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## RIGHT AND WRONG WAYS TO ADDRESS THE NEEDS OF THE UNINSURED

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The final budget resolution adopted by the House and Senate (H. Con. Res. 83) includes \$28 billion over three years to reduce the number of Americans without health insurance. Congress and the Administration must soon determine how that money will be spent.

According to the most recent estimate by the U.S. Bureau of the Census, 42.6 million Americans are uninsured at any one time. That number, which has risen by 8 million since 1990, is projected to continue rising: In the event of an economic downturn, absent any changes in policy, as many as 60 million could be uninsured by 2010.

Among the wrong ways to address the growing problem of the uninsured are tax deductions for the cost of health coverage and expanding the troubled Medicaid program. The right way to address this problem is to provide refundable tax credits to needy families so that they can purchase private health insurance outside the current employer-based system.

**Deductions.** Allowing an “above-the-line” tax deduction (available to everyone whether or not they itemize deductions) would have at best a marginal impact on reducing the number of uninsured. Fully 45 percent of the uninsured are not liable to pay federal income tax; for them, a deduction is of zero value. Moreover, fewer than 20 percent of the uninsured are in the 28 percent income tax bracket or higher—those for whom a deduction might be of some assistance. A deduction simply would miss most of the target population.

**Medicaid.** Expanding Medicaid, a welfare program for low-income Americans, in order to cover more of the uninsured is likewise a bad idea. This approach is contained in the so-called Common Ground proposal advanced by the Health Insurance Association of America (HIAA), an industry trade association, and Families USA, a grassroots organization that often campaigns for a larger government role in health care. These unlikely partners are recommending that eligibility for Medicaid be increased to 133 percent of the federal poverty level.

The deeply troubled Medicaid system should be reformed, not expanded. Medicaid has a notorious reputation for low-quality service, bureaucratic red tape, and limited networks of doctors who accept Medicaid patients. Because of its exceptionally low reimbursement rates, an ever-decreasing number of doctors will be willing to treat people who are on Medicaid. Additionally, given projected cost increases and population growth, Medicaid expenses across the country will continue to balloon. This guarantees that government rationing

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of care will only get worse.

In a recent development, Federal District Court Judge Robert H. Cleland of Detroit ruled in March 2001 that Medicaid beneficiaries have no right to sue state officials to force them to cover benefits outlined in federal Medicaid law. Judge Cleland wrote that "Congress may not force states into being its agents." Citing the sovereign immunity enjoyed by states under the Eleventh Amendment to the Constitution, he reasoned that when a state accepts federal dollars, it is not giving its consent to be sued by private individuals. In other words, Medicaid beneficiaries have no legal right to their health benefits.

**Tax Credits.** A better approach would be for Congress to appropriate the \$28 billion over three years to fully fund refundable tax credits for the purchase of health insurance. In a study completed in 1999 for The Heritage Foundation by the Lewin Group, a leading econometrics firm based in Washington, D.C., tax credits of \$500 per individual and up to \$1,000 per family for people who do not participate in an employer's plan would cost the federal government approximately \$5 billion per year. Refundable credits would be more effective than deductions in assisting lower-income families to buy health insurance.

Refundable credits would enable people to purchase the health insurance coverage they need in the individual market. America's current system of employer-based health insurance provides a tax subsidy for individuals and families who purchase their coverage through their work. There is no provision for people who, for any reason, must buy health insurance independent of their employer. As a result, without that tax subsidy, many people cannot afford coverage. Refundable tax credits would help to ease the impact of that discriminatory policy in the tax code.

Owning a health plan would give people a clear and unambiguous right to sue an insurer for not providing a benefit stipulated in their contract. This is the same opportunity desired by supporters of the patients' bill of rights legislation in Congress. In the current system of employer-based coverage, employers own the health plans of 90 percent of Americans. Predictably, patients are frustrated by an inability to leave a plan that is not treating them well. Confronted by a situation in which the remedy could be as simple as switching plans, their only recourse is to complain to their Member of Congress.

Giving tax credits to employers to encourage them to purchase insurance is the wrong approach. For many small employers, the complexity of providing health insurance to their workers is a burden and one of the reasons many of their workers are uninsured. A tax credit would not overcome this "hassle factor." Moreover, a tax credit to employers would be difficult to target to needy workers and it would not necessarily lead to a choice of plans. Nor would it overcome the high administrative costs faced by small employers. An individual refundable tax credit, by comparison, would give families the opportunity to choose from a wide range of plans in most areas.

**Conclusion.** Individual tax credits for health insurance would empower Americans to make their own health care decisions. Credits in larger amounts would be more helpful in addressing the problem of the uninsured. However, because only \$28 billion is available over three years, offering refundable tax credits in the amount of \$500 per individual and \$1,000 per family can start addressing the needs of the uninsured. Tax deductions could help **them**, but only marginally at best, and Medicaid is a program that needs reforming, not expanding.

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