GAO

United States
General Accounting Office
Washington, D.C. 20548

Health, Education and Human Services Division

B-283570

September 13, 1999

The Honorable Nancy L. Johnson
House of Representatives

Dear Mrs. Johnson:

Subject: Private Health Insurance: Estimates of Effects of Health Insurance Tax Credits and Deductions as Proposed in H.R. 2261

About 43 million Americans had no health insurance in 1997, and 12.6 million purchased individual insurance; however, most Americans—154 million—obtained health insurance though an employer.[1] Current tax law favors employer-sponsored insurance by allowing employers tax deductions for contributions to their employees' health premiums and allowing employees income exclusions for these contributions by their employers. To address concerns about the equity of tax law as it relates to health insurance, some congressional proposals would expand the tax advantages associated with individually purchased health insurance by allowing individuals either to receive a tax credit that reduces the amount of taxes they owe or to deduct the premiums they pay from their taxable income. This letter responds to your request for information on the potential tax benefit that individuals could receive if a tax credit or deduction became available as proposed in H.R. 2261.[2] In particular, you asked that we estimate both the number of people who would potentially be eligible for a tax credit or deduction under this proposal and the potential value of these credits and deductions.

Tax credits and deductions differ with respect to who is eligible and the amount of tax subsidy they would receive. The value of a health insurance tax deduction is directly proportionate to marginal tax rates, so that individuals in higher tax brackets receive a larger benefit than those in lower tax brackets.[3] Thus, if premiums were fully deductible, an individual in the highest tax bracket (39.6 percent) could receive nearly a 40-percent reduction in the cost of health insurance. On the basis of our analysis of the Current Population Survey, however, most individuals eligible for a deduction—nearly two-

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[1]These estimates are derived from the 1998 Current Population Survey March Supplement, which is based on calendar year 1997 data.

[2]H.R. 2261, the Health Insurance Affordability and Equity Act of 1999, was introduced in the 106th Congress on June 17, 1999.

[3]See Private Health Insurance: Estimates of Expanded Tax Deductibility of Premiums for Individually Purchased Health Insurance (GAO/HEHS-98-190R, June 10, 1998).

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thirds—are in the 15-percent tax bracket and therefore could receive only a 15-percent reduction. Those in the 0-percent tax bracket or who did not file taxes would receive no reduction in their cost of health insurance as a result of a tax deduction.[4]

Unlike a tax deduction, in which the tax benefit increases with taxable income, a tax credit typically operates so that the tax benefit is the same regardless of marginal tax rate, although the credit may be available only up to a certain level of taxable income. The proposed credit would reduce the amount of taxes owed by a percentage of the amount of health insurance premiums paid. Since a credit is applied against an individual's tax liability, it may not fully benefit low-income people with limited or no liability.

KEY FEATURES OF H.R. 2261

The tax credit proposed under H.R. 2261 would be available to individuals who were not eligible for employer-based health insurance and who purchased insurance individually or under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).[5] To receive the credit, individuals would have to be ineligible for group coverage through an employer or purchasing organization for 12 months prior to receiving the credit. In addition, the credit would apply only to the purchase of major medical insurance packages and would not apply to the purchase of supplemental policies, such as dental or vision-only plans. The credit would equal up to 60 percent of the amount paid for insurance premiums, with the maximum allowable credit limited to $1,200 for individual and $2,400 for family coverage.

Eligibility for the credit would depend on both adjusted gross income and amount of federal tax liability. A full credit—60 percent of premiums or the maximum allowable amount—would be available for individual and joint-head-of-household filers with adjusted gross incomes of up to $30,000 and $60,000, respectively. The credit would be phased out, with a partial credit available for individuals with adjusted gross incomes from $30,001 to $40,000 and for joints-heads-of-household with adjusted gross incomes from $60,001 to $70,000. Those with adjusted gross incomes exceeding these amounts would be ineligible for the credit. Similarly, people who had no tax liability or did not file an income tax return would be ineligible.

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[4]In 1997, the 39.6-percent tax bracket applied to all filers with taxable incomes of more than $271,050. The 15-percent tax bracket applied to taxable incomes of $24,650 or less for single tax filers, $33,050 or less for head-of-household tax filers, and $41,200 or less for joint tax filers.

[5]Under provisions enacted as part of COBRA, employees and their families may continue their health insurance coverage for 18 months after a job loss or change. These employees may be charged up to 102 percent of the employer's average health insurance premium for this coverage. People with disabilities and, in some cases, spouses and dependent children may extend COBRA coverage beyond this period. People with disabilities may have to pay up to 150 percent of the average premium during these additional months of coverage.

The deduction proposed under H.R. 2261 would be available to people who purchased individual insurance or paid 50 percent or more of the total premium for employer-sponsored insurance. This deduction would be used in determining adjusted gross income, so that the tax filer would not need to itemize deductions to obtain it. Also, the tax filer would not need to meet the current threshold of 7.5 percent of adjusted gross income before being able to deduct medical expenses, including health insurance premiums. The deduction would be phased in over a 4-year period: 60 percent of the amount paid for insurance in tax year 2000 would be eligible for a deduction, increasing by 10 percent each year until 100 percent of the cost could be deducted in tax year 2004 and each year thereafter.[6] The deduction would apply only to the purchase of major medical insurance and not to the purchase of supplemental policies, such as dental or vision-only plans.

SCOPE AND METHODOLOGY

To determine the potential tax benefit of the credit and deduction proposed in H.R. 2261, we used (1) the Bureau of the Census' 1998 Current Population Survey (CPS) March Supplement for characteristics of those who would be eligible and their health insurance, income, and tax status; (2) the KPMG 1998 Annual Survey of Employer-Sponsored Health Benefits to estimate employer premium contributions; and (3) single and family health insurance premiums available through the individual market. Although the Bureau of the Census does not directly collect information on adjusted gross income and federal tax payments, it derives estimates from simulations based on CPS data, statistical summaries of individual income tax returns compiled by the Internal Revenue Service, and data from the American Housing Survey.

In some instances, our estimates reflect the largest number of people that could potentially benefit under H.R. 2261. Limitations in the data available precluded estimating the number of eligible individuals more precisely. First, while the proposed credit would be unavailable to people with access to employer-sponsored coverage, the CPS does not indicate whether those who were either uninsured or had individual insurance also had access to employer-sponsored coverage. Consequently, our analysis includes these individuals as potentially eligible for the proposed credit. Second, in the case of a couple or family, our estimates are based on the assumption that one policy would cover all family members and dependents within a household.

[6]Under current law, self-employed individuals can deduct 60 percent of health insurance expenses if the individuals are not eligible to participate in an employer-subsidized health plan. The portion of these expenses that is deductible will increase gradually until it reaches 100 percent in 2003. In addition, any individual can claim an itemized deduction for health insurance premiums to the extent that they and all other medical expenses exceed 7.5 percent of adjusted gross income. Under H.R. 2261, self-employed individuals purchasing standard benefit packages would be eligible for the proposed deduction in lieu of their existing deduction for health insurance costs. While H.R. 2261 would establish an accelerated phase-in for this deduction, both the proposal and current law would allow self-employed individuals to deduct 100 percent of health insurance premiums in 2003.

