The Heritage Foundation
Backgrounder
Executive Summary

No. 1475 September 21, 2001

How Congress Can Help the Uninsured Obtain Health Coverage

Nina Owcharenko

Members of Congress will soon have an opportunity to make a crucial decision about how to deal with the problem of uninsurance in America. The broadest and most effective approach would be for Congress to finance a new system of refundable income tax credits for health insurance, which would give individuals and families direct assistance in purchasing health care coverage. Several bills before Congress, particularly legislation introduced by Senator Jim Jeffords (I–VT) and Representatives Richard Armey (R–TX) and John Cooksey (R–LA), incorporate this approach.

Recently released U.S. Bureau of the Census figures indicate that 39.3 million Americans were without health insurance in 1999. The fiscal year (FY) 2002 budget resolution approved by the House and Senate in May authorizes $28 billion in either spending or revenue reduction over three years to make health insurance available for the uninsured. Some in Congress propose extending Medicaid to more people. Others propose enrolling adults in the State Children's Health Insurance Program (SCHIP). Some suggest providing a tax credit to employers, and others propose an income tax deduction for the purchase of health insurance. Although the laudable intent of these proposals is to reduce the number of uninsured, these approaches would merely expand inferior or inefficient government programs while failing to get the job done.

The challenge for Congress will be to reduce the numbers of uninsured low-income Americans without exposing the federal government or the states to greater financial obligations that hamper their ability to reach all those who need help. The choice for Congress is clear: It can expand the existing inefficient bureaucratic government programs that are inferior in the delivery of care, or it can promote patient choice and free market competition in the ailing health care system by allowing individuals to make their own key health care decisions.

Produced by the
Domestic Policy Studies
Department

Published by
The Heritage Foundation
214 Massachusetts Ave., N.E.
Washington, D.C.
20002–4999
(202) 546-4400
http://www.heritage.org

This paper, in its entirety, can be found at: *www.heritage.org/library/backgrounder/bg1475.html*

Principles for an Effective Tax Credit Proposal. An effective tax credit proposal must be:

- **Individualized.** Targeting tax credits at the individual would encourage uninsured Americans to obtain health coverage.
- **Refundable/Advanceable.** Making individual tax credits refundable is important because it will enable individuals, even those who owe no taxes, to use the credit at the time they purchase a policy without having to wait for a tax refund.
- **Transferable**. For administrative reasons, the credits should be transferable to a private insurer, much as is done in the Federal Employees Health Benefits Program (FEHBP).
- **Meaningful**. The tax credit must be large enough to offset at least partially the average cost of health insurance coverage. Recent studies have shown that achieving this goal may not be as difficult as is often assumed.

Benefits of Individual Tax Credits. The best way to ensure that those who do not have coverage obtain it is to give them a positive incentive to buy the coverage they need. Tax credits would provide that incentive. They promote:

- **Choice** by enabling individual workers and their families to choose the coverage that best fits their personal medical needs.
- **Control** by enabling individuals, not their employer or a bureaucrat, to decide which coverage they are to buy.
- **Continuity** by creating true portability, thereby ensuring that coverage will no longer be contingent upon one's employment or employment status.

Current Legislative Proposals. Senator Jeffords and Representatives Armey and Cooksey have introduced tax credit bills that recognize these principles and benefits. The Relief, Equity, Access, and Coverage (REACH) Act (S. 590), the Fair Care for the Uninsured Act (H.R. 1331), and the Patient Access, Choice and Equity (PACE) Act (H.R. 2250) each would provide refundable tax credits to the uninsured to assist them in the purchasing of health insurance for themselves and their families. These bills all follow the above-cited four key principles and offer a framework to which other ideas that promote individual decisionmaking could be added.

Conclusion. In considering these bills, the 107th Congress, working with the Bush Administration, has an opportunity to write a fresh new chapter in federal health care policy. Instead of building on bureaucratic structures or relying on outmoded welfare programs, they can promote personal choice in health plans and benefits by transferring decisionmaking power in the health care system to individuals and families. Such an approach would make health plans more accountable to their consumers and Americans more satisfied with their plans.

