U.S. Department of Labor

Pension and Welfare Benefits Administration
Washington, DC 20210

FAX COVER

DATE: December 23, 1999

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Health Care Task Force

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COMMENTS:

Attached is the list of health budget proposals that our Acting Asst. Sec. Leslie Kramerich sent over to Chris Jennings earlier in the week.

12/17/99

PWBA LIST OF POSSIBLE BUDGET PROPOSALS (HEALTH).

I. Tax Credits/Government Subsidies or Grants

- **Low-Wage Worker Proposal**: This proposal (which DOL made last year but was not included in the 2000 budget) includes three separate tax credits designed to expand health benefit coverage for low-wage workers, particularly those in disadvantaged, inner-city areas:
  - "Enterprise Zone Benefits Credit" - The new program would build on the Enterprise Community and Empowerment Zone (EC/EZ) program administered by Agriculture, HUD, HHS, and Treasury, which provides tax and regulatory relief and other incentives to attract or retain businesses and jobs in the distressed areas. Under the new proposal employers would be eligible for the benefits credit when they provide health benefits to workers.
  - "Welfare-to-Work Benefits Credit" - The Welfare-to-Work Benefits Credit would be built into the current Welfare-to-Work credit program, which is administered by DOL's Employment and Training Administration and the IRS. The new program would expand tax credits for employers who provide health benefits to qualified welfare-to-work employees.
  - "Employee Benefits Tax Credit" - This program would provide subsidies to workers in low-income families who contribute to employment-based health benefits. The subsidies would be provided as a refundable tax credit, implemented as an extension of the Earned Income Tax Credit. The subsidies would encourage low-wage employees to "take-up" benefits when offered, and to select jobs with benefits over higher paying jobs without benefits.

- **Small Employer Tax Credit to Start Up Group Health Plan**: This proposal, modeled after a similar pension initiative which has been recommended by the President in budget proposals for the past few years, would provide a tax credit to small businesses who do not provide health insurance coverage for employees, that is designed to encourage them to start a group health plan and provide health benefits.

- **Small Business Health Purchasing Coalitions Proposal**; This proposal, contained in the 2000 budget, would provide a tax credit to small businesses who join voluntary coalitions to provide insurance coverage, establish a tax incentive to encourage foundations to fund start up costs of coalitions, and provide technical assistance through the Office of Personnel Management.

- **Small Employer Premium Subsidies for High Risk Individuals**: Subsidize small employer coverage through direct credits or tax breaks to small employers

covering individuals with poor health. Premiums for health insurance are high when a group includes individuals with health problems. Subsidizing the premium of the unhealthy individual will make health coverage more affordable for the small employer group. The lower price (reduced by the subsidy for the individuals with poor health) will enable more small employers to buy health insurance coverage.

- **Grants to States to Assist in Low-Income Coverage**: Similar to the S-CHIP program, federal matching funds could be provided to States to assist certain individuals and families. Federal/State funding could subsidize the employee's share of the monthly premium for workers who have access to health coverage through their employers, but cannot afford to pay the employee share of the premium

- **Reinsurance Pool for Catastrophic Claims**: Federal funding could be provided to establish reinsurance pools to subsidize individuals with catastrophic claims who receive their insurance benefits though their small employer or in the individual market. A subsidy would keep premiums lower than they otherwise would be for those individuals or for the group.

II. Program Expansions

- **Use Unemployment Insurance to Pay COBRA Coverage**: This proposal is modeled after the Administration's current parental leave initiative. States would be free to use monies in the unemployment insurance pool to pay all or a portion of COBRA premiums for those eligible for COBRA coverage. Under COBRA, although employers must provide continuation coverage, COBRA eligibles must usually pay the entire premium, which can be as high as 102% of the applicable premium for the period. [Note: This proposal has not been discussed outside of PWBA, with internal DOL officials that oversee the unemployment insurance program].

- **COBRA Extension for Early Retirees/Medicare Buy-in**: This "broken promises" proposal is the same initiative that is part of the Medicare buy-in in the last two budgets. Part of that proposal would extend COBRA coverage to early retirees whose promised health benefits have been terminated.

- **Other COBRA Extensions**: This proposal would mirror the proposal we are making in our draft HIPAA report to the President which would improve COBRA by expanding the disability extension and changing certain notice requirements.

- **HIPAA Extensions**: Other proposals contained in our draft HIPAA report would expand the significant break in coverage rule from 63 days to 93 days, improve "portability," and also expand special enrollment rights and period (days to enroll).

III. New Requirements or Mandates On Plans

- **Prior Disclosure Proposals**: Currently, group health plans are not required to notify participants and beneficiaries of material reductions in health benefits until up to 2 months after a material reduction in covered services or benefits is adopted. Participants and beneficiaries may incur substantial health care costs for services without knowing that their health plan no longer provides the coverage they thought they had. The new proposal would strengthen ERISA's disclosure provisions by requiring that plans notify participants and beneficiaries of material reductions in benefits 60 days before the reduction takes place. A second proposal would require that health insurance issuers provide notice to participants and beneficiaries 30 days before terminating am employers group health insurance policy.

- **Eliminate Gender-based Discrimination.** This proposal would establish clear standards to prohibit discrimination in premiums -- women are generally charged higher premiums for health coverage than men. Recent studies indicate that women in disproportionate numbers will lose health coverage by 2008. Prohibiting gender-based discrimination in premiums will help women keep their health insurance.

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: POTUS Stm on Taxpayer Relief Act 1997

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 5, 1997

STATEMENT BY THE PRESIDENT

I have today approved H.R. 2014, the "Taxpayer Relief Act of 1997." Together with the Balanced Budget Act of 1997, this legislation implements the bipartisan budget agreement.

I have long considered tax cuts for middle-income Americans and small businesses a top priority. In 1993, I worked with the Congress to cut taxes for 15 million working families by expanding the Earned Income Tax Credit, and by providing investment incentives for small businesses. A year later, I proposed my Middle Class Bill of Rights, including child tax credits, deductions for higher education, and expanded Individual Retirement Accounts. Then, in 1996, I signed into law a number of other tax benefits for small businesses and their employees -- including greater expensing for small-business investments, greater deductibility of health insurance premiums for small businesses and their employees, and expanded and simplified opportunities for retirement savings. Also in 1996, I signed into law a $5,000 tax credit for adoption expenses ($6,000 for adopting children with special needs) and higher limits for tax-deductible contributions by spouses to Individual Retirement Accounts.

This year, I once again proposed my Middle Class Bill of Rights. On May 2, 1997, the congressional leadership and I reached a historic bipartisan budget agreement that included the broad outlines of key elements of my tax-cut plan.

As my Administration has worked with the Congress over the last few months to develop the details of the balanced budget agreement, I have insisted that the tax-cut package meet four basic tests. First, the tax cuts must be fiscally responsible by avoiding an explosion

in revenue costs in years outside the budget windows. Second, the tax cuts must provide a fair balance of benefits for working Americans. Third, the tax cuts must encourage economic growth. Fourth, the tax package must reflect the terms of the bipartisan budget agreement, including a significant expansion of opportunities for higher education for Americans of all ages.

I believe that H.R. 2014 meets these tests. It will provide an estimated $95 billion in net tax cuts over the next 5 years. It is a fair plan that places a priority on education tax cuts and provides a child tax credit to families who work hard and pay taxes. It also incorporates Republican priorities in a good-faith effort to honor the budget accord and to reach final agreement on a tax cut the American people deserve. This legislation will not only provide needed tax relief for middle-class Americans, but will also encourage economic growth. It is also fiscally responsible: the costs of these tax cuts are fully offset in accordance with the balanced budget agreement.

