

Statement of Grace-Marie Turner, President, Galen Institute
Testimony before the House Committee on Energy and Commerce
Subcommittee on Health
Hearing on The Uninsured and Affordable Health Coverage
February 28, 2002

Overview

In my testimony today, I would like to present a very brief overview of who the uninsured are and explain some of the key reasons that obtaining health insurance is so difficult for them. I will briefly explore several of the options under consideration to extend health coverage to the uninsured. And finally, I will describe why I believe that providing refundable tax credits would be the best solution to extend meaningful, tangible help to millions of uninsured Americans.

Wharton economist Mark Pauly, *et al*, (2001) find that refundable tax credits would provide a powerful incentive for the uninsured to purchase health coverage and that the individual market “appears to be improving, in both administrative costs and protection against high premiums associated with high risk.”

eHealthInsurance found that the average individual policy sold on its on-line health insurance brokerage site cost \$159 a month, and the average premium for individual and family policies purchased through the company ranged from \$1,200 to \$1,900 a year per person.

If the federal government were to provide tax credits for the uninsured, the marketplace would respond by making more affordable, more diverse, more appropriate health insurance available to those who earn too much to qualify for public programs and too little to have the stable, higher-paying jobs that provide health coverage.

Individual and targeted tax credits are an important part of the mosaic of solutions to extend coverage to millions of uninsured Americans who are left behind in the current system.

Statement of Grace-Marie Turner

President, Galen Institute

Introduction

Thank you Mr. Chairman and members of the committee for inviting me to provide testimony today on the important issue of “The Uninsured and Affordable Health Coverage.” My name is Grace-Marie Turner, and I am president of the Galen Institute, a not-for-profit research and educational organization that focuses on health policy.

The problems of the uninsured are of serious and continuing concern to this committee, and I commend you for holding this hearing to keep the spotlight on the importance of action to address the needs of a population that is as large as it is diverse. I am encouraged that some new options are being considered to provide them with help and look forward to discussing them with you today.

In my testimony today, I would like to present a very brief overview of who the uninsured are and explain some of the key reasons that obtaining health insurance is so difficult for them. I will briefly explore several of the options under consideration to extend health coverage to the uninsured. And finally, I will describe why I believe that providing refundable tax credits for the uninsured is the best solution to extend meaningful, viable help to millions of uninsured Americans.

Who are the uninsured?

More than 38 million Americans were uninsured at the last official count, but the number surely has risen during the current recession. While the numbers change, the profile of the uninsured remains quite constant.

The uninsured are primarily: 1) minorities, especially Hispanics; 2) lower and lower-middle income Americans; 3) young adults between ages 18 and 24; 4) workers or dependents of workers who are not offered or cannot afford to purchase health insurance through the workplace; and 5) workers who are between jobs.

The Census Bureau finds that the uninsured are most likely to be in families with annual incomes of less than \$25,000, to be self-employed or employees of small companies, and/or to work in service-industry jobs, such as hotels and retail stores.

The Commonwealth Fund, a respected health coverage research organization, conducted a survey between April 27 and July 29, 2001, and confirmed that family income is one of the strongest predictors of being uninsured.¹ The Commonwealth Fund 2001 Health Insurance Survey found that 75 percent of the uninsured had annual incomes below \$35,000, while only two percent had incomes of \$60,000 or more.

The likelihood of someone having health insurance is closely tied not only to higher income but also to whether the worker's job provides health insurance. Only 36 percent of those under age 65 with incomes below 200 percent of the federal poverty level have employment-based insurance coverage, while 77 percent of those above do.²

The uninsured are overwhelmingly working Americans. The Kaiser Commission reported that more than 80 percent of those who are uninsured either are working themselves or live in families headed by a person in the workforce,³ a finding confirmed by Paul Fronstin of the Employee Benefit Research Institute.

More than half (52%) of employees working in firms with fewer than 100 workers and with earnings of under \$20,000 were not offered or were ineligible for employer-sponsored health plans.⁴

Small businesses with fewer than 50 workers account for 94.7 percent of businesses in the United States and employ more than 40 percent of the workforce.⁵ Forty percent of these small businesses do not offer health insurance coverage to their workers.⁶ A key reason is the high cost of health insurance and the fact that small firms lack the advantages of large companies in designing and purchasing affordable health care packages.

