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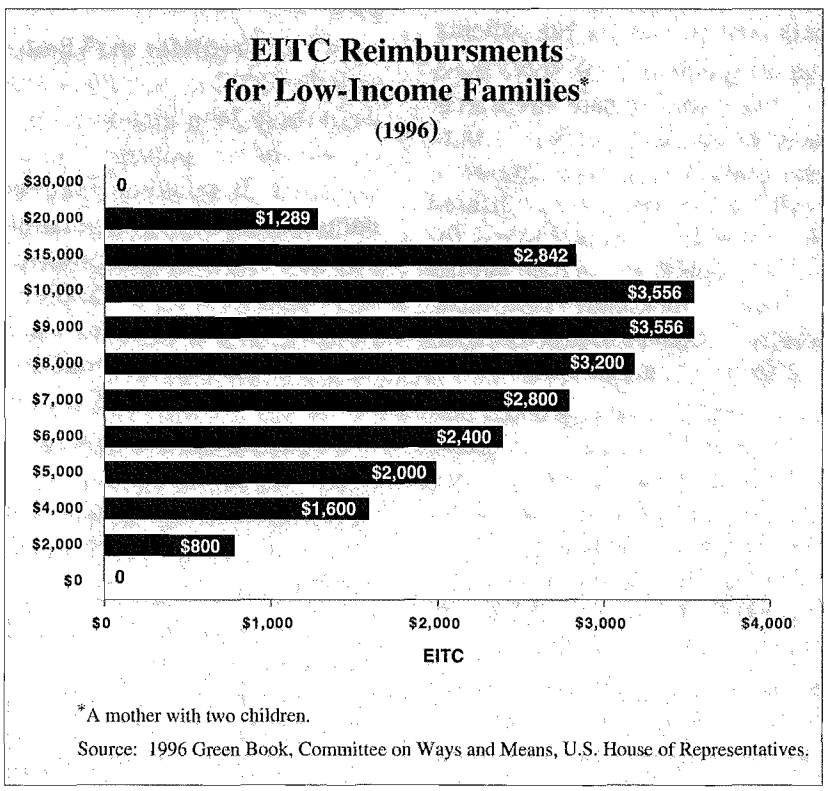
Insuring the Uninsured

The federal government currently subsidizes the employer-provided health insurance of middle- and upper-income workers by about $100 billion a year. By contrast, low-income workers often do not have employer-provided health coverage, and thus get neither the insurance nor the tax break. If they buy insurance on their own, they pay with aftertax dollars.

Congress is beginning to consider ways to increase access to health insurance. Health economists for years have recommended a system of tax credits for families that purchase their own policies. Yet while the money to subsidize upper-income workers' health insurance policies is available, the money to do so for low-income workers is not. Fortunately, an existing program — the Earned Income Tax Credit — could be altered to encourage low-income families to buy health insurance, and congressional proposals for a $500-per-child tax credit could be converted into a child health insurance tax credit for the middle class.



What Is the Earned Income Tax Credit program? Unlike an ordinary tax credit, the EITC provides a refund if the taxpayer does not owe any taxes. If a family's income tax obligation is less than the amount of the tax credit, the federal government pays them the difference. The EITC program currently spends about $25 billion to cover 18 million low-income workers. Of this amount, about 14 percent represents a refund of taxes recipients would have paid. The other 86 percent is a gift from the U.S. Treasury.

In 1996 an EITC family with two qualifying children could receive a subsidy of 34 percent (one child) or 40 percent (two or more children) of an income up to a maximum of $3,556 on earnings between $8,890 and $11,610. The credit is gradually phased out as earnings increase. The subsidy ends when adjusted gross income (AGI) reaches $25,078 for a recipient with one child, and $28,495 for those with two or more children.

An Earned Income Health Insurance Credit. The Earned Income Tax Credit could be converted into a health insurance credit. Under this proposal, families that receive health insurance through an employer or through Medicaid would receive their credit as usual. However, uninsured families would have to purchase health insurance in order to receive the full tax credit. (A variation on this proposal would require insurance only for children.) Families would have options under this plan.