I am especially pleased that the legislation includes, with certain modifications, the key features of my Middle Class Bill of Rights designed to give middle-income families the tax relief they need to help them raise their children, save for the future, and pay for postsecondary education.

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Education

I have long believed that the tax system should better encourage investment in college education and job training. This legislation incorporates the key aspects of my proposals for a $1,500 HOPE Scholarship to make 2 years of college universally available and a 20 percent tuition credit to make the third and fourth years of college more affordable and to promote lifelong learning.

The legislation also contains a number of other education initiatives that my Administration has strongly supported. These include tax incentives for public school repair, renovation, and educational enhancement in poor neighborhoods through Education Zone Academy Bonds; student-loan forgiveness exemptions similar to those that I have previously proposed; tax incentives to help public elementary and secondary schools obtain up-to-date computer technology; increased availability
of tax-exempt financing for new capital expenditures by private colleges and universities; and a special tax-favored savings vehicle to help families save for higher education.

The bill also includes a 3-year extension of the exclusion of employer-provided educational assistance from taxable income. While I am disappointed that the Congress did not adopt my proposal to extend this exclusion permanently or to include graduate education, I intend to continue to work with the Congress to achieve these important goals.

Child Credit

I have long advocated a child tax credit for tax-paying working families. Consistent with my proposal, H.R. 2014 will provide $500 per child tax credits ($400 in 1998) for families with children under 17. In working with the Congress to develop this legislation, I have insisted that the group that can benefit from the child credit include working families with incomes between $15,000 and $30,000. I am pleased that the child credit as contained in H.R. 2014 meets this requirement so that these families receive relief from both income and payroll taxes.

IRAs and Other Savings Incentives

Since 1994, my budget has contained proposals to provide greater tax incentives for long-term savings for retirement and other important purposes. I am pleased that, consistent with my budget proposals, H.R. 2014 permits penalty-free withdrawals from existing IRAs to finance higher education expenses and for first-time home purchases, makes deductible IRAs more widely available, and gives taxpayers the choice of a new backloaded IRA. I am pleased that the Congress moved from its original position so that the IRAs contained in H.R. 2014 are more targeted to lower- and middle-income families. I am concerned, however, that the Congress did not move far enough, and that the bill contains other features that will provide a

windfall to high-income individuals who will merely shift savings from taxable vehicles into IRAs, rather than create new savings.

Distressed Areas and Urban Tax Initiatives

Revitalizing distressed urban and rural areas throughout the country is a high priority of my Administration. I have proposed a number of initiatives to increase investment in disadvantaged areas. I am pleased that H.R. 2014 includes versions of most of these initiatives. As I have earlier proposed, the bill would encourage the cleanup of polluted urban and rural areas, known as brownfields, by allowing a current deduction for certain costs incurred by businesses to

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remediate environmentally contaminated land in certain areas. I am disappointed, however, that this provision is scheduled to sunset after 3 years.

My 1993 tax plan included certain tax incentives for nine empowerment zones and 95 enterprise communities. Over 500 communities submitted applications for these 104 designations. The final designations were announced in December 1994. To build upon the success of this program, and to mobilize more communities to promote business development and to create jobs, I proposed two additional urban empowerment zones as defined by the 1993 legislation, and proposed a second round of competition to designate 20 additional empowerment zones, with a different mix of tax incentives, and 80 additional enterprise communities. I am pleased that H.R. 2014 provides for the designation of the additional empowerment zones, but disappointed that it does not make provision for the new enterprise communities.

It has been an important goal of my Administration to encourage employment of disadvantaged residents of the District of Columbia and to revitalize those areas of the District where development has lagged. I am pleased that H.R. 2014 includes tax incentives for the District of Columbia. I am disappointed, however, that it does not include my proposals to create an Economic Development Corporation for the District, stimulate investments in Community Development Financial Institutions, or facilitate the restructuring of our Nation's affordable housing portfolio.

Welfare-to-Work

I am pleased that H.R. 2014 includes a modified version of my welfare-to-work tax credit proposal, which is designed to generate new job opportunities for long-term welfare recipients. I am also pleased that the bill extends the Work Opportunity Tax Credit (WOTC), but I am disappointed that it modifies the structure to allow employers to claim the WOTC for hiring workers for a very short period of time and does not expand the program to cover childless, able-bodied adults ages 18-50 who are subject to the Food Stamp time limit and work requirements.

Small Business Tax Cuts

I am pleased that H.R. 2014 enacts many of the recommendations of the 1995 White House Conference on Small Business. For example, it includes my proposal to exempt from the alternative minimum tax (AMT) corporations with gross receipts of less than $5 million. Under this proposal, roughly 95 percent of all corporations (more than two million) would be spared the complication of calculating the AMT.

Earlier this year, my Administration announced its support for expansion of the home office deduction and the small business capital gains incentive. These proposals were intended

to help high-tech and bio-tech entrepreneurs, start-up companies, parents who work out of their homes, and other Americans who are seizing the opportunities of the new economy. I am pleased that H.R. 2014 expands the home office deduction, but disappointed that it contains only limited modification of the small business capital gains incentive.

Capital Gains Relief

I am pleased that H.R. 2014 includes my proposal to exempt up to $500,000 in capital gains on the sale of a home from all capital gains taxes. This encompasses over 99 percent of homes sold in the U.S. and will dramatically simplify taxes and record keeping for over 60 million homeowners.

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I had also proposed a 30 percent exclusion for capital gains. I continue to have concerns that the across-the-board capital gains relief in H.R. 2014 is too complex and will disproportionately benefit the wealthy over lower- and middle-income wage earners. I am pleased, however, that H.R. 2014 does not contain the House provision to index capital gains, which would have caused even greater complexity and would have contributed to an explosive revenue cost after 2007.

Estate Tax Relief

I am pleased that, consistent with my proposal, H.R. 2014 contains a special exemption for interests in qualified farms or small businesses that, when combined with the unified credit, will exempt up to $1.3 million in value. I am also pleased that the bill includes a version of my proposal to provide liquidity relief for estates containing small businesses and farms. The bill also increases the unified estate and gift tax credit on a phased-in basis to reach $1 million in 2006. I continue to have concerns that this provision is too expensive and will be of no benefit to the vast majority of American families.

Tobacco Taxes

Earlier this year I proposed an increase in tobacco taxes that would be separated into a trust fund and dedicated entirely to expanding health coverage for children, addressing other children's development issues, and improving the overall public health. I am pleased that such a provision has been included in H.R. 2015. I am seriously concerned, however, that H.R. 2014 provides that the increase in tobacco taxes collected is to be credited against the total payments made by parties pursuant to the tobacco industry settlement agreement of June 20, 1997.

Simplification

I am pleased that H.R. 2014 includes many of the items previously contained in my April package of some 60 measures designed to simplify the tax laws and enhance taxpayers' rights. I am concerned, however, that the sheer multitude of miscellaneous tax code amendments contained in H.R. 2014, will contribute significantly to complexity for taxpayers and tax planners. I am also concerned that some of the provisions that will affect many taxpayers, such as the capital gains provision, are unduly complex. I continue to support revenue-neutral initiatives to simplify the tax laws and to promote sensible and equitable administration of the tax laws. I urge the Congress to continue to work with me to achieve these goals. In addition to supporting legislative initiatives, my Administration is committed to taking appropriate administrative action to implement this tax legislation in a manner that minimizes taxpayer burdens, and further, that simplifies the tax laws and enhances procedural safeguards for taxpayers.

