Answers to Questions for the Record
Following a Hearing on the
Budget and Economic Outlook for 2014 to 2024
Conducted by the House Committee on the Budget

On February 5, 2014, the House Committee on the Budget convened a hearing at which Douglas W. Elmendorf, Director of the Congressional Budget Office, testified about CBO's report The Budget and Economic Outlook: 2014 to 2024 *(February 2014),* www.cbo.gov/publication/ 45010. *Some Members of the Committee submitted further questions for the record, and this document provides CBO's answers.*

Chairman Paul Ryan

Question. Do you believe the current scoring conventions for federal insurance programs accurately measure the risks borne by the federal government? Specifically, do CBO scores related to the National Flood Insurance Program, the Aviation War Risk Insurance Program, and the Terrorism Risk Insurance Program fully capture government risk?

For certain credit programs, CBO has published a "fair value" estimate in addition to the required FCRA-based estimate. Is there a similar alternative measure for insurance programs?

CBO has said that "FCRA-based cost estimates do not provide a full accounting of what federal credit programs actually cost the government because they do not incorporate the full cost of the risk associated with the loans." Given the similarity between a loan guarantee and an insurance product, could the same be said about federal insurance programs?

Answer. In preparing baseline projections and legislative cost estimates related to federal insurance programs, the Congressional Budget Office aims to capture the full extent of expected costs to the government, taking into account each program's unique features and statutory framework. CBO's estimates consider the federal government's exposure to losses; probabilistic analyses of the likelihood of such losses' occurring; and anticipated income from fees, premiums, or other mechanisms intended to offset costs. Those estimates are intended to represent the middle of the range of possible outcomes, but there is a significant likelihood that the government's costs could be greater or less than CBO projects.

However, the cash-based budgetary treatment that applies to all noncredit programs creates a potential mismatch between the timing of spending and income for some insurance programs. As a result, the full extent of budgetary effects for such programs may not be captured within the 10-year period covered by CBO's estimates. For example, although income from premiums charged to air carriers under the Federal Aviation Administration's

(FAA's) war risk insurance program is recorded at the time coverage is purchased, CBO expects that spending for any losses would occur very gradually over 10 years or longer as claims are resolved. CBO anticipates that spending under the Terrorism Risk Insurance Program would follow a similar, slow pattern; however, income from that program's mechanism for recouping costs in the aftermath of a covered event would not be collected until several years after spending began. In either case, all cash flows over the life of a program must be considered to gauge its net budgetary impact.

Although CBO believes that a fair-value approach that considers market risk would provide a more comprehensive measure of the costs of federal credit programs, the agency would not extend that argument to all federal insurance programs.[1] Some, such as pension guarantees provided by the Pension Benefit Guaranty Corporation, involve long-term commitments and are tied to market conditions. Analyzing such programs on a present-value basis that accounts for market risk would be useful. (A present value expresses in a single number the flow of current and future income, or payments, in terms of a lump sum received, or paid, today.) Other insurance programs, such as the National Flood Insurance Program, the FAA's war risk insurance program, and the Terrorism Risk Insurance Program, involve short-term commitments and risks with correlations to market outcomes that would be difficult to determine and highly uncertain. To the extent that estimated market correlations were estimated to be low, a fair-value approach would yield estimates that would not be very different from CBO's current net cash estimates.

Representative Tony Cardenas

Question. Locking up a juvenile is estimated to cost between $50,000 and $100,000 a year, while treating one at a community-based center is estimated by the Juvenile Justice Project to cost only about $5,000. How would reforming the Juvenile Justice system by realigning fiscal resources away from ineffective and expensive state institutions and towards community-based services impact the U.S. workforce?

Answer. In principle, shifting the focus of juvenile justice programs from incarceration toward community-based programs has the potential to save money; however, the federal government has only a limited role in setting juvenile justice policies. At $1.6 billion over the 2009–2013 period, federal spending was a small share of total spending on juvenile justice; however, the Congressional Budget Office does not have authoritative figures for total state and local spending on those programs.

Although CBO has not analyzed the effects on the U.S. workforce of treating nonviolent juvenile offenders at community-based service centers rather than in juvenile detention facilities, such a shift in the juvenile justice system could affect the U.S. workforce in several ways. If community-based centers deliver more cost-effective job training and guidance to juvenile offenders, then a shift in policy emphasis toward such centers would probably help participants to be more employable at the end of a program. Young people who complete such programs and successfully make the transition to stable employment are less likely to commit subsequent crimes that could lead to repeated incarceration.

