



Economics Group

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Capitol Hill Update: ACA Replacement Bill Revealed

Leadership in the House released its version of a bill to repeal and replace the Affordable Care Act last week. We do not expect the bill to be enacted in its current form, likely resulting in a delay of the legislative agenda.

Overview of the American Health Care Act

The long awaited replacement bill for the Affordable Care Act (ACA) was released last week in the House. Known as the American Health Care Act, the bill eliminates a number of tax provisions used to fund the ACA and jettisons the individual and employer mandates. The major reforms to the ACA include transforming Medicaid into a per capita allotment, expanding health savings accounts and providing a monthly tax credit for individuals to purchase insurance. On net, the analysis from the Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) shows that the bill will reduce the federal deficit by \$337 billion over the 2017-2026 period.* In the short-run, however, the immediate repeal of ACA-related taxes and the delay in Medicaid cuts would lead to an increase in the deficit, a factor already incorporated into our baseline deficit forecast.

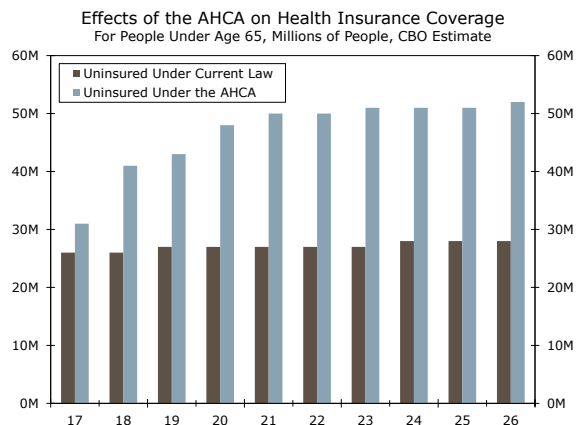
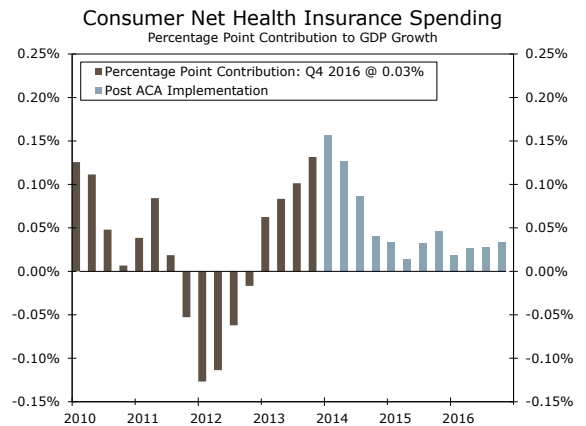
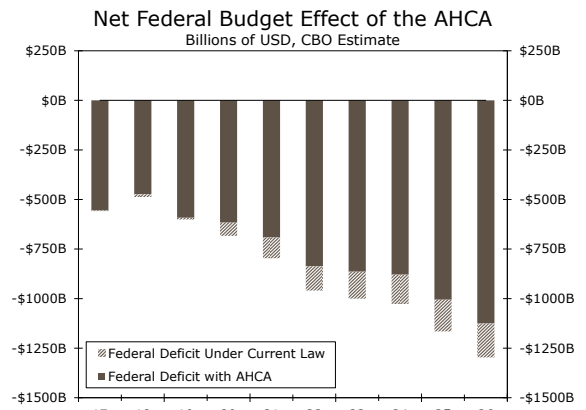
The number of uninsured relative to current law is expected to increase by 14 million in 2018 and rise to 24 million by 2026 as more individuals opt out of purchasing insurance after the removal of the individual mandate. After seeing the official score, we do not expect a material economic impact to our forecast should the bill be enacted. We expect a one or two quarter downshift in the pace of real consumer spending growth as individuals choose to cancel insurance coverage; however, this effect is likely to be minimal on our baseline forecast. Higher insurance premiums for those remaining insured have the potential to crowd out other forms of consumer spending on the margin in 2018 and 2019.

Political Landscape and Challenges

Besides the divisions within the Republican party likely resulting in potential amendments to the bill, there are procedural hurdles that need to be cleared before votes are taken in the Senate. With differing views on the bill between the House and Senate, there is likely to be a conference committee between the two chambers, further drawing out the legislative process. Our view is that this will likely push the debate over tax reform until after the August recess.

Possible Backup Plans

Should the ACA repeal and replacement fail, it may not mean the end of the discussion. There is a chance that Congress lets the current issues with the ACA continue to fester. Fast forwarding to the 2018 mid-term elections, there are 25 Democratic seats (including two independents who caucus with the Democrats) up for reelection compared with only 9 Republican seats. Thus, at least numerically, there is a good chance that Republicans could have a 60 seat supermajority in the Senate and keep the House. Should this scenario unfold, we suspect that another attempt to replace the ACA would likely take place without the limitations that take place when using reconciliation as the primary legislative vehicle.



Source: Congressional Budget Office U.S. Department of Commerce and Wells Fargo Securities

* Congressional Budget Office. (March 2017). The American Health Care Act Cost Estimate.

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