Other Presidential Initiatives

My tax plan included extensions of the research tax credit, the orphan drug credit, and the tax incentive for contributions of appreciated stock to private foundations. I am pleased that H.R. 2014 includes such extensions. I am also pleased that H.R. 2014 includes my proposal to extend the foreign sales corporation benefit, which exempts a portion of income for tax purposes, to include computer software licensed for reproduction abroad.

I am disappointed, however, that H.R. 2014 omits a number of my important initiatives, including my proposal to protect the rights of disabled persons by extending the time such people are allowed to claim a tax refund to include the period during which they are mentally or physically impaired.

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The bill also omits my proposal to restore the wage-based tax incentive for new investments in Puerto Rico. While I agreed last year to ending the credit not directly based on economic activity, I opposed phasing out the wage-based incentive. It is a mistake not to continue this credit and open it to new investments in Puerto Rico, which has a jobless rate three times the national rate.

I am also very disappointed that the tax incentives for renewable fuels were not extended in this budget. Earlier this year, I proposed extension of the excise tax exemption for ethanol in our surface transportation reauthorization proposal. I urge the Congress to extend the ethanol subsidy when it considers the reauthorization bill later this year.

Other Issues of Concern

The bill extends the Airport and Airways Trust Fund taxes and sets new fee structures without the benefit of the pending study by the National Civil Aviation Review Commission. The Administration may propose changes to these provisions after it reviews the Commission's recommendations.

The bill also transfers the 4.3 cents per gallon in fuel taxes currently dedicated to deficit reduction from the General Fund to transportation trust funds. While the transfer provision itself has no revenue or spending effect, I am concerned that transferring the revenue may spur efforts to move the trust funds off-budget and create pressure to increase ground transportation spending to levels significantly higher than contemplated by the bipartisan budget agreement.

Finally, H.R. 2014 contains a provision that is intended to address the capital needs of Amtrak. The provision is contingent on the enactment of subsequent Amtrak reform legislation. Although the provision is highly problematic in terms of tax policy, my Administration looks forward to working with the Congress to secure the enactment of Amtrak reform legislation that is fair to all parties.

Conclusion

Despite my reservations, H.R. 2014 meets the basic tests established by my Administration and provides needed tax relief for working Americans. I am grateful for the bipartisan support that this measure received in the Congress, and I am pleased to have signed it into law.

WILLIAM J. CLINTON

THE WHITE HOUSE,
August 5, 1997.

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Message Sent To:_____

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

November 13, 1997
(Senate)

H.R. 2513 - Restoration and Modification of Provisions of the Taxpayer Relief Act of 1997 (Archer (R) Texas and seven cosponsors)

The Administration supports the carefully negotiated provisions of H.R. 2513, which would restore and modify two provisions of the Taxpayer Relief Act of 1997 that were canceled by the President pursuant to the Line Item Veto Act.

Tax provisions. One provision would establish a one-year rule that would allow deferral of U.S. tax on certain financial services income from active overseas operations in the insurance, banking, financing or similar business. The provision was canceled by the President because, as originally drafted, it would have permitted abuse and created loopholes. Modifications (along the lines proposed by the Treasury Department before the original legislation was passed) address these problems in the revised provision of H.R. 2513.

The other provision would allow a taxpayer to defer recognition of gain on the sale of stock of a qualified refiner or processor to an eligible farmer's cooperative. The provision was canceled by the President because, as originally drafted, it was poorly targeted and susceptible to abuse. The revised provision in H.R. 2513 contains a number of safeguards and limitations that would prevent abuse and help target the benefits to small- and medium-size farms and cooperatives.

Pay-As-You-Go Issues. The Balanced Budget Act of 1997 reduced the PAYGO balances to zero. Consequently, any bill that would increase mandatory spending or result in a net revenue loss could cause a sequester of mandatory programs as called for in the Budget Enforcement Act. In the case of H.R. 2513, the House-passed bill contains offsets that would direct the sale of excess stockpiles of platinum and palladium from the Department of Defense and end the reimbursement of certain health care costs for overseas employees of the State Department. While these provisions appear sufficient to offset the costs of the bill as estimated by the Joint Committee on Taxation, the Administration is concerned that the provisions may not be sufficient to offset the costs of the bill as estimated by the Department of the Treasury. Because pay-as-you-go scoring is based upon Administration estimates, this problem could result in a sequester of mandatory spending. In addition, a provision (which we understand may be offered as an amendment to the bill) would shift the PAYGO problem to a later year, and raises administrative concerns. The Administration supports H.R. 2513, but will work with the Congress to avoid both an unintended sequester and unnecessary administrative difficulties.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

November 8, 1997
(House)

H.R. 2513 - Restoration and Modification of Provisions of the Taxpayer Relief Act of 1997
(Archer (R) Texas and seven cosponsors)

The Administration supports House passage of H.R. 2513, if the bill includes appropraite offsets. This bill would restore and modify two provisions of the Taxpayer Relief Act of 1997 that were canceled by the President pursuant to the Line Item Veto Act.

One of the provisions establishes a one-year rule that would allow deferral of U.S. tax on certain financial services income from active overseas operations in the insurance, banking, financing or similar business. The provision was canceled by the President because, as originally drafted, it would have permitted abuse and created loopholes. Modifications (along the lines proposed by the Treasury Department before the original legislation was passed) address these problems in the revised provision of H.R. 2513.

The other provision allows a taxpayer to defer recognition of gain on the sale of stock of a qualified refiner or processor to an eligible farmer's cooperative. The provision was canceled by the President because, as originally drafted, it was poorly targeted and susceptible to abuse. The revised provision in H.R. 2513 contains a number of safeguards and limitations that will prevent abuse and help target the benefits to small- and medium-size farmers' and cooperatives.

Pay-As-You-Go Scoring

The Balanced Budget Act of 1997 reduced the PAYGO balances to zero. Consequently, any bill that would increase mandatory spending or result in a net revenue loss would contribute to a sequester of mandatory programs as called for in the Budget Enforcement Act. In the case of H.R. 2513, the Administration understands that the bill now contains offsets that would direct the sale of excess stockpiles of platinum and palladium from the Department of Defense and end the reimbursement of certain health care costs for overseas employees of the State Department. The Administration is concerned that the described are unlikely to be sufficient to offset the costs contained in the bill. If the bill were enacted, any deficit effects could contribute to a sequester of mandatory spending. The Administration supports this bill, but will work with the Congress to ensure that such an unintended sequester does not occur.

CLOSING THE SKILLS GAP: PRESIDENT CLINTON'S ADULT EDUCATION AND FAMILY LITERACY, RE-EMPLOYMENT, AND YOUTH EMPLOYMENT INITIATIVES

January 28, 1999

Today, President Clinton Announces A $965 Million Three-Part Initiative To Close America's Skills Gap. In *Putting People First*, candidates Bill Clinton and Al Gore outlined a vision for lifelong learning, stating that workers should be "able to choose advanced skills training, the chance to earn a high school diploma, or the opportunity to learn to read. And we will streamline the confusing array of publicly funded training programs." Last year, President Clinton signed the Workforce Investment Act transforming the job training system by streamlining services and empowering workers with a simple skills grant so that they can choose the training they need. However, more work needs to be done. Today, President Clinton is announcing that his FY2000 budget includes a $965 million three-part initiative to address the skills gap:

(1) A $190 Million Increase for Adult Education And Family Literacy Initiative;

(2) A $368 Million Increase for Universal Re-employment Initiative; and

(3) A $405 Million Increase for Youth Employment Initiative.

