Fact SHEET

INDIVIDUAL TAX CREDITS DO NOT WORK

The President has proposed tax credits to help people purchase health insurance in the individual market. While this type of tax credit would appear to be an easy way to help people gain coverage, the individual market is not the answer for most uninsured people.

Insurers can reject people with health problems

A recent study by the Kaiser Family Foundation had hypothetical consumers with varying health status apply for coverage in diverse insurance markets.[1] The applicants were rejected for coverage 37 percent of the time. The Maryland Insurance Administration found health insurance applicant rejection rates comparable to those found in the Kaiser study: One Maryland plan rejected 32 percent of the 18,000 people who applied for individual coverage in 1998.[2]

Insurers can deny coverage for the very conditions likely to require medical care

For the few hypothetical consumers in the Kaiser study who were offered coverage, only 10 percent of the offers were "clean"—that is, the plans were offered at the standard premium, with no limitations on covered benefits. The rest of the offers had significant limitations on benefits. For example, Frank, a 62-year-old retired salesman who smokes, is overweight, and has high blood pressure, was rejected on 55 percent of his applications and received only two clean offers. Three of the 27 offers he received excluded coverage of his entire circulatory system.

Insurers can charge higher premiums to those in less-than-perfect health

People in poor health also face higher premiums for coverage. For example, one national carrier in the Kaiser study offered the *same* policy to Alice (a 24-year-old who only has hay fever) in Corning, Iowa for $1,471 per year and to Frank (a 62-year-old overweight smoker with high blood pressure) in Miami for just over $30,000 per year—more than a 20-fold difference in price.

Even healthy people can't find $1,000 policies

President Bush has proposed a $1,000 individual tax credit. In a recent Families USA investigation, only three states had $1,000 policies available to a healthy, non-smoking 55-year-old woman.[3] In 19 states, even healthy, non-smoking 25-year-old women could not buy a $1,000 policy.

$1,000 policies have high deductibles and limited coverage

The $1,000 plans that were available for healthy, non-smoking, 55-year-old women were substandard, according to the Families USA study: They all had annual deductibles of $5,000; the coverage offered by these plans was very limited; and benefits such as prescription drugs, emergency services, inpatient hospital services, and mental health were not covered or were very limited.

In the 31 states plus the District of Columbia where plans were offered to healthy, non-smoking, 25-year-old women, those plans were substandard. The deductibles charged for these plans were high. In 15 of the states, the annual deductibles were at least $750; three states had deductibles of $5,000. The coverage offered by these plans was very limited. Benefits such as prescription drugs, emergency services, inpatient hospital services, maternity care, and mental health were not covered in some states and were very limited in others.

Another study found that, as compared with group insurance plans, individual coverage plans were far less likely to offer coverage of prescription drugs, inpatient and outpatient mental health coverage, and well-baby and well-adult care.[4]

Plans with adequate coverage are expensive

The average premium for a standard plan, where available, for a healthy, 55-year-old woman was $4,934. The average premium for a standard plan, where available, for a healthy, 25-year-old woman was $2,459.

People who get sick face prohibitive premium increases

About 20 percent of all people already insured are considered to be in "substandard" health (e.g., having conditions such as cancer or diabetes) by American Medical Security Group Inc., an insurance company that sells individual health policies. These people face *at least* a 37 percent rise in their premium every year that they renew their policy.[5]

Individual tax credits will undermine the employer-sponsored insurance market, where the vast majority of insured Americans obtain their health coverage

Employers may drop health insurance for their employees, wrongly believing workers could use tax credits to purchase coverage in the individual market. In addition, some young and healthy workers may voluntarily opt out of their employer-based coverage to use their tax credit in the individual market. The resulting pool of workers remaining in employer plans will be, on average, older and sicker, driving up the cost of the coverage. This "adverse selection" could cause even more young and healthy workers to depart, further raising premiums. These rising costs could ultimately force employers to stop offering health insurance or to substantially increase the share of premiums employees must pay. Older and less healthy workers could lose their coverage and become uninsured.

Individual tax credits are not cost-effective

Two-thirds of the tax credits may go to people who already have health insurance.[6] The number of uninsured will not be significantly reduced.

Individual tax credits DO NOT WORK

Individual tax credits *appear* to be more helpful to people than they really are. In reality, however, for all the reasons listed above, individual tax credits will provide little help in purchasing plans in the individual market and may harm people who have employer-sponsored coverage.

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[1] Karen Pollitz, Richard Sorian, and Kathy Thomas, *How Accessible Is Individual Health Insurance for Consumers in Less-Than-Perfect Health?* (Washington: The Henry J. Kaiser Family Foundation, June 2001).

[2] Testimony of Steven B. Larsen, Insurance Commissioner, State of Maryland, before the Subcommittee on Health of the House Committee on Ways and Means, April 4, 2001.

[3] In our report, *A 10-Foot Rope for a 40-Foot Hole: Tax Credits for the Uninsured (*September 2001*)*, we used two hypothetical applicants—a 55-year-old woman and a 25-year-old woman. Both hypothetical applicants were healthy non-smokers and, as such, were favorable prospects for coverage. Information was sought on plans in 25 states that cost approximately $1,000, the maximum amount of the tax credit for an individual.

[4] Jon Gabel, Kelley Dhont, Heidi Whitmore, and Jeremy Pickreign, "Individual Insurance: How Much Financial Protection Does It Provide?" *Health Affairs* 21, no. 3 (Web Exclusive: April 17, 2002).

[5] Chad Terhune, "Health insurer's premium practices add to profit surge, roil customers." Wall Street Journal, April 9, 2002.

[6] Jonathan Gruber and Larry Levitt, "Tax Subsidies for Health Insurance: Costs and Benefits," *Health Affairs* 19, no. 1 (January/February 2000).

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