

**BRIEF ANALYSIS**

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## Universal Coverage Without Mandates

A common assumption in the current health care debate is that universal health insurance coverage requires an employer or individual mandate. Either directly or indirectly, these mandates would require individuals to obtain health insurance, whether they want to or not.

**Disadvantages of Mandates.** Under a mandate, government must define what package of health insurance benefits all Americans must purchase. This is an open invitation for every special interest group — from chiropractors to naturopaths — to lobby for inclusion in the package.

As the mandated benefit package becomes more bloated and more costly, even the most conservative voters will demand that government intervene to keep the premiums down. But controls on premiums will inevitably lead to control of doctor and hospital services. Ultimately, then, mandates will encourage government control of the entire health care system.

**An Alternative to Mandates.** Fortunately, there is a better way. Government can make health insurance affordable for every family through a system of tax credits. Under this system, people who choose to be uninsured will pay higher taxes, and

those revenues can be used to fund a social safety net. Uninsured people will be entitled to obtain medical care regardless of financial means — although they probably will not have access to every doctor and hospital. Moreover, when they obtain medical care, the voluntarily uninsured will be payers of first resort, relying on the safety net only after exhausting their own resources.

### Tax Fairness: Equal Treatment of Equals.

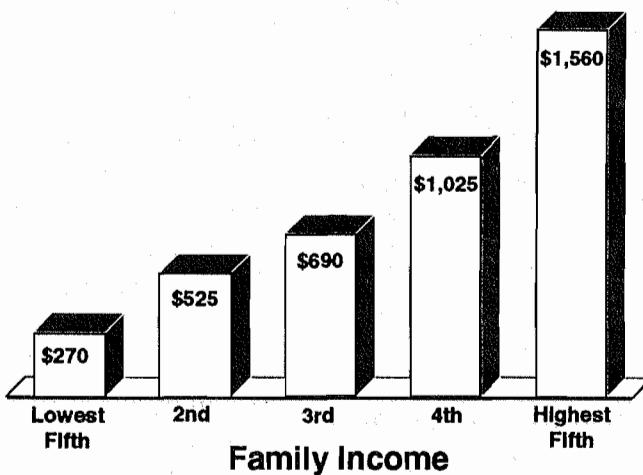
The first step in creating universal coverage without mandates is to treat everyone at the same income level equally under the tax law. The federal government currently "spends" about \$86 billion a year in tax subsidies for health insurance, and state and local governments spend another \$10 billion. These subsidies exist because employer-provided health insurance is excluded from employees' taxable income.

At the same time, the self-employed, the unemployed and employees of small companies that do not provide health insurance are discriminated against. They must

pay taxes first and buy health insurance with what's left over. This can make their health insurance cost twice as much as it would if provided by an employer.

A fair tax system, by contrast, would treat all individuals with the same income equally under the tax code.

### Average Benefit for a Family from Tax Subsidies for Health Insurance<sup>1</sup>



<sup>1</sup>Subsidies include reduced Social Security (FICA) and federal income taxes.

Source: C. Eugene Steuerle, American Enterprise Institute.



### Tax Fairness: More Help for Lower-Income Families.

The second step in creating universal coverage without mandates is to assure that tax subsidies go to those in greatest need. As the figure shows, current tax subsidies favor high-income over low-income families:

- Families in the bottom fifth of the income distribution get an average benefit of \$270 a year from federal tax subsidies for health insurance.
- Families in the highest fifth of the income distribution get an average benefit of \$1,560.
- Thus the tax law benefits high-income families six times more than it benefits low-income families.

A better approach is to offer everyone a tax credit for the purchase of health insurance, with higher credits for lower-income families. For individual purchases of health insurance, a tax credit can be entered on individual income tax returns. The cost of employer-provided insurance can be included in the gross wages of employees and tax credits entered on their tax returns. For those with very low incomes, there can be refundable tax credits — with government providing most of the funds for their health insurance premium through a system of vouchers.

**Tax Penalties for the Uninsured.** The flip side of a tax subsidy is a tax penalty. If government offers tax subsidies to people conditional on their purchase of health insurance, those who choose not to purchase insurance will pay higher taxes. The higher taxes may be thought of as a penalty for being uninsured.

For example, suppose that the average family is entitled to a 33 percent credit against the first \$4,500 of health insurance. This means that if the family purchases insurance, they will be able to reduce their tax liability by up to \$1,500. Families that are uninsured will not receive this tax relief. Thus, compared to families that are insured, families that are uninsured will pay up to \$1,500 more in taxes each year.

Even under the current system, people who are uninsured pay a penalty because they do not receive the tax benefits available to those who have employer-provided insurance. Moreover, the extra taxes they pay may equal or exceed the amount of free care uninsured people receive from hospitals each year. Far from the standard rhetoric, therefore, the uninsured as a group are not getting a free lunch. Collectively they pay their own way, or most of their own way.

**Establishing a Social Safety Net.** The last step in creating universal coverage without mandates is to return the extra taxes paid by the voluntarily uninsured to local hospitals and clinics that deliver unreimbursed medical care. These extra taxes paid by uninsured individuals would fund the health safety net in the communities in which they live.

**Other Reforms.** State governments could be required to establish risk pools so that currently uninsurable people could obtain insurance at a reasonable price. Medical Savings Accounts would make it easier for people to pay premiums and remain insured while they are between jobs where they have employer-provided coverage. Reforms that encourage guaranteed renewability and portability would also help.

This proposal could be made revenue neutral by phasing out subsidies for higher-income people. Subsidies for lower-income families could be made more generous by increasing the value of the tax credit. Tax penalties could be made more severe by increasing the amount of extra taxes that must be paid by those who fail to claim a credit.

Would the extra tax payments made by the uninsured be sufficient to fund the social safety net? If not, government could add funds. But even if a gap remained, the net result would still be a major improvement over the current system.

*To order the abridged version of the book **Patient Power**, send \$4.95 to the National Center for Policy Analysis, 12655 N. Central Expy., Suite 720, Dallas, TX 75243.*