Further, our estimates include dependents as well as the tax filer in the total number of individuals potentially eligible for the proposed tax credit or deduction. For the tax deduction, our estimates reflect only those individuals who were uninsured, who purchased health insurance in the individual market, or whose employer sponsored coverage but paid none of the premium. Additional individuals whose employer paid less than half of the premium would also be eligible for the proposed deduction, but available data do not permit an accurate estimate of this population.

Our estimates reflect the number of people that could potentially be eligible for the proposed tax credit and deduction, which is likely to be higher than the number who would actually purchase coverage and thus receive the tax subsidy. In particular, low-income, uninsured individuals could find health insurance unaffordable even with a tax subsidy. Also, we did not examine the effect of the proposal on federal revenues. Our work was conducted in July and August of 1999 in accordance with generally accepted government auditing standards.

PRINCIPAL FINDINGS

In summary, we found that if H.R. 2261 had been the law in 1997, the following outcomes would have been likely.

- Up to 28 million nonelderly Americans would potentially have been eligible for the tax credit proposed under H.R. 2261; about 21.8 million of these individuals were uninsured and could have received the credit only if they had purchased insurance in the individual market. Another 27.3 million uninsured and individually insured people would have been ineligible for the proposed credit because they did not file a tax return, their income was too high, or they had insufficient tax liability.

- Nearly 11 million of the 28 million people could have been eligible for a full credit that would have reduced the net cost of their health insurance by as much as 60 percent. Because the bill caps the credit amount at $1,200 for individuals and $2,400 for families, the credit would have been less than 60 percent of the premium for individuals buying health insurance with premiums exceeding $2,000 and for families with premiums over $4,000.

- About 17 million of the 28 million people would have been eligible for a partial credit. Of these individuals, about 15 million had less tax liability than the amount of a full credit of $1,200 or $2,400, and 2 million had adjusted gross income that was too high for a full credit.

- The same 28 million people and another 12 million who were either uninsured, had individual insurance, or had employer-sponsored insurance with no employer subsidization could potentially have been eligible for the proposed tax deduction.

- Individuals whose employers paid one-half or less of the total premium could have benefited from the deduction. The number of such individuals, however, is not available. An estimated 74 million people had insurance that was partially subsidized by an employer, although only a small fraction of these individuals would have been likely to benefit from the proposed deduction, because most employers who sponsor health insurance pay more than half of the total premium.

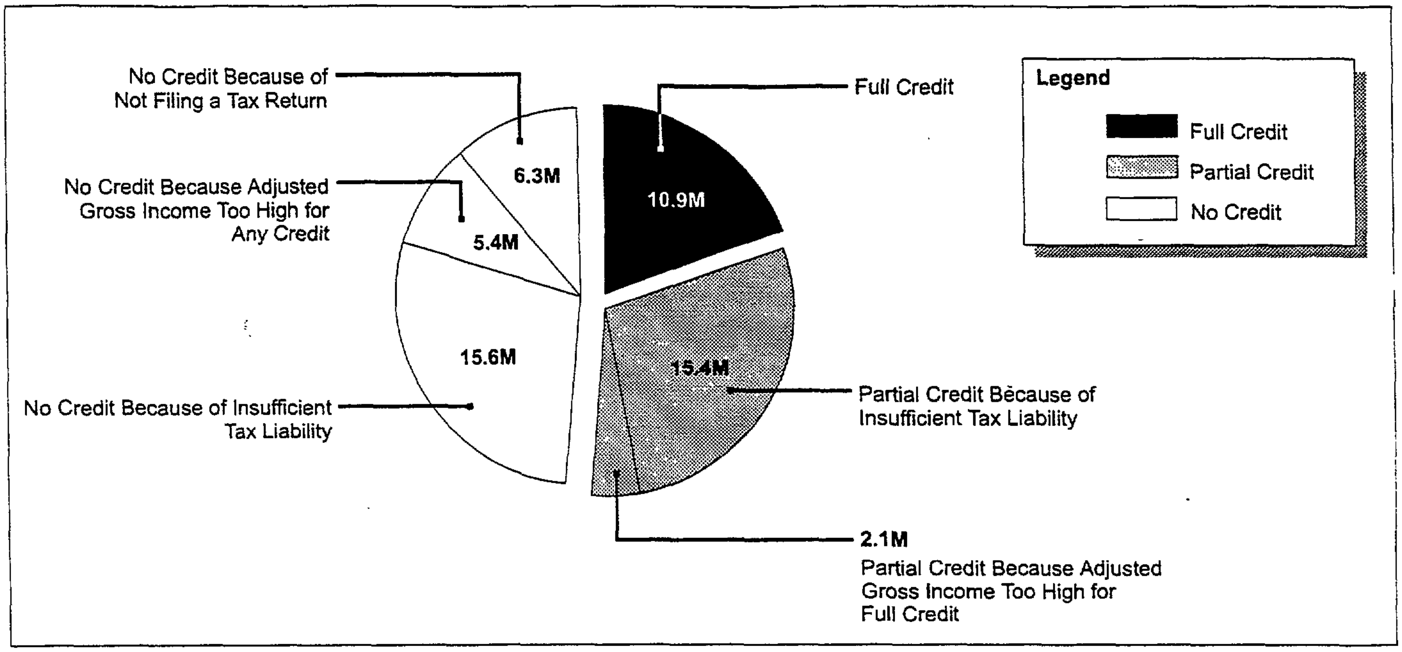
More Than One-Half of Individuals Who Were Uninsured or Who Purchased Insurance in the Individual Market Were Potentially Eligible for Credit

As shown in figure 1, of an estimated 55.7 million people who were uninsured or had individual insurance in 1997, up to 28.4 million—more than one-half—could potentially have benefited from the tax credit proposed in H.R. 2261.[7] More than three-fourths of those potentially eligible were uninsured. In addition, approximately 10.9 million of these people could have benefited from a full credit, and 17.5 million could have benefited from a partial credit.[8]

[7]The CPS does not distinguish COBRA coverage from employer-sponsored coverage obtained from a current employer. Instead, respondents are asked if their coverage was obtained through a current or former employer. According to an Employee Benefits Research Institute analysis of data from the Survey of Income and Program Participation, an estimated 5 million individuals, not including spouses and dependents, purchased coverage offered under COBRA between October 1994 and September 1995. Compared with individuals who had employer-sponsored coverage, those electing COBRA coverage tended to be older (aged 55 to 64) married males without young dependents. See Paul Fronstin, Health Insurance Portability: COBRA Expansions and Job Mobility, Employee Benefits Research Institute, Issue Brief 194 (Washington, D.C.: Feb. 1998).

[8]Some individuals may be subject to the alternative minimum tax instead of the regularly determined tax liability. In this case, individuals otherwise eligible for the proposed health insurance tax credit might not be able to receive its full value if it would reduce their tax liability below the alternative minimum tax. Currently, relatively few individuals are subject to the alternative minimum tax, but the Joint Tax Committee estimates that over time relatively more middle-class individuals may become subject to it.

Figure 1: Number of Individuals Who Would Have Been Eligible for Full, Partial, or No Credit Under H.R. 2261, 1997 (in millions)



Of those who would have qualified for a partial credit, about

- 15.4 million who would have otherwise qualified for a full credit on the basis of their adjusted gross income had insufficient tax liability to receive the full credit of $1,200 for individuals and $2,400 for families[9] and

- 2.1 million had an adjusted gross income that was above the limit for receiving a full credit.