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Members of Congress will soon have an opportunity to make a crucial decision about how to deal with the problem of uninsurance in America. Recently released U.S. Bureau of the Census figures indicate that 39.3 million Americans were without health insurance for the entire year in 1999,[1] and over 80 percent of these either were workers or lived with workers who had no employer-based or public coverage.[2] The fiscal year (FY) 2002 budget resolution approved by the House and Senate in May authorizes $28 billion in either spending or revenue reduction over three years to make health insurance available for the uninsured.[3] While many health policy analysts believe that more money is needed to reduce the number of uninsured significantly, the real issue is *how* Congress will address the problem.

The challenge for Congress will be to reduce the numbers of uninsured low-income Americans without exposing the federal government or the states to greater financial obligations that would hamper their ability to reach all of those who need help. The choice for Congress is clear: It can simply expand the existing inefficient bureaucratic government programs that are inferior in the delivery of care, or it can promote patient choice and free market competition in the ailing health care system by allowing individuals to make their own key health care decisions.

Various ways to deal with the uninsured have been proposed by Members of Congress. For example, some propose extending Medicaid, the massive federal–state welfare program that provides health care services to the non-working poor and to low-income working families. Others propose enrolling adults in the State Children's Health Insurance Program (SCHIP). Some suggest providing a tax credit to employers to enroll their uninsured workers in their health care plans, and others propose an income tax deduc-

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1. U.S. Bureau of the Census, "The March CPS Health Insurance Verification Question and Its Effect on Estimates of the Uninsured," August 2001, at *http://www.census.gov/hhes/hlthins/verif.html*.
2. Bowen Garrett, Len Nichols, and Emily Greenman, "Workers Without Health Insurance: Who Are They and How Can Policy Reach Them," Urban Institute, *Community Voices*, August 2001, p. 2.
3. H. Con. Res. 83, at *http://thomas.loc.gov.*

tion to individuals for the purchase of health insurance. Although the laudable intent of all of these proposals is to reduce the number of uninsured, these approaches would merely expand inferior or inefficient government programs while failing to get the job done.

Instead, the broadest and most effective approach would be for Congress to give individuals and families direct assistance for the purchase of health insurance coverage. The $28 billion appropriated by Congress could be used to finance a new system of refundable income tax credits for health insurance, which would give individuals and families a meaningful opportunity to make their own health care decisions. Private health insurance offers individuals more choice, control, and continuity in coverage. The best way to ensure that those who do not have coverage obtain it would be to give them a positive incentive to buy the coverage that fits their needs. Tax credits would provide such an incentive.[4]

Several bills before Congress propose such tax credits. They would provide refundable tax credits to the uninsured to assist these individuals in purchasing health insurance for themselves and their families. They also would create incentives for the uninsured to get coverage and offer a framework to which other ideas that promote individual decisionmaking could be added.

PROBLEMS WITH THE CURRENT PROGRAMS

In the past, Congress has found its solutions to the health care coverage issue in existing government programs or by adding mandates to the employer-based system. Unfortunately, these efforts failed to achieve their goal; they neither stimulate competition in the health care market nor provide greater patient choice.

Why Expanding Medicaid Is a Bad Idea. At first glance, expanding eligibility for Medicaid seems like an easy way to lower the numbers of uninsured people. Medicaid is a 45-year-old government program that attempts to provide health care services for 33 million individuals.[5] However, its fundamental problems are hard to ignore.

Medicaid is costly, consuming large numbers of taxpayers' dollars each year. Last year alone, the federal government spent $117.9 billion on Medicaid services while the states spent $88.9 billion.[6] The National Governors' Association cites inadequate federal funding as a key concern;[7] the states increasingly are asked by Washington to provide more coverage without receiving concomitant increases in their federal contributions. Many are struggling financially to keep up with the Medicaid mandates and would find it difficult to provide services to an expanding number of eligible beneficiaries.

