

To: Interested Parties

From: Center for American Progress

Re: Estimated ACHA-related Job Loss

Date: March 17, 2017

Approximated employment effects of the American Health Care Act (AHCA)

Undoing the Affordable Care Act (ACA) will likely mean less government spending on Medicaid and subsidies for private insurance and thus less spending in general on health care. At the same time, the new proposed law, the American Health Care Act (AHCA), would also cut taxes for higher-income Americans. All three of these factors will likely impact the economy and thus employment. Less spending on health care due to cuts to Medicaid and health insurance subsidies will lower employment in the future, while tax cuts could result in some positive effects on jobs. **As a result, there will be 1.8 million fewer jobs in 2022 than otherwise would have been, in our estimates.**

This memo describes our best effort to estimate the likely employment impact of the AHCA. We base our estimates on a recently released study by researchers at the George Washington University (GWU).ⁱ This study relied on a well-established regional economic model that is commonly used for this kind of economic impact study.ⁱⁱ The researchers generated the estimates before the details of the GOP's legislation were known. They concluded that undoing the expansion of Medicaid and eliminating the subsidies for people buying health insurance would result in the loss of 2.9 million jobs by 2022 if these two provisions were repealed this year. While the AHCA implements several additional changes, the discussion in the GWU study offers enough details to allow us to make some modifications to the original estimates, for instance, by accounting for the potential offsetting effects on employment from cutting taxes for higher-income earners. We can hence arrive at an estimate of the employment effects of the GOP's plan to repeal and replace the Affordable Care Act (ACA) using this research.

Few estimates of the employment effects of ACA and its repeal exist. None exist of the likely effect of the AHCA. The study by researchers from GWU is one of the main estimates based on a comprehensive dynamic model of the U.S. economy. Moreover, these estimates specifically focus on the repeal of ACA in the current environment. They account for the changes that have already happened such as the full implementation of the ACA and the economic improvements since the law was passed in 2009. These estimates specifically address partial changes to the health care market, rather than a wholesale repeal of the entire ACA. And finally, the GWU study relies on a model that considers the changes over time to both the supply and demand side of the economy rather than focusing only on one, more narrowly defined aspect. It accounts, for instance, for the impact of higher wages and benefits that result from people getting subsidized health insurance and possibly cutting back on their hours at work. These factors lead us to use the various estimates as a starting point for our calculations.ⁱⁱⁱ

After making some adjustments to the estimates from the GWU study, we conclude that there would be 1.8 million fewer jobs in 2022, five years after passage of the AHCA:

- The GWU researchers estimate that ending the health insurance subsidies and the Medicaid expansion in January 2019 result in a total employment loss of 2.9 million jobs by 2022.

- The repeal of the tax credits lowers jobs by 1.2 million jobs in 2022 and the end of the Medicaid expansion reduces the total number of jobs by another 1.7 million jobs.
- Our baseline result then starts with the loss of 1.7 million jobs due to the end of Medicaid expansion. This estimate only captures one aspect of the AHCA – the elimination of the Medicaid expansion. It does not account for potential additional cuts after 2020 due to so-called caps on per capita Medicaid spending.
- The existing subsidies are replaced with a tax credit, coupled with an end of the individual mandate. We estimate that this switch lowers employment by 505,000.

We use changes in subsidized coverage from those estimated for ACA to those estimated for AHCA for 2022 to arrive at the potential losses of employment. The underlying logic is that the decline in employment is proportional to the decline that is expected to happen compared to all people losing subsidized coverage. If, for instance, the coverage with subsidies is cut in half, we would expect the employment effect to be half of that estimated by GWU for the complete elimination of the subsidies.

This calculation involves several steps. We first need to calculate the share of people who are expected to lose coverage in the nongroup market place, were people can have subsidized coverage, and through the Basic Health Program. We then assume that the decline in subsidized insurance is proportional to this decline, while the loss of coverage under the Basic Health Program is 100 percent due to its elimination. That is, we arrive at a weighted average decline for subsidized insurance through the market place and the Basic Health Program. We then apply this weighted average to the employment effect estimated by GWU researchers to arrive at the implied employment effect of the changes under AHCA.

We start with the estimates of coverage under the ACA. The Congressional Budget Office (CBO) estimated in March 2016 that about 12 million people will receive subsidized health insurance through the exchanges and an additional million people will receive it through the Basic Health Program in 2022.^{iv} In addition, an estimated nine million people will have unsubsidized nongroup insurance either in the market places or outside of the exchanges in 2022.^v The total then is 22 million people -- 21 million people with health insurance through nongroup insurance plans and another million through the Basic Health Program.

Next, we compare this baseline coverage to the estimated loss of health insurance coverage. In scoring the AHCA, CBO now estimates that 9 million people – 8 million in nongroup plans and one million in Basic Health Program – will lose coverage by 2022 due to the change in subsidies, the elimination of the individual mandate and the drop of the associated penalties.^{vi}

The coverage loss in the market place relative to the baseline coverage in the market place suggests a drop equal to 38.1 percent – 8 million to 21 million.^{vii} And an additional million will completely lose coverage. This then amounts to a weighted average of 40.9 percent – 9 million to 22 million.

Finally, we apply this share to the 1.2 million job loss estimate resulting from the complete elimination of the subsidies. That is, we estimate that the change of subsidies translates into 484,000 fewer jobs.