The remaining 27.3 million uninsured and individually insured people would have been ineligible for the proposed credit. Of these, about

- 15.6 million would have been eligible for a full credit on the basis of their adjusted gross income, but they could not have received a credit because they had no tax liability;

- 5.4 million people had adjusted gross income exceeding the limit of $40,000 for individuals and $70,000 for families; and

- 6.3 million individuals did not file a tax return.

[9]We used these thresholds to determine the number of people that could potentially have benefited from the maximum credit amounts available. Individuals who were eligible for a partial credit because of insufficient tax liability could have received a full 60-percent credit under H.R. 2261 if they had purchased lower-priced insurance.

(See encl. I for more information on the characteristics of people who would have been potentially eligible for a tax credit or deduction if H.R. 2261 had been the law in 1997.)

The proportion of a premium that would be creditable under H.R. 2261 would depend on the credit level for which an individual was eligible, his or her tax liability, and the total premium amount. For example, an individual who was eligible for a full credit and purchased insurance with a low premium of $684 could potentially reduce the cost of coverage by 60 percent, to $274. However, individuals purchasing coverage with premiums exceeding $2,000, and families with premiums exceeding $4,000, would be subject to the maximum allowable credit of $1,200 for individual and $2,400 for family coverage. For example, 60 percent of high-priced single coverage with a premium of $6,384[10] is $3,830—more than three times the amount of the $1,200 cap. In this case, the individual could receive a $1,200 credit—only about 19 percent of the premium—reducing the cost of coverage to $5,184. (See encl. II for more information on the estimated effects of H.R. 2261's tax credit on 1997 taxpayers.)

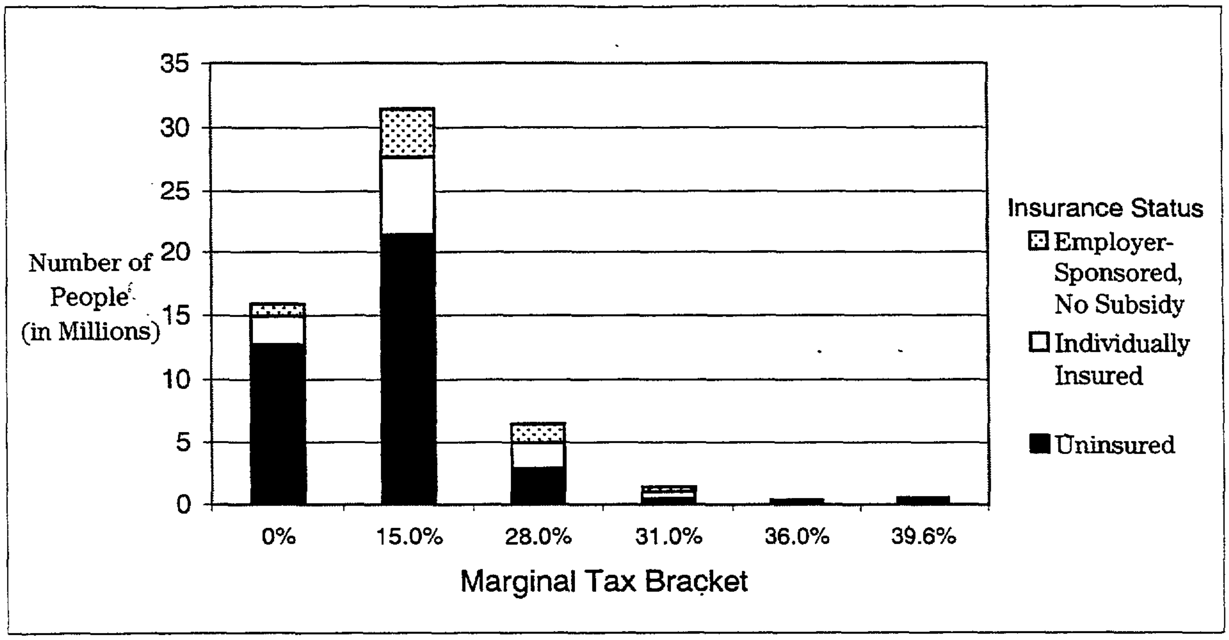
Some Individuals Not Qualifying for a Credit Could Have Been Eligible for the Proposed Deduction

Under H.R. 2261, a tax deduction would be available to individuals who were uninsured, had individual insurance, or had employer-sponsored insurance for which the employer subsidized one-half or less of the premium. Excluding those with health insurance that was, in part, subsidized by an employer, in 1997 about 40 million people could potentially have been eligible for this deduction if they purchased or retained health insurance. An additional 16 million individuals would have qualified for the deduction but would not have benefited because they were in the 0-percent tax bracket. An unknown, though likely small, number of individuals whose employers paid less than half of the premium cost would also have been eligible for the deduction.

Of the 40 million people potentially eligible for the deduction, 25 million were uninsured, 9 million had purchased policies in the individual market, and 6 million had employer-sponsored coverage with no employer subsidy. About 2.2 million of these individuals could already have qualified for the health insurance deduction available to self-employed individuals. As shown in figure 2, most of the people who would have been eligible for the proposed deduction were in the 15-percent tax bracket.

[10] These premiums are actual individual insurance premiums available in 1996. The low premium of $684 is an Arizona preferred provider organization's premium for a 25-year-old healthy male with a $250-deductible plan; the medium premium of $2,100 is for a community-rated fee-for-service plan in Vermont with a $1,000 deductible; and the high premium of $6,384 is an urban Illinois fee-for-service plan's premium for a 60-year-old healthy male smoker.

Figure 2: Number of Individuals Who Could Potentially Have Benefited From the Proposed Tax Deduction, by Insurance Status and Marginal Tax Bracket, 1997



Note: Individuals in the 0-percent tax bracket could not have benefited from a tax deduction.

The value of a tax deduction increases relative to a person's marginal tax bracket. Thus, under H.R. 2261, an eligible, single tax filer in the 15-percent bracket who paid $2,100 in premiums would receive a deduction of about $315, resulting in a net cost of about $1,785 for coverage. The potential deduction for this same coverage would be higher for someone in a higher tax bracket. For example, an individual who was in the highest tax bracket—the 39.6-percent bracket—and purchased this same policy would have tax benefits of $832, resulting in a net cost of $1,268 for this coverage. (See encl. III for more information on the estimated effects of H.R. 2261's tax deduction on 1997 taxpayers.)

In 1997, about 74 million individuals had both health insurance that was partially subsidized by an employer and sufficient income for a tax deduction; however, most of these people would not have been eligible for the proposed deduction because most employers sponsoring health insurance pay more than one-half of the total premium.[11] Specifically, about 16.5 percent of employers sponsoring individual coverage paid less than one-half of the total premium, and 43.5 percent paid less than one-half of the premium for family

[11]The CPS does not indicate the exact percentage of health insurance premiums subsidized by employers, but only whether they pay all, some, or none of those premiums. Consequently, we could not estimate how many people with partial employer subsidies could actually benefit from the proposed deduction.

