

21. Reducing the Number of Uninsured

ALTHOUGH millions of Americans lack health insurance at some point in the year, the uninsured are a symptom of a larger health care problem. Many Americans fall through the cracks of the current, patchwork health care system, leaving the taxpayers to pick up the tab. Furthermore, while billions of dollars in tax breaks exist for health insurance, these breaks are badly targeted. To create an alternative for those who do not fit into today's system, efforts should be focused on establishing a more efficient and effective health care system that is based on individual choice and market competition.

by *Nina Owcharenko*

Recommendations

1. Offer direct subsidies, in the form of a refundable tax credit, to lower-income working individuals and families for the purchase of private health care coverage. Today's federal and state tax codes already provide enormous tax breaks for health insurance. However, they are badly targeted. For instance, the employer-based tax exclusion, which exempts the value of employer-provided health care coverage from a worker's taxable income, compensates those at higher incomes far more than it compensates those at lower-income levels who are most in need and at greatest risk of becoming uninsured. The current tax exclusion also perpetuates more generous health care coverage in large companies since the more the benefit costs, the more that cost is excluded from the worker's taxable income. Furthermore, those who do not get health care coverage through the place of work do not receive any comparable tax break at all. Instead, they must use after-tax dollars to purchase health care coverage.

While the uninsured can be found among all income levels, a limited budget makes it necessary to target assistance to those who need it first. A new, robust system of individual health care tax credits, if designed correctly and refundable, would enable millions of lower-income Americans to purchase private health care coverage and avoid the likely alternative for this population—an expansion of Medicaid, an unsustainable public health program that is already spread too thin.

Notes

2. Promote greater opportunities for individuals to manage and control their health care spending. The enactment in 2003 of health savings accounts (HSAs), which allow individuals who purchased a high-deductible insurance plan to establish a tax-preferred savings account that allows carryover of unspent funds, was one such step. However, changes should also be considered that would permit individuals to carry over unused flexible spending account (FSA) balances; allow individual ownership of health reimbursement arrangements (HRAs); and permit an employer to contribute to an employee's individual health care policy (defined contribution). These consumer-driven models promote choice, personal responsibility, and individual ownership.

At a time of rising health care costs, individuals should be given the opportunity to make decisions about their health care rather than having to leave it to employers or the government to ration care on their behalf. Ideally, the federal government and employers should be neutral in treatment of health care. They should determine the amounts they want to contribute to health care and allow the individual to choose the best way to apply those funds. The sorts of arrangements described above can help to facilitate this approach, fundamentally changing the roles of the government and employers in financing health care and empowering individuals to manage their own health care decisions.

3. Encourage state innovation to health care reform though federalism. As learned from the Clinton health care debate, it is difficult to advance comprehensive health care reform at the national level. The status quo, however, is also failing. To spur experimentation for real reform from the national level, Washington could give states the incentives and the opportunity to leverage and integrate federal contributions to facilitate innovative health reform in the states. In return, the states would be required to demonstrate the effectiveness of their approach by meeting certain requirements—for example, by reducing the number of uninsured, improving access, and remaining fiscally viable.

A federal one-size-fits-all solution not only raises concerns on the basis of federal pre-emption, but also ignores the diversity of the country as a whole. Thus, encouraging development and experimentation with different approaches to health care reform may be more effective at the state level. At a time of rising health care costs, individuals should be given the opportunity to manage their own health care decisions. Individuals are far better able than employers or government to decide the best way to allocate scarce funds to ration care on their behalf. Consumer-driven arrangements like those discussed above engage individuals in the health care process and enable them to make personal health care choices on their own.

Notes

Facts and Figures

- The U.S. Census Bureau estimates that 45.8 million (15 percent) of Americans were uninsured at some point during 2004. Of the insured, over 60 percent get their coverage through an employer.
- Federal, state, and local governments spent an estimated \$34.6 billion on uncompensated health care for the uninsured in 2004. That spending represents an estimated 85 percent of the total costs of uncompensated care delivered in the United States.
- The value of the employer tax exclusion in 2004 is estimated at \$188.5 billion, but most of the tax benefits from this exclusion go to those with higher incomes. The average value of the exclusion for those earning less than \$10,000 is \$102, while the average value for those earning \$100,000 or more is \$2,780.

This chapter can be read online at issues2006.org/uninsured.

Notes

Additional Reading

Nina Owcharenko, "Health Care Tax Credits: Designing an Alternative to Employer-Based Coverage," Heritage Foundation *Background* No. 1895, November 8, 2005, at www.heritage.org/Research/HealthCare/bg1895.cfm.

Stuart M. Butler, "Reducing Uninsurance by Reforming Health Insurance in the Small-Business Sector," Heritage Foundation *Background* No. 1769, June 17, 2004, at www.heritage.org/Research/HealthCare/bg1769.cfm.