But Medicaid's widely noted fiscal problems are only a small part of the story. Its beneficiaries receive only the services that federal and state governments decide to include in their package. Medicaid has earned a notorious reputation for providing low-quality service characterized by substantial bureaucratic red tape and limited choice of providers. Faced with ballooning costs and a rising demand for services, many states have been forced to adopt managed care–style arrangements to control these problems. Other states are looking to trim the number of benefits in order to cover more individuals.[8]

Such efforts merely mask the problem: State health budgets are simply spread too thin. Without reform, in order to maintain the Medicaid pro-

4. Policy analysts from The Heritage Foundation, the Progressive Policy Institute, and George Washington University have suggested that Congress build on the existing employer-based payroll deduction for the administration of a tax credit system. The effectiveness of the tax credit in reducing the number of uninsured could be enhanced by automatic enrollment at the place of work or, in the case of the unemployed, at state unemployment compensation offices.
5. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2002: Analytical Perspectives*, pp. 198–199.
6. *Ibid.*
7. Academy for Health Services, *A Newsletter of State Coverage Initiatives*, No. 5 (July 2001), p. 5.
8. David Nitkin, "Governors Wonder If D.C. Listens or Just Encroaches," *Baltimore Sun,* August 5, 2001, p. A3.

gram, states will have to cut basic benefits or face a never-ending battle with the federal government for increased assistance.

Why Broadening SCHIP Coverage Is a Bad Idea. The single largest government entitlement program created since the 1960s is the State Children's Health Insurance Program (SCHIP), established under the 1997 Balanced Budget Act. Under SCHIP, 3.3 million children in low-income families are given access to public health care coverage.[9] The number of enrolled children is on the rise, but many others remain uninsured. Regrettably, SCHIP has not become a model of efficiency or effectiveness. Fiscal analysis, coupled with a recent survey of families with uninsured low-income children, sheds light on why this is true.

- **Families with children do not find the program attractive**. Even with recent increases in enrollment, a May 2001 Urban Institute study found that while 88 percent of low-income families surveyed had heard of SCHIP, only 24 percent of respondents had inquired about it. Of those who did not, 40 percent said the main reasons were that they did not want to enroll their children in a public program or that they did not feel their children needed coverage. Another 14 percent said the process involves too many administrative hassles.[10]
- **It is financially inefficient.** In 1997, Congress allocated $40 billion over 10 years to assist the states in launching SCHIP programs for uninsured children.[11] A September 2000 Urban Institute study found that since 1998, states have carried over a total of $9 billion in unused funds.[12] This fact, coupled with the number of children still uninsured, raises the question of whether the states can run this program effectively. The unspent funds simply show that millions of uninsured children are not receiving the federal assistance intended for them by Congress.

Unintended Consequences. A potential consequence of further expanding either Medicaid or SCHIP to low-income workers is that some employers may stop offering any health coverage to their employees.[13] Policymakers should not neglect such "crowding out" phenomena. With the rising cost of group health care coverage, employers may see the expansion of these government programs as an easy way to back out of offering insurance to their workers and their families. If government programs do not cover such newly uninsured individuals based on their eligibility rules, or if families do not find government programs attractive for any reason, expanding existing government programs is likely to result in an unanticipated increase in the number of uninsured.

PROBLEMS WITH BUSINESS TAX CREDITS OR INDIVIDUAL TAX DEDUCTIONS

Increasing Burdens on Small Businesses. Creating tax credits for employers who subsidize the health insurance coverage of their low-income workers would merely build upon current flawed policy. This approach would be unwise for at least three reasons.

- It would impose another layer of bureaucracy on top of the small business community, which has limited resources to deal with proliferating red tape. The leading proposals for such a tax credit would require employers to determine their employees' eligibility, which would entail additional paperwork and personnel. When asked their preferences on the issue of tax

9. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2002: Analytical Perspectives*, p. 199.
10. Genevieve Kenney and Jennifer Haley, "Why Aren't More Uninsured Children Enrolled in Medicaid or SCHIP," Urban Institute, *New Federalism*, No. B–35, May 2001, p. 3.
11. The Balanced Budget Act of 1997 (P.L. 105–33).
12. Genevieve Kenney, Frank Ullman, and Alan Weil, "Three Years into SCHIP: What States Are and Are Not Spending," Urban Institute, *New Federalism*, No. A–44, September 2000, p. 8.
13. Robert E. Moffit, Ph.D., "Why Adopting the 'Common Ground' Health Care Proposal Would Be a Costly Mistake," Heritage Foundation *Backgrounder* No. 1445, June 1, 2001, p. 8.