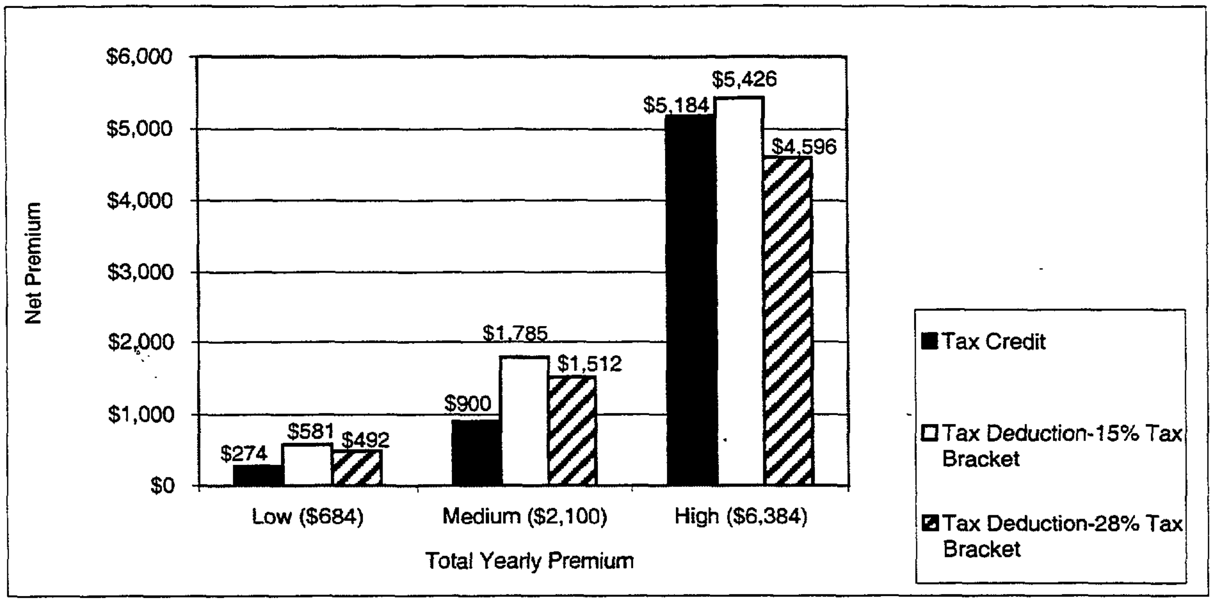
coverage. Most of these employers were small firms with fewer than 25 employees; hence, a relatively small portion of individuals with employer-sponsored coverage was affected.

While most employers that sponsor health insurance pay most of the premium, some kinds of employers are less likely to do so than others. Specifically, small employers as well as employers in the construction, high-technology, and retail industries represent the largest portion of firms paying 50 percent or less of health insurance premiums. Consequently, people who receive coverage through these kinds of firms are among those most likely to potentially benefit from the proposed tax deduction. (See encl. IV for more information on the proportion of employers that subsidized 50 percent or less of health insurance premiums in 1998, by firm size and industry).

Most People Eligible for Either a Credit or a Deduction Would Have Been Likely to Choose the Credit

Under H.R. 2261, about 28 million people who were uninsured or had individual insurance could potentially have elected either a tax deduction or a credit. On the basis of adjusted gross income alone, this number included those in the 15- and 28-percent tax brackets. Whether these individuals would have benefited more from a tax credit or a deduction would largely have depended on the credit percentage for which they were eligible, their marginal tax bracket, and the price of their coverage. For individuals in the 15-percent tax bracket, the credit would have been worth more than the deduction for premiums for single coverage costing less than $8,000–a very high premium. For individuals in the 28-percent tax bracket, the credit would have been worth more than the deduction for premiums for single coverage costing less than $4,285. Figure 3 shows the net premium cost after receiving either a full credit or a deduction, using examples of low, medium, and high premiums.

Figure 3: Net Premium Amounts After a Full Credit or a Deduction



A deduction could also potentially be of greater value than a credit for people who were eligible for only a partial credit, depending on the amount of the credit for which they would qualify. As an example, the net cost of the low-priced coverage of $684 would range from $275 to $683 after a partial credit. With the proposed deduction, however, the net cost for this coverage would be $492 for someone in the 28-percent tax bracket. Hence, a deduction would be of more benefit than a credit for those eligible for only a small credit percentage.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after its issue date. At that time, we will make copies available to interested parties on request.

If you have any questions regarding this letter, or if we can be of further assistance, please call me at (202) 512-7118. The analysis presented in this letter was developed by Mark Vinkenes, JoAnne Bailey, and Paula Bonin under the direction of John Dicken.

Sincerely yours,

Kathryn G. Allen

Kathryn G. Allen
Associate Director, Health Financing
and Public Health Issues

Enclosures – 4

CHARACTERISTICS OF INDIVIDUALS POTENTIALLY ELIGIBLE FOR A HEALTH INSURANCE TAX CREDIT OR DEDUCTION IF H.R. 2261 HAD BEEN THE LAW IN 1997

Table I.1 relates selected characteristics of individuals to whether they would have been eligible for a full tax credit, partial credit, or no credit in 1997 on the basis of their adjusted gross income and insurance status. As shown, the profile of the group eligible for a full credit sometimes differs from those of the groups eligible for a partial credit or no credit. For example, a relatively low proportion of individuals who would have been eligible for a full credit–about 39 percent–worked full-time, compared with about 61 percent of those who would have been eligible for a partial credit and 54 percent of those who would not have been eligible for any credit. This difference may be due to most full-time workers' having adjusted gross incomes exceeding the amount allowed for a full credit. Also, about 81 percent of those who would have been eligible for a full credit worked for a private employer, compared with 68 percent of the individuals who would have been eligible for a partial credit and 56 percent of those who would not have been eligible for any credit.

Table I.2 relates selected characteristics of individuals to their insurance status. Profiles can differ among individuals who were uninsured, had individual insurance, had employer-sponsored insurance with no subsidy, or had employer-sponsored insurance with a partial subsidy. For example, a higher percentage of those with employer-sponsored insurance worked full-time than did those who were uninsured or who had individual insurance. Whereas 65 percent of individuals who had employer-sponsored insurance with a partial subsidy and 54 percent of those who had employer-sponsored insurance with no subsidy worked full-time, only 43 percent of those who were uninsured and 40 percent of those who had individual insurance did.