America Faces A Skills Gap. The evidence of a skills gap in America is pervasive. On average, employers report that one out of every five of their workers is not fully proficient in his or her job. In manufacturing, 88 percent of companies are having trouble finding qualified applicants for at least one job function. And according to one recent survey, more than 60 percent of corporate leaders say that the number one barrier to sustained economic growth is the lack of a skilled workforce. More than half -- 56 percent -- of establishments report that restructuring and the introduction of new technology has increased the skill requirements for non-managerial employees.

The President's Budget Includes a Comprehensive Package to Help Us Educate and Train American Workers to Fill the Jobs of the 21st Century. This comprehensive strategy has three parts:

1. **An Adult Education and Family Literacy Initiative.** Today, 44 million adults struggle with a job application, cannot read to their children, or cannot fully participate in our economic and civic life because they lack basic skills or English proficiency. Many have a learning disability and are not aware of it. Often, they do not know where to get help, are embarrassed to seek it, or cannot seek it because of family responsibilities. Others are immigrants who face long waiting lists in many places where they seek English-language instruction. For some individuals, these low basic skills present a challenge in moving off welfare and succeeding in the workforce.

The goal of the Adult Literacy initiative is to bring Presidential leadership and focus to a pressing national problem by demanding improvements in the quality of adult basic education programs and increasing funding to help States both meet the new quality goals and serve more people. This initiative includes:

- **$95 Million Increase -- to $468 Million -- to Expand Adult Education State Grants and Challenge State and Local Governments to Join Us in Dramatically Increasing Program Quality.** By the year 2005 the President's goal is for the Nation as a whole to: Increase the number of full-time teachers by 20%; Double the number of instructional hours per student; Triple the number of computer stations available at adult education centers; and more than double the amount of child care and counseling services offered in Federal, State, and local adult education programs.

- **$70 Million for an English Literacy/Civics Initiative.** This initiative provides competitive grants to States and communities for expanded access to high quality English language instruction linked to practical instruction in civics and life skills including how to navigate the workplace, public education system, and other essentials.

- **$23 Million for "America Learns Technology."** One of the important keys to higher quality adult education is effective use of advanced technology. This initiative will increase access to technology for adult learners by supporting high quality software, pilot projects in 40 communities, and advanced research and development.

- **$2 Million for a "High Skills Communities" Campaign.** The President's campaign will mobilize States and local communities to implement strategies to promote adult education and lifelong learning. Part of this initiative will provide up to 10 communities $50,000 awards annually for achieving concrete results so that other communities know what works and what doesn't work.

- **10% Workplace Education Tax Credit.** Employers who provide certain workplace literacy, English language instruction, and basic education programs will be allowed a 10 percent income tax credit for eligible educational expenses, with a maximum credit of $525 per participating employee per year.

2. **A Universal Re-Employment Initiative.** The President's FY2000 budget makes a five-year commitment to our Nation's reformed job training system. Specifically, President Clinton proposes to put us on a path that ensures that within five years (1) all displaced workers will receive the job training they want and need; (2) all people who lose their jobs due to no fault of their own will get the re-employment services they need; and (3) all Americans will have access to One-Stop Career Centers. This initiative includes:

- **$190 Million Increase In Dislocated Worker Program to Put Us On Track To Ensure Every Dislocated Worker Gets The Training They Need.** Since 1993, dislocated worker funding has been expanded by 171 percent -- helping to serve 689,100 this year, well more than double the 306,300 workers served in 1993. The President's FY2000 budget increases funding for the dislocated worker program by $190 million -- helping to serve an additional 169,400 workers this year. This would put us on path to ensuring *every* dislocated worker can get the job training he or she needs.

- **Expansion of Employment Service To Put Us on Path To Ensure Every Person Who Loses Their Job Due to No Fault of Their Own Gets the Re-Employment Services They Need.** Today, many workers do not get the job search assistance or other types of re-employment services they need. Therefore, the President's FY2000 budget expands the budget of the Employment Service (ES) to put us on a path to serve within five years the 1.4 million people who lost their job due to no fault of their own *and* do not receive the re-employment services they need.

- **Providing Every American Access To One-Stop Career Centers -- Helping Americans Informed Decisions About Their Futures.** As part of the Workforce Investment Act, every area of the country will have a One-Stop Career Center. Now, we must ensure every American has access to the information available at the One-Stops. The President's budget does just that -- providing $65 million to take the following steps:

  - First, the President's budget will put in place a system so that the unemployed get job leads the moment they apply for Unemployment Insurance -- transforming our unemployment system into a re-employment system.

  - Second, the plan will create a nationwide toll-free telephone system so that *all* workers will be able to find out what services are available and where they can go to receive them. Every American will have universal access to the services and programs available through One-Stop Career Centers.

  - Third, the plan will ensure that workers will be able to get job search information at 4,000 Community-Based Organizations.

  - Fourth, the plan will create 100 new mobile One-Stop Career Centers -- designed to bring the information and services to rural residents and help the Labor Department's existing rapid response teams provide workers the information they need to get back to work.

  - Fifth, the plan will include funds to help the disabled and the blind benefit from One-Stop Career Centers, including a talking America's Job Bank (AJB), which will be developed in conjunction with the National Federation for the Blind.

3. **Disadvantaged Youth Initiatives.** Dealing with the problems of at-risk youth is one of the major challenges facing the Nation. In December 1998, the national unemployment rate was just 4.3 percent -- the lowest peacetime level in 41 years. However, while the unemployment rate among African-American teens (aged 16-19) also reached its lowest peacetime level in four decades, it was still *6.5 times* higher than the national average and much higher than the rate for white youth. The goal of the youth employment initiative is to fund promising approaches to increase the educational attainment and employment rates of disadvantaged youth. In addition to an increase in JobCorps and another $250 million investment in Youth Opportunity Areas, this initiative includes:

- **YouthBuild Expanded by More than 75 Percent.** The FY2000 budget expands YouthBuild by $32.5 million -- more than 75 percent. This means that we will provide $75 million for the YouthBuild program that provides disadvantaged young adults with education and employment skills by rehabilitating and building housing for low-income and homeless people.

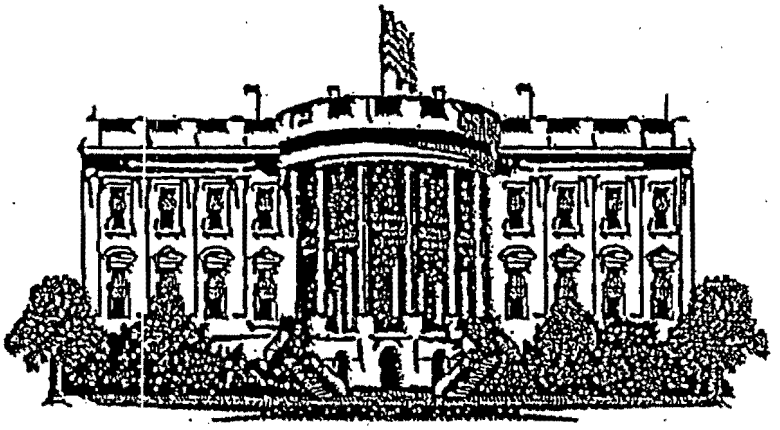
- **New $100 Million "Right-Track" Partnership To Reduce Drop-Out Rate.** The President's balanced budget provides $100 million for "Right Track Partnerships" to promote partnerships between schools, employers, and community-based organizations that devise innovative community-wide approaches to increase the rate at which economically disadvantaged and limited-English proficient youth complete and excel in high school and subsequently increase the rate at which these youth go on to post-secondary education, training, and higher paying careers. This new proposal builds on last year's Hispanic Education Action Plan, which received nearly $500 million for FY1999.

