MANHATTAN INSTITUTE FOR POLICY RESEARCH

The Effects of the Affordable Care Act on Work and Marriage

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Mr. Chairman, members of the Committee, I am honored to be invited to testify before you today on the subject of the effects of the Patient Protection and Affordable Care Act on work and marriage. I am a senior fellow at the Manhattan Institute. From 2003 until April 2005 I was chief economist at the U.S. Department of Labor. From 2001 until 2002 I served at the Council of Economic Advisers as chief of staff. I have also been a senior fellow at the Hudson Institute and a resident fellow at the American Enterprise Institute. I have served as Deputy Executive Secretary of the Domestic Policy Council under President George H.W. Bush and as an economist on the staff of President Reagan's Council of Economic Advisers.

Marriage Penalties Rise under the New Healthcare Law

For a bill that is supposed to make Americans healthier, the disincentives for marriage and work under the new health care law are truly startling. Beginning in 2014, when the new law takes effect, Americans at both ends of the income scale will find it more advantageous to stay single than to marry, even more so than under the current tax code. And women will face greater incentives to leave the workforce.

For some couples, love conquers all, and crude financial considerations will not enter into their decision as to whether to tie the knot. Still, under the new law, some might defer marriage either temporarily or permanently, or get divorced, contributing to a host of social problems, such as increases in fatherless families and crime. Other couples might conclude that it makes sense for one earner, most likely the woman, not to work, in order for the family to qualify for government help with health insurance premiums.

Marriage penalties from taxes in general and from the new healthcare law in particular fall into two categories, disincentives to marry and disincentives to work. Lower-income individuals will be primarily affected by the interaction between government-provided health insurance credits and the poverty line, and upper-income married taxpayers will face earnings losses due to increases in the Medicare tax on earned and unearned income, which begin at $200,000 for singles and $250,000 for couples.

Health insurance premium credits in the new law are linked not directly to income, but to the poverty line, resulting in a particularly steep marriage penalty for low-income Americans. With $10,890 as the poverty line for one person and an additional $3,820 for a spouse, marriage means less government help with health insurance. Since the new qualified benefit health plans offered in the health exchanges will be generous and therefore expensive—no copayments for preventive services, no lifetime maximums, no exclusions for pre-existing conditions, and the requirement to accept all applicants will drive up prices—getting government help with premiums will become vital.

Here is how the system will work when it is implemented in 2014. The new health care bill will offer refundable, advance premium credits to singles and families with incomes between 133 percent and 400 percent of the federal poverty line. These credits can only be used to buy health insurance through the new health exchanges. The amount of the credits will be linked to the second lowest cost plan in the area, and are structured so that health insurance premium contributions are limited to the following percentages of income for specified income levels, as is shown in Table 1.

Table 1: Premium Tax Credits

Household Income as Percent of Federal Poverty Line	Premium Payment as Percentage of Income
Up to 133%	2%
133% - 150%	3% to 4%
150% - 200%	4% to 6.3%
200% - 250%	6.3% to 8.05%
250% - 300%	8.05% to 9.5%
300% - 400%	9.5%

Source: Health Care and Education Reconciliation Act of 2010, Section 1001(a)

In addition to the premium credits, under the new law the government also gives cost-sharing subsidies to singles and to families. These subsidies reduce amounts that people pay for health insurance.

Since premium credits and cost subsidies are calculated with reference to the federal poverty line, there exists every incentive not necessarily to have as low income as possible, but to be on the lowest possible poverty line. In that way the government pays a higher share of health insurance.

An examination of the Department of Health and Human Services poverty guidelines for 2011 in Table 2 shows that one person earning $10,890, or two married people earning $14,710, are at 100 percent of the poverty line. Moving up the income scale, a single earning $43,320 and a married couple earning $58,840 would be at 400 percent of the poverty line.

Table 2: Department of Health and Human Services 2011 Poverty Guidelines

Persons in Family	48 Contiguous States and DC
1	$10,890
2	14,710
3	18,530
4	22,350
5	26,170
6	29,990
7	33,810
8	37,630
for each additional person, add	3,820

source: U.S. Department of Health and Human Services, 2011 Poverty Guidelines, released January 18, 2011.

Two singles would each be able to earn $43,000 and still receive help to purchase health insurance, but if they got married and combined their earnings to $86,000, they would be far above the limit. As a married couple, the most they could earn and still get government help with health insurance premiums would be $58,000, a difference of almost $30,000, or 32 percent. This is a substantial disincentive to getting married, or to working while married.

Such marriage penalties exist even for those couples who earn below 400 percent of the poverty line when married. Let's look at the example of June and Jake. Living alone, each earns $21,780, putting them at 200 percent of the federal poverty guideline. Unmarried, their premium would be about 6.3 percent of their income, or $1,372 each, $2,744 in total.