credits for health insurance, small business owners overwhelmingly respond that they would want such credits to go directly to individuals and families.[14]

- Offering the tax credit to small employers does little to address the lack of choice for employees. In 2001, 75 percent of workers in small businesses had access to only one plan through their employer. Compare that to the experience of workers at companies with 5,000 or more employees: 79 percent of these workers with insurance were able to choose from at least three plans.[15] Small employers are challenged to find a one-size-fits-all plan that would satisfy each of their employees. Giving tax credits to the small employer would only make their unenviable task more difficult.
- Today's working uninsured are heavily concentrated in small businesses. They tend to be transient or part-time low-income workers. Such a lack of consistency in employment means that, in the administration of a small business tax credit, employees would have to give numerous employers their sensitive personal information, increasing basic privacy concerns.[16] Moreover, employers would be accountable for the accuracy of that information.

Creating Ineffective Tax Deductions. Some Members of Congress favor the creation of an "above-the-line" income tax deduction as an incentive for individuals to purchase health insurance. Individuals would be able to deduct their health insurance costs from their annual gross income when they file their income taxes.

This approach has some appeal because it would extend the same level of tax benefit to individual workers that their employers get for offering health insurance to employees. In this respect, it would restore a modicum of fairness to the federal tax code. In the end, however, it would do very little to reduce the number of Americans who are without health insurance coverage. The reason: 45 percent of the uninsured (about 18 million) are excluded from paying federal income tax today.[17] They simply earn too little to be liable for income tax. As Table 1 shows, over half the number of single adults with dependents were in the 0 percent tax rate bracket in 1998. Offering a tax deduction to these individuals for the purchase of health insurance is pointless.

OFFERING TAX CREDITS TO THE UNINSURED

Although the use of tax credits is not ideal tax policy, as a matter of health care policy, it is the best means available to Congress to help reduce the number of uninsured Americans. The policy objective of an income tax credit would be to target those individuals who need assistance to help cover their health insurance costs. Such a policy has additional benefits, such as limiting the growth of big and inefficient government health care programs, relieving employers from tedious accounting requirements, and ensuring that government assistance is targeted to those who need the most help. And it promotes personal freedom.

Key Elements of an Effective Tax Credit Proposal

To be most effective, an income tax credit for the uninsured must be:

1. **Individualized**. Tax credits must be targeted to the individual. At least 39 million Americans are uninsured at any one time, and for a variety of reasons. Good policy should encourage these individuals to obtain health care coverage. Targeting a tax credit to businesses

14. Steven Brostoff, "Small Employers Support Tax Credit for Health Insurance: NAHU Survey," *National Underwriter Life and Health–Financial Services*, Vol. 105, No. 13 (March 26, 2001).
15. "Small businesses" here refers to those that have fewer than 50 employees. Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits, 2001 Annual Survey* (Menlo Park, Cal.: Kaiser Family Foundation, 2000), p. 64.
16. Stuart M. Butler, Ph.D., "How Health Tax Credits for Families Would Supplement Employment-Based Coverage," Heritage Foundation *Backgrounder* No. 1420, March 16, 2001, p. 5.
17. James Frogue, "Right and Wrong Ways to Address the Needs of the Uninsured," Heritage Foundation *Executive Memorandum* No. 750, June 4, 2001, p. 1.

