

Health Policy Consensus Group

A broad-based group of health policy analysts
including researchers from major market-oriented public policy research organizations

SAMPLE LETTER

April 7, 2000

The Honorable Don Nickles
Senate Hart Room 133
Washington, D.C. 20510

Re: Credits versus deductions for the purchase of health insurance

Dear Senator Nickles:

We would like to speak to the approach taken as part of the Patients' Bill of Rights package of legislation now before Congress to help the uninsured obtain health insurance. We commend you and your colleagues for recognizing the importance of addressing this serious and growing problem and for your efforts to seek solutions.

We commend you for recognizing the importance of addressing the tax treatment of health insurance as a means of expanding access to health coverage.

However, we strongly support tax credits instead of tax deductions, for reasons explained below.

Signatories to this letter are participants in the Health Policy Consensus Group, a task force of leading health care economists and analysts, including researchers at the major market-oriented think tanks. Members have been working together to provide policy advice on free-market health reform since 1993.¹ As we explain in the enclosed Vision Statement, we believe that reforming the tax treatment of health insurance is essential to creating a more efficient and equitable market for medical services and health insurance in the United States.

We believe that, instead of trying to put more regulation on a system already skewed by lack of choice for insurance, Americans should have incentives to purchase their own health insurance. The best "Patients' Bill of Rights" is one

¹ Consensus Group members' positions on the broader issues of health reform are detailed in *Empowering Health Care Consumers through Tax Reform*, published in 1999 by the University of Michigan Press.

that helps them obtain insurance and gives them the power to choose their health plan -- and fire it, if necessary. This will be far more effective than any regulation that is imposed through a Patients' Bill of Rights, which will also raise the cost of insurance -- the question is only by how much -- and make it more difficult for Americans to get needed insurance.

For the great majority of uninsured Americans, the obstacle to obtaining health insurance is cost. As a result, we would like to focus on the important debate over tax credits versus deductions to help the uninsured obtain private health insurance.

A number of initiatives are under consideration that would provide incentives through tax deductions rather than tax credits. We would like to explain why we strongly support the approach of using tax credits rather than tax deductions.

Because of the progressive rate structure of the U.S. income tax system, deductions favor middle- and upper-income individuals and families who are most likely already to have health insurance, and they provide little or no help to those at the lower end of the income scale.

Tax deductions, either above or below the line, will be of no help to families with incomes under \$25,000, who are the most likely to be uninsured. Due to the combined effects of the standard deduction, personal exemptions, and child tax credit, these families often pay no federal income taxes while paying thousands of dollars in payroll taxes. An income tax deduction does nothing to ease the burden of these regressive taxes.

For individuals and families who actually do pay income taxes, even if a 100 percent deduction were available immediately, it still would mean a savings of only 15 percent off the cost of health insurance for those in the lowest tax brackets, far too little to be of help.

The Health Policy Consensus Group emphasizes that the nation's tax policies pertaining to health insurance are regressive, inefficient, unfair, and increase the cost of health care by encouraging wasteful expenditures. We believe that the money spent on deductions, either above or below the line, should be spent instead on a tax credit to give families meaningful help in purchasing private health insurance.

More than 80 percent of the uninsured are working Americans or their dependents; they either can't afford to purchase health coverage on their own with after-tax dollars or they can't afford to pay their share of the premium costs for health insurance their employers may offer. A deduction, even if above the line, will provide virtually no help to most of these families.

The enclosed Vision Statement describes the broader need to address the unfairness of the way the current tax system treats health care expenditures.

Tax credits would be more equitable, and they could be made refundable and targeted to those who are most likely to be uninsured. Further, tax credits toward the purchase of private health insurance would empower consumers to shape the private health insurance market through competition. Individually-based tax incentives also would reduce problems of “job lock” by increasing portability and allowing workers to continue their coverage when changing jobs, taking early retirement, or starting new businesses. Finally, consumers would be able to select the private health care arrangements that best suit their needs and those of their families.

In addition to tax credits for the uninsured, we support other provisions to move toward consumer-oriented health reform, including 1) allowing employees with Flexible Spending Accounts the freedom to rollover unspent funds at the end of the year; 2) extending Medical Savings Accounts and relaxing the rules governing them; and 3) providing incentives for companies to consider offering employees a defined contribution to give them greater flexibility and control in selecting their health insurance policies.

We are united around the principle that we should do no more harm to the health care system. As you consider pending measures, we strongly encourage you to keep this fundamental principle of the medical profession as a prime consideration. Any measures that would increase costs will result in millions more Americans losing their health coverage.

We invite your questions and would be very happy to meet with you to discuss the ideas discussed in this letter and other ideas you may want to explore.

Sincerely,

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