---

1. For a discussion of the possible use of accrual-based budgeting for federal insurance programs, see United States General Accounting Office, *Budget Issues: Budgeting for Federal Insurance Programs,* GAO/AIMD-97-16 (September 1997), www.gao.gov/products/GAO/AIMD-97-16.

If, however, those community-based services are less effective than conventional juvenile detention facilities at providing workforce training, then the opposite could occur. In particular, if community-based services are seen by potential offenders as constituting light punishment for criminal offenses, then a shift toward such community-based services could increase the amount of crime committed by juveniles. That, in turn, would diminish their prospects for subsequent employment.

Question. How would the unemployment rate be impacted by providing long-term unemployed workers with a lump sum unemployment benefit to help cover moving costs so workers can move from areas of high unemployment to low unemployment rates or to accept employment that would require them to move? Would it help grow our economy?

Answer. In February 2012, CBO wrote that "locational mismatches have probably played a minor role in the rise of both unemployment and long-term unemployment, despite the fact that unemployment rates vary substantially among states" (see *Understanding and Responding to Persistently High Unemployment*, p. 10, www.cbo.gov/publication/42989).

To the degree that locational mismatches continue to operate in the economy, a benefit designed to facilitate relocation would probably reduce such mismatches but would have only a small effect on unemployment and economic growth.

Question. How would comprehensive immigration reform impact our economy? The national deficit? GDP? Would it create jobs, and if so what would it do to the national unemployment rate?

Answer. The effects of comprehensive immigration legislation would vary greatly depending on the details of the legislation—particularly with regard to the effect of such legislation on the number of people coming to the United States and on the composition of that group, as well as the period over which such changes would occur.

As an example, in 2013, CBO transmitted cost estimates for S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act (www.cbo.gov/publication/44397 and www.cbo.gov/publication/44225), which represents one approach to comprehensive immigration reform. In addition, the agency transmitted a report entitled *The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act* (June 2013, www.cbo.gov/publication/44346). In those analyses, CBO and the staff of the Joint Committee on Taxation (JCT) estimated that enacting S. 744 would have significant effects on the federal budget and the U.S. economy. The population increase stemming from the act would lead both to increased spending on federal benefit programs and to greater revenues because of the larger number of people living and working in the United States. CBO and JCT estimated that enacting S. 744 as passed by the Senate, through its effects on direct spending and revenues, would decrease federal budget deficits by total of $158 billion over the first 10 years after enactment and by an additional $685 billion in the second decade after enactment.

Additionally, CBO estimated that real gross domestic product (output adjusted to remove the effects of inflation) would increase by 3.3 percent in 2023 and by 5.4 percent in 2033, if S. 744 (as reported by the Senate Committee on the Judiciary) had been enacted by the end of

fiscal year 2013. CBO and JCT anticipated that most of the additional foreign-born adults would have jobs and be part of the labor force. However, temporary imbalances in the skills and occupations demanded and supplied in the labor market, as well as other factors, would cause the unemployment rate to be slightly higher for several years than projected under current law.

The effects mentioned above are specific to CBO's cost estimates for S. 744; a different proposal could have markedly different effects.

Representative Sean Duffy

Question: Does Obamacare result in an increase or decrease in mandatory spending on health programs, specifically through new subsidies and program expansion?

Answer: In March 2010, just before the Affordable Care Act (ACA) was enacted, the Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) estimated that the legislation would increase mandatory spending on health programs by about $370 billion over the 2010–2019 period (see the cost estimate for H.R. 4872, Reconciliation Act of 2010 [Final Health Care Legislation], March 20, 2010, www.cbo.gov/publication/21351).[2] That increase reflected increases in federal spending associated with the law's insurance coverage provisions of about $900 billion (mostly for new subsidies provided through the insurance exchanges and for an expansion of Medicaid coverage), net decreases in federal spending of $70 billion through the Community Living Assistance Services and Supports program (which CBO anticipated would have a budgetary cost in later years), and net decreases in federal spending of about $455 billion on other health care programs (mostly for Medicare).

