

# Meeting the Challenge of the Uninsured

by  
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**T**exas faces special challenges in trying to increase access to affordable health insurance for its citizens. The state's large and diverse population, coupled with a highly mobile workforce, makes it difficult for citizens to have reliable access to health insurance.

Texas political leaders, like their counterparts in other states, are looking at legislative solutions. Since the legislature will not meet to address health care bills until next year, the state has an opportunity to explore creative options.

More than 25,000 bills dealing with health care issues are being considered in state capitols around the country this year, with hundreds more before Congress in Washington. These bills are attempting to address a multitude of problems in the health sector, including the growing problem of the uninsured, the high cost of health insurance, and access to specific health services.

Unfortunately, when political leaders tackle these problems, their primary weapons are legislation and regulation. In virtually every other sector of the economy, the American people realize that government regulation drives up prices, restricts innovation, dries up competition, and forces businesses to cater to regulators instead of consumers. That is exactly what is happening in the health sector today.

Federal laws and regulations have woven an intricate web that is turning the health sector into a public utility. As with communications, airline, and utility deregulation, many of the problems in the health sector could be addressed if the regulatory burden were lifted. Instead of more laws and regulations, consumers need more freedom of choice in a more competitive health sector.

## The Galen Gap

Figure 1 is a conceptual depiction of a central problem in the health sector that affects Americans under age 65. The vertical axis of the graph in the logo represents the value of taxpayer support for health insurance and medical services. The horizontal axis represents individual income.

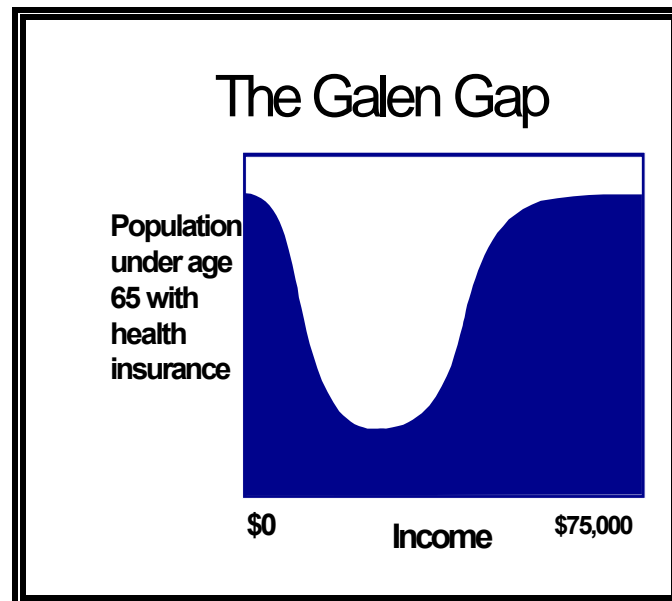


Figure 1

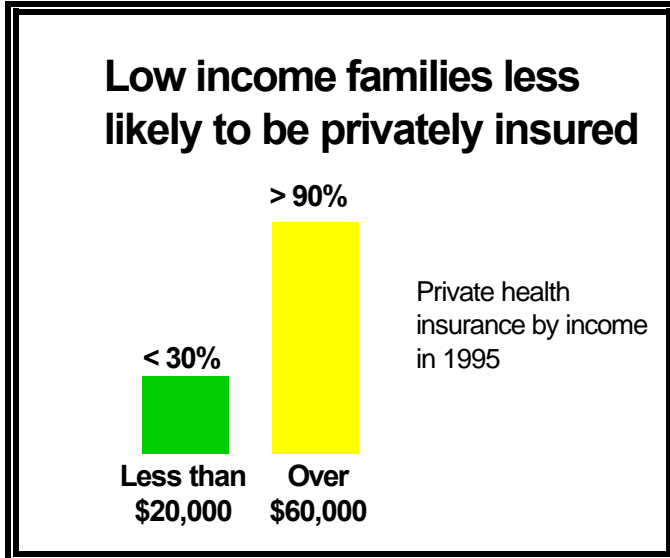


Figure 2

Those with the very lowest incomes (on the left side of the chart) are most likely to qualify for taxpayer-supported health programs, especially Medicaid. But as an individual moves up the income scale (toward the right side of the chart), the likelihood of qualifying for public health programs drops off.

Those who are most likely to be uninsured are working Americans with incomes of less than \$25,000. They are caught in a trough which we call the “Galen Gap.” They earn too much to qualify for public programs but are less likely to have the good jobs that provide health insurance as a tax-free benefit.