¹ Lisa Duchon, et al. *Security Matters: How Instability in Health Insurance Puts U.S. Workers At Risk*. Findings from the Commonwealth Fund 2001 Health Insurance Survey. New York. December, 2001.

² White House Council of Economic Advisors. *Health Insurance Tax Credits*. February 14, 2002.

³ Kaiser Commission on Medicaid and the Uninsured. *Health Insurance Coverage in America. 1999 Data Update*. Washington, D.C., December, 2000.

⁴ Lisa Duchon, et al. *Listening to Workers*. Findings from Commonwealth Fund 1999 National Survey of Workers' Health Insurance. New York, January, 2000.

⁵ U.S. Bureau of the Census. *1998 County Business Pattern Data*, Table 2.

⁶ Larry Levitt et al., *Employer Health Benefits: 1999 Annual Survey*, Henry J. Kaiser Family Foundation and Health Research and Educational Trust, 1999.

One-quarter of uninsured workers are self-employed.⁷ While Congress has enacted legislation that will provide full tax deductibility of health insurance for the self-employed as of next year, a tax deduction is worth only as much as the individual's tax bracket. If someone is in the 15 percent tax bracket, even full deductibility means just a 15 percent reduction in price. For many, this is simply not enough of a price break for them to afford coverage.

Minorities are also disproportionately likely to be uninsured. Hispanics are more likely to be employed in blue collar jobs which are much less likely to provide health insurance coverage, but whatever their income, Hispanics are less likely to be offered job-based health coverage than non-Hispanic whites.⁸

Profiles of the uninsured

For most of those who are uninsured, obtaining health insurance through the traditional channel of the workplace is not an option. For example:

- 1) An Hispanic woman who works two jobs to feed and house her family is likely to fall through the cracks of the U.S. "system" of health coverage. She makes too much to qualify for Medicaid, is not offered health insurance through either of her jobs, and cannot afford to purchase health insurance on her own and still meet her other responsibilities to pay for housing, clothing, transportation, and food for her children.
- 2) Lower and lower-middle income adults, such as a cab driver making \$25,000 a year, are unlikely to qualify for any public or private health insurance. The cab driver is often much more worried about a major car accident or family illness that not only would destroy his livelihood but also his finances to pay for medical care. But he cannot afford to purchase insurance for himself or his family and still meet his other obligations.
- 3) College students and young adults working at their first job often do not place health insurance as a top financial priority and often go without.
- 4) A man working as a mechanic at an automobile garage or a waiter at a restaurant is unlikely to be offered health insurance through his job. The owners of the business are so busy trying to run the business and keep it afloat that organizing and paying for health insurance are too difficult and expensive. As a

⁷ Duchon, et al. *Listening to Workers*. The Commonwealth Fund.

⁸ Claudia Schur and Jacob Feldman, *Running in Place: How job characteristics, immigrant status, and family structure keep Hispanics Uninsured*, The Commonwealth Fund. May 2001.

result, as much as the owners may want to provide health insurance, they simply can't afford it.

5) Finally, a worker who has lost his job generally loses health coverage in the process. A federal program instituted as part COBRA (Consolidated Omnibus Budget Reconciliation Act) allows workers who have left their job-based coverage to continue their insurance by paying 102% of the premium. This coverage is generally very expensive, and only 19% of eligible employees continue COBRA coverage.⁹ While the workers may get another job in a few months, the four or five months between jobs also means that he and his family likely will have no health insurance during that time.

What is life like for the uninsured?

The uninsured are more likely to wait to get the medical care they need, putting off tests and treatment until illnesses are at more advanced stages. They are more likely to face difficulties in paying for the care they do get. And they live in constant fear that they or their children will have an illness or accident and that the family will not be able to afford needed medical care.¹⁰

Unfortunately, those who do not get their health insurance through the workplace or who do not qualify for government programs have few options in obtaining coverage. Either they purchase health insurance on their own, most often with after tax dollars that make the policy even more expensive, or they take the risk of going without.