CBO also estimates that between 2020 and 2026, premiums in the non-group market will be about 10 percent lower than they would be under the ACA, largely due to a decline in the generosity of insurance plans. This implies an annual reduction in premiums, relative to what they would have been under ACA, and thus a relative pull back in spending of about 1.5 percent. That is, the total employment effect is three percent of the remaining 689,000 jobs that still exist due to the new subsidies. This amounts to another 21,000 jobs.

The total job loss from the change in subsidies by 2022 is then 505,000 (484,000 plus 21,000).

- The AHCA repeals a number of taxes used to finance the health insurance expansion. The GWU estimate does not include those tax changes in their estimates, but a similar study done only for California, shows that the tax cut effects would offset 16 percent of the total employment losses from the end of the subsidies and the Medicaid expansion. This is equivalent to 468,000 jobs in 2022, based on the data from the GWU study.
- The total estimated employment effect in 2022 then amounts to 1.8 million lost jobs. This is the sum of 1.7 million jobs lost due to the end of the Medicaid expansion, 505,000 jobs lost due to the change in subsidies (and other, related regulatory changes) and 468,000 jobs gained due to the associated tax cuts.

All estimates are fraught with some uncertainty.^{viii} There is, however, reason to believe that this estimate is conservative, as it ignores key aspects of the proposed changes that could result in additional employment losses:

- GWU's model estimates do not account for additional cuts to Medicaid that would arise from the ACHA's per capita caps, which reduce funding for Medicaid's traditional eligibility categories. As a result, large coverage losses from changes to Medicaid occur immediately after 2020 and grow over time, the CBO estimates show. Focusing on an earlier year such as 2022, instead of 2027, for example, likely underestimates the employment effect of the Medicaid elimination.

ⁱ Leighton Ku, Erika Steinmetz, Erin Brantley and Brian Bruen. 2017. The Economic and Employment Consequences of Repealing Federal Health Reform: A 50 State Analysis. Washington, DC: The George Washington University. Available at https://publichealth.gwu.edu/sites/default/files/downloads/HPM/Repealing_Federal_Health_Reform.pdf. Another version of this report was published by the Commonwealth Fund. See Commonwealth Fund. 2017. Repealing Federal Health Reform: Economic and Employment Consequences for States. New York, NY: Commonwealth Fund. Available at <http://www.commonwealthfund.org/publications/issue-briefs/2017/jan/repealing-federal-health-reform>.

ⁱⁱ Researchers at GWU used REMI Inc. Pi+ model. Details on this model, its assumptions and underlying linkages is available at <http://www.remi.com/products/pi>.

ⁱⁱⁱ The Congressional Budget Office (CBO) offered an analysis in 2014 of the likely employment effects of the full implementation of ACA and also discussed the budgetary and economic effects, without specifics on employment, of a full repeal of the ACA. These estimates are less appropriate for our calculations since they considered the possible effects of a full repeal at a time when the effects of implementation were still unknown. Moreover, the CBO estimates from 2014 were done in a weaker labor market environment. The CBO director in his testimony on the analysis even pointed out that the expectation would be that the ACA would lower the unemployment rate over time, even as some people took the freedom generated by the new health insurance law, to work fewer hours. That is, the CBO estimate, referring to a weaker economic environment, showed fewer hours worked, but

also more employment opportunities, even when not accounting for the longer-term spillover effects to growth. See Edward Harris and Shannon Mok. 2015. How CBO Estimates the Effects of the Affordable Care Act on the Labor Market. CBO Working Paper 2015-09. Washington, DC: Congressional Budget Office. Available at http://www.cbo.gov/sites/default/files/114th-congress-2015-2016/workingpaper/51065-ACA_Labor_Market_Effects_WP.pdf; Congressional Budget Office. 2015. Budgetary and Economic Effects of Repealing the Affordable Care Act. Washington, DC: CBO. Available at https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50252-Effects_of_ACA_Repeal.pdf; and CBO director's testimony discussed by CEA Chairman Jason Furman in his 2015 remarks at the Center for American Progress. See, Jason Furman. 2015. The Economic Benefits of the Affordable Care Act. Remarks at the Center for American Progress. Washington, DC: CAP. Available at https://obamawhitehouse.archives.gov/sites/default/files/docs/20150402_aca_economic_impacts_fifth_anniversary_cap_0.pdf

^{iv} Congressional Budget Office. 2017. Federal Subsidies for Health Insurance Coverage Related to the Expansion of Medicaid and Nongroup Health Insurance: Tables from CBO's January 2017 Baseline. Washington, DC: CBO. Available at <https://www.cbo.gov/sites/default/files/recurringdata/51298-2017-01-healthinsurance.pdf>.

^v Congressional Budget Office. 2017. Federal Subsidies for Health Insurance Coverage Related to the Expansion of Medicaid and Nongroup Health Insurance: Tables from CBO's January 2017 Baseline. Washington, DC: CBO. Available at <https://www.cbo.gov/sites/default/files/recurringdata/51298-2017-01-healthinsurance.pdf>.

^{vi} Congressional Budget Office. 2017. American Health Care Act. Washington, DC: CBO. Available at https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/costestimate/americanhealthcareact_0.pdf

^{vii} Congressional Budget Office. 2017. Federal Subsidies for Health Insurance Coverage Related to the Expansion of Medicaid and Nongroup Health Insurance: Tables from CBO's January 2017 Baseline. Washington, DC: CBO. Available at <https://www.cbo.gov/sites/default/files/recurringdata/51298-2017-01-healthinsurance.pdf>.

^{viii} See Congressional Budget Office. 2017. American Health Care Act. Washington, DC: CBO for a detailed discussion of some of the uncertainty related to the AHCA. Available at https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/costestimate/americanhealthcareact_0.pdf