Table 1 B1475

A Snapshot of Uninsured Families by Income Tax Rate

Effect of a Tax Deduction for the Uninsured Distribution of Non-Elderly, Uninsured Persons by Family Type, Total Family Income, and Marginal Income Tax Rates in 1998: March 1999 CPS

Number (in thousands) in tax bracket by family type (Non-Elderly)

Top Marginal Income Tax Bracket	Total	Single Adults Without Dependent Children	Single Adults With Dependent Children	Married Adults Without Dependent Children	Married Adults With Dependent Children
All.....	43,921	12,276	8,979	7,846	14,820
0% rate	14,934	4,157	4,674	603	5,500
15% rate	20,385	5,158	3,732	4439	7,056
28% rate	7,161	2,547	517	2,232	1,865
31% or higher rates	1,441	414	56	572	399

Percentage in tax bracket by family type (Non-Elderly)

Top Marginal Income Tax Bracket	Total	Single Adults Without Dependent Children	Single Adults With Dependent Children	Married Adults Without Dependent Children	Married Adults With Dependent Children
All.....	100.00%	100.00%	100.00%	100.00%	100.00%
0% rate	34.00%	33.86%	52.05%	7.69%	37.11%
15% rate	46.41%	42.02%	41.56%	56.58%	47.61%
28% rate	16.30%	20.75%	5.76%	28.45%	12.58%
31% or higher rates	3.28%	3.37%	0.62%	7.29%	2.69%

Methodology: Tax calculations are based on 1998 standard deductions, personal exemption, child tax credit, and taxable income rates. For purposes of calculating the number of personal exemptions and the value of child tax credits, it is assumed that all families in the category "Single Adults With Dependent Children" consist of one adult and one child, and that all families in the category "Married Adults With Dependent Children" consist of two adults and two children.

Source: Analysis of March 1999 Current Population Survey (CPS) data, conducted for The Heritage Foundation by Strategies Policy Management, 2001.

neither increases a low-income employee's incentive to participate in a plan nor increases the employee's control of his health care decisions.

2. **Refundable/Advanceable**. Individual tax credits must be refundable. This means that individuals, even those who owe no taxes, would receive the tax credit when they purchase a policy rather than having to wait for a tax refund to reimburse them. A tax credit is useful only if it targets the right group. A refundable credit would give low-income workers the additional funds when they need the money to purchase coverage on their own.

3. **Transferable.** For administrative reasons, the credits should be transferable to a private insurer. This is an approach that Members of Congress should recognize. Such a new tax credit system would operate much like the Federal Employees Health Benefits Program

(FEHBP), which covers 9 million federal workers, including Members of Congress, their staffs, and their families. Under the FEHBP, the Clerk's Office in the House or Senate makes a payroll deduction, and the U.S. Treasury makes a direct contribution to the cost of the chosen health insurance plan. When individual federal workers pick their plan each year, the government makes an appropriate level of payment to the insurer. Such a user-friendly approach would be attractive to the uninsured; a direct transfer of the tax credit to the plan of their choosing would help alleviate the burdens they associate with participation.

4. **Meaningful**. The income tax credit must be large enough to offset, at least partially, the average cost of health insurance coverage. It appears, from the most recent empirical evidence, that achieving affordability may not be as difficult as is often assumed, even after accounting for the genuine problems that afflict individual markets, such as mandated benefits and excessive regulation.

   A recent analysis conducted by Sunnyvale, California-based eHealthInsurance, the largest broker of private health insurance on the Internet, demonstrates this point. The study found that half of the individual and family policies sold by eHealthInsurance included modest deductibles and "comprehensive" coverage,[18] with premiums at or below $1,000 for individuals and $2,500 for families. The major proposals before Congress today would provide tax credits sufficient to cover much of the cost of such premiums. Another three quarters of the remaining sampling bought plans within 75 percent of this premium level. In cases where the tax credit is not enough to cover the entire cost of coverage, the prospect of a tax credit would provide an incentive for the worker to make up the difference.

   In addition, a refundable tax credit could be designed so that states and employers could offer further assistance to the uninsured to purchase coverage. Coupled with a federal tax credit, for example, states could transfer SCHIP funds to an insurer to help an uninsured family purchase family coverage. Concerned employers could be permitted to contribute to the cost of a policy for employees who need assistance in purchasing coverage on their own.

The Value of the Tax Credit

Individual tax credits would give the estimated 39.3 million uninsured Americans greater access to the health care system. Moreover, creating the incentive for low-income individuals and families to obtain their health coverage would enable more workers to take charge of their own health care decisions.