Table I.1: Characteristics of Individuals Who Could Have Received a Full Tax Credit, Partial Credit, or No Credit, 1997

	Eligibility based on adjusted gross income and insurance status		
Individual characteristics	Full credit (in millions)[a]	Partial credit (in millions)	No credit (in millions)
Employment status[b]			
Full-time	13.4 (39%)	1.1 (61%)	2.3 (54%)
Less than full-time	13.9 (41%)	0.5 (27%)	1.2 (28%)
Did not work	6.7 (20%)	0.2 (12%)	0.8 (18%)
Employer type[b,c]			
Private	22.1 (81%)	1.0 (68%)	2.0 (56%)
Government	1.7 (6%)	0.1 (8%)	0.2 (7%)
Self-employed/incorporated[d]	0.5 (2%)	0.1 (5%)	0.5 (15%)
Self-employed/unincorporated	3.0 (11%)	0.3 (18%)	0.8 (22%)
Industry[b,c]			
Agriculture/fisheries/forestry	1.4 (4%)	[e]	0.2 (4%)
Mining	0.1 (0%)	[e]	[e]
Construction	3.0 (9%)	0.2 (9%)	0.3 (8%)
Manufacturing	3.1 (9%)	0.2 (9%)	0.3 (7%)
Transportation	1.3 (4%)	0.1 (6%)	0.1 (3%)
Trade	8.1 (24%)	0.3 (20%)	0.7 (16%)
Finance/insurance	1.0 (3%)	0.1 (5%)	0.3 (7%)
Business/repair	2.5 (7%)	0.2 (9%)	0.3 (8%)
Personal services	1.6 (5%)	[e]	0.1 (3%)
Entertainment/recreation	0.8 (2%)	[e]	0.1 (3%)
Professional services	4.0 (12%)	0.3 (18%)	0.9 (21%)
Public administration	0.3 (1%)	[e]	0.1 (2%)
Occupation[b,c]			
Executive/administrative/managerial	1.7 (5%)	0.3 (15%)	0.8 (18%)
Professional specialty	1.8 (5%)	0.2 (13%)	0.8 (18%)
Technical/support	0.5 (1%)	[e]	0.1 (2%)
Sales	3.7 (11%)	0.2 (13%)	0.6 (14%)
Administrative support	2.9 (8%)	0.1 (8%)	0.3 (7%)
Private household	0.4 (1%)	[e]	[e]
Protective services	0.3 (1%)	[e]	[e]
Other services	5.6 (16%)	0.2 (10%)	0.2 (6%)
Farming/forestry/fishing	1.5 (4%)	[e]	0.1 (3%)
Precision production	3.7 (11%)	0.2 (13%)	0.3 (7%)
Machine operator	1.9 (6%)	[e]	[e]
Transportation	1.4 (4%)	[e]	0.1 (2%)
Handlers/equipment cleaners/helpers/laborers	1.9 (6%)	[e]	[e]

	Eligibility based on adjusted gross income and insurance status		
Individual characteristics	Full credit (in millions)[b]	Partial credit (in millions)	No credit (in millions)
Sex			
Female	19.8 (47%)	0.9 (44%)	2.5 (46%)
Male	22.0 (53%)	1.2 (56%)	2.8 (54%)
Age			
0-17	10.0 (24%)	0.4 (21%)	1.3 (25%)
18-24	8.2 (20%)	0.2 (10%)	0.4 (8%)
25-34	8.6 (21%)	0.4 (21%)	0.7 (13%)
35-44	7.2 (17%)	0.4 (21%)	1.1 (21%)
45-54	4.4 (11%)	0.4 (18%)	1.0 (19%)
55-64	3.3 (8%)	0.2 (10%)	0.8 (14%)
Race			
White, non-Hispanic	24.2 (58%)	1.5 (71%)	4.3 (80%)
Black, non-Hispanic	5.9 (14%)	0.2 (11%)	0.3 (6%)
Hispanic	9.5 (23%)	0.2 (8%)	0.4 (7%)
Other, non-Hispanic	2.2 (5%)	0.2 (10%)	0.4 (7%)
Adjusted gross income			
0	[e]	[f]	[f]
$1-10,000	11.5 (28%)	[f]	[f]
$10,001-20,000	13.1 (31%)	[f]	[f]
$20,001-30,000	8.5 (20%)	[f]	[f]
$30,001-40,000	4.2 (10%)	0.8 (39%)	[f]
$40,001-50,000	2.7 (6%)	[f]	0.4 (7%)
$50,001-60,000	1.8 (4%)	[f]	0.2 (4%)
$60,001-70,000	[f]	1.3 (61%)	0.1 (3%)
$70,001-80,000	[f]	[f]	1.0 (19%)
$80,001 or more	[f]	[f]	3.5 (67%)
Marginal tax rate			
0%	14.9 (36%)	[f]	[f]
15.0%	26.7 (64%)	0.9 (46%)	[e]
28.0%	0.2 (1%)	1.1 (54%)	3.6 (68%)
31.0%	[f]	[f]	1.0 (19%)
36.0%	[f]	[f]	0.2 (5%)
39.6%	[f]	[f]	0.4 (8%)

Note: Some people may have received coverage from several sources. To avoid double counting, we prioritized the source of coverage reported by the CPS. For our analysis, employment-based coverage was considered primary to other sources of coverage, and respondents were classified as having employment-based coverage even if they also had other types of coverage. The other types of coverage were prioritized in the following order: public (Medicare and Medicaid); Champus, VA, or military health care; and private/individual insurance.

[a]Many of the individuals eligible for a full credit on the basis of their adjusted gross income would actually have received a partial credit or no tax credit because they did not have enough tax liability to receive the full value of the tax credit.

[b]Includes only nonelderly individuals of working age (15 or older).

[c]Includes only employed and unemployed nonelderly individuals of working age (15 or older). Does not include people 15 years old and over who were not in the labor force. People not in the labor force included individuals who were keeping house, going to school, or unable to work because of long-term physical or mental illness.

[d]A corporation is an entity that is distinct from its shareholder(s) with respect to tax and tort law.

[e]Fewer than 75,000 individuals had this characteristic.

[f]Not applicable for this group.

Source: GAO analysis of March 1998 Current Population Survey (CPS) data.

Table I.2: Characteristics of Individuals Who Could Have Benefited from a Tax Deduction, by Insurance Status, 1997

Individual characteristics	Uninsured (in millions)	Individual Insurance (in millions)	Employer-no subsidy (in millions)	Employer-subsidy (in millions)
Employment status[a]				
Full-time	12.9(43%)	3.9 (40%)	2.8 (54%)	38.9 (65%)
Less than full-time	11.6 (38%)	4.0 (41%)	1.5 (29%)	13.4 (22%)
Did not work	5.8 (19%)	1.9 (19%)	0.9 (17%)	7.5 (13%)
Employer type[a,b]				
Private	20.2 (82%)	4.9 (62%)	3.3 (78%)	41.4 (79%)
Government	1.5 (6%)	0.5 (7%)	0.5 (12%)	9.0 (17%)
Self-employed/ incorporated[c]	0.5 (2%)	0.6 (8%)	0.1 (3%)	0.6 (1%)
Self-employed/ unincorporated	2.3 (9%)	1.8 (23%)	0.3 (7%)	1.1 (2%)
Industry[a,b]				
Agriculture/fisheries/forestry	1.2 (4%)	0.5 (5%)	0.1 (2%)	0.6 (1%)
Mining	0.1 (0%)	[d]	[d]	0.3 (1%)
Construction	2.9 (10%)	0.6 (6%)	0.3 (5%)	2.3 (4%)
Manufacturing	2.9 (10%)	0.6 (6%)	0.7 (13%)	10.2 (17%)
Transportation	1.3 (4%)	0.3 (3%)	0.3 (5%)	4.2 (7%)
Trade	6.9 (23%)	2.3 (23%)	0.9 (18%)	9.6 (16%)
Finance/insurance	0.9 (3%)	0.4 (5%)	0.3 (5%)	3.9 (6%)
Business/repair	2.3 (8%)	0.6 (6%)	0.3 (5%)	2.9 (5%)
Personal services	1.4 (5%)	0.4 (4%)	0.1 (3%)	1.2 (2%)
Entertainment/recreation	0.7 (2%)	0.3 (3%)	0.1 (2%)	1.0 (2%)
Professional services	3.5 (12%)	1.7 (18%)	1.1 (22%)	13.1 (22%)
Public administration	0.3 (1%)	0.1 (1%)	0.2 (3%)	3.0 (5%)
Occupation[a,b]				
Executive/administrative/ Managerial	1.7 (6%)	1.0 (10%)	0.6 (11%)	8.1 (13%)
Professional specialty	1.7 (5%)	1.2 (12%)	0.6 (12%)	8.9 (15%)
Technical/support	0.4 (1%)	0.2 (2%)	0.1 (2%)	2.2 (4%)
Sales	3.0 (10%)	1.4 (15%)	0.6 (11%)	5.9 (10%)
Administrative support	2.5 (8%)	0.9 (9%)	0.6 (13%)	8.2 (14%)
Private household	0.4 (1%)	0.1	[d]	0.1
Protective services	0.3 (1%)	[d]	[d]	1.1
Other services	4.9 (16%)	1.1 (12%)	0.4 (9%)	4.6 (8%)
Farming/forestry/fishing	1.2 (4%)	0.4 (5%)	[d]	0.6
Precision production	3.5 (12%)	0.7 (7%)	0.5 (10%)	5.3 (9%)
Machine operator	1.8 (6%)	0.2 (2%)	0.3 (6%)	3.4 (6%)
Transportation	1.3 (4%)	0.2 (2%)	0.2 (4%)	1.9 (3%)
Handlers/equipment cleaners/helpers/laborers	1.8 (6%)	0.3 (3%)	0.2 (3%)	1.7 (3%)
Armed forces	[d]	[d]	[d]	0.1 (0%)

