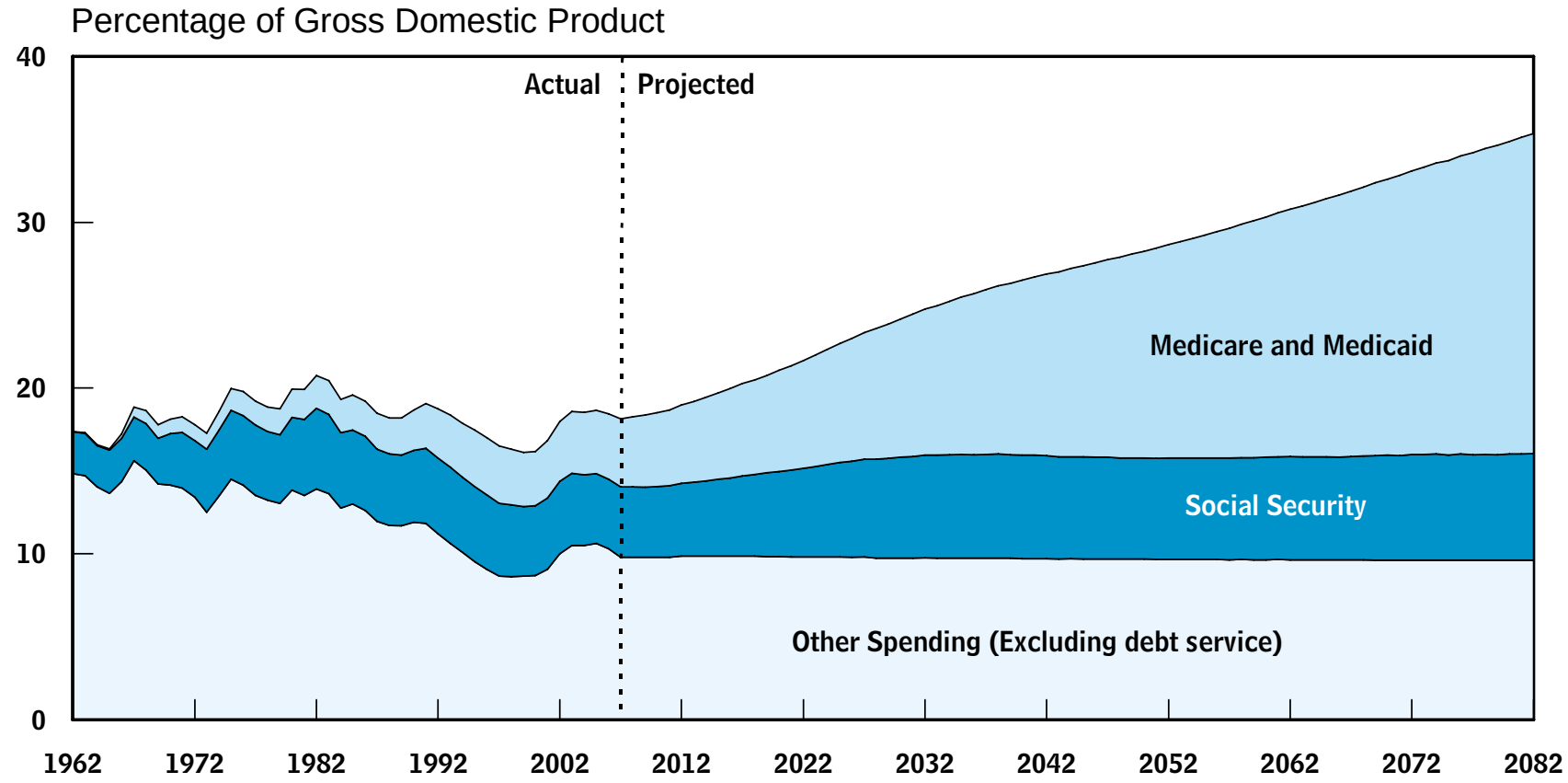
Congressional Budget Office

Presentation to The Tax Policy Center and
the American Tax Policy Institute

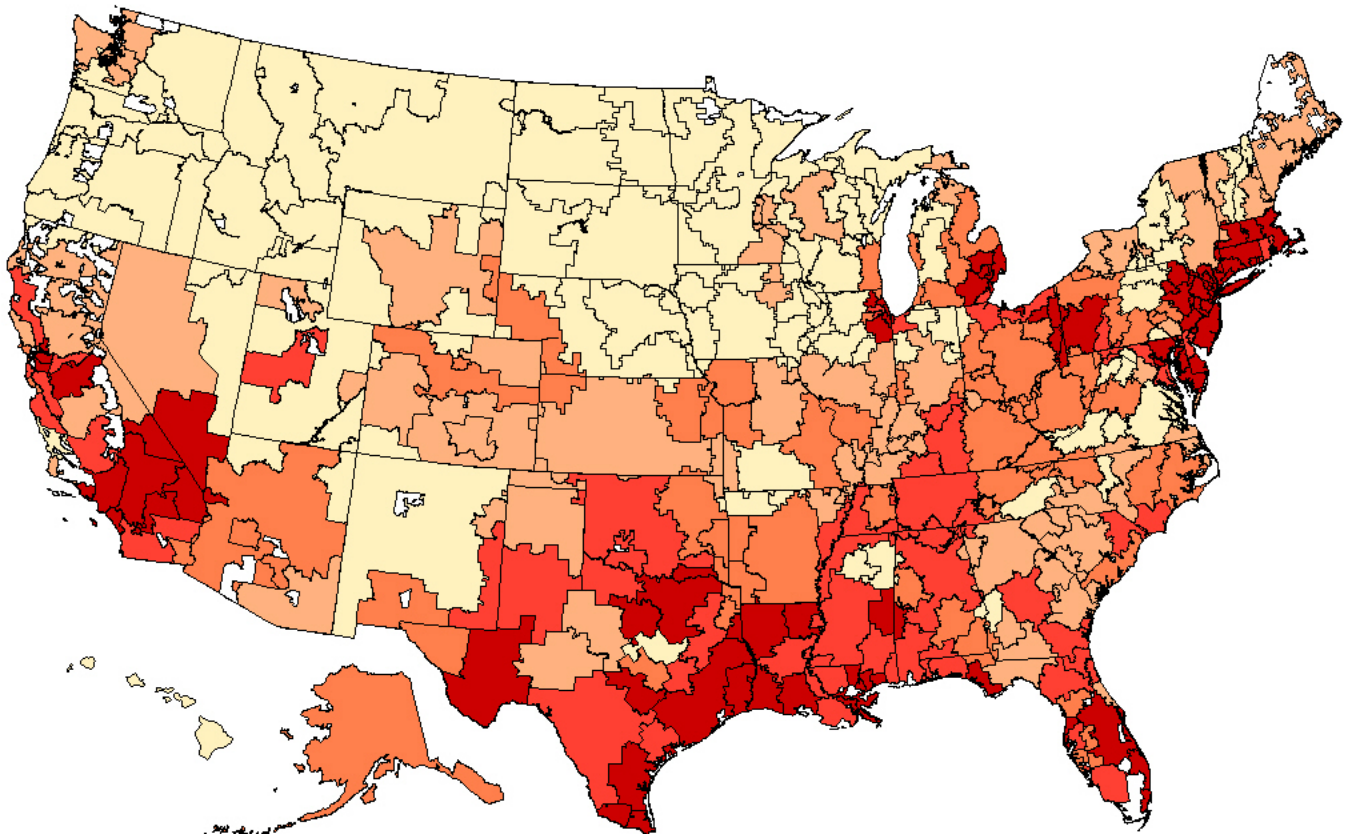
# Taxes and Health Insurance

February 29, 2008

# Federal Spending Under CBO's Alternative Fiscal Scenario



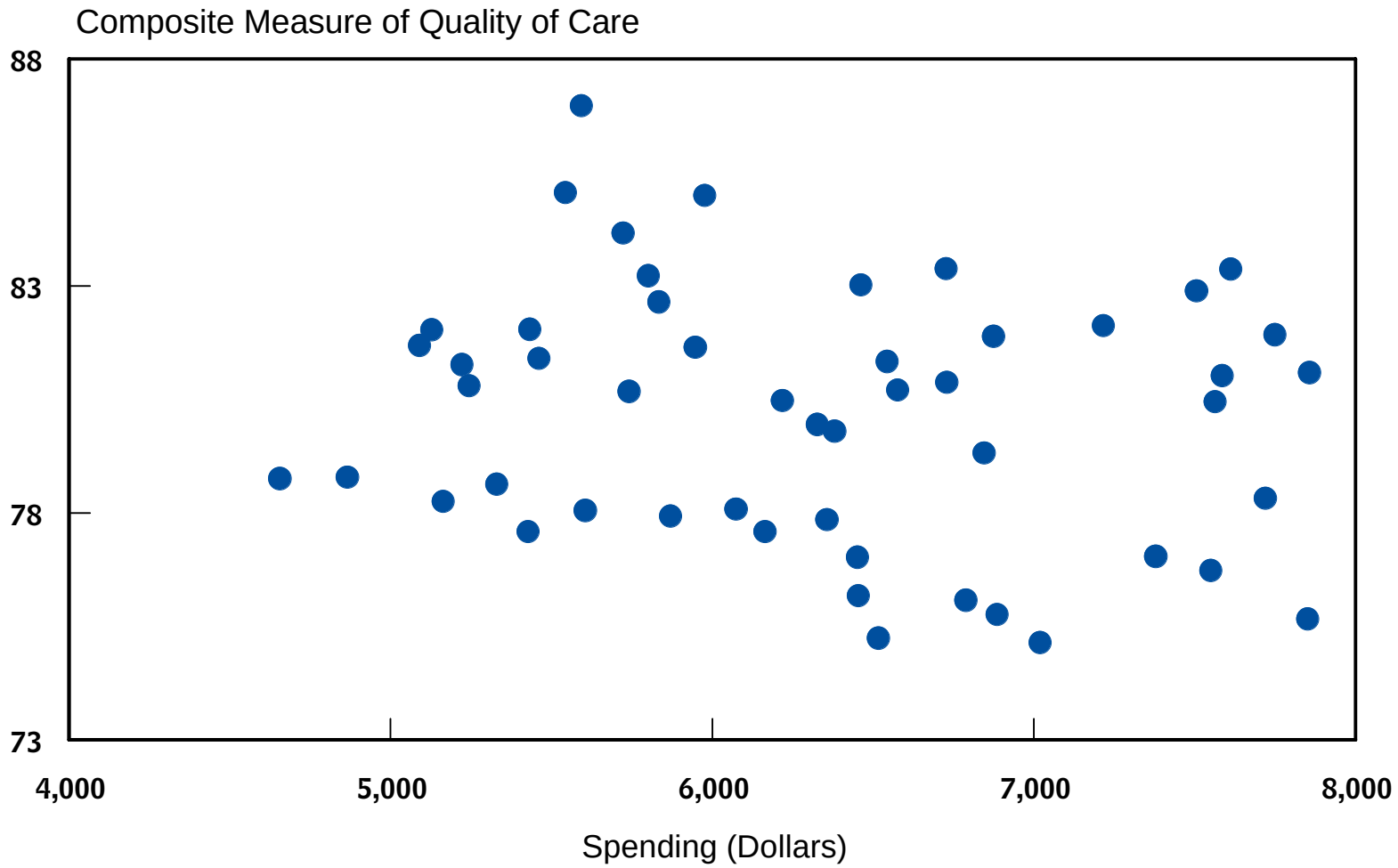
# Medicare Spending per Capita in the United States, by Hospital Referral Region, 2003



$7,200 to 11,600 (74)
6,800 to < 7,200 (45)
6,300 to < 6,800 (55)
5,800 to < 6,300 (60)
4,500 to < 5,800 (72)
Not Populated

Source: www.dartmouthatlas.org.

# The Relationship Between Quality and Medicare Spending, by State, 2004




Source: Data from AHRQ and CMS.

# Variations Among Academic Medical Centers

*Use of Biologically Targeted Interventions and Care-Delivery Methods Among Three of* U.S. News and World Report*'s "Honor Roll" AMCs*

| | UCLA Medical Center | Massachusetts General Hospital | Mayo Clinic (St. Mary's Hospital) |
|---|---|---|---|
| Biologically Targeted Interventions: Acute Inpatient Care | | | |
| CMS composite quality score | 81.5 | 85.9 | 90.4 |
| Care Delivery—and Spending—Among Medicare Patients in Last Six Months of Life | | | |
| Total Medicare spending | 50,522 | 40,181 | 26,330 |
| Hospital days | 19.2 | 17.7 | 12.9 |
| Physician visits | 52.1 | 42.2 | 23.9 |
| Ratio, medical specialist / primary care | 2.9 | 1.0 | 1.1 |

Source: Elliot Fisher, Dartmouth Medical School.

