCT).

Note: Does not include effects on spending subject to future appropriation. Components may not sum to totals because of rounding.

* = between \$0.5 billion and -\$0.5 billion.

CHIP = Children's Health Insurance Program; FFS = Fee-for-service; DSH = Disproportionate Share Hospital.

a. Risk-adjustment payments lag revenues shown later in the table by one quarter. Reinsurance payments total \$20 billion over the 10-year period.

b. Amounts include fees on manufacturers and importers of branded drugs and certain medical devices as well as fees on health insurance providers.

c. Amounts include \$89 billion in increased revenues, as estimated by JCT, for tax provisions other than those broken out separately in the table.

d. In addition, this line includes an increase in revenues of about \$14 billion for other provisions shown in Table 5.

Positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.

Table 4. Estimated Effects of the Insurance Coverage Provisions of the Reconciliation Proposal Combined with H.R. 3590 as Passed by the Senate

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EFFECTS ON INSURANCE COVERAGE /a										
(Millions of nonelderly people, by calendar year)										
Current Law	40	39	39	38	35	34	35	35	35	35
Coverage /b	150	153	156	158	161	162	162	162	162	162
Medicaid & CHIP	27	26	25	26	28	29	29	29	30	30
Employer	50	51	51	51	51	51	52	53	53	54
Nongroup & Other /c	267	269	271	273	274	276	277	279	281	282
Uninsured /d										
TOTAL										
Change (+/-)	*	-1	-2	-3	10	15	17	16	16	16
Medicaid & CHIP										
Employer	*	3	3	3	4	1	-3	-3	-3	-3
Nongroup & Other /c	*	*	*	*	-2	-3	-5	-5	-5	-5
Exchanges	0	0	0	0	8	13	21	23	24	24
Uninsured /d	*	*	-1	-1	-19	-25	-30	-31	-31	-32
Post-Policy Uninsured Population										
Number of Nonelderly People /d	50	50	50	50	31	26	21	21	22	23
Insured Share of the Nonelderly Population /a										
Including All Residents	81%	82%	82%	82%	89%	91%	92%	92%	92%	92%
Excluding Unauthorized Immigrants	83%	83%	83%	83%	91%	93%	95%	95%	95%	94%
Memo: Exchange Enrollees and Subsidies										
Number w/ Unaffordable Offer from Employer /e					*	1	1	1	1	1
Number of Unsubsidized Exchange Enrollees					1	2	4	5	5	5
Average Exchange Subsidy per Subsidized Enrollee					\$5,200	\$5,300	\$5,500	\$5,700	\$5,700	\$6,000

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Note: CHIP = Children's Health Insurance Program; * = between 0.5 million and -0.5 million people.

a. Figures for the nonelderly population include only residents of the 50 states and the District of Columbia.

b. Figures reflect average annual enrollment; individuals reporting multiple sources of coverage are assigned a primary source.

c. Other, which includes Medicare, accounts for about half of current-law coverage in this category; the effects of the proposal are almost entirely on nongroup coverage.

d. The count of uninsured people includes unauthorized immigrants as well as people who are eligible for, but not enrolled in, Medicaid.

e. Workers who would have to pay more than a specified share of their income (9.5 percent in 2014) for employment-based coverage could receive subsidies via an exchange.

Table 4. Estimated Effects of the Insurance Coverage Provisions of the Reconciliation Proposal Combined with H.R. 3590 as Passed by the Senate

EFFECTS ON THE FEDERAL DEFICIT / a,b (Billions of dollars, by fiscal year)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2019
Medicaid & CHIP Outlays /c	0	-1	-2	-4	29	56	81	87	91	97	434
Exchange Subsidies & Related Spending /d	0	2	2	2	20	45	77	97	106	113	464
Small Employer Tax Credits /e	<u>2</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>5</u>	<u>4</u>	<u>3</u>	<u>3</u>	<u>4</u>	<u>4</u>	<u>40</u>
Gross Cost of Coverage Provisions	2	5	5	5	54	104	161	187	201	214	938
Penalty Payments by Uninsured Individuals	0	0	0	0	0	-2	-3	-4	-4	-4	-17
Penalty Payments by Employers /e	0	0	0	0	-3	-8	-10	-10	-10	-11	-52
Excise Tax on High-Premium Insurance Plans /e	0	0	0	0	0	0	0	0	-12	-20	-32
Other Effects on Tax Revenues and Outlays /f	<u>1</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>-1</u>	<u>-7</u>	<u>-15</u>	<u>-20</u>	<u>-11</u>	<u>-7</u>	<u>-48</u>
NET COST OF COVERAGE PROVISIONS	3	7	9	10	49	87	132	154	164	172	788

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Note: CHIP = Children's Health Insurance Program.

- a. Does not include federal administrative costs that would be subject to appropriation.
- b. Components may not sum to totals because of rounding; positive numbers indicate increases in the deficit, and negative numbers indicate reductions in the deficit.
- c. Under current law, states have the flexibility to make programmatic and other budgetary changes to Medicaid and CHIP. CBO estimates that state spending on Medicaid and CHIP in the 2010-2019 period would increase by about \$20 billion as a result of the coverage provisions.
- d. Includes \$5 billion in spending for high-risk pools and the net budgetary effects of proposed collections and payments for reinsurance and risk adjustment.
- e. The effects on the deficit of this provision include the associated effects of changes in taxable compensations and payments for Social Security benefits on tax revenues.
- f. The effects are almost entirely on tax revenues. CBO estimates that outlays for Social Security benefits would increase by about \$2 billion over the 2010-2019 period, and that the coverage provisions would have negligible effects on outlays for other federal programs.