One of the leading causes of bankruptcies in the United States is medical bills.¹¹ Being without health insurance is not only a problem for 38 million Americans and counting, but also for society as a whole. Those who do not have predictable access to medical treatment often wait until an illness becomes acute before seeking treatment. Not only is the cost of treatment then generally higher, but also at least part of the cost is more likely to be borne by the taxpayer through any of the various channels hospitals and doctors are compensated and through higher premiums for those with private insurance. Most importantly, the person may suffer long-term consequences of going without needed medical treatment.

⁹ Becca Mader. "Few ex-employees choose COBRA: But those who do are heavy users, study finds." *The Business Journal*, November 2, 2001.

¹⁰ Connecticut Department of Public Health, Office of Policy, Planning, and Evaluation, *Looking toward 2000: State Health Assessment*, , available at http://www.state.ct.us/dph/OPPE/sha99/uninsured_and_underinsured_popul.htm

¹¹ Ian Domowitz and Robert Sartain. *Determinants of the Consumer Bankruptcy Decision*. National Bureau of Economic Research. 1997.

Economic pressures on these families and on society would be reduced if the uninsured were protected by providing options for them to obtain affordable health coverage.

Medicaid expansion, more regulation, or employer mandates?

Several options are being discussed:

Public program expansion: Many policy makers are recommending expanding coverage to the uninsured through Medicaid and S-CHIP. But the costs of public programs, especially Medicaid, already are consuming up to a third of state government budgets, threatening higher taxes, benefit cuts, or reduced spending on other state programs.¹² State Medicaid budgets are stressed to the limit, and adding millions of working Americans to their rolls appears neither politically nor financially feasible.

For example, New Mexico has the highest uninsured rate in the country, yet the state is \$50 billion short in being able to finance Medicaid for current recipients in the upcoming fiscal year.

The nation's governors were in Washington just this week pleading with Washington to help them with their skyrocketing Medicaid expenses.

Expanding Medicaid to millions more working Americans would mean restricting care to those currently on the program, especially the poor and elderly, or further reducing payments to providers. Already, the program pays doctors so little that many physicians say they lose money when they treat Medicaid patients.

Low Medicaid payment rates in many states already are compromising access to care for those who have Medicaid coverage. For example, the California HealthCare Foundation, an independent philanthropic organization, surveyed almost 1,700 physicians in the state's largest urban counties, and found that only 55 percent of primary-care physicians said they treated Medi-Cal – California Medicaid – patients.¹³

Medicaid recipients often wind up waiting in long lines in hospital emergency rooms to receive even routine care. This drives up costs of this entitlement program even higher.

¹² Vernon Smith, and Eileen Ellis, *Medicaid Budgets Under Stress: Survey Findings for State Fiscal Years 2000, 2001, and 2002*. Kaiser Commission on Medicaid and the Uninsured. October 2001.

¹³ Tony Fong, "Nearly half of physicians shun Medi-Cal," *San Diego Union-Tribune*, February 15, 2002.

Employer mandate: Many small employers want very much to provide health insurance for their employees, but they are especially vulnerable to the rising cost of health insurance. Nationwide, more than 200,000 Americans lose their coverage every time the cost of health insurance rises by one percent, according to the Congressional Budget Office. It is almost always small businesses operating closest to the margin that are forced out of the market first. Forcing employers to offer insurance is not a viable option for many marginal businesses that are struggling just to survive, much less to provide health insurance with costs rising at double-digit rates.

Insurance regulations: Evidence has shown that trying to force employers or health insurers to provide coverage through mandates and regulation creates a series of unintended consequences. In 1998, the Galen Institute produced a study based upon GAO studies that highlighted this problem. Our results showed that 16 states that had been most aggressive in regulating their health insurance markets through guaranteed issue, community rating, and other directives, had uninsured rates that rose eight times faster than the 34 states that were less regulatory.¹⁴

A very recent study by the on-line health insurance brokerage, e-HealthInsurance, showed also that states that employ community rating and guaranteed issue had premium prices that were two or three times higher than states that did not employ this type of insurance market “reform.”¹⁵ While there are likely other factors involved, the average single monthly premium in New York, for example, is \$266. California, which does not employ community rating and guarantee issue, has an average monthly premium of \$143.¹⁶

Another option: Equalize the subsidies

Another policy option is to provide the uninsured with tangible financial support through refundable, advanceable tax credits to help them purchase private health insurance.

