JOINT ECONOMIC COMMITTEE

Senator Sam Brownback, Ranking Republican

December 9, 2009

All the Wrong Incentives: How Democrats' Health Care Reform Proposals Would Harm Workers and Families

1 *First in a series*

House and Senate Democrats have proposed legislation to extend health coverage to an estimated 94% of authorized U.S. residents at a cost to taxpayers of $2.5 trillion over the first ten years of full implementation.[1] *While covering only half the uninsured, these bills would set the U.S. on the path to a single-payer, government-run health insurance system of the sort found in Europe and Canada. In so doing, the proposals would reduce the control of individuals over their health care choices, and would limit the ability of doctors and hospitals to care for patients with the kind of personalized treatments that best suits patients' unique situations. Even more troubling, these proposals would create a series of perverse incentives ultimately harmful to workers, businesses, and the entire economy. Among other things, the bills contain powerful incentives to avoid or reduce work.*

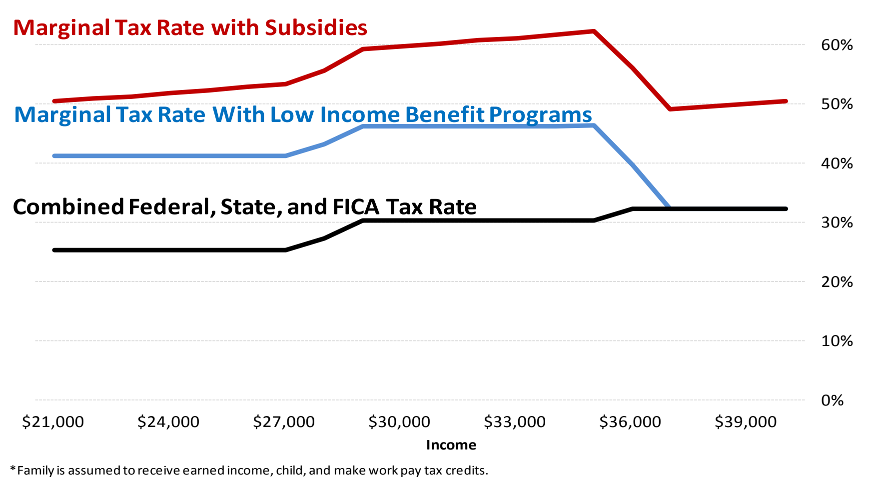
CASE # 1: DISINCENTIVES TO WORK

High Marginal Tax Rates Discourage Work

Both the House and Senate bills would further increase the penalty on work faced by many low-income families who receive tax and in-kind benefits from government welfare programs. The bills' health insurance subsidies for individuals and families between 133% and 400% of the poverty line fall in value as income rises, which means that an increase in earnings (through more hours of work or a pay-raise) results in a higher cost for health insurance. The subsidies would tack on an additional 12% to 20% to marginal tax rates, which already approach 40% to 50% for families receiving cash welfare (TANF), supplemental food assistance (SNAP), and earned income tax credit payments (EITC). Tacking on the additional marginal tax rates caused by subsidies would result in marginal tax rates of 50- 60% for most affected families.

Subsidies Increase Marginal Tax Rates for Low Income Families

Example shown for a low-income family with one adult and one child



*Family is assumed to receive earned income, child, and make work pay tax credits.
Source: JEC Republican Staff Calculations, based on existing tax law and the Patient Protection and Affordable Care Act (H.R. 3590, Reid Substitute)

[1] CBO estimates that 83% of authorized U.S. residents are currently insured.

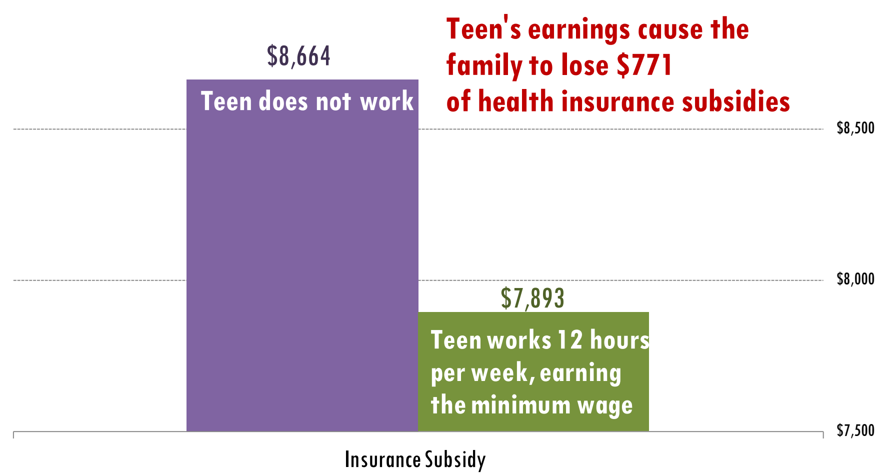
Tax rates this high, particularly on families with very low incomes, not only create considerable work disincentives, but they also impede the ability of low-income families to improve their economic well-being. If working more hours or obtaining a better paying job results in more than half of those additional earnings being taken away as a result of taxes and government welfare programs, the incentive to work harder or to invest in an education is greatly reduced. When faced with excessively high marginal tax rates, it is more likely that rational individuals will choose not to take the measures necessary to increase their income and economic well-being.

Young Workers Discouraged from Working; Their Earnings Reduce Family Health Subsidies

One provision of Senate Democrats' proposed health care bill would target families with children—teenagers or college students—who work and earn income. It is very common for teenagers and college students to obtain jobs so that they can have some spending money of their own or help with their educational expenses. Whereas the measure of income used to determine the eligibility of a family for various low-income benefits does not include the wages of teens and college students, the Senate bill penalizes the families of these younger workers by including their wages in benefit eligibility calculations. For many low- to moderate-income families, the inclusion of a teen or college student's wages could mean a significant increase in their cost of health insurance, or could even result in them losing their health insurance subsidy altogether.

Families Penalized for Teens' Earnings

Inclusion of Teen's Earnings in Income for Subsidies Discourages Children from Working



*Family of four is assumed to earn 250% of the poverty level ($55,125), and teen is assumed to work 12 hours per week at the minimum wage of $7.25/hr.
**For almost all other government program benefits, earnings of a teen or other dependent are not included in household income.
Source: JEC Republican Staff Calculations based on insurance subsidy amounts in the Patient Protection and Affordable Care Act (H.R. 3590, Reid Substitute)

For example, if a family of four earning 250% of the poverty level ($55,125) had a teen or college student who worked at a minimum-wage job for 12 hours per week to help save for college, the family's health insurance subsidy would be reduced by nearly $800. And for any family earning at or close to 400% of the federal poverty level, even minimal earnings from a teen or college student could push their income over the edge for a health insurance subsidy and cause them to lose thousands of dollars ($5,000 for a family of four) in insurance subsidies. Rather than punish the families of young workers who take on jobs, we should encourage these young workers to help contribute to their expenses and to receive an education that will improve their economic well-being.