In the four years since those estimates were produced, there have been significant changes in the economic outlook, in the health care and health financing systems, in CBO and JCT's estimating methodologies, in provisions of law that relate to the ACA, and in the implementation of the ACA as guided by judicial decisions and administrative actions. All of those changes could affect the impact of the ACA on mandatory spending on health programs, potentially in significant ways.

However, the incremental budgetary effects of many spending provisions of the ACA cannot be separately identified using the agencies' normal estimating procedures, which are generally

---

2. The letter that reported that cost estimate showed projections of the effects of enacting both the Patient Protection and Affordable Care Act (PPACA) as passed by the Senate (H.R. 3590) and the Health Care and Education Reconciliation Act of 2010 (H.R. 4872). The latter legislation included provisions related to education. CBO uses the term Affordable Care Act to refer to PPACA (Public Law 111-148); the health care provisions of the Reconciliation Act (P.L. 111-152); and the effects of subsequent judicial decisions; statutory changes, and administrative actions. CBO also estimated that the Internal Revenue Service and the Department of Health and Human Services would incur costs of between $5 billion and $10 billion each over 10 years to carry out their responsibilities for implementing the legislation; those costs would be funded through discretionary appropriations.

   For JCT's estimates of the effects of most of the tax provisions in the ACA, see Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 3590, the "Patient Protection and Affordable Care Act ('PPACA')," as Passed by the Senate, and Scheduled for Consideration by the House Committee on Rules on March 20, 2010*, JCX-17-10 (March 20, 2010), http://go.usa.gov/8tNQ.

based on data that reflect all of the provisions of current law, including the ACA.[3] The principal obstacle to estimating the effects of all of those provisions is that CBO's cost estimates represent the budgetary effects of legislation relative to the current-law baseline. Because the ACA is part of current law, its budgetary effects would now need to be estimated relative to a counterfactual benchmark that excluded the ACA. CBO does not construct such a counterfactual benchmark for all of the ACA, and attempting to do so would raise significant challenges.

Still, given the magnitude of the increase in mandatory spending on health care programs under the ACA that CBO and JCT estimated in 2010, the agencies continue to think that the ACA increased such spending.

Question: CBO expects real GDP to grow by only 2.6% annually over the next ten years, roughly 0.3% below last year's projection. What effect does this slower growth have on federal revenues?

Answer: For the 2014–2023 period, CBO estimates that, under current law, revenues would be $1.6 trillion (or 4.0 percent) less than it projected in May 2013. Economic factors account for most ($1.4 trillion) of the reduction. Between 2016 and 2023, roughly half of the decrease stemming from economic factors can be attributed to slower growth in real (inflation-adjusted) gross domestic product (GDP) than CBO had previously forecast, and another significant share can be attributed to a lower rate of inflation than CBO had previously forecast. As a result of those factors, CBO now projects lower wages, salaries, and corporate profits throughout those years, which in turn caused it to lower its projections for receipts from individual income and corporate income taxes and from the payroll tax.

Question: How much of this reduction in growth can be attributed to the effects of Obamacare on employment?

Answer: CBO has not done a detailed analysis of the impact on projected GDP growth of the revision in the agency's estimate of the ACA's effects on employment. Changes in employment affect GDP both directly (through changes in the output produced by labor) and indirectly (through the effects of changes in employment on capital investment and other factors); such changes in GDP can, in turn, induce further changes in employment. CBO constructs its economic forecast by assessing a large set of influences on employment, investment, and other factors, and then combining those influences. As a result, the contribution to projected GDP growth of individual factors, such as the ACA's estimated effects on employment, is not a natural output of the agency's forecast process. Moreover, CBO has not separately analyzed other potential effects of the ACA on GDP.

In CBO's judgment, however, the revision in its estimate of the ACA's effects on employment probably accounts for a very small share of the reduction in projected GDP growth that the agency made in February. Previously CBO had estimated that the ACA would reduce the aggregate amount of labor compensation by about one-half percent by 2023; in February

---

3. CBO made this point shortly after the enactment of the ACA when the agency first incorporated that legislation into its baseline projections. See *The Budget and Economic Outlook: An Update,* August 2010, Box 1-1, p. 6, www.cbo.gov/publication/21670. See also *Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act,* April 2014, footnote 3, p. 1, www.cbo.gov/publication/45231.

