Joint Economic Committee Democrats

Representative Pete Stark (D-CA) – Senior Democrat

Economic Policy Brief February 2004

Administration's Health Insurance Tax Credit Proposal Fails to Provide a Real Solution to the Uninsured

For the fourth time, the Bush Administration has proposed a limited refundable tax credit to make health insurance more affordable for uninsured, low-income households. Once again, however, the proposed subsidy does not make enough of a dent in the very high cost of individual health insurance to make that insurance affordable for most of those households or address the problems of access in the non-group market. Furthermore, the value of the credit will fall over time relative to the increasing cost of insurance. Perversely, the existence of the tax credit could cause employers to discontinue their health insurance plans and add to the number of uninsured.

The Proposal

This year's proposal would provide low-income Americans with a refundable tax credit of up to $1,000 for individuals and $500 per child up to a maximum of $3,000 for a family to assist them in buying private health insurance in the individual market. Beginning in 2006, the credit could be paid in advance to meet the monthly premiums when they are due. Individuals earning up to $15,000 per year and families earning up to $25,000 per year would be eligible for the full credit. The credit would be phased out between $15,000 and $30,000 for individuals and between $25,000 and $60,000 for families (for a family with one adult, the credit would phase out at $40,000). Those with private employer coverage and those eligible for Medicare, Medicaid, or other government-provided health insurance would not be eligible for this tax credit.

Health Insurance Would Remain Unaffordable

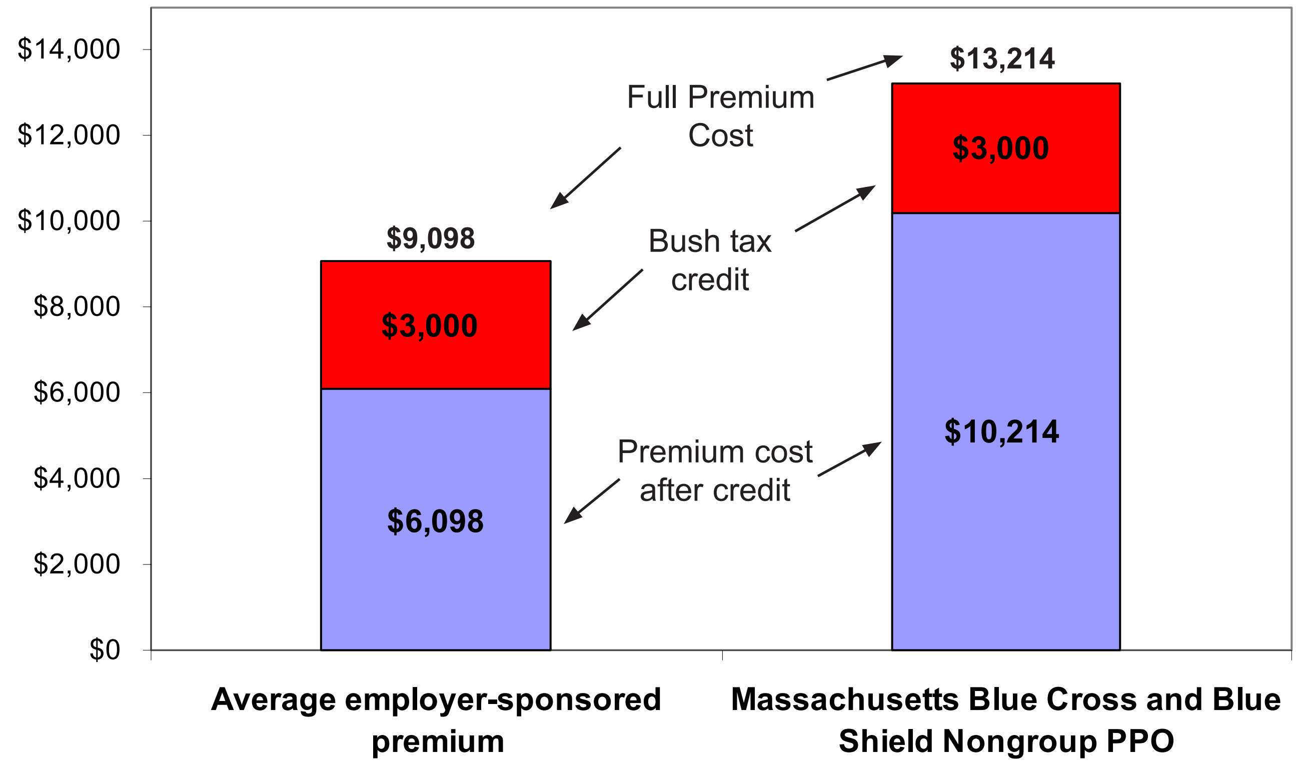
One important flaw in the Administration's proposal is that the tax credit is simply too small to allow low-income, uninsured Americans to afford coverage in the open market. According to the Kaiser Family Foundation/Health Research and Educational Trust's 2003 Employer Health Benefits Survey, the average employer-sponsored health insurance policy costs $3,383 for an individual plan and $9,068 for a family plan. Even if people could get coverage at this group rate (which is unlikely because of the higher costs typically found in the non-group market), the tax credit would cover only a third of the cost **(Chart 1)**. That subsidy is substantially less than the typical subsidy received by an employee in an employer-provided plan, which averages 73 percent for a family plan and 84 percent for an individual plan.[1]

The situation is even worse, however, because the non-group plans that would actually be available to people eligible for the tax credit typically are significantly more expensive than group policies. For example, in the Boston area, a family with two children headed by a 35-year old could expect to pay $13,214 for a non-group plan **(Chart 1)**. Getting coverage could be harder or more expensive elsewhere, and any coverage offered would likely exclude benefits and impose significant cost sharing.