They should be permitted to use their tax credit to cover all or part of the cost of a private health insurance policy. For example, the $3,556 maximum credit would be sufficient in many cases to cover the cost of a very basic traditional health insurance policy, a high-deductible plan with a Medical Savings Account or membership in a health maintenance organization (HMO). Money left over would belong to the family.

However, for other recipients the EITC money would be insufficient to cover the cost of a family health insurance policy. As the figure shows, those with earned incomes below $8,000 receive a smaller tax credit. Yet many of these individuals are enrolled in or eligible for

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state Medicaid programs. Those with higher incomes who also receive a smaller tax credit could supplement their credit with out-of-pocket funds.

Shoring Up the Safety Net. Unfortunately, some EITC recipients might decide to do nothing and continue relying on the emergency room for their primary care. This creates a financial strain on health care systems in local communities, as physicians and hospitals often must provide uncompensated care. Moreover, competition among providers makes it increasingly difficult to shift the costs of indigent care to other paying patients.

The health insurance tax credit helps to solve these related problems. For those who remain uninsured, choosing not to use their tax credit to purchase health insurance, the federal government could divert the credit to local public health authorities. When the uninsured received health care, they would be expected to pay for it, as they are today. If they could not, unclaimed tax credit money could help pay for their care. Thus those choosing to remain uninsured would be indirectly subsidizing part of the cost of their own health care.

Alternatively, a state or local community could permit families to transfer their EITC funds to programs providing medical services in their neighborhood. Since most states are shifting their low-income uninsured people into managed care programs, the practical effect of this "buy in" would be that the federal government would divert a family's EITC funds to the Medicaid managed care program in that family's community.

Benefits of EITC Reform. The original intent of the EITC was to supplement income and help to meet basic family needs year-round. Yet under the current system, people receive a single refund check in the spring and can quickly exhaust the funds. The program is also riddled with fraud and abuse.

The health insurance tax credit could help solve both problems. First, families would be able to pre-assign their credit to an insurer at any time and receive 12 months of continuous health coverage. Second, monitoring and oversight by the health insurer would reduce fraud and abuse.

In addition, changing the EITC program into a health insurance credit would add money to a system that is providing care anyway. Many states, operating under a waiver from the federal government, are using their Medicaid money to implement reforms that provide health insurance coverage for their uninsured populations. In other words, states are looking at ways to provide basic coverage for their uninsureds with current Medicaid dollars. Uninsured families who turned their EITC money over to the state Medicaid or local managed care program or community hospital would be adding money to a system already forced to provide them with care.

A Tax Credit for the Middle Class. Though permitting the EITC to become a health insurance tax credit would help 24 million workers with incomes below 200 percent of the poverty line to gain access to health insurance, it would do little for more than 11 million uninsured middle-income families (those with incomes 200-400 percent of the poverty line). One way to help them is to convert the $500-per-child tax credit, proposed in the Republicans' Contract With America and embraced by the Democrats, into a health insurance tax credit, or at least a child health insurance credit.

Implementation would be similar to the EITC proposal. Those who have health insurance would receive their credit. Families with uninsured children would have to use their credit for health insurance or receive nothing.

Using the children's tax credit would primarily benefit middle-class families, since those making under $20,000 currently pay little or no federal income taxes. Thus, families would have to have an income tax obligation of at least $500 to get the full value of the credit for one child.

Conclusion. Turning the EITC or child tax credit into a health insurance tax credit is one way to make health insurance accessible to low-income uninsured workers and families without creating a new federal program. The government already subsidizes health insurance for higher-income workers. Shouldn't low-income uninsured workers and their families also receive a subsidy?

This Brief Analysis was prepared by NCPA President John C. Goodman and Vice President of Domestic Policy Merrill Matthews Jr.