# CBO's Modeling of Insurance Effects

## SIPP-based micro-simulation model

- *Estimates changes in insurance coverage, spending, etc.*
  - Individual and family-level units of observation
    - Baseline offer, health and coverage are known; premiums imputed
  - Workers grouped into synthetic firms
    - Based on offer status, income, firm size, state laws
  - Behavioral responses based on elasticities from empirical literature
    - E.g., firms and individuals respond to after-tax changes in premiums
    - Models movement across public and private coverage (and uninsured)
    - Allows for changes in plan characteristics

*CBO's Health Insurance Simulation model: A technical description, October, 2007; http://www.cbo.gov/ftpdocs/87xx/doc8712/10-31-HealthInsurModel.pdf*

# Recent Tax Proposals to Reform Health Policy

- Some combination of:
  - Limit tax exclusion for employer-based coverage
  - Offer tax preference for nongroup coverage
  - Replace existing health tax preferences with tax or non-tax subsidy
- CBO's model is well-suited to analyze the impact of these types of proposals on insurance status

# Administration's Proposal, 2007

- Repeal employer tax exclusion and treat premium payments as taxable income for income and payroll tax purposes
- Eliminate most other health tax preferences
  - Including repealing the itemized medical expense deduction for taxpayers younger than age 65
- Create a new Standard Deduction for Health Insurance (SDHI) for private coverage meeting minimum standard
  - Flat deduction of $7,500 individual/$15,000 family, indexed to CPI
  - Deduction applies for both income and payroll tax purposes
  - SDHI not available for Medicare beneficiaries
  - EITC phase-out rate lowered to 15%

# Administration's Proposal, 2008

- Brief summary of 2008 modifications
  - Starting in 2014
    - Active age 65+ employees are eligible for SDHI
    - Itemized medical deduction allowed for those *ineligible* for SDHI
- *Results shown today correspond to 2007 proposal*

