



\$900 Billion is \$900 Billion—or is it? Gross vs Net Spending and Why it Matters

In his speech on September 9th, President Obama surprised listeners by declaring that health reform would not cost more than \$900 billion. The President also committed to ensuring that the reform was fully paid for and would not add to the deficit. Prior to this speech, many independent analysts estimated the cost of reform at \$1.2 trillion or higher. It was not clear then, nor is it clear now, how the administration arrived at the \$900 billion figure. Nonetheless, it quickly became the spending ceiling for both the House and Senate as they worked to craft legislation.

Now as passage of Senate legislation approaches, differences in how the House and Senate calculate that \$900 billion loom large and could have a dramatic affect on how much financial protection a final bill provides to low- and moderate-income families. The House calculated \$900 billion as the “net cost” of the coverage provisions, while the Senate calculated \$900 billion as the “gross cost.” The gross cost is the total cost of Medicaid and CHIP expansions, subsidies for individuals, and small business tax credits. Subtracting revenue inherent in reform (i.e. the revenue generated by the employer and individual responsibility payments) produces the net cost.

To illustrate the difference between net and gross, imagine that you are shopping for a jacket and you have decided it cannot cost more than \$100. You go to the store and see a jacket that has a price tag of \$120 (gross cost). There is also an in-store coupon for \$20 off. According to the Senate, you could not buy the jacket because its price exceeds your \$100 limit. According to the House, you could buy the jacket because with the coupon you would not spend more than \$100 (net cost).

Why does it matter?

Bringing it back to health reform, according to the Congressional Budget Office, measured on a net basis the **House bill provides \$891 billion** in coverage expansion while the **Senate bill provides only \$614 billion**. On a gross basis the House bill costs \$1,052 billion while the Senate bill costs \$871. In more human terms, the House bill provides greater premium assistance, especially for low-wage workers who make up the bulk of the uninsured; better benefits for nearly everyone who is eligible for a subsidy; and starts expanding coverage a full year earlier than the Senate bill. If it is agreed that \$900 billion refers to the net cost of the bill, there is plenty of room under the \$900 billion ceiling to improve the affordability provisions offered in the Senate (see table). But, if \$900 billion refers to the gross cost as in the Senate version, then there is very little room for additional improvements even though many in the Senate agree that improvements are needed.

Gross and Net Spending: House vs Senate

	Gross Spending (in billions)	Room for improvement under \$900 billion cap	Net Spending (in billions)	Room for improvement under \$900 billion cap
House	\$1,052	-\$152 billion	\$891	\$9 billion
Senate	\$871	\$29 billion	\$614	\$286 billion

Who can resolve the difference?

Only President Obama knows for sure what he meant when he laid out the number \$900 billion. His endorsement of the House legislation appears to suggest that he finds the House approach acceptable, but whether that approach prevails in conference remains to be seen. Low- and moderate-income families have a lot riding on the outcome.