- **Doubles GEAR-UP for College Program.** President Clinton's balanced budget doubles funding -- from $120 million in FY99 to $240 million in FY2000 -- for the GEAR UP program that supports States and partnerships between high-poverty middle or junior high schools and colleges to help low-income children prepare for and enroll in college. In 2000, GEAR UP will reach 381,000 students.

- **New $50 Million Regional Youth Employment Initiative.** The President's balanced budget provides $50 million for a Regional Empowerment Zone Program to assist urban Empowerment Zones and Enterprise Communities (EZ/ECs) in linking their economic development strategies to their broader metropolitan regional economies in order to increase the employment of disadvantaged youth.

- **$65 Million to Prepare Disadvantaged Youth for Success in College.** The President's budget will include a $30 million increase in federal TRIO programs, including Upward Bound, to fund outreach, counseling, and educational support to help disadvantaged students prepare for academic success in college. The budget will also include $35 million for a new initiative to help disadvantaged students stay in college and earn diplomas.

THE WHITE HOUSE



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Tax Breaks Can Reduce the Number of Uninsured, But Not by Much Unless the Subsidy is Quite Large, Study Finds

Using modest tax breaks to make health insurance more affordable will prompt only a limited number of the 44.3 million uninsured Americans to purchase coverage, a study funded by the National Coalition on Health Care finds.

The study, *"Health Insurance and Taxes: The Impact of Proposed Changes in Current Federal Policy,"* is the first to examine in detail the possible impact of various tax policy changes on health insurance coverage and cost. The study projects the "costs" to the federal government – in lost tax revenue – of various tax breaks.

Members of Congress from both parties, as well as a number of Presidential candidates, have recently put forward plans that use tax breaks as a key mechanism to reduce the number of Americans without health insurance. Most experts agree the issue will be high on the political agenda in 2000 and 2001.

"Tax changes are going to be one thing on the table for sure, and they are a tempting way to try and expand coverage, " says Henry E. Simmons, M.D., M.P.H., president of the Coalition. "However, tax credits alone can not solve the problem of the uninsured nor are they likely to contain the skyrocketing costs of health care. If Congress enacts tax credits absent other changes, we could end up with even more people uninsured because of higher health care costs."

The study, conducted by The Lewin Group, Inc., examines a range of proposals, similar to those circulating in Congress and being promoted on the campaign trail. All calculations are made for the year 2000. The study finds:

- Giving people who do not have access to employer-sponsored health insurance coverage a 100% tax deduction (as recently passed by both chambers of Congress) for purchase *on their own* of coverage would induce **3.9 million** uninsured people to buy coverage. The net cost in 2000 to the federal government: **$6.3 billion, or $1,600 per newly insured person**. The principal beneficiaries of such a change would be the 8.3 million people who buy coverage on their own now but get less than a 100% tax break. The deduction also tends to favor people with higher incomes. About 61% of newly insured people would have annual income of $50,000 or more. Only 5.3% would have incomes below $15,000 a year.

- Giving people who lack access to employer-sponsored health insurance a flat tax credit ($500 for

(more)

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individuals, $1000 for family coverage) to purchase coverage on their own would induce **4.0 million** uninsured Americans to obtain health insurance. The net cost in 2000 to the federal government: **$5.0 billion, or $1,247 per newly insured person.** The tax credit approach would provide greater benefit to lower-income Americans than the 100% tax deduction. Some 39% of the newly insured persons under this approach would have incomes of $50,000 or more; 16% would have incomes below $15,000.

- Allowing low-income workers who do not have access to employer-sponsored coverage to get a tax credit worth 30% of the cost of their health insurance would induce **1.5 million** uninsured Americans to buy coverage. The net cost in 2000 to the federal government: **$3.3 billion or $2,121 per newly insured person.** Some 12.2 million uninsured people would be eligible for such a credit. Only 1.5 million would buy it because the price of coverage, even with the 30% credit, would still exceed their ability to pay the premium. About 2.8 million low-income people who have health insurance already would benefit from the 30% tax credit.

- Allowing *all* low-income workers, including those with access to employer-based coverage, to get a tax credit worth 30% of the cost of their health insurance would induce **3.3 million** uninsured Americans to buy coverage. Net cost to the federal treasury in 2000: **$8.3 billion, or $2,471 per newly insured person.** This policy change would raise employer costs by an estimated $2.5 billion in 2000. A projected 28.3 million people would take the credit, 25 million of whom already have health insurance through their employer (22.2 million) or buy it on their own (2.8 million).

- Permitting all Americans – workers and non-workers – whose incomes fall below a certain amount ($35,000 a year for individuals, $50,000 for families) to get a tax credit for a percentage of the cost of health insurance (up to 30%) would induce **4.5 million** uninsured Americans to buy coverage. Net cost to the federal treasury in 2000: **$11.3 billion, or $2,530 per newly insured person.** Increase in employer costs: $2.6 billion. Under this approach, 32.7 million Americans would gain some tax break. Raising the maximum percentage credit to 50% would reduce the number of uninsured by **7.1 million** at a cost to the treasury of **$21.9 billion.** Raising the maximum tax credit to 80% would reduce the number of uninsured by **14.6 million** at a federal cost of **$50.2 billion.**

All the above scenarios assume that the current tax exclusions for employer-sponsored health insurance would remain in place. These exclusions, which make health insurance a tax-free benefit to employees and allow "pretax" deductions for some medical expenses, will cost the federal treasury $125.8 billion in lost revenues in 2000, the Lewin study finds. The net federal costs estimated above would be on top of that $125.8 billion. These current exclusions, the study shows, primarily benefit well-off Americans and by definition accrue only to those with employer-based coverage. For example, 68.7% of that $125.8 billion directly benefits families with incomes of $50,000 or more.

To achieve a more equitable distribution of tax breaks, many experts have proposed the current employer-based exclusions be limited or replaced. The study finds:

- Limiting the tax exemption to an amount equal to the median monthly health insurance premium payment – $181 for single coverage and $429 for family coverage – would increase federal tax

(more)

revenue by $12.1 billion in 2000. That $12.1 billion could then offset tax breaks targeted at the low-income uninsured. Limiting the exemption in this way means that health insurance premiums in excess of $2,172 a year for individuals and $5,148 for family coverage would be considered taxable income for employees.

- Replacing the current exemption with a flat dollar tax credit for all Americans of $400 per child and $800 per adult, up to a family maximum of $2,400, would reduce the number of uninsured by **4.6 million**. The net cost to the treasury: **$48.6 billion, or $10,541 per newly insured person**. Around 9.8 million *currently uninsured* persons would be induced to *buy* coverage but 5.2 million *currently insured* persons would be induced to *drop* coverage now obtained through their employer because the tax credit amount would be substantially less than their current subsidy. The federal cost is high largely because the money recouped from the termination of the current exemption is offset by new costs for the uninsured and a more generous subsidy to most people who already have coverage.

- Allowing people to choose between the current employer-sponsored exemption or take a tax credit up to $2,400 for a family would reduce the number of uninsured by **9.8 million** at a net cost to the federal treasury of **$53.2 billion, or $5,429 per newly insured person.** This approach eliminates the reduction in tax subsidies that would occur under a flat dollar credit that replaces the exemption. Workers who elected to take the credit would lose the employer coverage exemption. The cost, as above, is high because the average tax subsidy for all income groups would increase.