Individual Characteristics	Uninsured (in millions)	Individual Insurance (in millions)	Employer-no subsidy (in millions)	Employer-subsidy (in millions)
Sex				
Female	17.2 (46%)	6.0 (52%)	3.5 (52%)	39.3 (50%)
Male	20.5 (54%)	5.6 (48%)	3.2 (48%)	39.2 (50%)
Age				
0-17	9.1 (24%)	2.7 (23%)	1.9 (28%)	22.5 (29%)
18-24	6.7 (18%)	2.1 (19%)	0.6 (9%)	5.9 (7%)
25-34	8.4 (22%)	1.4 (12%)	1.0 (15%)	14.0 (18%)
35-44	6.8 (18%)	1.9 (16%)	1.3 (19%)	16.7 (21%)
45-54	4.1 (11%)	1.7 (15%)	1.1 (16%)	12.8 (16%)
55-64	2.5 (7%)	1.8 (15%)	0.9 (13%)	6.7 (9%)
Race				
White, non-Hispanic	20.4 (54%)	9.6 (82%)	4.9 (73%)	58.8 (75%)
Black, non-Hispanic	5.7 (15%)	0.8 (7%)	0.9 (13%)	9.3 (12%)
Hispanic	9.3 (25%)	0.7 (6%)	0.6 (9%)	6.8 (9%)
Other, non-Hispanic	2.2 (6%)	0.6 (5%)	0.3 (4%)	3.6 (5%)
Adjusted gross income				
0	[d]	[d]	[d]	[d]
$1-10,000	9.5 (25%)	2.0 (17%)	0.6 (9%)	2.3 (3%)
$10,001-20,000	11.2 (30%)	1.9 (16%)	1.1 (16%)	7.7 (10%)
$20,001-30,000	6.7 (18%)	1.7 (15%)	0.9 (13%)	10.8 (14%)
$30,001-40,000	3.7 (10%)	1.3 (12%)	0.9 (14%)	10.8 (14%)
$40,001-50,000	2.1 (6%)	1.0 (8%)	0.6 (9%)	9.2 (12%)
$50,001-60,000	1.2 (3%)	0.8 (7%)	0.6 (9%)	8.7 (11%)
$60,001-70,000	0.8 (2%)	0.6 (5%)	0.4 (6%)	6.9 (9%)
$70,001-80,000	0.6 (1%)	0.5 (4%)	0.5 (7%)	5.5 (7%)
$80,001 or more	1.8 (5%)	1.8 (15%)	1.1 (17%)	16.5 (21%)
Marginal tax rate				
0%	12.7 (34%)	2.3 (20%)	0.9 (13%)	4.4 (6%)
15.0%	21.4 (57%)	6.3 (54%)	3.7 (56%)	43.8 (56%)
28.0%	2.8 (8%)	2.1 (18%)	1.5 (22%)	24.7 (31%)
31.0%	0.4 (1%)	0.6 (5%)	0.3 (5%)	3.9 (5%)
36.0%	0.1 (0%)	0.1 (1%)	0.1 (1%)	0.7 (1%)
39.6%	0.2 (0%)	0.2 (2%)	0.1 (2%)	1.0 (1%)

Note: Some people may have received coverage from several sources. To avoid double counting, we prioritized the source of coverage reported by the CPS. For our analysis, employment-based coverage was considered primary to other sources of coverage, and respondents were classified as having employment-based coverage even if they also had other types of coverage. The other types of coverage were prioritized in the following order: public (Medicare and Medicaid); Champus, VA, or military health care; and private/individual insurance.

[a]Includes only nonelderly individuals of working age (15 or older).

[b]Includes only employed and unemployed nonelderly individuals of working age (15 or older). Does not include people 15 years old and over who were not in the labor force. People not in the labor force included individuals who were keeping house, going to school or unable to work because of long-term physical or mental illness.

[c]A corporation is an entity that is distinct from its shareholder(s) with respect to tax and tort law.

[d]Fewer than 75,000 individuals had this characteristic.

Source: GAO analysis of March 1998 CPS data.

ESTIMATES OF THE EFFECT OF H.R. 2261'S TAX CREDIT ON INDIVIDUAL HEALTH INSURANCE, 1997

Table II.1 presents estimates of the effect of the tax credit proposed in H.R. 2261 on single tax filers, and table II.2 presents estimates for head-of-household and joint tax filers and their dependents. The tables show the adjusted gross income levels associated with each credit level and illustrate that some tax filers who would have been eligible for the full tax credit on the basis of their adjusted gross income would have received only a partial credit because their federal income tax liability was less than the full value of the tax credit. H.R. 2261 would cap the full credit at $1,200 for single tax filers and at $2,400 for head-of-household and joint tax filers.

Because estimates of the number of individuals eligible for each credit level also depend on the amount paid for health insurance premiums, the tables also present examples of low, medium, and high premium amounts. For single filers, we used premiums available for a single person in 1996. For head-of-household and joint tax filers, we used premiums available for a family of four in 1996. We also calculated the net cost of the health insurance after subtracting the value of the credit for tax filers with different tax credit levels and premium amounts.

The last columns of the tables demonstrate that the number of people who would have received a full credit or a partial credit varies depending on their federal tax liability and total premiums paid. As shown in table II.1, about

- 4.3 million people could have received a full credit,
- 5.3 million people could have received a partial credit because a full credit would have exceeded their total tax liability,
- 3.9 million people could have received no credit because they had no tax liability,
- 0.8 million people could have received a partial credit because their adjusted gross income exceeded the level allowed for a full credit, and
- 1.1 million people could have received no credit because their adjusted gross income exceeded the level allowed for any credit.

