



The Heritage Foundation
Executive Memorandum

No. 740

April 17, 2001

RECENT SURVEY POINTS TO AFFORDABLE INDIVIDUAL HEALTH INSURANCE

JAMES FROGUE

Representatives Richard Armey (R-TX) and William Lipinski (D-IL), along with 23 bipartisan cosponsors, introduced the Fair Care for the Uninsured Act of 2001 (H.R. 1331) on April 3, 2001. This legislation would create refundable tax credits for the purchase of health insurance of \$1,000 per individual, \$2,000 per married couple, and up to \$3,000 per family. The bill accompanies other legislative proposals, including one from President George Bush, that also offer refundable tax credits to families to help them buy health insurance.

A common argument raised by opponents of tax credits is that they do not offer enough assistance to people to purchase coverage. As one critic puts it, a \$1,000 tax credit to help an individual buy health insurance is like throwing a "10 foot rope to someone in a 30 foot hole." In reality, credits of this size will help many families afford coverage—even more so if they are combined with assistance or tax credits at the state level, such as Colorado's recently enacted \$500 credit.

Survey Evidence. Many good insurance products would be available to families who are eligible for, say, the Armey-Lipinski credit, as demonstrated by the findings of a recent survey by eHealthInsurance Services, Inc., at *eHealthInsurance.com*, the largest online broker of individual health insurance in America. The survey looked at the most recent 20,000 approved applications for policies sold through the Web site. Among its findings:

1. **Policies are affordable.** Of the 20,000 policies examined, 15,000 fell within 75 percent to 100 percent of the tax credit amounts proposed in H.R. 1331.
2. **Quality coverage is available.** Of the 20,000 policies, 93 percent were for a Health Maintenance Organization (HMO) or preferred provider (PPO) product. Of the HMO products, 80 percent had no deductible; of the PPO products, 71 percent had a deductible of less than \$1,000.
3. **Individually purchased plans are widely available.** The 20,000 approved policies were from 40 states containing 93 percent of the U.S. population. Covered persons ranged in age from one to 64 years.

Produced by the
Domestic Policy Studies
Department

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



This paper, in its entirety, can be found at: www.heritage.org/library/excemo/em740.html

The Problem. America's system of employer-based private health insurance is fraying. Despite

last year's small decline in the number of uninsured, uninsurance increased during the 1980s and 1990s and is universally forecast to continue rising. There could easily be another 10 million uninsured by 2010 absent any policy changes.

Alternatives to the system of employer-based coverage are needed. Under the current tax code, workers whose employers contribute to their health coverage have that amount excluded from income and payroll taxes. Most employees are not aware of this; yet it amounts to a significant and, incidentally, highly regressive tax break—the higher one's tax bracket, the bigger the subsidy. According to the Lewin Group, a leading econometrics consulting firm, families earning \$100,000 per year average \$2,638 in tax subsidies, but those under \$15,000 get an average subsidy of only \$79.

Primarily as a result of annual premium increases beyond the rate of inflation (projected to reach double digits in 2001), employers are beginning to move away from offering health insurance to their employees. The threat of more employer liability and increased costs associated with any Patients' Bill of Rights legislation will only speed up that trend. People without access to an employer's health plan get no tax break at all. They must either go without insurance or buy a policy in their state's individual market.

The Appeal of Refundable Tax Credits. Refundable tax credits would address the regressive nature of the current system. The credits would direct assistance to people who need it most—lower-income Americans who receive no subsidies because they are not eligible to participate in an employer's plan. Nearly half of the estimated 42.6 million uninsured pay no federal income taxes, making it essential that the credits be refundable.

The refundable tax credit approach has garnered widespread bipartisan support. It was included in the platforms of both candidates campaigning for President last year. During the 106th Congress, moreover, 72 Members of the House from both parties became cosponsors of at least one tax credit bill.

The benefits of moving toward the use of tax credits and making coverage more affordable would include the following:

1. **The right to sue.** Under such a system, people would have unambiguous legal remedies as the first party to a contract with a health insurance company. Before purchasing policies, signatories to the contract would read the plans and know the benefits, and could sue if the insurer violated the terms of the contract. These families would not need a Patients' Bill of Rights.
2. **The right to choose coverage.** Under the current system, most Americans are at the mercy of whatever health insurance their employer chooses for them. Tax credits would allow families to select their own coverage and change plans if they were not happy. Better service results when customers have options.
3. **Portability.** Individually purchased plans could be kept regardless of employer or employment status, providing a consistency of coverage that is especially beneficial for people with preexisting conditions. Insurers would have greater incentive to provide more preventative treatments than is the case in the employer-based system because each customer likely would remain with the insurer for a long time.
4. **Privacy of medical records.** A major concern of patients has been what happens to the information in their medical records. Under the refundable tax credit system, patients would have more say when they purchase the plan over what happens to their medical information.

Conclusion. Allowing refundable tax credits of the amounts proposed in H.R. 1331 would substantially reduce the number of Americans without health insurance. As the eHealthInsurance Services survey shows, individually purchased plans are affordable, contain meaningful coverage, and are widely available. Tax credits would allow more people to take advantage of this burgeoning market.

—James Frogue is Health Care Policy Analyst at The Heritage Foundation.