The Government We Deserve
GENE STEUERLE

November 23, 2009

Can the New Health Subsidies Be Administered?

An old congressional hand once confided that tax legislation usually looks like sausage making, but, compared to health legislation, it starts to look like French cooking. His main *boeuf*? The extraordinary amount of hand waving in health bills due to the questionable assumption that administrators can solve problems the legislation can't.

This round of health reform certainly fits the pattern. As currently drafted, the reform almost defies what we have learned about what can be administered. For starters, no information system right now can accommodate Congress's desire to provide a subsidy anywhere from $100 to $20,000 for families with incomes ranging from almost nothing to roughly $80,000.

Health reform is not just about health care. It's as much about welfare and taxation as it is about health. Health reformers imperil their legislation if they ignore decades of practical experience from administering comparably complex laws and systems.

Under Congress's current plan, families and households would receive subsidies pegged to their income, marital status, number of children, and cost of insurance. To determine your subsidy in 2016 on the basis of your 2016 income, however, is pretty hard since you haven't yet earned it. The idea is to rely on your tax returns—not some onerous welfare-type application. But your 2015 returns often aren't filed until April 2016. So Congress has decided that your 2014 income tax return is the go-to source for info on your income- and family-status eligibility in 2016.

The IRS is supposed to verify your income claims to insurance exchanges, but the details still have to be worked out on what to do when claims are off by a little or a lot, how tax audits or amended returns would lead to later collections or payments, how confidentiality is protected, and how the insurance exchanges and the IRS would trade data as people switch policies and exchanges, and switch from an exchange with a subsidy to employer-provided insurance that doesn't qualify for the new subsidy, and back again.

Optimistically, let's assume that this tortuous process goes smoothly. We still have a problem! Over the course of a year, well over a third of workers suffer a bout of unemployment, leave the workforce, enter it, partially retire, move to part-time employment, get married, get divorced, have a child, or have a child leave home. Congress is worried about the $90,000/year family that doesn't get a subsidy and that suddenly becomes a $50,000/year family that deserves $10,000 in subsidies. Thus, it's allowing people to "reapply" when their family circumstances change significantly—when, say, household income drops by 20 percent.

Who's going to investigate claims of a drop in income or a change in family status to determine eligibility? And what standard will be used? What documents will be provided, and who will audit the millions eligible to reapply?

In the welfare, Food Stamp, and Medicaid systems, people with sudden drops in income report their monthly income to local offices. Often, increases in income are legally or illegally ignored for awhile. Meanwhile, many who are eligible for such programs do not apply.

In the tax system, the earned income tax credit is usually paid out after the end of the year based on last year's income. Attempts to pay it during the year have floundered largely because few know before December 31 what their total annual income will be. Yet, significant errors creep in, despite an elaborate system of reporting wages on W-2 forms and interest and dividends on 1099 forms. For instance, the net income of many self-employed—consider household workers paid in cash—is underreported by 30 percent or more.

For some reason, health reformers think they can do better than the welfare and tax systems and set up what is essentially a whole new transfer and tax system based on past annual rather than current income and then adjusted for changes during the current year. Is this a real possibility or just a dream?

There are alternatives, but they require tough choices if widespread abuse is to be avoided. The most logical fix, in my view, is to provide a fairly level monthly credit for most participants. Then let higher-income people pay back some or all of their credit through the tax system and lower-income people turn to Medicaid or a reformed state-run health care subsidy system for more help. This way, health insurance companies would know for most people the exact amount of monthly credit, which would be based on the age and number of those insured. And variations in benefits and taxes administered by the Medicaid and tax systems could be based on current income, not on income from two years ago.

There may be other ideas out there worth trying too. New health subsidies almost inevitably will add complexity, but let's at least make sure that they can administered and that hard-bought lessons in our welfare and tax systems don't go a-begging.

The Government We Deserve is a periodic column on public policy by Eugene Steuerle, an Institute fellow and the Richard B. Fisher Chair at the nonpartisan Urban Institute. Steuerle is also a former deputy assistant secretary of the Treasury. The opinions are those of the author and do not necessarily reflect those of the Urban Institute, its trustees, or its sponsors.