



Written by [Michael Tennant](#) on October 31, 2012

Healthcare Cost Estimates Rise Under “Affordable” Care Act

The Patient Protection and Affordable Care Act (ACA), also known as ObamaCare, contains the largest new entitlement since the Great Society in the form of health insurance subsidies. As anyone with even a modicum of historical knowledge would expect, that entitlement’s cost is already growing much faster than originally projected. In fact, even though the subsidies have not yet gone into effect, they are expected to cost almost 25 percent more than initial estimates from just two years ago. Furthermore, the subsidies’ price tag is likely to continue to rise as a result of increasing healthcare costs, a sluggish economy, and a reduction in the number of individuals receiving health insurance through their employers.



Those are the conclusions of a new [paper](#) from the American Action Forum. The think tank’s president, former Congressional Budget Office (CBO) director Douglas Holtz-Eakin, examined the CBO’s projections for the subsidy entitlement and found real cause for concern that the program could end up costing vast sums of money at a time when Uncle Sam is already borrowing over \$1 trillion a year.

The ACA provides subsidies for people with incomes from 100 percent to 400 percent of the federal poverty level to purchase health insurance on state exchanges if they cannot obtain “affordable” (as defined by the ACA) employer-sponsored insurance and are ineligible for other federal healthcare programs.

At the time the ACA became law, the CBO estimated that it would enable 32 million more Americans to obtain insurance coverage, with 24 million of those individuals doing so via subsidies. “Put differently,” writes Holtz-Eakin, “the insurance subsidies are the central component of the ACA’s primary accomplishment: greater health insurance coverage.” This should hardly have come as a shock to informed readers: [83 percent](#) of the people who newly obtained health insurance under the Massachusetts law on which ObamaCare was based did so at taxpayer expense.

These subsidies, by the way, are means tested but also tied directly to the cost of health insurance. In other words, if health insurance costs go up, so do the subsidies — and the corresponding taxes or deficits (i.e., deferred taxes).

Holtz-Eakin observes:

The ACA subsidies are the most substantial new entitlement program in the United States since the creation of Medicare and Medicaid in 1965. At a time when gross federal debt exceeds Gross Domestic Product, and when projected debt under current policies rises even more dramatically



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over the next decade, the cost of a major new entitlement expansion is properly a major cause for concern.

Indeed it is — and that concern is well founded. The CBO has estimated the cost of the subsidies thrice, and in each subsequent projection the cost has increased significantly. The initial estimate, in March 2010, called for the subsidies to cost \$462 billion between 2012 and 2019. The CBO's next projection, issued about a year later, saw the cost rise by 11.6 percent to \$515.5 billion. By June 2012, just after the Supreme Court ruled the individual mandate constitutional, the program was expected to cost \$574 billion, 24.2 percent more than originally anticipated. In addition, in both the 2011 and 2012 estimates, costs were expected to be higher than originally projected every single year from 2014 on.

It's not just the insurance entitlement whose costs are rising fast. The CBO [found](#) earlier this year that the overall price tag for the ACA is now nearly double the original estimate (\$1.76 trillion, rather than \$938 billion, over 10 years) — a figure Senate Budget Committee ranking member Sen. Jeff Sessions (R-Ala.) argued was about \$900 billion short when all the implementation costs and other charges were included.

What's more, the CBO estimated that three million to five million people, primarily low-wage earners, will lose their employer-sponsored health insurance each year from 2019 to 2022 as a result of the ACA. Many of these individuals will then obtain subsidized coverage, further hiking the cost of that entitlement. This process may already be underway: Darden Restaurants, one of the nation's largest employers, is experimenting with [cutting employees' work hours](#) so that the company will not be forced to offer expensive health insurance to all of them once the employer mandate takes effect in 2014.

Subsidies are also likely to increase because some states will choose not to participate in the ACA's Medicaid expansion now that the Supreme Court has ruled that they have that option. Most, if not all, of those who would have been covered by Medicaid under the ACA's provisions will instead get subsidized insurance. (Some of these costs will, of course, be offset by reduced Medicaid outlays.)

Concludes Holtz-Eakin:

The lesson is clear: in its brief existence, the ACA entitlement has already increased in cost by nearly 25 percent. Given the continued rise in health care costs in the United States, the stagnation of incomes during the post-2009 recovery, and the large upside risk due to employers no longer providing insurance, there is substantial reason to suspect that the price tag could rise much further yet.

And that is one more reason that ObamaCare must be repealed — and not replaced with a watered-down version having similarly deleterious effects.



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