September 2004

# HEALTH COVERAGE TAX CREDIT

# Simplified and More Timely Enrollment Process Could Increase Participation

GAO Accountability · Integrity · Reliability

Highlights

Highlights of GAO-04-1029, a report to the Committee on Finance, U.S. Senate

## Why GAO Did This Study

Congress enacted the health coverage tax credit (HCTC) in 2002 for certain displaced workers receiving income support through the Trade Adjustment Assistance (TAA) program and for certain retirees receiving pensions from the Pension Benefit Guaranty Corporation (PBGC). The HCTC equals 65 percent of the cost of qualified health coverage, which individuals can receive in advance—the Internal Revenue Service (IRS) pays the credit to the qualifying health plan and the individual pays the remaining 35 percent—or by filing for the credit in their federal tax return. GAO was asked to review the implementation of the HCTC and examined, among other issues, how many individuals received it and factors influencing participation, and the type and cost of coverage they purchased. GAO obtained data from federal and state agencies and private health plans.

## What GAO Recommends

GAO suggests that Congress consider amending certain statutory enrollment requirements to expedite individuals' receipt of the HCTC. GAO recommends that IRS, in coordination with other federal agencies, take steps to improve the quality and clarity of enrollment information and the timeliness of enrollment and payment processing. The agencies either agreed with GAO's recommendations or deferred to IRS.

www.gao.gov/cgi-bin/getrpt?GAO-04-1029.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118.

## What GAO Found

For 2003, 19,410 individuals received about $37 million in benefits from IRS for the HCTC for themselves and dependents, with 12,594 (65 percent) claiming the credit on their tax returns rather than receiving it in advance. As of July 2004, about 13,200 individuals were enrolled for the advance HCTC, the majority of whom were PBGC beneficiaries. The number receiving the HCTC remains a small portion of the workers and retirees initially identified as potentially eligible. For example, some potentially eligible individuals may have other health coverage that would disqualify them from receiving the HCTC. Several additional factors may have limited participation to date:

- The advance credit only became available beginning in August 2003.
- The enrollment process is fragmented and complex and requires individuals to meet tax, labor, and health coverage criteria before they can become eligible.
- Eligible individuals must pay the entire premium for about 3 to 6 months while completing eligibility and enrollment requirements and until IRS's first payment is made on behalf of these individuals.
- The health coverage may not be affordable both in terms of an individual's ability to pay the entire premium amount while waiting to receive the advance HCTC and the ability to pay the 35 percent share once payment starts.

Individuals can purchase one of several types of qualifying coverage for the HCTC: the coverage they had through their previous employer or insurance coverage options designated by states (primarily high-risk pools or arrangements with insurers). More than half of recipients chose coverage from their previous employer for the advance HCTC and another 40 percent of advance HCTC recipients enrolled in state-designated coverage options, which were available in 35 states and the District of Columbia as of July 2004. The average monthly premiums (representing both the individual and federal shares) for individuals receiving the advance HCTC were $480 for TAA recipients and $661 for PBGC beneficiaries as of April 2004. The tax credit resulted in an average monthly individual share of $168 for TAA recipients and $231 for PBGC beneficiaries. The premiums paid by advance credit recipients varied widely depending on the coverage purchased, including the type of health plan and the number of individuals covered. The cost of HCTC coverage also was affected by the premium-setting practices of qualified health plans.