The advantages of tax credits for the uninsured include:

- **Choice**. A tax credit would enable individual workers and their families to choose health coverage that best fits their personal medical needs. Coverage decisions would be made by the individual, not by his or her employer or a bureaucrat. This approach would unleash the market forces of competition and innovation to enhance affordable health insurance across America.
- **Control**. Tax credits would enable individuals, not their employer or a bureaucrat, to decide what coverage their family needs or values. This would strengthen individual control of health care decisions by giving individuals the power to "fire" a plan if they are dissatisfied with the level of coverage or attention they receive.
- **Continuity**. Under a tax credit policy for the uninsured, coverage would no longer be contingent upon employment or employment status. An individual would be able to change

18. The term "comprehensive" is defined by eHealthInsurance as "benefits comparable to Medicare's Part A and Part B coverage plus some level of Medicare supplemental coverage." For further information, see eHealthInsurance, "Analysis of National Sales Data of Individual and Family Health Insurance," June 2001, at *http://www.ehealthinsurance.com/ehealthinsurance/expertcenter/ExpertCenter.html#Reports*.

jobs and not fear losing coverage or being forced to pay skyrocketing premiums under COBRA (the Consolidated Omnibus Reconciliation Act).[19] This would create true portability for individuals. In addition, it would restore the ability of patients to establish long-term relationships with their doctors.

Table 2 B1475

The Affordability of Health Care Coverage with Tax Credits

Effects of Applying Proposed Tax Credit to Policies Purchased by eHealthInsurance Individual and Family Coverage Customers

Percentage of Premiums Covered by the Tax Credit[a]	Single	Family	All
	Percent of Policies by Type of Coverage Purchased		
100%	50%	54%	52%
75% to 99%	25%	27%	25%
50% to 74%	14%	12%	14%
0% to 49%	11%	7%	9%
	Cumulative Effect of Tax Credits		
100% or More	50%	54%	52%
At least 75%	75%	81%	77%
At least 50%	89%	93%	91%

Note: [a]The tax credits are assumed to be a maximum of $1,000 for a single person and $2,500 for a family.
Source: eHealthInsurance, Analysis of National Sales Data of Individual and Family Health Insurance, June 2001.

A Range of Impact

Early estimates of the impact of such a tax credit produced by one of the top econometric firms specializing in health care policy, the Virginia-based Lewin Group, show that a modest tax credit plan would help lower the number of uninsured in America. Specifically, they indicate that a tax credit of $1,000 for individuals and $2,000 for families would benefit 8.7 million people, including 3.2 million of the previously uninsured.[20]

These estimates may, in fact, be conservative. A recent study conducted by Mark Pauly and Bradley Herring estimates that more than 80 percent of the uninsured would become insured if they were provided with a tax credit that covered 75 percent of their premiums.[21] The results of the June 2001 eHealthInsurance study also show that a simple tax credit could make purchasing health insurance in the private market a reality for millions of people who do not now have health care coverage. (See Table 2.)

CURRENT LEGISLATIVE OPTIONS

Earlier this year, Congress busily worked on legislation to pass patients' rights legislation for Americans who have health insurance, largely ignoring the large number of uninsured Americans. As President Bush has said, addressing the problem of uninsurance should be the top priority.[22]

Many Members of Congress already recognize the benefits of a refundable income tax credit for the uninsured; several legislative proposals have been introduced that are aimed at empowering individuals to purchase their own health insurance coverage. Specifically:

19. Under COBRA's continuation of coverage, individuals are able to maintain their coverage, but the cost of the coverage is no longer calculated as employer group coverage.
20. Lewin Group estimate on new tax credit proposals in letter to Dr. Robert E. Moffit, The Heritage Foundation, January 14, 2000.
21. Mark Pauly and Bradley Herring, "Expanding Coverage Via Tax Credits: Trade-offs and Outcomes," *Health Affairs*, January/February 2001, p.14.
22. Executive Office of the President, The White House, "A Blueprint for New Beginnings: Invest in Health Care–Extending Tax Health Incentives," January 2, 2001, at *http://www.whitehouse.gov/news/usbudget/blueprint/bud13.html*.

