



Affordable Care Act Financing the ACA Sept. 19, 2012

On June 28, 2012, the U.S. Supreme Court ruled that the Affordable Care Act was constitutional.

The Congressional Budget Office (CBO) released its third complete estimate of the cost of the ACA on July 24, 2012, reducing the ACA's ten year cost by \$84 billion. The CBO reaffirmed that health care reform will reduce the deficit – modestly over its first ten years and by an amount equal to about one-half of 1 percent of gross domestic product over its second decade.

Expanding health coverage under the Affordable Care Act is expected to cost \$938 billion over a 10 year period (2010-2019). About 49 percent of that cost will come from reducing projected spending on Medicare and Medicaid, and 51 percent will come from new or increased fees and taxes.

The 49 percent in federal savings includes:

- Reduced annual payment increases to Medicare providers (\$196 billion).
- Reductions in payments to Medicare Advantage plans (\$136 billion).
- Reduced subsidies for hospitals serving the uninsured (\$36 billion).
- Reduced Medicaid drug costs (\$38 billion).

The 51 percent provided by new revenue includes:

- Increased Medicare tax on high-income people (\$210 billion).
- Fees on insurers and manufacturers of medical devices and branded drugs (\$107 billion).
- Penalty payments by employers and uninsured individuals (\$69 billion).
- Excise tax on high-cost (“Cadillac”) insurance plans (\$32 billion).

The new funds and savings will be used to finance insurance coverage:

- 45 percent will be used for increased federal spending on Medicaid expansion and CHIP.
- 47 percent will be used for premium and cost sharing subsidy for people without insurance.
- 4 percent for small employer tax credits to provide incentives to cover employees with insurance.

Payments to Oklahoma hospitals are estimated to be reduced over 10 years by:

- \$1.52 billion in reduced Medicare annual updates.
- \$305 million in reduced Medicare Disproportionate Share Hospital (DSH) payments.
- \$85 million Medicare payment reductions for excessive readmissions.
- Reductions in Medicaid DSH payments, depending on rules to be developed by CMS.

The Oklahoma Hospital Association has prepared Fact Sheets on numerous topics related to the ACA of interest to hospitals. The Fact Sheets may be accessed at www.okoha.com/aca.