- Replacing the current tax exclusion of employer-sponsored coverage with a universal system of refundable tax credits, a minimum benefits package, *mandatory individual coverage*, and permission to employers to "cash out" their health insurance, would – in theory – **reduce the number of uninsured by 43.4 million or to a negligible number.** The net federal cost of such a plan, first proposed in the early 1990s by the conservative Heritage Foundation, in 2000 would be **$55.3 billion or $1,274 per newly insured person.** (Details of the proposal appear on pages 41-52 of the study). The most salient detail is that employers dropping health insurance as a benefit would be required to convert the value of that coverage to wages – yielding $116.1 billion in new tax revenues. Tax credits in this plan would average $1,926 per family.

The National Coalition on Health Care is the nation's most broadly representative alliance working to improve the nation's health and health care. Its nearly 100 member organizations include large and small businesses, labor unions, and consumer, physician, hospital, and religious groups. Former Presidents George Bush, Jimmy Carter and Gerald R. Ford serve as the Coalition's Honorary Co-Chairs. Former Congressman Paul Rogers (D-FL) and former Governor Bob Ray (R-IA) serve as the Coalition's Co-Chairs.

Additional copies of the study can be obtained by calling (202) 638-7151 or through the Coalition's web site at www.nchc.org.

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USING THE FEDERAL INCOME TAX SYSTEM TO EXPAND HEALTH INSURANCE COVERAGE: A PRIMER ON THE ISSUES

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NATIONAL COALITION ON HEALTH CARE

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Introduction

In 1998, 44.3 Americans had no health insurance (U.S. Census Bureau, 1999), up 2.5 million from 1996 and 10 million over the past decade. About 30 percent of the population – 81 million people – can expect (in the absence of policy changes) to experience a gap in their coverage lasting at least one month over the next three years. One of the chief culprits causing the erosion in health insurance coverage is that employment-based coverage is declining. In 1987, 69.2 percent of the non-elderly population had employment-based coverage. By 1997, that proportion had declined to 64.2 percent (EBRI, 1998).

Stated simply, health insurance has become too expensive for many businesses and unaffordable for many low-income and middle-income working Americans.

After several years of neglect, this mounting "health insurance gap" has once again emerged as a hot political issue. Several Presidential candidates and lawmakers have put forth proposals to expand health insurance coverage in recent months. And many observers believe that the year 2000 will see a full-fledged renewed debate on whether America can and should have universal health insurance coverage, and, if so, what the best ways to achieve it may be.

Several key forces are driving this renewed debate. The most important are these:

- Despite unprecedented good economic times and several targeted attempts by the federal government and states to expand coverage, the number of people without health insurance continues to rise;

- After several years of slowdown in health care inflation, costs are rising sharply again, including the price of health insurance; and

- Aging baby boomers and middle income Americans are increasingly anxious about the stability of the health care system and their insurance coverage over the long term.

Almost all the proposals put forth in recent months to deal with this problem – including those of Vice President Albert Gore and former Senator Bill Bradley – contain elements that use the federal income tax system to subsidize the *voluntary* purchase of health insurance. It is not a new idea. Proposals dating back 15 years have included – and in many cases relied on – tax subsidies to expand health insurance coverage. These ideas were swept aside in the period 1990-1994 as the nation, led by President Clinton, debated reforms that relied on mandatory measures (either a requirement that employers provide health insurance to workers or that individuals buy insurance) to achieve universal coverage. After the failure of that effort in 1994, lawmakers and policy makers turned their attention to other, narrower approaches. Most prominent among those is the Children's Health Insurance Program (CHIP), enacted in 1997. CHIP, run by states, has enrolled about one million children to date, according to data from the Health Care Financing Administration. In part, the limited potential impact of such programs

(as currently financial and structured) has led advocates and lawmakers to set their sights higher and on other means to expand coverage.

The prevailing wisdom today is that a combination of expansions of both public health insurance (Medicaid and Medicare) and *voluntary* private coverage (through tax subsidies to individuals and perhaps employers) is the most politically palatable mean to increase coverage in the short run. But critics of this approach assert that voluntary measures alone are very unlikely to achieve coverage for all Americans.

Much has been written over the years of the origin of the current tax treatment of health insurance. It is beyond the scope of this paper to reprise that history in detail. The following synopsis gives the essential background:

Prior to World War II, few Americans had health insurance. During the war, employment-based coverage began to expand. This was in large part because wages were frozen during the war and employers sought ways to attract and retain workers. Offering health insurance became a popular "benefit," widely supported by labor unions. But in addition, the federal government gave a huge boost to this new benefit. In 1943, the War Labor Board ruled that health insurance was not subject to taxation if supplied through an employer. Specifically, the cost of health insurance was exempted from taxation as income to employees. (It was already permitted as a business expense.) The IRS put this into practice immediately, and in 1954 made it official with a formal detailed ruling and guidelines. Since then, the IRS has extended the exemption and Congress has enacted laws that amend it.

Current law

Today, the basic federal tax exemptions and exclusions for health insurance and health care costs are these:

- The portion of health insurance costs paid by the employer for all their covered workers and retirees (and dependents) is a fully deductible business expense. Thus, employers subtract all their health insurance costs from their revenue in calculating taxable revenue. Companies do this for all allowable expenses, including wages. The policy on health insurance in this regard is not unusual. And no proposal today suggests altering it. The deduction works this way: Say a company has 200 workers, a health insurance cost of $500,000 a year and $10 million in revenue. It would deduct the $500,000 from the $10 million (along with many other business expenses, of course). This means that the company does incur a cost for health insurance; it's far from "free," as some people believe. If the company in this example were taxed at a 15 percent rate, for instance, the tax exclusion for health benefits would save it $75,000. The company would still have paid $425,000 for health insurance for its workers. It is worth noting that businesses pass their health insurance costs along to both workers and customers in the form of lower wages to workers and higher prices for products. The cost is built-in. But some companies also choose to take lower profits in order to subsidize health insurance for workers.

- The portion of health insurance costs paid by the employer is not counted as part of employees' taxable income for the purposes of federal income tax, Social Security and Medicare taxes. If a worker's annual salary is $30,000, for example, and the company pays $3,500 for their family health insurance, the employee's tax is *not* computed on an income of $33,500. This is the generous and unusual tax break that most Americans are not aware they have. (And it is a central focus of the accompanying study by The Lewin Group.) People essentially get this workplace benefit tax-free whereas many other forms of compensation are taxed. (Stock options, company cars, etc.) Money put aside in pension plans (such as 401(k) plans) is tax sheltered until it is drawn on in retirement.

- The employee share of health insurance premiums is deducted from wage and salary income – and thus not taxed – at employers who sponsor so-called "cafeteria plans." In the example above, if the $30,000 a year worker pays $1,000 a year as their share of the health insurance premium, their taxable income would be reduced to $29,000. In a cafeteria plan, employees can choose from a range of benefits, including health insurance, and pay their share of the cost on this "pretax" basis. About half of workers in small firms and 75 percent of workers in medium and large firms get their health insurance through such cafeteria plans.

- Employee "out-of-pocket" expenses for medical care not covered by their insurance plan may be excluded from income – up to a certain preset dollar limit each year – in employer-sponsored "flexible spending accounts" (FSAs). Again, in the example above, if the $30,000 a year employee knows he or she is going to have about $2,000 in direct medical costs in a given year (that won't be covered by their health plan -- infertility treatments, for instance), they can elect to have this deducted from their taxable income. Their taxable income thus becomes $27,000. (Companies that sponsor FSAs put the money aside and employees must submit their medical bills to claim it. Money unspent at the end of the year can not be recouped. Some experts argue this promotes unnecessary health spending.)