# Key Effects of the Proposal

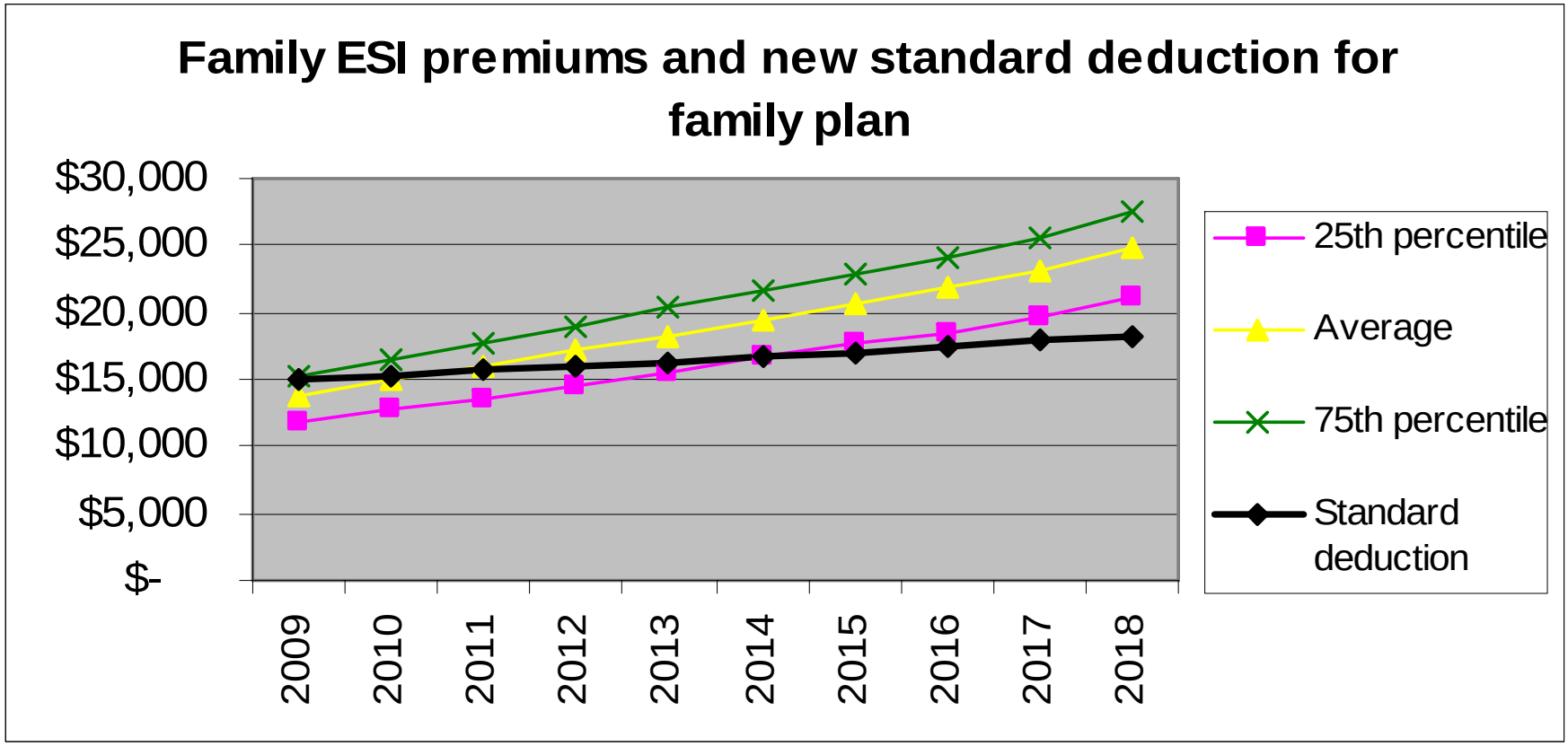
- New deduction available for nongroup coverage
  - Would result in a net flow from uninsured and ESI to nongroup coverage
    - Higher administrative costs and less risk pooling
- Tax subsidy no longer increases with premium
  - Increase in marginal price of coverage would result in purchase of cheaper coverage
    - Lower actuarial value and/or more tightly managed care

# Summary of Key Effects of 2007 Proposal

| Net change | Uninsured | ESI | Nongroup |
|---|---|---|---|
| In 2010: | -7 million | -7 million | +14 million |
| In 2016 | -5 million | -11 million | +16 million |