The U.S. tax code provides a generous tax benefit to workers if their employer purchases health coverage for them. This system of protecting job-based health coverage from taxation has provided a powerful incentive for workers to get their

¹⁴ Melinda Schriver and Grace-Marie Arnett. *Uninsured Rates Rise Dramatically in States With Strictest Health Insurance Regulations*. The Heritage Foundation. 1998.

¹⁵ Statement of Vip Patel, Founder and Chairman, eHealthinsurance, Inc., Sunnyvale, California. Testimony before the House Committee on Ways and Means Hearing on Health Care Tax Credits to Decrease the Number of Uninsured. February 13, 2002.

¹⁶ eHealthInsurance, Inc. *The Cost and Benefits of Individual Health Insurance Plans*. January 2002.

health coverage at work. But the tax benefits are skewed to favor higher-income individuals and to provide much less help to those with lower incomes. Millions of workers simply are being left behind by this system. Tax credits would provide meaningful help to millions of uninsured families to obtain coverage.

The employment-based system in the United States that serves approximately 175 million workers, dependents, and retirees is not an option for many uninsured workers. Providing tax credits would be a small step to begin to give them subsidies much like those who have job-based coverage so they can obtain their own health insurance.

President Bush has proposed a set of incentives for the uninsured with “health credits” of up to \$1,000 for individuals and \$3,000 for families. He proposes phasing out the credits on a sliding income scale, with subsidies ending at \$30,000 for individuals and \$60,000 for families.

This system of tax credits would be targeted to those who are most likely to be uninsured and least likely to have the option of employment-based health insurance.

The Council of Economic Advisers’ February 14, 2002, white paper on Health Insurance Credits provides additional details on how the administration’s credit would be structured and administered and the anticipated market response.

The idea of providing health credits has tri-partisan backing with bills introduced by House Majority Leader Dick Armey (R-TX) and Ways and Means Chairman Bill Thomas (R-CA), and in the Senate by Sen. John Breaux (D-LA), Sen. James Jeffords (I-VT), and Sen. Bill Frist (R-TN), among others.

Under virtually all of the proposals, the credits would be refundable if taxpayers owed few or no taxes. Many, including the president’s, would also provide “advanceable” tax credits – meaning people wouldn’t have to wait until they file their taxes to get the subsidy.

How the current tax preference works

The main reason that health insurance is so tightly tied to the workplace in the United States is the highly favorable tax treatment it receives. The system of providing health insurance through the workplace in the United States dates to early in the 20th century.

The tax benefit to workers is provided in the form of a tax exclusion. That means that the full value of the health insurance policy is “excluded” from the worker’s income before federal, state, and payroll taxes are calculated. As a result, the value of the health insurance policy and the generous tax break for health insurance are invisible to the employee.

What workers often don’t realize is that their health insurance actually is part of their full compensation package – a form of non-cash (and non-taxable) wages. The tax code explicitly allows the non-wage income they receive in the form of health insurance to be free from taxation.

But workers may receive this tax-favored benefit only if their employers write the checks for the premiums. Because of this invisible tax benefit, the value of the health insurance policy, the tax benefit employees receive, and the cost in forgone wages are largely invisible to workers.

In 1999, tax subsidies for job-based health insurance were worth \$130 billion.¹⁷ But it is a very regressive subsidy, favoring the rich over the poor. A taxpayer earning \$100,000 a year or more gets an annual subsidy worth \$2,638 while one earning \$15,000 gets only \$79 a year in assistance toward the purchase of health insurance.

What that means is that the executive with a high-paying job gets a generous tax subsidy for health insurance from the taxpayer while the waiter serving her lunch gets little or no help in purchasing health insurance.

Clearly, this is not a system we would have designed if we were starting from scratch. Instead, it has evolved as a relic of World War II wage and price controls.

