



# The Council for Affordable Health Insurance's ISSUES & ANSWERS

Solutions for Today's Health Policy Challenges

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## *An Affordable Way to Help the Uninsured*

The newly released U.S. Census Bureau figures show that the number of Americans without health insurance rose from 41.2 million in 2001 to 43.6 million in 2002, an increase from 14.6 percent of the population to 15.2 percent.

The increase is creating political pressure for Congress and the Bush administration to address the situation. But how? What's the best way to ensure that uninsured Americans can afford health insurance? The answer has already been introduced in the House and Senate, with bipartisan support: the Fair Care for the Uninsured Act.

**The Growing Number of Uninsured.** There is a reason 43.6 million Americans lack health insurance: tax discrimination. Until the federal government redresses that problem, millions of Americans, especially low-income workers, will remain uninsured with little or no access to affordable health insurance.

**Tax Breaks for Some but Not for All.** For 60 years, the IRS has allowed employers to deduct their contributions to employee health coverage, while employees receive a "tax exclusion," which means employer money spent on health coverage is excluded from employee income.

In addition to providing a tax break for employer-provided health insurance, Congress allows the self-employed to deduct what they spend on health insurance premiums.

However, individuals working for employers who don't provide health insurance get no tax relief. They must pay their taxes first and buy a policy with what's left over.

**Penalizing the Poor.** Workers who lack access to employer-provided coverage tend to have lower incomes than those who work for employers who do offer it. According to a Kaiser Family Foundation survey of the uninsured for the year 2001:

- Of those under age 65 whose incomes were 100 percent of the federal poverty level (FPL) or less, 17 percent received health insurance from an employer, while 37 percent were uninsured.
- For those with incomes between 100 and 199 percent of FPL, 43 percent had employer-provided insurance and 27 percent were uninsured.
- However, for those making 300 percent of FPL or more, 86 percent had employer coverage while only 6 percent were uninsured.

Thus, the federal government is providing a sizable tax subsidy to middle- and higher-income workers and little or no help to those who can least afford health insurance coverage. *And then we wonder why so many low-income workers are uninsured.*

**Why Tax Credits Are the Answer.** A tax credit is not the same as a tax deduction. With a deduction, you subtract the amount of money spent on a deductible item from your income, so you pay taxes on a smaller income. With a tax credit, by contrast,

How Would Tax Credits Affect Working Families?						
Adjusted Gross Income	Fair Care Tax Credit per adult	Fair Care Tax Credit* per child	Maximum Fair Care Tax Credit	Presidential Tax Credit per adult	Presidential Tax Credit* per child	Maximum Presidential Tax Credit
\$15,000 individual	\$1,000		\$1,000	\$1,000		\$1,000
\$20,000 individual	\$1,000		\$1,000	\$556		\$556
\$30,000 individual	\$1,000		\$1,000	\$0		\$0
\$25,000 family	\$1,000	\$500	\$3,000	\$2,000	\$500	\$3,000
\$40,000 family	\$1,000	\$500	\$3,000	\$1,143	\$286	\$1,714
\$60,000 family	\$1,000	\$500	\$3,000	\$0	\$0	\$0
*2 credit max.						

the allowable amount is subtracted directly from the amount of taxes owed. Thus, a worker with a family who owes \$5,000 in income tax and qualifies for, say, a \$3,000 health insurance tax credit would pay only \$2,000 in taxes ( $\$5,000 - \$3,000 = \$2,000$ ). The \$3,000 would have to be used, in this case, for the purchase of health insurance. If the policy cost more, the worker would pay the difference out of pocket.

In order for a tax credit to help low-income workers, it has to be “refundable,” which means the worker still receives the full value of the credit even if he doesn’t owe income taxes. For example, if the same worker mentioned above owed no income taxes, he or she would simply receive an “assignable” credit for the full \$3,000, which would be signed over to an insurance company to purchase a policy.

Finally, low-income workers targeted by the tax credit often do not have enough money to pay for a policy. Making the tax credit “advancable” gets the money to workers — or insurers — up front. The lack of advancability is why some low-income families failed to use the Earned Income Tax Credit — a refundable tax credit program for low-income workers implemented in 1974 — for the purchase of health insurance.

Thus, with a refundable, advancable tax credit, the uninsured would have access to funds that would help them purchase their own health coverage.

**The Fair Care for the Uninsured Act.** The Fair Care for the Uninsured Act (H.R. 583) was introduced in the House of Representatives in February by Reps. Mark Kennedy (R-MN) and Bill Lipinski (D-IL), and currently has more than a hundred cosponsors. The Senate version (S. 1570) was introduced August 1 by Sen. Rick Santorum (R-PA).

The legislation provides a refundable, advancable tax credit of \$1,000 for an individual, \$2,000 per couple, and \$500 per child for a maximum of \$3,000 per household for those who do not receive subsidized health benefits through their employer or government health plans.

President Bush has proposed similar legislation, only he would impose a means test which would restrict the program to lower- and middle-income families. Eligible families with two or more children and incomes below \$25,000 annually would be eligible for the full \$3,000 tax credit, which would phase out at \$60,000. Individuals earning \$15,000 or less would receive the full \$1,000 tax credit, phasing out at \$30,000.

Fair Care also provides for people with a preexisting medical condition by increasing the current funding for state high-risk pools, which sell health coverage to those who have been denied it because of a medical condition.

Finally, Fair Care includes a provision for Individual Medical Associations (IMAs). Bona fide membership associations, such as the Kiwanis Club, could offer individual health insurance to their members through an IMA. The associations would contract with state-licensed and regulated health insurance companies to provide at least two fully insured options: one that complies with all state mandates and one that is not required to do

so. IMAs would provide tailored benefit packages in response to membership needs in addition to providing flexibility and affordability.

**The Impact of a Tax Credit.** Economists Mark Pauly and Bradley Herring of the University of Pennsylvania and David Song of Yale University recently analyzed the response to a tax credit for health insurance. The authors looked at a “fixed” \$1,000 refundable tax credit for self-only coverage when purchased in the individual market. According to Pauly et al., “[W]e find that 85 percent of the uninsured sample requires a subsidy of under \$1,000 for the purchase of a \$1,000 deductible PPO plan, while only 34 percent of the uninsured would respond to such a subsidy for the purchase of a [more costly] \$250 deductible plan.” That is, the authors found that the take-up rate is in almost direct proportion to the amount of the subsidy.

**The Cost of Fair Care.** How much would such a program cost the government? Economists Gary and Aldona Robbins have estimated the annual cost of such a tax credit at \$15.8 billion. Mark Litow, a principal of Milliman USA, has estimated that a similar tax credit that would vary by income and health status — providing more help to those who need it most — would cost between \$20 billion and \$25 billion a year.

Because the administration’s plan has an income cap, it is estimated to cost less than Fair Care: \$89 billion over 10 years, or roughly \$8.9 billion per year.

**Conclusion.** Why are so many low-income people uninsured? Because they cannot afford it. What does a health insurance tax credit do? Makes health insurance more affordable.

Eliminating tax discrimination in health insurance would decrease the number of uninsured, especially among low-income workers, because it would make policies more affordable. It’s time to end the current policy of tax discrimination and give the uninsured the opportunity to join the ranks of those with health insurance.

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