- Self-employed persons may deduct a portion of the amount they pay for health insurance. In 1999 that portion is 60 percent. It is currently scheduled to rise to 100% by 2003. Both chambers of Congress this year passed legislation that would accelerate the 100% deduction in 2001, and expand it to all people who do not have access to employer-sponsored coverage. What kind of savings does this tax break generate? A self employed person with an income of $60,000 who pays $5,000 for a family health insurance policy and whose tax rate is 28% would save $840 in 1999 – 16.8% of their health insurance cost. In 2003 (or 2001 if the pending legislation passes), the tax break would be worth $1,400 if the health insurance plan still cost $5,000.

- Direct medical expenses in excess of 7.5 percent of adjusted gross income are tax-deductible. Again, take the $30,000 a year employee. Let's say he or she has an adjusted gross income, after normal deductions, of $25,000. He or she would be able to deduct only medical expenses that exceed $1,875 in that taxable year. Thus, if a person without an FSA underwent a procedure costing $10,000 that was not covered by health insurance,

he or she would be able to deduct $8,125 of the cost. Their taxable income would then decrease to $16,875.

- Money contributed to a "medical savings account" (MSA) is excludable from taxable income in the same way as money contributed to an individual retirement account (IRA). Congress approved such MSA accounts in 1996. There are many rules surrounding them. Generally, only people who buy health insurance with a very high up front deductible ($1,500 and up) will find it practical to set up an MSA. Between 50,000 and 100,000 Americans have set up such accounts so far.

As alluded to above, these tax exclusions and deductions have promoted the growth of private employer-sponsored health insurance in the U.S. since World War II. Specifically, the policy that permits employees to get health insurance tax-free has been a major inducement to employers to offer this benefit. Almost all (85%, an estimated $106 billion in 2000) of the tax revenue the federal government gives up as a result of the above exclusions derives from the income tax, Social Security and Medicare exclusion. But this huge benefit has several built-in inequities and has produced adverse side effects:

- Because of their structure, the exclusions benefit upper-income Americans to a larger degree than lower-income Americans. That's because higher income people are more likely to have employer-sponsored health insurance, richer benefits, and by definition they are in higher income brackets. A person with an income of $80,000 who has coverage for which the company pays $3,500 and who is in a 28% income bracket gets a tax break of $980. If the person is in a cafeteria plan and has $1,000 deducted for his or her share of the premium, they save another $280. Total: $1260. By comparison, a worker with a $30,000 income in a 15% tax bracket with the same insurance coverage gets a tax break of $675 ($525 plus $150).

- People who buy coverage on their own do not get the employee tax break.

- The tax subsidy encourages the purchase of richer benefits by both companies and employees. That in turn has led to, and sustained, higher health care spending. Some argue that it has also led to an inefficient allocation of a scarce resource, dollars to be spent on health care.

- The tax subsidy by its very nature supports an employment based health insurance system in the United States. That system results in a significant amount of lost coverage when people lose jobs, become temporarily unemployed, shift to a job where insurance is not offered, or are self-employed but can not afford health insurance.

These problems have helped spur the move to consider changes in the tax treatment of health insurance – both to address the inequities of the current system and as a mechanism for expanding coverage to uninsured Americans. A range of proposals exist, including a host of new ones in Congress and from presidential candidates. Several of these are examined in depth by

the accompanying Lewin study. What follows is a very basic explanation of the kind of changes being contemplated and some of the issues that surround them.

Expanding the income tax deduction for health insurance

Both the Senate and the House have passed measures this year that would allow the self employed and people buying health insurance on their own to deduct 100% of the cost starting in 2001. This is a straightforward measure and builds entirely on current policy. It carries no serious administrative complexities. However, because of the limitations of the actual dollar benefit, it would not induce a significant number of low-income uninsured people to buy coverage. It benefits primarily people who have coverage now. In addition, the benefits of expanding the deductibility of health insurance accrue chiefly to those who pay taxes at a high rate, and those benefits increase as income increases.

Tax credits

In contrast to a tax deduction, a tax credit is a reduction in the amount of tax owed. For example, say a person with a taxable income of $30,000 owes $4,500 in federal income tax. If they had a tax credit of $500, they would owe $4,000. Simple? Yes, for people who actually owe taxes and if the credit is the same for everyone. But not simple at all for people who do not owe taxes – which includes a sizable number of low income and uninsured Americans – or if the credit is different for different income groups. Tax credits are also simpler if administered only for people buying health insurance on their own, and far more complicated if administered through employers for people getting coverage on the job.

The problem of people not owing taxes – and thus unable to reduce the amount they owe – is addressed by what advocates of this approach call a "refundable" tax credit. Put simply, this means that a person not owing any federal income tax would be able to send in a return and get a "refund" – in truth, a subsidy – for part of the cost of their health insurance. The trick of course, is to make that process simple enough for people to actually file for the refund.

A refundable tax credit would work like this: A family with a taxable income of $25,000 might owe $2,000 in federal taxes. If they purchased health insurance for $4,000 and qualified for a credit of $2,400 their tax bill would be reduced to 0 and they would get a $400 refund.

A major question with tax credits is who would be eligible for them. Some plans target only individuals who don't have access to employer-based coverage. Some allow people to get a credit even for coverage purchased at work. Others target people with incomes below a certain level. And still others, more sweeping, would let all Americans get a credit – replacing or limiting the current tax exclusion for employment-based coverage. Similarly, credits can be structured in various ways. Some permit eligible people to take a credit for a fixed percentage of their insurance costs – say 25%, 30%, or 50%. Others create a flat dollar credit – for example, $800 for an adult and $400 for a child, up to maximum of a certain amount per year (say $2,400 or $3,000). Still others target credits to small firms to insure low-wage workers.

Vice President Gore has proposed a tax credit to offset 25% of the costs of health insurance for individuals who do not have access to employer sponsored coverage. Senator Bradley proposes a broad and more complex tax credit plan that would make all families with income below $49,000 eligible. For example, a family of four with an income below $33,000 could get a tax credit of $1,200 per child. The adults would get a smaller credit for their coverage. Both Gore's and Bradley's plans make the credit "refundable." A plan put forth last summer by the American College of Physicians/American Society of Internal Medicine (ACP/ASIM) would provide a $2,800 credit to all people with income below the poverty line (around $12,000 for an individual and up to around $18,000 for a family of four). The value of the tax credit would get reduced (in a stepped fashion) to $2,400 for uninsured adults up at 150% of the poverty level.

The impact of these approaches varies widely, as the accompanying Lewin study makes clear. For proposals that use tax credits to entice more low-income uninsured to purchase health insurance (and don't propose other large-scale changes in the current system), the most important factor is the size of the credit. Researchers have modeled the effect of various tax credit levels and found that any credit that pays for less than half the cost of a health insurance policy or a health plan's premiums attracts fewer than 25% of those eligible. The reason is simple: they still have to pay the balance of the premium and that can be very expensive. For example, a credit of $2,400 for a family of four may only cover a third to 50 percent of their annual health insurance premium. Even the very generous ACP/ASIM plan mentioned above (which would pay about 85% of the cost of coverage for an individual) is estimated to entice only 75% participation of the uninsured at the poverty level and an estimated 40% at incomes around 150% of poverty level. (One third of uninsured Americans have incomes between 100 and 200 percent of the poverty level.)

Dr. Kenneth Thorpe of Emory University examined the percent of single workers at or near 150 percent of poverty that would purchase health insurance with different tax credits. He assumed a cost of $2,800 per adult. He found that about 16% of eligible people would purchase health insurance with a $200 tax credit and 22% with an $800 credit (Thorpe, 1999).

