

THE FEDERAL BUDGET: FUNDS FOR UNINSURED WORKING FAMILIES

SUMMARY ANALYSIS

During the campaign, President Bush promised to expand health coverage to low-wage workers and their families—and he budgeted \$132 billion over 10 years for that purpose. The main component of the President's health coverage expansion proposal was an individual tax credit (but that tax credit was never a part of his omnibus tax reduction package). Although individual tax credits are an ineffective way to expand health coverage for uninsured, low-wage working families [see box below], the President's fiscal commitment to the uninsured is noteworthy. These funds should be included, or enlarged upon, in the Budget Resolution. Unless such funding is included in the budget, Congress will be unable to enact a more effective proposal to expand coverage for low-wage workers and their families.

BACKGROUND

On April 11, 2000 in Cleveland, Ohio, candidate Bush unveiled his proposal to expand health coverage for uninsured, low-wage workers and their families. The centerpiece of the proposal, which received considerable press attention, was a tax credit to help subsidize the purchase of individual or family insurance policies. The tax credit was targeted to individuals with annual incomes below \$15,000 and families with annual incomes below \$30,000. The health coverage expansion proposal also had other components, including: expanded medical savings accounts (MSAs); liberalization of carry-over rules for flexible savings accounts (FSAs); the promotion of association health plans to enable small employers to band together to purchase health coverage; more state flexibility in operating the State Children's Health Insurance Program (S-CHIP); and expansions of community health centers and other safety-net health facilities.

The individual and family tax credits were, by far, the highest cost item in his proposal. This \$132 billion commitment was featured on the Bush campaign web site. It was also repeated in newspaper articles about the presidential candidates' health policy positions. The \$132 billion was separate and apart from the candidate's proposals for Medicare and prescription drugs. It is not yet clear, however, what, if any, of candidate Bush's health coverage expansion proposal will be incorporated in President Bush's federal budget submission to the Congress. It should be noted, however, that his \$132 billion commitment was made before recent increases in federal budget surplus projections.

ANALYSIS

Although \$132 billion is a fraction of the amount needed to provide health coverage for all 43 million uninsured Americans, it would make possible a significant incremental expansion of coverage for a portion of the uninsured. For example, this amount would be more than enough to enable uninsured parents to gain eligibility for either S-CHIP- or Medicaid-type coverage on a comparable basis to their children. This would not only cover more uninsured parents but would also increase children's enrollment in S-CHIP.

\$132 billion would be considerably larger than the amount provided for the S-CHIP program when it was enacted in 1997. The S-CHIP legislation provided 10-year funding of \$48 billion. However, expanding coverage to uninsured children is considerably cheaper than adding coverage for adults.

Today, the vast majority of children are eligible either for Medicaid or S-CHIP if their families' incomes are below 200 percent of the federal poverty level (\$28,300 of annual income for a family of three).

Public coverage for low-wage working parents and other adults, however, is sparse. Parents are eligible for Medicaid based on state-established income eligibility standards. *In nearly two-thirds (32) of the states, a parent becomes ineligible for Medicaid due to “too high income” if that parent works full time at the minimum wage (\$5.15 per hour).* As a result, parents often lose health coverage when they move from welfare to work. For single adults and childless couples, no matter how low their wages, Medicaid coverage in almost all states is unavailable unless they are severely disabled.

Low-wage working adults often do not receive health coverage through their jobs. While more than nine out of 10 people who earn more than \$15 an hour

are *offered* health insurance coverage by their employer, only half of those earning \$7 an hour or less are *offered* such coverage. Even when employer coverage is offered, it is often too expensive for low-wage workers to purchase. Indeed, workers in low-wage industries and companies, on average, must pay considerably higher premiums for their job-related health benefits than workers in higher-wage industries and companies.

Hence, expanded health coverage for low-wage workers and their families should be a national priority that deserves a portion of the federal budget surplus. At a minimum, the President’s campaign commitment of \$132 billion over 10 years should be included in the upcoming Budget Resolution.

Individual Tax Credits: Not an Effective Way to Expand Health Coverage for Low-Wage Workers and Their Families

1. *Individual tax credits usually provide too little assistance to make health coverage affordable.*

The President’s campaign proposal, for example, would provide a \$2,000 tax credit for the purchase of family coverage by families with annual incomes below \$30,000. However, as the Kaiser Family Foundation documented, the average cost of an employer-provided family health plan is more than \$6,300; individually purchased plans would cost even more. Hence, the tax credit is far too low to make individual coverage affordable for low-wage families.

2. *Individual tax credits are not cost-effective.*

Due to equity considerations, almost all tax credit proposals offer those credits irrespective of whether a person previously had health coverage or not. As a result, an overwhelming portion of the tax expenditure goes to people who are *already insured*. This is a very inefficient use of federal funds to expand health coverage.

3. *Individual tax credits undermine employer-based coverage, which can result in losses of existing coverage.*

As health coverage shifts from employment-based to individually based coverage, people with health problems are more likely to become uninsured because insurance companies are less likely to sell coverage to people with medical risks. This could only be prevented by major insurance reforms, such as requiring insurance companies to issue coverage to everyone at community-rated premiums – a highly unlikely prospect given insurance companies’ strong opposition to such reforms.

4. *The tax code is an administratively cumbersome way to extend health coverage to low-wage families.*

To make health coverage affordable to lower-income families, the tax credits need to be forward funded so people get them when they make their health plan premium payments – not in mid-April of the following year. If forward funded, the families need to be protected from large recoupments if their annual incomes turn out to be larger than expected. These are administratively cumbersome steps, especially for a population that has little federal tax liability or may not even file tax returns.