2014, CBO revised that estimate to a reduction of about 1 percent (see Appendix C, *The Budget and Economic Outlook: 2014 to 2024*, www.cbo.gov/publication/45010), which amounts to a downward revision in projected labor compensation of about one-half percent. After accounting for labor compensation's share of GDP and other factors, the change in CBO's estimate probably reduced projected real GDP in 2023 by less than one-half percent, compared with a downward revision of projected real GDP in 2023 of roughly 3 percent.

Question: Finally, can you provide a specific analysis of the impact that Obamacare will have on the youth unemployment rate, both on the supply and demand side of employment?

Answer: CBO has not analyzed the ACA's effects on the employment or unemployment of young people specifically, and isolating those effects from the ACA's overall effects on labor market would be quite difficult.

In February 2014 the agency published updated estimates of the ACA's overall effects on labor markets (see Appendix C, *The Budget and Economic Outlook: 2014 to 2024*, www.cbo.gov/publication/45010). The largest effects will probably occur after 2016, once the law's major provisions have taken full effect and overall economic output tracks more closely its maximum sustainable level. CBO estimates that the ACA will reduce the total number of hours worked, on net, by about 1.5 percent to 2.0 percent during the period from 2017 to 2024, almost entirely because workers will choose to supply less labor—given the new taxes and other incentives that they will face and the financial benefits that some will receive. Because the estimated reduction stems almost entirely from a net decline in the amount of labor that workers choose to supply, rather than from a net drop in businesses' demand for labor, it will appear almost entirely as a reduction in labor force participation and in hours worked relative to what would have occurred otherwise, rather than as an increase in unemployment (that is, more workers seeking but not finding jobs) or underemployment (such as part-time workers who would prefer to work more hours per week). CBO estimates that the ACA will cause smaller declines in employment over the 2014–2016 period than it will in later years, for several reasons discussed in the report.

Representative James Lankford

Question. Since FY 2008 the Crime Victims Fund (CVF) obligation limitation CHIMP has been used to offset nearly $37 billion in discretionary budget authority. Most recently, in FY 2014 the CHIMP was used to offset $9.4 billion in budget authority while only saving $346 million in outlays. Please provide further detail on the approach that CBO uses when scoring the CVF CHIMP. For the past several years the carryover balance of the fund has remained substantially higher than the funds made available for distribution ($8.95 billion vs. $730 million in FY 2013). Is it realistic to characterize the carryover balance as savings as opposed to a CHIMP used to increase discretionary spending when historically nowhere near that much has been distributed from the Fund in any given year? Based on the funding history of the CVF, do you feel there should be an alternative scoring scenario utilized to estimate spending and savings when the CVF is used as a discretionary offset?

Answer. For many years, the Commerce-Justice appropriation bill has included a provision that imposes a one-year limitation on the amount that can be obligated from the Crime Victims Fund. Such a limitation in an appropriation bill is known as a *change in a mandatory*

program, or CHIMP. The general practice of the Congressional Budget Office is to identify and score the effects of a CHIMP on estimated spending for the affected mandatory account for the duration of the agency's 10-year baseline projection period.

In the case of the Crime Victims Fund, before enactment of the 2014 appropriation, CBO's baseline reflected the agency's estimate that the fund would have budget authority of $10,103 million and outlays of $914 million in 2014. The large amount of budget authority represented an accumulation over many years that resulted from annual limits on obligations from the fund. Therefore, CBO estimated, limiting the obligations to $745 million, as specified in the 2014 Commerce-Justice bill, reduced the budget authority available for 2014 by $9,358 million ($10,103 million minus $745 million) and lowered outlays for that year by $346 million. The outlay reduction reflects CBO's estimate that, in the absence of the limitation, obligational authority in 2014 would have totaled $10.1 billion and that about 3.7 percent of that amount would have resulted in outlays in 2014.

As illustrated by the table, however, the amounts saved in 2014 become available for obligation in 2015, and CBO estimates that budget authority in 2015 will increase by a corresponding amount. The agency estimates that the net effect of the 2014 obligation limitation over 10 years will be zero; outlays will be smaller in the first few years, but larger in subsequent years as a result. Because the fund's balance increases over time, amounts in the fund are likely to be spent more slowly, and CBO has adjusted the outlay rate accordingly. If lawmakers continue to impose an annual obligation limitation, outlays over the period will be noticeably smaller than CBO now projects.