Not surprisingly, rates of participation in health-related tax subsidy programs vary considerably by income level. Eighty-five percent of families with incomes over 400 percent of poverty take advantage of the tax exclusion of employer-provided health insurance, for example. On the other hand, only about 26% of those eligible for the Health Insurance Tax Credit (HITC – a component of the Earned Income Tax Credit (EITC) that existed in 1991 and 1992, and was later repealed), chose to participate in that program (GAO, 1994). A brief experiment, the HITC covered less than 10 percent of the cost of family coverage.

The EITC, enacted in 1975 and amended several times since, allows certain low-income workers to get an advance from their employers against taxes they'll owe that year. These advances or "refunds" can be received month by month. The EITC is further discussed below since it serves as a potential model for the administration of a refundable health insurance tax credit.

Other Tax Credit Design Issues

- *When is the tax credit received?*
- *Who or what entity receives the tax credit?*
- *How is the availability of the tax credit marketed?*
- *Who administers the program?*

The principle reason most families and individuals do not have health insurance is that they can not afford it, even when it is offered through the workplace. That is, they literally don't have the cash to pay the premium or if they did so, they could not afford to pay other expenses, such as the rent or utility bills. Therefore, it is useless for these families to get a tax credit or an IRS refund check in May every year. *They need the money up front.*

One idea proposed by many advocates of tax credits is to administer the credit through employers who offer coverage. That is, the employer would "front" the credit to employees to help them pay for coverage. (Ideally, the employer would be paying for a share of the coverage, too.) The employer would then recoup the credit from the IRS in its quarterly tax payments. This concept would be workable for low-wage workers at large firms but could be an administrative burden – and perhaps nightmare – for the nation's small employers.

Another idea would be to create a new federal loan program that would let people borrow from banks against the credit. But that could be cumbersome to administer and possibly impractical. Yet another idea is to permit recipients to receive periodic advances against their future tax credit. The EITC can already be received in this way and could provide a model. But it's a model with serious problems. It requires complex retrospective income determination, and applying for it is cumbersome. That's why very few recipients (1/2 of 1 percent) actually choose to receive the EITC through periodic payments. One reason they do not may be specific to the cash payments obtained through the EITC (and hence irrelevant in the health insurance situation). Low-income taxpayers appear to prefer a large lump sum payment instead of periodic small sums. They also fear that fluctuations in their income (or health insurance coverage status) will leave them owing part of the credit back to the government after the year has ended (Glied, 1997).

Administering the program through employers leaves out people who are self-employed or unemployed or retired early. For this reason, many advocates link their tax credit proposals with programs that would permit small employers and individuals to purchase health insurance though collectives. These collectives or purchasing alliances could administer the credit as well as perform other administrative functions.

The EITC experience is also relevant to the marketing of a health insurance tax credit. A small percentage of people eligible for the EITC file for it. Other subsidized health insurance programs – offered through states – are also plagued by low participation rates. For example, some four

million children who are eligible for Medicaid are not enrolled. Lack of knowledge of the programs is the chief culprit. A second reason is cumbersome application procedures.

Even educating recipients of one benefit about the availability of (and rules governing) a second benefit requires careful thought and effort. One reason for the relative failure of the HITC, which targeted EITC recipients, was a low level of awareness of the program. Advocacy groups, which might have helped in marketing the plan, were reluctant to support the HITC, in part because of their interest in protecting the EITC.

Finally, who would administer a tax credit program and does it matter? Some advocates believe a separate entity should be established within the Treasury Department. But most think a credit would have to be run by the IRS and overseen by Treasury. The Department of Labor also may have to be involved if some elements of a credit were administered through employers. Who, for example, would determine non-tax related rules of participation. For consumers, whoever runs it should be transparent.

Most importantly, if a tax credit program subsidized the purchase of individual insurance – coverage obtained outside of the workforce – it adds to problems already inherent in the individual insurance marketplace. This is a market run by brokers and small insurance operators who are adept at a process called "medical underwriting." The aim is to sell insurance to mostly healthy people and avoid those who have a greater chance of getting sick. States regulate this market now, but with inconsistent effectiveness. If a tax credit prompted hundreds of thousands of Americans to switch from employer-based coverage to individual coverage, the pressure would be great to regulate the individual market.

That is why proposals for tax credits in the past have generally included measures for insurance market reform and closer regulation. These reforms usually included some type of "community rating" whereby all individuals who wish to enroll in a health plan are charged the same premium regardless of employment, family or health status. A main goal of previous proposals was to limit health insurers' ability to charge different premiums to groups on the basis of risk.

Final Thoughts

Using the tax system as a vehicle for expanding health insurance coverage has advantages and disadvantages. It could enfold Americans who now lack health insurance – who, after all, pay taxes – into a well-developed system that already serves millions of people who have health insurance. It also may minimize the need to expand coverage through government entitlement or "welfare" programs, such as Medicaid – which hasn't always delivered optimal access to health care services. In short, it "mainstreams" a portion of the uninsured population into the private health insurance system. A tax credit needn't require annual appropriations by Congress and can garner some of the political protection already accorded the existing exclusion for employer-provided health benefits.

But unless it is designed carefully, there is a high risk that adopting a system of tax credits for health insurance will benefit mostly people who already have insurance and undermine positive

aspects of the current system. Unless they are very generous – as the accompanying study shows – tax credits induce very few uninsured people to buy coverage. As envisioned by many, tax credits allow millions of Americans who don't have access to employer based coverage to buy coverage on their own. That has a major downside. The individual market serves the healthy very nicely, but often leaves the less healthy out in the cold. In addition, such tax credits undermine the existing – albeit arbitrary – insurance "pool" created by employers. People who get insurance at mid-sized and large companies are pooled in a system that keeps rates stable over time and benefits all. People who work in and get their health insurance through small firms have less of such a pooling benefit. Stable health insurance coverage, expanded through tax credits that moved people into private individual coverage, would almost certainly have to be accompanied by increased federal and state regulation of the health insurance marketplace.

In addition, tax credits in no way address the issue of the escalating cost of medical care and health insurance, nor do they address problems in the quality of care. Tax credits could even exacerbate both problems by inducing more people to leave employment-based coverage – where the aggregate clout of employers still has potential to hold down costs over the long run and improve quality through negotiation with managed care plans. Consumers purchasing health insurance on their own certainly gain choice, and many may choose coverage that reduces their utilization of care – such as high deductible policies. But they have little say over the aggregate cost of care or the quality of that care. Individually purchased insurance in America today is a gamble.

Finally, by definition tax credits alter the landscape of federal taxation. It is unclear at this point how they might fit in with overall tax policy, especially with any future attempt to simplify the tax system. It is also unclear how they fit in with long-term federal budget priorities. These matters would have to be addressed. For example, a tax credit of a fixed amount per family is consistent with tax simplification. A complex tax credit that requires income determination or gives a different level of tax break as health expenditures rise would seem to be inconsistent with tax simplification. Likewise, if over time the tax treatment of health care were gradually shifted from today's exclusion and deduction system to a flat credit, it could be more compatible with a flat tax than the current system. In essence, the health tax credit could be subsumed into the general exemption for families in a flat income tax. (Butler, 1999).

The uninsured today are a large, growing, and diverse population. As attractive as tax credits are as one means to expand coverage, it is highly unlikely that they will achieve universal coverage in America. They are also unlikely to contain costs, make the health system easier to use, and propel the quality improvements so desperately needed to prevent premature deaths, ease human pain and suffering, and enhance the outcomes of treatment.

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