The number of individuals estimated to be eligible for a partial credit because of their tax liability was based on a full credit amount of $1,200—the amount creditable if the individual purchased insurance for $2,000 or more. To the extent that these individuals purchased insurance for less than $2,000, the number eligible for a full credit would be higher because more tax filers would have sufficient tax liability to receive the full 60-percent credit.

Table II.1: Estimates of Individual Health Insurance Premium Credits for Single Tax Filers, 1997

				Estimated number of nonelderly people potentially eligible (in millions)	
Potential level of credit	Credit percentage	Cost of individual health insurance[a]	Net insurance cost after credit	Uninsured	Individually insured
Adjusted gross income $30,000 or less					
Full	60% (up to $1,200)	Low: $684 Medium: $2,100 High: $6,384	$274 $900 $5,184	3.5	0.8
Partial (full credit exceeded tax liability)[b]	1-59%	Low: $684 Medium: $2,100 High: $6,384	$275-$683 $901-$2,009 $5,185-$6,383	4.4	0.9
None (no tax liability)	0%	Low: $684 Medium: $2,100 High: $6,384	$684 $2,100 $6,384	3.0	0.9
Adjusted gross income $30,001 to $40,000					
Partial (phased out as adjusted gross income increased)	1-59%	Low: $684 Medium: $2,100 High: $6,384	$275-$683 $901-$2,009 $5,185-$6,383	0.6	0.2
Adjusted gross income $40,001 or more					
None (adjusted gross income exceeded maximum allowed)	0%	Low: $684 Medium: $2,100 High: $6,384	$684 $2,100 $6,384	0.6	0.5

[a]These premiums are examples of actual individual insurance premiums available in 1996. The low premium represents an Arizona preferred provider organization's premium for a 25-year-old healthy male with a $250-deductible plan; the medium premium represents a community-rated fee-for-service plan in Vermont with a $1,000 deductible; and the high premium represents an urban Illinois fee-for-service plan's premium for a 60-year-old healthy male smoker. Using low, medium, and high premium estimates represents the variation in individual health insurance premiums that existed nationally better than a single "average" premium would have.

[b]The number of individuals estimated to have been eligible for a partial credit because their tax liability was less than the maximum credit is based on a full credit amount of $1,200—the amount creditable if the individual purchased insurance for $2,000 or more. To the extent that these individuals purchased insurance for less than $2,000, the number eligible for the full 60-percent value of the credit would have been higher.

Sources: GAO analysis of March 1998 CPS data and Bureau of the Census estimates of taxable income; premium ranges based on Private Health Insurance: Millions Relying on Individual Market Face Cost and Coverage Tradeoffs (GAO/HEHS-97-8, Nov. 25, 1996).

Table II.2: Estimates of Individual Health Insurance Premium Credits for Head-of-Household and Joint Tax Filers and Their Dependents, 1997

				Estimated number of nonelderly people potentially eligible (in millions)	
Potential level of credit	Credit percentage	Cost of individual health insurance[a]	Net insurance cost after credit	Uninsured	Individually insured
Adjusted gross income $60,000 or less					
Full	60% (up to $2,400)	Low: $2,940 Medium: $5,664 High: $10,140	$1,176 $3,264 $7,740	4.6	2.0
Partial (full credit exceeded tax liability)[b]	1-59%	Low: $2,940 Medium: $5,664 High: $10,140	$1,177-$2,939 $3,265-$5,663 $7,741-$10,139	8.0	2.1
None (no tax liability)	0%	Low: $2,940 Medium: $5,664 High: $10,140	$2,940 $5,664 $10,140	10.2	1.5
Adjusted gross income $60,001 to $70,000					
Partial (phased out as adjusted gross income increased)	1-59%	Low: $2,940 Medium: $5,664 High: $10,140	$1,177-$2,939 $3,265-$5,663 $7,741-$10,139	0.7	0.6
Adjusted gross income $70,001 or more					
None (adjusted gross income exceeded maximum allowed)	0%	Low: $2,940 Medium: $5,664 High: $10,140	$2,940 $5,664 $10,140	2.2	2.1

[a]These premiums are examples of actual individual insurance premiums available in 1996 for a family of four. The low premium represents an Arizona preferred provider organization's premium for two parents under 30 years old; the medium premium represents a community-rated fee-for-service plan in Vermont with a $1,000 deductible; and the high premium represents an urban Illinois fee-for-service plan's premium for two parents over 50 years old who smoke. Using low, medium, and high premium estimates represents the variation in individual health insurance premiums that existed nationally better than a single "average" premium would have.

[b]The number of individuals estimated to have been eligible for a partial credit because their tax liability was less than the maximum credit was based on a full credit amount of $1,200—the amount creditable if the individual purchased insurance for $2,000 or more. To the extent that these individuals purchased insurance for less than $2,000, the number eligible for the full 60-percent value of the credit would have been higher.

Sources: GAO analysis of March 1998 CPS data and Bureau of the Census estimates of taxable income; premium ranges based on GAO/HEHS-97-8, Nov. 25, 1996.

ESTIMATES OF THE EFFECT OF H.R. 2261'S TAX DEDUCTION, 1997

Table III.1 presents estimates of the effect of the tax deduction proposed in H.R. 2261 on 1997's single tax filers, and table III.2 presents estimates for head-of-household and joint tax filers and their dependents. The tables show the taxable income associated with each marginal tax bracket and the same examples of low, medium, and high premium amounts displayed in tables II.1 and II.2. Also, we calculated what the net cost of the health insurance for individuals in each marginal tax bracket would have been when 60 percent of the premium was deductible (the amount the bill allows in the first year) and when 100 percent of the premium was deductible (once the deduction was fully phased in).

Finally, the tables show the number of people who were uninsured, were individually insured, or had employer-sponsored coverage with the employer not paying any of the premium (no subsidy). Thus, as shown in table III.1, about 12.5 million of these individuals could potentially have benefited from the proposed deduction, most of whom—about 10.9 million—were in the 15-percent marginal tax bracket. In addition, about 4.1 million individuals could have qualified for the tax deduction on the basis of their insurance status but could not have benefited because they were in the 0-percent marginal tax bracket.

Table III.1: Estimates of Individual Health Insurance Premium Deductions for Single Tax Filers, 1997

			Net insurance cost after deduction[b]		
Taxable income	Marginal tax bracket	Cost of individual health insurance[a]	At 60-percent deductible	At 100-percent deductible	Estimated number of nonelderly who were uninsured, individually insured, or had employer-sponsored insurance but no subsidy (in millions)[c]
$0	0%	Low: $684 Medium: $2,100 High: $6,384	[d] [d] [d]	[d] [d] [d]	4.1
$1-$24,650	15.0%	Low: $684 Medium: $2,100 High: $6,384	$622 $1,911 $5,809	$581 $1,785 $5,426	10.9
$24,651-$59,750	28.0%	Low: $684 Medium: $2,100 High: $6,384	$569 $1,747 $5,311	$492 $1,512 $4,596	1.3
$59,751-$124,650	31.0%	Low: $684 Medium: $2,100 High: $6,384	$557 $1,709 $5,197	$472 $1,449 $4,405	0.2
$124,651-$271,050	36.0%	Low: $684 Medium: $2,100 High: $6,384	$536 $1,646 $5,005	$438 $1,344 $4,086	[e]
$271,051+	39.6%	Low: $684 Medium: $2,100 High: $6,384	$521 $1,601 $4,867	$413 $1,268 $3,856	[e]

[a]These premiums are examples of actual individual insurance premiums available in 1996. The low premium represents an Arizona preferred provider organization's premium for a 25-year-old healthy male with a $250-deductible plan; the medium premium represents a community-rated fee-for-service plan in Vermont with a $1,000 deductible; and the high premium represents an urban Illinois fee-for-service plan's premium for a 60-year-old healthy male smoker. Using low, medium, and high premium estimates represents the variation in individual health insurance premiums that existed nationally better than a single "average" premium would have.

