

# WebMemo



Published by The Heritage Foundation

No. 1681  
October 29, 2007

## The More Children, More Choices Act of 2007: Middle-Class Tax Relief for Families with Kids

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The House congressional leadership has failed, once again, to amass enough votes for the SCHIP expansion (H.R. 3963) to override the President's veto.<sup>1</sup> That bill, like the earlier version that the President vetoed, would displace existing private health insurance coverage for millions of children in middle-class American families. Members of Congress are trying to tinker with the bill and enact the same health policy.

Congress has a chance to accomplish the same level of health coverage, however, without disrupting the existing coverage of families with children. Senators Mel Martinez (R-FL) and George Voinovich (R-OH) have co-sponsored The More Children, More Choices Act of 2007 (S. 2193). Representatives Marilyn Musgrave (R-CO) and Tom Price (R-GA) have introduced companion legislation (H.R. 3888) in the House, along with 46 co-sponsors, including House Minority Leader John Boehner (R-OH).

**A Dual Approach.** The legislation would reauthorize SCHIP for all currently eligible children; promote innovative state efforts to expand coverage for the uninsured through federal grant money; and provide middle-class tax relief (up to \$1,400 per child) in the form of a health care tax credit, available to families with children between 200 percent (\$41,300 for a family of four) and 300 percent (\$61,950 for a family of four) of the federal poverty level (FPL).

The tax credit would help middle-class families offset the rising cost of health insurance, enabling them to keep their existing coverage or to secure health coverage in the non-group market if they cannot get it through an employer. The combina-

tion of SCHIP reauthorization and middle-class tax relief for health care would provide coverage for approximately 10.5 million children, including for the bulk of those already covered by private insurance. For example, a tax credit to help families pay for kids' health care would cover an estimated 602,532 in Florida; 246,332 in Georgia; 457,541 in Illinois; and 312,637 in Michigan.<sup>2</sup>

This concept—a dual approach of combining SCHIP reauthorization and state experimentation with a health care tax credit for middle-class children—was endorsed in January 2007 by the bipartisan Health Care Coverage Coalition for the Uninsured (HCCU), a bipartisan coalition of major health, hospital, insurance, and policy organizations that included the AARP, the AMA, the Catholic Health Association, and Families USA.<sup>3</sup>

**The Need for Middle-Class Tax Relief.** According to the Congressional Budget Office (CBO), 77 percent of all children between 200 percent and 300 percent of the FPL already have private health insurance. The professional literature on health policy also shows that expanding public health programs up the income scale progressively displaces existing private coverage. A recent analysis by The Heritage Foundation's Center for Data

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/HealthCare/wm1681.cfm](http://www.heritage.org/Research/HealthCare/wm1681.cfm)

Produced by the Center for Health Policy Studies

Published by The Heritage Foundation  
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Analysis, for example, projects that for every 100 children covered under an SCHIP expansion, between 54 and 60 of those children would lose private health insurance in the process.<sup>4</sup> Meanwhile, these middle-class families and the businesses that employ them are often struggling with rising health care costs. Direct help in the form of tax relief would both shore up existing coverage for dependents and expand access to coverage for children without employer-based health insurance.

**Benefits of Middle-Class Tax Relief.** The More Children, More Choices Act of 2007 would have the following salutary effects:

- *It would be available for all middle-class families between 200 percent and 300 percent of the FPL not already enrolled in a government program.* Every child would be eligible for the health care tax credit in families with annual incomes between \$41,300 and \$62,000. The only children in this income category who would be ineligible for the credit would be those who are already enrolled in existing government programs, such as Medicare, Medicaid, SCHIP, or the Federal Employees Health Benefits Program (FEHBP). With a credit covering up to \$1,400 of the cost of a child's coverage, the provision is thus compatible with the Health Coverage Coalition for the Uninsured (HCCU) recommendation that such a tax credit cover a "significant percentage" of the premium charged for health coverage.<sup>5</sup>
- *It would be advance-able to families and available for both group and non-group health insurance coverage.* Administratively, under the terms of the bill, the Secretary of the Treasury would make advance payment of the credit to the health

insurance plan of a family's choice, a provision in accordance with the HCCU recommendation for expanding coverage through a family tax credit.<sup>6</sup> Moreover, the legislation delegates to the Secretary discretionary authority to address related and technical administrative issues to make the tax credit available for qualifying children.

The tax credit would be available to children who are already covered at the place of their parents' work and would apply to the parents' share of the insurance premium or to children whose parents purchase health coverage on the individual market. The language of the bill would permit parents to purchase family coverage with one or more children who qualify for the credit through either group or non-group coverage, or a parent could simply purchase separate individual coverage for a qualifying child.

- *It would be financially responsible.* The sponsors of the legislation provide for the measure to be budget- and tax-revenue neutral. Any increases in budget outlays would be fully offset by budget reductions, and the new tax breaks would be financed without a net increase in federal taxes.

**Conclusion.** Instead of re-fighting over the same ground on SCHIP, Congress could adopt a policy alternative that would ensure the reauthorization of SCHIP while expanding, rather than contracting, private health insurance coverage for children. This would consist of a straight reauthorization of SCHIP for all children at 200 percent of the FPL (\$41,300) and below, with appropriate provision to expand outreach for all eligible children in those families who are not offered employment-based coverage or who do not have private health insurance coverage.

1. The bill passed on October 25, 2007, by a vote of 265 to 142. Based on an analysis of the House vote, it does not appear that the Congressional majority will be able to secure the two-thirds vote of the House of Representatives necessary to override a Presidential veto.
2. Heritage Foundation calculations from the March 2006 Current Population Survey, U.S Bureau of the Census.
3. Health Coverage Coalition for the Uninsured, "Expanding Health Care Coverage in the United States: A Historic Agreement," at <http://coalitionfortheuninsured.org/pdfs/agreement.pdf>.
4. The Heritage estimate is based on the crowd-out effect of families in the income range of 200 percent to 400 percent of the FPL (\$41,300 to \$82,600). For a more detailed discussion of this crucial issue, see Paul L. Winfree and Greg D'Angelo, "SCHIP and Crowd-Out: The High Cost of Expanding Eligibility," Heritage Foundation *WebMemo* No. 1627, September 20, 2007, at [www.heritage.org/research/healthcare/wm1627.cfm](http://www.heritage.org/research/healthcare/wm1627.cfm).
5. Health Coverage Coalition for the Uninsured, *op. cit.*, p. 2.
6. *Ibid.*

It would also include serious health care experimentation at the state level, allowing different approaches to coverage expansion by state officials. Finally, it would assist children by giving working families between 200 percent and 300 percent of the FPL direct tax relief to help them maintain or secure affordable health insurance coverage.

Embodied in The More Children, More Choices Act of 2007 are innovative policy alternatives that have the broad support of the health policy community.

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