- Senator Jim Jeffords (I–VT) has introduced S. 590, the Relief, Equity, Access, and Coverage for Health (REACH) Act, which would provide a $1,000 refundable tax credit for individuals and $2,500 credit for families to use for the purchase of "qualified health insurance." Credits would be phased out between $35,000 and $45,000 for single workers and $55,000 and $65,000 for heads of households and couples. Employees would be eligible for a partial credit if they have employer-subsidized coverage available, and credits could be transferred directly to the plan (insurer or employer).
- Representatives Richard Armey (R–TX) and Bill Lipinski (D–IL) and Senators Richard Santorum (R–PA) and Robert Torricelli (D–NJ) have sponsored H.R 1331/S. 683, the Fair Care for the Uninsured Act, to provide a $1,000 credit for individuals and $500 for dependents, with a maximum family credit of $3,000. The credit would be refundable and could be used to purchase any "qualified" health insurance policy. Eligibility would be limited to individuals who do not participate in employer-sponsored coverage or other public health plans.
- Representative John Cooksey (R–LA) has introduced H.R. 2250, the Patient Access, Choice and Equity (PACE) Act, to offer a fixed or sliding-scale tax credit to individuals for the purchase of health insurance. Under the fixed credit system, there would be a $1,000 credit per individual, a $500 credit per child, and a $3,000 maximum credit per family. Under the sliding-scale system, there would be a 25 percent credit for health expenditures that equal up to 5 percent of the worker's adjusted gross income (AGI), a 40 percent supplemental credit for expenditures between 5 percent and 15 percent, and a further 60 percent tax credit for health expenditures greater than 15 percent. Refundable credits would be targeted at low income workers.

These bills offer a solid foundation for a new approach to reducing the number of uninsured. First, they provide the tax credit directly to individuals so that they can choose their coverage. Second, they ensure that the credits are useful to the low-income uninsured by making them refundable. Third, they reduce administrative hassles by allowing the credits to be transferable. Finally, the amounts of the tax credits proposed would be adequate enough to purchase complete coverage.

Some of the bills also address concerns associated with the individual market. The Jeffords bill would allow states to couple an SCHIP allocation with a family's tax credit, thereby making family coverage more affordable. The Armey bill would provide grants for states to establish high-risk pools to deal with the "uninsurable" population and would allow bona fide membership associations to offer coverage free of costly state benefit mandates.

Other potential policy additions could include incentives for employers to make contributions to their employees to assist them in purchasing their own coverage, allowing employees to save tax-free money to help cover the out-of-pocket cost associated with health care, and providing further flexibility for innovative grouping mechanisms in the individual market.

Support for tax credits has spread beyond Washington. Organizations in the health care and business communities also recognize their value. The American Medical Association (AMA), the Progressive Policy Institute (PPI), and the National Association of Health Underwriters (NAHU), for example, have well-developed proposals aimed at reducing the number of uninsured through similar tax credits.[23]

23. See, for example, American Medical Association, "Expanding Health Insurance Coverage Through Individual Tax Credits," at *http://www.ama-assn.org/ama/pub/article/4049-3982.htlm* (September 17, 2001); David Kendell, Jeff Lemieux, and S. Robert Levin, MD, "Covering the Uninsured: Ways to Make Health Insurance Available and Affordable to 43 Million Americans," Progressive Policy Institute, *Blue Print Magazine*, February 7, 2001; and National Association of Health Underwriters, "NAHU's Health Credit," at *http://www.nahu.org/media/PDF/government/herop98mt.pdf*.

CONCLUSION

The 107th Congress, working with the Bush Administration, has an opportunity to write a fresh new chapter in federal health care policy. Instead of building on bureaucratic structures or relying on outmoded welfare programs, they should promote personal choice in health plans and benefits by transferring decisionmaking power in the health care system to individuals and families. Enabling patients to pick their own health coverage would make plans more accountable to consumers and Americans more satisfied with their plans.

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