An increasingly mobile society

In our increasingly mobile society, millions of Americans are constantly moving from one job to another and, for the fortunate ones, from one job-based health plan to another. But this job mobility is another reason that so many people lose their health insurance when they lose or change jobs.

According to the U.S. Bureau of Labor Statistics, 13 million workers change their employment status in a typical month.¹⁸ On average, that means 13 million

¹⁷ John Sheils, Paul Hogan, Randall Haught. *Health Insurance and Taxes: The Impact of Proposed Changes in Current Federal Policy*. National Coalition on Health Care 1999.

¹⁸ Michael M. Weinstein, “Economic Scene: Cream in Labor Market’s Churn.” *The New York Times*, July 22, 1999.

Americans leave home or school to enter the labor force, exit the labor force without looking for new work, find new work after a spell of unemployment or search for work after they quit or are dismissed or laid off -- every month.

Tax credits would provide these workers with more stability by giving them subsidies for health insurance that they could keep.

The impact

Wharton economist Mark Pauly, *et al*, (2001) find that a refundable tax credit would provide a powerful incentive for the uninsured to purchase health coverage. One study showed that 48 to 66 percent of the uninsured would buy coverage if they received a subsidy worth half of the value of the policy. And the uptake rate increases as the subsidy rises: 74 percent of the uninsured would buy a policy if they received a credit worth 75 percent of the premium cost.¹⁹

Pauly, *et al*, also have studied the market for individual health insurance. They found that the individual market “appears to be improving, in both administrative costs and protection against high premiums associated with high risk.”²⁰

Validating their research, eHealthInsurance, the on-line health insurance brokerage, recently pulled a sample of 20,000 individual policies sold from its database of customers. The company found that the average individual policy cost \$159 a month and the average premium for individual and family policies purchased through the company ranged from \$1,200 to \$1,900 a year per person. Eighty-seven percent of policies purchased by individuals can be considered “comprehensive.”²¹

The Health Policy Consensus Group, composed of experts from many market-based think tanks and academic institutions, developed a vision statement explaining why we believe that tax credits would be beneficial.²² Here are some highlights of the statement:

Every American should be able to obtain needed medical care. Reforming the tax treatment of health insurance is central to achieving this goal.

¹⁹ Mark Pauly, and Bradley Herring. “Expanding Coverage Via Tax Credits: Trade-offs and Outcomes,” *Health Affairs*, Jan-Feb, 2001.

²⁰ Mark Pauly, Allison Percy, and Bradley Herring. “Individual Versus Job-Based Health Insurance: Weighing the Pros and Cons,” *Health Affairs*, Nov/Dec, 1999.

²¹ Statement of Vip Patel in testimony before the House Committee on Ways and Means. February 13, 2002.

²² The Health Policy Consensus Group. *A Vision for Consumer-Driven Health Care Reform*. The Galen Institute 1999.

Congress could begin by providing a new set of incentives for people who do not have health insurance. These incentives should be properly structured to create an opportunity to purchase coverage in an open and competitive market.

We recommend providing credits or other comparable fixed incentives, explicitly determined by legislation, to assist people in obtaining private health insurance.

The size of the incentives will depend on how much taxpayer money lawmakers deem to be available. It can be structured in different ways.

Options

Credits or other fixed incentives could be used to purchase private group or individual health coverage. If credits are provided, they could be refundable.

The size of the credit or alternate financial incentive could be adjusted to reflect risk or need, or it could be used to buy into a high-risk pool. These adjustments should be made while minimizing their effect on marginal tax rates.

To expand access to coverage, states could relax mandated benefit laws for insurance purchased with federal assistance, thus allowing a broader range of more affordable insurance products.

Benefits of this approach

Millions of Americans not eligible for the current tax subsidy would receive help in purchasing health insurance.

Assistance can be targeted to those who do not have health insurance.

It can be targeted to those in specific age, income, or other categories which legislators deem most worthy of the assistance.

It gives individuals more choice as to where they obtain health insurance.

It allows individuals the opportunity to select the kind of health coverage that best suits their needs.

It helps to minimize distortions in the marketplace.

It is more equitable across income groups.