Crime Victims Fund, Estimated Effect of 2014 Obligation Limitation

(Millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Budget Authority	-9,358	-9,358	0	0	0	0	0	0	0	0
Outlays	-346	-777	-749	-2,620	2,966	1,526	0	0	0	0

An obligation limitation in any one year defers spending but does not reduce outlays over time. Hence, if the reduction in budget authority was used to make it possible to provide additional funding for another program while remaining within the caps on discretionary spending, the net effect would be an increase in spending with no net change in budget authority. An alternative scoring approach would be to show changes (savings) in budget authority in the first year only if funds were permanently rescinded. The program could be treated as discretionary, so that budget authority would be recorded in the amount of the obligation limitation. Any such change, however, would require agreement by the budget committees.

Representative Todd Rokita

Question. The President has recently proposed to create a new "MyRA" which would allow all Americans who qualify to invest in a U.S. debt instrument similar to what is available to federal employees through the G Fund, which is an option in the TSP. However, the G Fund is a debt instrument that pays a subsidized, artificially high return.

Will this MyRA proposal increase borrowing costs for the U.S. government? How much?

Answer. The Government Securities Investment Fund, or G Fund, in the federal government's Thrift Savings Plan pays an interest rate that is based on the weighted-average yield of outstanding Treasury securities that have four or more years to maturity. The Congressional Budget Office projects that over the 2018–2024 period, when interest rates are expected to normalize, the G Fund rate will be 5.0 percent and the average interest rate for Treasury securities (other than inflation-protected securities) will be 4.3 percent.

Participants in the MyRA program will act as lenders to the U.S. Treasury, so CBO expects that MyRA contributions will replace an equal amount of other Treasury borrowing. Any increase in borrowing costs associated with the program would depend heavily on how many people participate in the program and on how the investments in MyRAs affect the mix of other securities issued by the Treasury. If, for example, the sums invested in MyRAs replace a mix of Treasury securities with an average interest rate equal to the overall average for Treasury securities (other than inflation-protected securities), then for each $1 billion invested in MyRAs, the Treasury will pay $7 million more in annual interest costs over the 2018–2024 period, CBO estimates.

Creating the MyRA will have another effect on federal borrowing costs: Because those accounts will be tax-advantaged Roth IRA accounts, they will increase borrowing costs for the Treasury by reducing federal revenues and therefore increasing deficits. The Treasury Department has not yet specified all of the program's details, and CBO does not have enough information to estimate the total amount of any increase in Treasury borrowing costs that might stem from the program.

Question. In his State of the Union address, the President proposed a variety of administrative actions, for example, to require federal contractors to increase their labor costs by paying each employee a minimum of $10.10 per hour. How much will that policy change cost? Given that discretionary funding is capped, doesn't this mean that each agency will effectively have less money to execute its mission? Would a broader minimum wage increase have the same effect on each agency's ability to effectively execute its mission?

Answer. The Congressional Budget Office has not been able to determine the number of employees of federal contractors who are paid an amount that lies between the current federal minimum wage of $7.25 per hour and the proposed $10.10 per hour. Therefore, CBO cannot estimate the cost of the President's recent order that future contracts require payment of such employees at wages of at least $10.10 per hour. Moreover, federal agencies and contractors may respond to that executive order by changing the mixture of employees and nonlabor inputs (for example, by substituting more machinery for workers). Or contractors may choose to reduce their profit margins in order to maintain the contract or to offset higher labor costs by, for example, hiring fewer but more efficient workers. Such changes in behavior would need to be accounted for in determining the effect of the President's action on future spending for contracts.

Because most discretionary funding is capped (through 2021) under current law, agencies that enter into contracts with companies that employ lower-wage workers may be affected by having to pay more for those contracts—that is, the increased cost of the contracts because of the higher wages might leave less money available for agencies' other activities and programs. However, because of the factors noted above, it is possible that the dollar value of contract amounts may not change significantly as a result of the President's action.

A higher minimum wage that also applied to federal employees would probably not significantly affect federal agencies' ability to execute their missions. Few federal employees are paid at or near the current minimum wage, so an increase in the minimum wage for federal workers would not have a significant effect on agencies' expenditures for labor.

Representative John Yarmuth

Question. Could you give me some kind of numerical example of someone who would have a disincentive to work because of the subsidy, whether it is 90 percent or 50 percent, whatever it is, because I am having a hard time understanding how that could possibly make sense?

