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Oral Remarks
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House Ways and Means Committee
February 13, 2002

I am Iris Lav, deputy director of the Center on Budget and Policy Priorities. The Center is a nonprofit policy institute here in Washington that specializes both in fiscal policy and in programs and policies affecting low- and moderate-income families. I appreciate the invitation to testify today.

My testimony largely focuses on the Bush Administration's proposal to provide a refundable tax credit to families and individuals who do not participate in employer-based coverage for the purchase of private health insurance. We welcome the Administration's commitment of significant resources to insurance coverage. But we view a tax credit as the wrong approach for solving the problems of the uninsured.

There are three major problems — the weakening of the employer-based system through which the large majority of insured Americans currently obtain quality health insurance coverage, the vagaries of the individual insurance market for anyone except the young and healthy, and the inadequate size of the credit relative to the cost of insurance for low- and moderate-income families. None of these problems can be solved in the context of a tax credit without causing other problems or taking actions that I think all of us would agree are not politically feasible.

First, the tax credit would lead some employers to drop or not offer coverage; employers will feel that employees can use the credit to buy coverage on their own.

The credit also will draw younger, healthier workers away from employer coverage into the individual market. This leaves older, sicker workers in employer insurance pools, driving up the average cost of coverage. In response, employers will raise employee contributions, leading more younger, healthier workers to opt out. This insurance "death spiral," in which employers ultimately cannot afford to offer subsidized coverage, would leave older and less healthy workers to find insurance on the individual market.

The nature of this individual market is the second problem. In the individual market insurers generally can vary premiums based on age and medical history and can deny coverage entirely. Yet many of the uninsured are in the very categories for whom insurance in the individual market is unavailable or prohibitively expensive.

Over half of all uninsured adults have a history of serious medical conditions such as cancer, heart disease and diabetes, or they smoke, or are obese. More — two-thirds — of lower-income uninsured adults above age 50 have been diagnosed with a chronic condition.

The third issue is whether the proposed tax credit can make insurance affordable for the population it is intended to reach. A healthy family of four with income of $25,000 that receives a $3,000 tax credit (the top of the income range before the size of the credit begins to phase down) would have to spend more than 17 percent of the family's gross income to purchase a mid-range policy on the individual market.

One might consider ways to fix these tax credit problems. But unlike some of my colleagues, I don't think such fixes are practical. For example, one could mandate employers to offer or administer insurance, or mandate states to implement reforms in the individual market, but that's probably not in the cards.

Moreover, a tax credit is highly inefficient. Professor Jonathan Gruber of M.I.T. in testimony submitted for this hearing projects that 10.5 million people would take up the Administration's tax credit. But because of employers dropping and employees switching, the net reduction in the number of uninsured ends up being only 1.9 million out of the 10.5.

What is a better approach? Expand the programs we already have in place for low-or moderate-income populations who are the bulk of the uninsured. A number of states have already expanded to include parents - and a few to other adults - under the State Children's Health Insurance Program (SCHIP) and others would do so if funding were provided. This approach provides quality insurance that does not exclude people with medical problems.

Finally, I'd like to say a few words about the proposals to cover workers who have become uninsured in this economic downturn.

The House stimulus proposal for a tax credit that unemployed individuals eligible for unemployment insurance could use to purchase COBRA coverage *or* health insurance in the individual market raises some of the same concerns with respect to the individual market. Consider a 55 year old laid-off construction worker who worked for a company too small to offer COBRA. If he has a history of heart problems he probably would not be able to use the tax credit to access insurance in the individual market - certainly not at an affordable price. And there would be no help under the proposal for those not eligible for UI.

A better approach would be to provide a deeper COBRA subsidy coupled with a largely-federally paid option for states to cover unemployed workers under Medicaid. This would provide quality insurance — either employer-provided insurance or a comprehensive Medicaid benefit — regardless of age or health status. It also would be likely to cover more workers than the House plan; CBO estimates 7 or 9 million workers could be covered, depending on the federal Medicaid matching rate.