It is available whether an individual's insurance is organized through employment-based groups or elsewhere. The role of employers in assisting employees to obtain health insurance could be maintained by each employer, if the company so desired.²³

Application and benefits

Tax credits for the purchase of private health insurance would provide today's uninsured workers and their families with financial help in purchasing coverage to begin to equalize the subsidies that employees with job-based insurance receive.

Some have proposed only allowing the credits to be used for job-based coverage. But for too many of the uninsured, this would continue to shut them out of the system. Allowing the credit to be used only for job-based insurance would mean that it would be of little or no use to an estimated 20 million Americans for whom job based coverage is simply not an option.

If the tax credit approach is to be successful, it is imperative that those eligible be allowed to use the credits to purchase insurance outside the workplace – such as through church groups, professional or trade associations, labor unions, or other groups that citizens trust to negotiate in their best interest.

Offering tax credits to the uninsured is an important solution for many reasons.

First, by giving people tax credits, they can choose the health plan that best suits their needs and the needs of their families.

Second, tax credits are portable. Because the subsidies for health insurance are not tied to the workplace, people can keep their health insurance even if they lose their jobs or don't have the option of job-based coverage.

²³ For further information, see *Empowering Health Care Consumers through Tax Reform*, Grace-Marie Arnett, ed, University of Michigan Press, 1999.

Third, this army of newly empowered consumers will inject renewed energy into the fragile market for privately purchased health insurance. This market has been suffocated by state insurance regulations and mandates that have made individual and small group health insurance policies prohibitively expensive in many states and have driven many insurers out of the market. Tax credits would improve the market for private health insurance by giving consumers and insurers an incentive to strengthen the market for private health insurance.

Fourth, the cost of the insurance would be visible, and consumers would be more motivated to shop for the best coverage for the money, reversing the current trend for workers with job-based coverage to demand more and more insurance coverage because the full cost of the policy and the services they consume is hidden from them.

But most importantly, tax credits tell these hardworking Americans who are left out of the current system that they count, too.

A step in the right direction

As this committee, this Congress, and this country have learned, achieving universal coverage will require a mosaic of solutions. Tax credits for the uninsured will create a new system of subsidies that would be the best way, I believe, to reach millions of people who are falling through the cracks of the current system. But they are not an answer for everyone. Older, sicker citizens may find that they still cannot afford or get coverage, even with the credits, and safety net programs will continue to be an important part of the solution.

But the fact that credits will not work for some people does not seem to me to be justification for not extending this meaningful help to millions of Americans who would benefit.

Others are concerned that tax credits would damage the employment-based system by draining younger, healthier workers from their pools. However, I would argue that most of those who have employment-based coverage receive a more generous subsidy than the credit, and they would opt to stay where they are. Also, many employers who offer health insurance feel strongly their obligation to their employees and would find ways to encourage them to stay with the company plan. And if many of the newly insured purchasing coverage with the tax credit are indeed healthier, their expenses are likely to be lower, and they will help reduce premiums for everyone in the pool.

Finally, the health insurance market is showing its ability to respond to changing demands by creating new options, like eHealthInsurance, for the uninsured to

obtain affordable coverage on their own. If billions of dollars in subsidies were available to millions more workers, the market would be transformed to provide many more options than are available today.

In every other sector of the economy, competition forces prices down and quality up, and health insurance is no different.²⁴ If the federal government were to provide tax credits for the uninsured, the marketplace would respond by making more affordable, more diverse, more appropriate health insurance available. That would strengthen the health insurance market and would provide citizens with more choices for coverage. If state governments were to provide complementary tax incentives, they could expand health coverage to even more uninsured citizens.

Refundable tax credits would encourage the marketplace to be more responsive to their demands. Further, it takes an important step toward a system that provides health coverage for all and which still provides the freedom for the health care industry to innovate so it can continue to provide the world's best medical care.

Thank you for the opportunity to present this testimony. I would be happy to answer any questions you may have and to provide additional information.

²⁴ Hixson, Jesse. *Six-Questions Everyone Should Ask about Health System Reform: An Application of Basic Economics*, Galen Institute, March, 2002.