Answer. The numerical example shown in the table below illustrates how the subsidies for health insurance purchased through the exchanges created under the Affordable Care Act can reduce the incentive for people to work. In this hypothetical example, in 2014, the income of a family of two working adults and two children initially is about $59,000, or 250 percent of the 2013 federal poverty guidelines (often referred to as the *federal poverty level*, or FPL). The family purchases health insurance through the individual insurance market with a total annual premium of $10,000. (The FPL used to determine subsidies under the ACA in 2014 is the one that was in effect in 2013. The premium shown here is illustrative and does not reflect an estimate by CBO of average premiums, which may vary for several reasons.)

Illustrative Example: Incentive to Reduce Hours Worked Because of ACA Insurance Subsidies

	Without the ACA		Under the ACA	
	(A) Same Hours	(B) Reduced Hours	(C) Same Hours	(D) Reduced Hours
Before-Tax Income				
Dollar amount	58,875	52,988	58,875	52,988
Percentage of FPL	250	225	250	225
Total Insurance Premium	10,000	10,000	10,000	10,000
ACA Premium Subsidy	n.a.	n.a.	5,261	6,198
Enrollee's Premium Payment				
Dollar amount	10,000	10,000	4,739	3,802
Percentage of income	16.99	18.87	8.05	7.18
Net Resources (Income minus enrollee's premium)	48,875	42,988	54,136	49,186
Change in Net Resources From Reduced Hours	n.a.	-5,888	n.a.	-4,950
Change in Net Resources Relative to (A)	n.a.	-5,888	5,261	311

Notes: This example is for a family of two working adults and two children. The insurance premium is for an illustrative "silver" type plan purchased on the individual market; actual ACA premiums may vary. Income and payroll taxes are not factored in. Cost-sharing subsidies under the ACA are not factored in.

      ACA = Affordable Care Act; FPL = federal poverty level; n.a. = not applicable.

Under an assumption that neither parent is self-employed, the family would not qualify for an income tax deduction for the premium and thus, under the scenario labeled "Without the ACA" (see column A), would pay the full amount. In that case, the family's net resources would be about $49,000 (taking into account gross income and the insurance premium but, for simplicity, ignoring any payroll or income taxes or other expenses). If one or both parents cut back on their hours of work such that the family's pretax income was reduced by

10 percent, to about $53,000 (225 percent of the FPL), under the same scenario, the family's net resources would be about $6,000 less, or about $43,000 (see column B).

Under the ACA and with no other changes, the same family would qualify for a tax credit to purchase insurance. (For simplicity, the example illustrates a case in which the family purchases the same coverage—a low-cost "silver" type plan—for the same total premium with or without the ACA.) Specifically, the subsidies available under the ACA limit the amount that the family must pay to a specified share of its income; the rest of the premium is paid by the federal government. Under the ACA, if the family's income was equal to 250 percent of the FPL, the federal subsidy would reduce the enrollee's premium by slightly more than $5,000, increasing the family's net resources by the same amount—to about $54,000 (see column C).

If, under the ACA, the parents cut back on their working hours and thus reduced their pretax income by 10 percent (to 225 percent of the FPL), their net resources would decline as well. However, that reduction in resources would be smaller under the ACA—about $5,000 rather than about $6,000 without the ACA—because the insurance subsidy would increase by almost $1,000 as the family's income declined. Moreover, the parents could reduce their hours worked and still have net resources of about $49,000 under the ACA, allowing the family to maintain about the same standard of living that it would have if the parents worked more and there was no ACA (comparing column D with column A). That is, the family would be better off working fewer hours and receiving the ACA subsidy than it would be working more hours without the subsidy.

This example illustrates both the substitution effect and the income effect that CBO described in Appendix C of *The Budget and Economic Outlook: 2014 to 2024* (February 2014, www.cbo.gov/publication/45010). Because the family's insurance subsidy would increase as its income declined, the cost of reducing the number of hours worked is less than it would have been without the ACA—making it more likely that the parents would reduce the hours they worked in order to make other use of that time (the substitution effect). Also, because the family has more resources under the ACA, it can afford to reduce its hours of work and still maintain at least the standard of living it would have had without the ACA (the income effect). Although many individual people and families may choose not to reduce their hours in the face of those or similar incentives, CBO estimates that some workers will respond to the incentives and that overall labor supply will be lower as a result of the ACA than it would have been otherwise.