[b]If H.R. 2261 becomes law, the deduction will be phased in over a 5-year period, beginning at 60 percent in tax year 2000 and reaching 70 percent in 2001, 80 percent in 2002, 90 percent in 2003, and 100 percent in 2004.

[c]Most individuals with employer-sponsored coverage with the employer paying some, but not all, of the coverage would not have been eligible for a deduction, since over 80 percent of employers that sponsored health insurance for singles also paid more than 50 percent of the premiums.

[d]Not applicable because individuals in the 0-percent marginal tax bracket would not have seen a reduction in the cost of their insurance.

[e]The estimated number was too small to be reliable.

Sources: GAO analysis of March 1998 CPS data and Bureau of the Census estimates of taxable income; premium ranges based on GAO/HEHS-97-8, Nov. 25, 1996.

Table III.2: Estimates of Individual Health Insurance Premium Deductions for Head-of-Household and Joint Tax Filers and Their Dependents, 1997

			Net insurance cost after deduction[c]		
Taxable income for joint tax filers[a]	Marginal tax bracket	Cost of individual health insurance[b]	At 60-percent deductible	At 100-percent deductible	Estimated number of nonelderly who were uninsured, individually insured, or had employer-sponsored insurance but no subsidy (in millions)[d]
$0	0%	Low: $2,940 Medium: $5,664 High: $10,140	[e] [e] [e]	[e] [e] [e]	11.8
$1-$41,200	15.0%	Low: $2,940 Medium: $5,664 High: $10,140	$2,675 $5,154 $9,227	$2,499 $4,814 $8,619	20.5
$41,201-$99,600	28.0%	Low: $2,940 Medium: $5,664 High: $10,140	$2,446 $4,712 $8,436	$2,117 $4,078 $7,301	5.2
$99,601-$151,750	31.0%	Low: $2,940 Medium: $5,664 High: $10,140	$2,393 $4,610 $8,254	$2,029 $3,908 $6,997	1.1
$151,751-$271,050	36.0%	Low: $2,940 Medium: $5,664 High: $10,140	$2,305 $4,441 $7,950	$1,882 $3,625 $6,490	0.3
$271,051+	39.6%	Low: $2,940 Medium: $5,664 High: $10,140	$2,241 $4,318 $7,731	$1,776 $3,421 $6,125	0.5

[a]The income brackets associated with the marginal tax rate categories for head-of-household tax filers in 1997 were lower than for joint tax filers as follows: 15-percent marginal tax rate for taxable income: from $1 to $33,050; 28-percent marginal tax: $33,050 to $83,350; 31-percent marginal tax: $83,350 to $138,200; 36-percent marginal tax: $138,200 to $271,050; and 39.6-percent marginal tax for income exceeding $271,050.

[b]These premiums are examples of actual individual insurance premiums available in 1996 for a family of four. The low premium represents an Arizona preferred provider organization's premium for two parents under 30 years old; the medium premium represents a community-rated fee-for-service plan in Vermont with a $1,000 deductible; and the high premium represents an urban Illinois fee-for-service plan's premium for two parents over 50 years old who smoke. Using low, medium, and high premium estimates represents the variation in individual health insurance premiums that existed nationally better than a single "average" premium would have.

[c]If H.R. 2261 becomes law, the deduction will be phased in over a 5-year period, beginning at 60 percent in tax year 2000 and reaching 70 percent in 2001, 80 percent in 2002, 90 percent in 2003, and 100 percent in 2004.

[d]Most individuals with employer-sponsored coverage with the employer paying some, but not all, of the coverage would not have been eligible for a deduction, since over 90 percent of employers that sponsored single plus one dependent coverage also paid more than 50 percent of the premiums. More than 50 percent of employers that sponsored family coverage also paid more than 50 percent of the premiums.

[e]Not applicable because individuals in the 0-percent marginal tax bracket would not have seen a reduction in the cost of their insurance.

Sources: GAO analysis of March 1998 CPS data and Bureau of the Census estimates of taxable income; premium ranges based on GAO/HEHS-97-8, Nov. 25, 1996.

PROPORTION OF EMPLOYERS PAYING 50 PERCENT OR LESS OF HEALTH INSURANCE PREMIUMS, 1998

Table IV.1 presents information on the proportion of firms that reportedly offered any kind of health coverage to their employees and, of those offering single or family coverage, that subsidized 50 percent or less of single or family coverage. This information is displayed by both industry and firm size. For example, the table shows that about 74 percent of firms in the mining industry offered some kind of health coverage to their employees. Also, of those mining firms offering single coverage, 6 percent subsidized 50 percent or less of the cost of the coverage; of those mining firms offering family coverage, about 30 percent subsidized 50 percent or less of the cost of the coverage.[12] Furthermore, the table shows that the proportion of firms offering coverage increases with firm size, while the proportion of employers paying less than 50 percent of the premium generally declines as firm size increases.

[12]KPMG's survey indicates that the percentage of firms offering single or family coverage was lower than the percentage offering any kind of coverage. This finding may be due largely to the lower response rate of surveyed firms to the specific questions designed to determine whether firms offered single or family coverage. This could also have resulted from a firm's responding that it offered single but not family coverage, or vice versa.

Table IV: Percentage of Employers That Offered Coverage, Paid 50 Percent or Less of Health Insurance Premiums for Single Coverage, and Paid 50 Percent or Less of Health Insurance Premiums for Family Coverage by Industry and Firm Size, 1998

	Percentage offering any kind of coverage	Percentage paying 50 percent or less for single coverage	Percentage paying 50 percent or less for family coverage
Industry			
Construction	49	41.5	60.5
High-tech	47	34.1	29.0
Transportation/utility/ communications	58	17.4	21.9
Service	52	14.7	45.0
Retail	41	13.5	54.5
Wholesale	74	13.3	42.6
Health care	63	12.9	42.6
Manufacturing	72	8.6	31.5
Government	91	8.4	37.0
Finance	71	7.4	34.6
Mining	74	6.0	29.6
Number of employees in firm			
3-9	48	18.0	42.5
10-24	71	15.4	51.2
25-49	84	15.6	50.0
50-199	95	11.5	36.6
200-999	100	5.9	22.8
1,000-4,999	100	2.3	15.7
5,000 or more	100	3.5	7.4

Source: Unpublished special analysis of the 1998 KPMG Annual Survey of Employer-Sponsored Health Benefits by the American Hospital Association's Health Research and Educational Trust.

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