It is hard to see how individuals with incomes low enough to qualify for the tax credit could afford

Chart 1

Impact of Bush Health Insurance Tax Credit Proposal on a Family's Health Insurance Premium



Note: The chart uses the average 2003 premium from the Kaiser Family Foundation/Health Research and Education Trust Employer Health Benefits Survey and a Massachusetts Blue Cross and Blue Shield Nongroup PPO for a 35-yr-old family with two children in the Boston area with a $250 deductible. Massachusetts, unlike most states, does not allow coverage denials, only allowing rate differentials based on age and geographic regions. However, depending on whether the enrollee had prior coverage, families and individuals could face a potential 6-month waiting periods for enrollment.

Source: The Kaiser Family Foundation/Health Research and Educational Trust, 2003 Annual Employer Health Benefits Survey and the Commonwealth of Massachusetts, Division of Insurance.

the premiums they will face, even after subtracting the value of the tax credit from the total premium cost. A family of four must earn less than $25,000 to be eligible for the full credit, yet that family is likely to face insurance costs of more than $10,000—even with the $3,000 credit.

Access to Non-Group Coverage is Not Guaranteed

A second major flaw in the Administration's plan is that it does nothing to guarantee that those eligible for the credit will in fact have access to coverage. The non-group market is loosely regulated at the state level, with regulations varying substantially from state to state. Premiums, deductibles and cost-sharing in this market are typically greater than those for employer-sponsored coverage, and non-group coverage is not guaranteed in most states. In contrast to employer-sponsored plans, where risks are spread across a group of employees, insurance companies are generally allowed to use medical underwriting to vary premiums for non-group policies according to the health status of the applicant. Insurance companies often deny coverage to older or less healthy applicants and they can exclude certain medical conditions, such as maternity coverage or cancer treatment for a previous cancer survivor, making the insurance virtually useless.

A 2001 study conducted for the Kaiser Family Foundation at Georgetown University's Health Policy Institute tested access in the non-group market. Hypothetical candidates for health insurance were created, and insurance companies evaluated their chances for coverage and the rates they could expect. The findings suggest that a 48-year-old seven-year breast cancer survivor could expect premiums for individual insurance approaching $4,000 per year (with 43 percent of insurers refusing to offer coverage), and a 62-year-old smoker with high blood pressure would be forced to pay premiums for individual insurance up to $10,000 or more (with a 55-percent denial rate). Even younger, healthy uninsured would experience high premiums and some coverage refusals or disease exclusions [2]. In addition, estimates have suggested deductibles average between $1,550 and $2,235 in the non-group market.[3]

The Value of Tax Credit Erodes over Time

Yet another flaw in the Administration's tax credit proposal is that it will not keep pace with the rising costs of health insurance. Health insurance premiums have increased at double-digit rates in each of the past three years, with another substantial increase expected in 2004. Yet the amount of the tax credit is indexed to an inflation rate, which historically has been substantially lower than the recent double-digit rate that health insurance premiums have increased. Thus, the value of the credit in offsetting the cost of health insurance will decline over time. As a result, the number of uninsured Americans who would find the tax credit advantageous, which is unlikely to be large even at the outset, will shrink significantly over time.

Employer-Coverage Is Threatened

The existence of the credit might give businesses struggling to finance health coverage in the face of rapidly rising premiums another incentive to discontinue coverage, rationalizing that their low-income employees could instead use the tax credit in the non-group market. However, since the tax credit is financially inadequate and fails to provide quality, accessible coverage in the open market, many workers could end up with no coverage. A MIT study found that 1.4 million Americans would lose employer-sponsored coverage and become uninsured if the President's tax credit proposal became law.[4]

Conclusion

The Administration's tax credit proposal for the purchase of health insurance fails the critical tests of affordability and access. Providing $1,000 to low-income individuals and $3,000 for a low-income family does little to help them afford rapidly rising health insurance premiums. Moreover, by forcing the uninsured to shop for coverage in the unregulated, non-group health insurance market, the Administration is putting millions of Americans at risk of being denied coverage or forced to accept extremely high deductibles, cost sharing, or coverage exclusions. Their proposal is inadequate and will not have any significant impact toward reducing the number of uninsured.

Endnotes

1 The Kaiser Family Foundation/Health Research and Educational Trust, 2003 Annual Employer Health Benefits Survey.

2 For detailed examples of coverage denials and pre-existing condition exclusions, see K. Pollitz, R. Sorian, and K. Thomas, *How Accessible Is Individual Health Insurance for Consumers in Less-than-Perfect Health?* (Menlo Park, Calif.: Henry J. Kaiser Family Foundation, June 2001).

3 J. Gabel et al, "Individual Insurance: How Much Financial Protection Does It Provide?" 17 April 2002, www.healthaffairs.org/WebExclusives/Gabel_Web_Excl_041702.htm (21 August 2002).

4 Gruber, Jon. 2002. Testimony submitted to the House Ways and Means Committee, Hearing on Health Insurance Tax Credits, February 13.

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