Let's say that June and Jake were to marry. Their combined income would be $43,560—approximately 300 percent of the poverty line for a family of two. This would push their premium close to the 9.5 percent bracket, or $4,138 of their combined income. This would be a marriage penalty equal to $1,394, even before income taxes and phaseouts of the Earned Income Tax Credit. The temptation would be either not to marry, or, if married, to work fewer hours. If either June or Jake were to drop out of the workforce, they would not be affected by the marriage penalty.

The penalty extends also to single mothers. Say Sally is a single mother earning $44,130, putting her and her baby at 300 percent of the poverty line. They would be eligible for the health insurance premium assistance credit. But what if she wants to marry Sam, the father of her child, who earns $43,560, and is at 400 percent of the federal poverty line? Their total earnings, at $87,690, would exceed the 400 percent poverty line for a family of three ($74,120). Married, they would no longer receive help with their health insurance premiums, despite both earning the credit when unmarried. In order to keep her government health insurance benefit, Sally could only marry someone earning less than $30,000.

Although affecting far fewer people, the new healthcare law increases the marriage penalty at higher incomes. An additional 0.9% Medicare tax falls on wage and salary income, and a new 3.8% Medicare tax is levied on investment income for singles and couples earning over $200,000 and $250,000 respectively. Two singles earning $180,000 each would not be subject to the surtax, they would be affected by the tax if they married.

As well as discouraging marriage, the healthcare law gives an incentive to the lower-earning spouse, generally the woman, to leave the labor force, lowering the returns to her education.

The penalty would be greatest for women who have invested the most in their education, hoping to shatter the glass ceiling and compete with men. The tax discourages married women not just from working, but also from seeking the next promotion, from pursuing upwardly-mobile careers.

Women are more affected by the marriage penalty than men because they have a greater tendency to move in and out of the labor force, depending on the ages of their children. The majority of American women have children, and many want to take time out of the workforce at some point to look after them. Government policy should not discourage these women from returning to the workforce. Rather, government policy should maximize workplace flexibility, making it easy for women to take time off and resume working as family circumstances allow.

In summary, the new taxes and premium subsidies in the healthcare law discourage couples from getting married. When couples are married, they discourage women from working. Hence, the Affordable Care Act is not a well-structured piece of legislation.

Thank you for giving me the opportunity to testify today. I would be glad to answer any questions you might have.

Diana Furchtgott-Roth is a senior fellow at the Manhattan Institute and a contributing editor of RealClearMarkets.com. She is also a columnist for The Examiner and a monthly columnist for Tax Notes. Ms. Furchtgott-Roth was previously a senior fellow at the Hudson Institute, where she directed the Center for Employment Policy. Her areas of expertise include employment, taxation, education, pensions, unionization, and immigration. From 2003 to 2005, Ms. Furchtgott-Roth was chief economist of the U.S. Department of Labor. From 2001 to 2002 she served as chief of staff at the President's Council of Economic Advisers.

Ms. Furchtgott-Roth served as deputy executive director of the Domestic Policy Council and associate director of the Office of Policy Planning in the White House under President George H.W. Bush from 1991 to 1993, and she was an economist on the staff of President Reagan's Council of Economic Advisers from 1986 to 1987.

Ms. Furchtgott-Roth is the author of How Obama's Gender Policies Undermine America (Encounter Books, 2010) and the editor of Overcoming Barriers to Entrepreneurship in the United States (Rowman and Littlefield, 2008). She is the coauthor of The Feminist Dilemma: When Success Is Not Enough (AEI Press, 2001) and Women's Figures: An Illustrated Guide to the Economics of Women in America (AEI Press, 1999). Her articles have been published in the Washington Post, Financial Times, The Wall Street Journal, Investor's Business Daily, the Los Angeles Times, and Le Figaro, among others.

Ms. Furchtgott-Roth is a frequent guest on CNBC and FOX Business News, and she has appeared on numerous other TV and radio shows, including The Diane Rehm Show, C-SPAN's Washington Journal and PBS's The NewsHour with Jim Lehrer.

Ms. Furchtgott-Roth was assistant to the president and resident fellow at the American Enterprise Institute from 1993 to 2001. From 1987 to 1991 she was an economist at the American Petroleum Institute, where she authored papers on energy and taxation.

Ms. Furchtgott-Roth received her B.A. in economics from Swarthmore College and her M.Phil. in economics from Oxford University.

Committee on Oversight and Government Reform
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Name:

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1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

None.

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2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

None.

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3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None.

I certify that the above information is true and correct.
Signature: Diana Furchtgott-Roth / C.R. Date: 10/24/2011