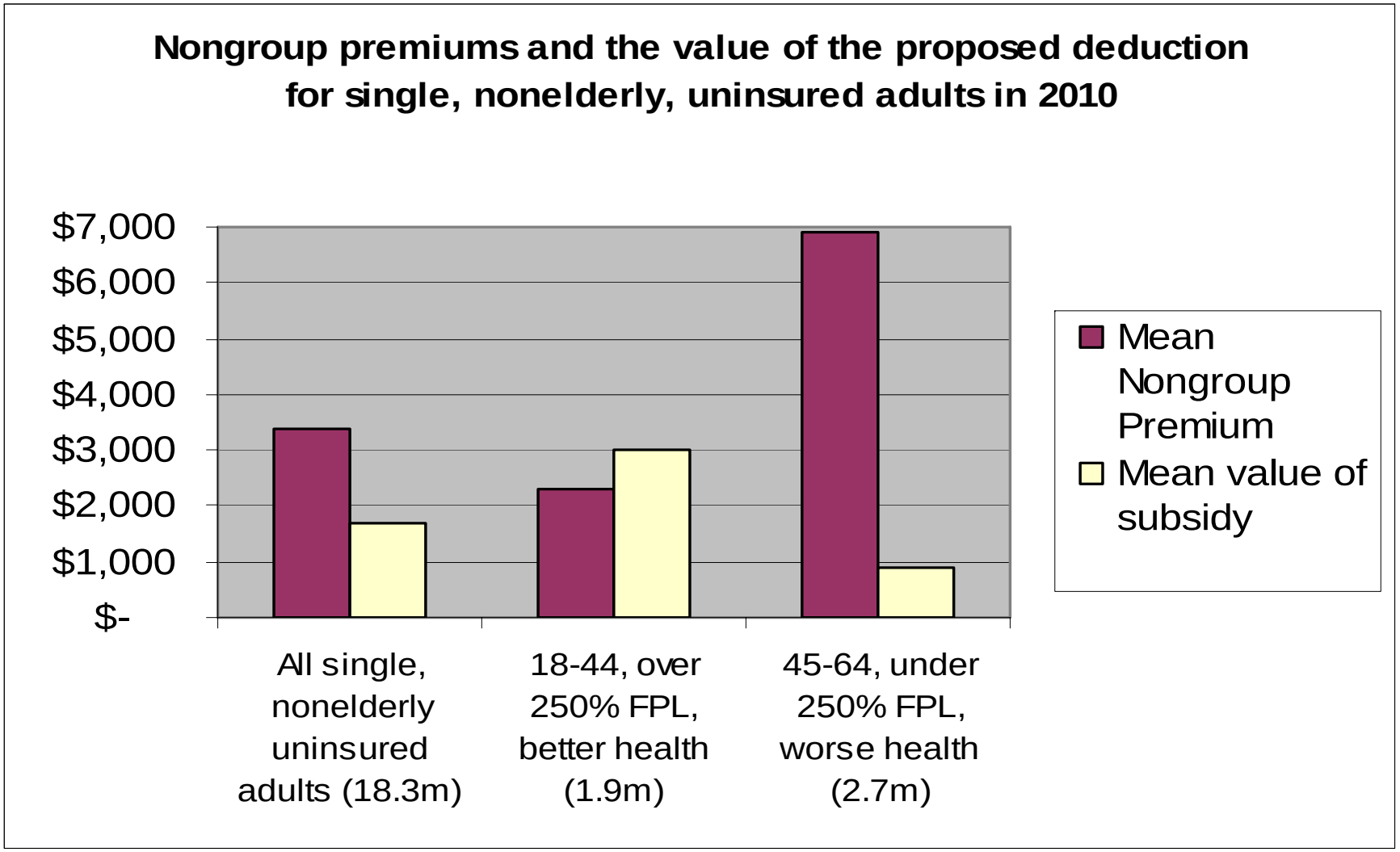
- Those gaining nongroup coverage are healthier and higher-income
- Coverage would be of lower actuarial value and tighter management, on average

# Estimated ESI Premiums Compared to Deduction Amounts




Source: CBO projection

# Variation in Value of SDHI in 2010 for Uninsured People Not Offered ESI



# Changes in Health Insurance Coverage in 2010 by Health Status and Income

| | | | Income Quintile (5 is highest) | | | | |
|---|---|---|---|---|---|---|---|
| (MILLIONS) | Overall | | 1 | 2 | 3 | 4 | 5 |
| Uninsured Under Current Law* | 50.9 | | 13.4 | 16.0 | 12.4 | 6.7 | 2.4 |
| Uninsured to Non-Group | 7.0 | | 0.6 | 2.4 | 2.2 | 1.3 | 0.4 |
| Percent of Uninsured to Non-Group | 14% | | 5% | 15% | 18% | 20% | 17% |
| | | | | | | | |
| | | | | | | | |
| | | | Self-Reported Health Status | | | | |
| (MILLIONS) | Overall | | Poor | Fair | Good | Very Good | Excellent |
| Uninsured Under Current Law | 50.9 | | 1.3 | 3.7 | 13.3 | 16.2 | 16.4 |
| Uninsured to Non-Group | 7.0 | | 0.02 | 0.3 | 1.5 | 2.5 | 2.7 |
| Percent of Uninsured to Non-Group | 14% | | 2% | 7% | 11% | 16% | 16% |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

# Estimated Effect on ESI-Insured in 2010

- Net movement away from ESI: -6.6 million
  - Losing ESI: -7.8 million
    - 6.3 million switch to nongroup coverage
    - 1.5 million become uninsured
  - Gaining ESI: 1.3 million otherwise uninsured
- Largest changes among small-firm ESI
- Actuarial value for those retaining ESI declines by 11.5%, on average
- Movement toward HMOs

# Longer-Run Issues

- Does the increased incentive to choose lower-cost plans result in more efficient health care and a reduction in rate of growth of health spending?
- Would the projected increase in the size of the nongroup market (a near-doubling) significantly change the structure of that market and will it result in greater regulation?
- Will the movement of less healthy people out of ESI pressure policy makers to seek solutions (e.g. additional subsidies or pooling mechanisms)?
- Would more transparency change market dynamics?