As people move up the income scale (on the right side of the chart), they are much more likely to have both the good jobs and the higher incomes to qualify for the generous tax subsidy for employment-based health insurance, worth an estimated \$100 billion a year.

Economist John Shiels of the Lewin Group estimates that the value of tax subsidies for health insurance for someone making \$100,000 a year or more is \$2,357, but the subsidy is worth only \$71 a year for someone making less than \$15,000 a year. That means that the tax code provides a generous subsidy for the purchase of health insurance for the top executive of a company, and little or nothing for the waitress at the corner restaurant or the clerk at the dry cleaner. Congress never would have created such a regressive subsidy system intentionally. It has evolved over the years because of a flaw in tax policy.

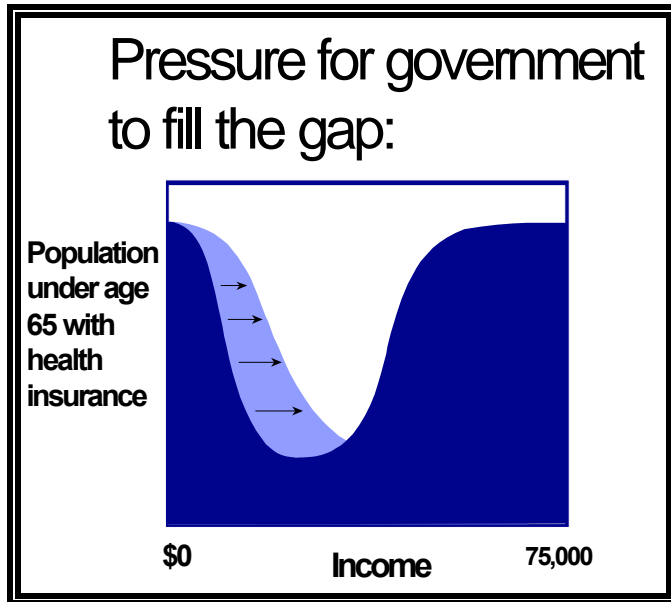


Figure 3

Many who want to expand government’s role in the health sector have been trying to fill the Galen Gap by creating and expanding government programs, such as Medicaid and the State Children’s Health Insurance Program, and trying to expand Medicare to middle-aged Americans.

The Galen Institute works to explore solutions on the right side of the chart by focusing on tax policy. We believe that many more people would have access to medical services and health insurance that would be more affordable and more innovative if the tax treatment of health insurance were reformed.

In Congress, a bipartisan and bicameral plan has been offered that would extend health care coverage to an estimated 27 million employees who are not already covered by employer-sponsored care, and/or whose earnings exceed eligibility thresholds for other federally-sponsored health care programs, via series of federal tax credits. Sponsors of the plan include House Majority Leader Dick Armey (R-TX) and Congressman Calvin Dooley (D-CA), and Senators John Breaux (D-LA), Bill Frist (R-TN) and Jim Jeffords (R-VT).

By providing tax credits directly to individuals for the purchase of health insurance, the federal government would go a long way toward equalizing the playing field for Texans and citizens of every other state who want to purchase health insurance but who cannot afford the full price of the policy.

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State legislatures have an opportunity to begin implementing solutions that will complement federal efforts and empower people, not politicians, to make choices in obtaining more flexible and affordable health insurance.

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The State Children's Health Insurance Program (S-CHIP) is one such opportunity. This joint federal-state program provides funds to provide children with health insurance coverage. Several states have found that they can cover more children through private insurance than by expanding Medicaid, the health program for the poor.

Utah, for example, asked private insurers in the state to bid on providing coverage to children through the program. Four private insurers are participating, and the parents of uninsured children have their choice of plans. Gov. Michael Leavitt (R-UT) says children on S-CHIP get "health insurance that's just as good as the governor's children get, and we are covering twice as many kids as if we had expanded Medicaid."

Texas could create a similar program and also could take advantage of a provision in the S-CHIP legislation that would allow families to be covered by private health insurance if it would cost no more than covering the children in that family.

Texas could also submit a request to the administrators of S-CHIP in Washington to give lower income working parents a voucher to add their children to health plans they may receive at work, as Massachusetts has done.

Texas can be a partner in solving its unique problems by focusing the dollars where they are most needed: (1) by helping people who are trying to get off welfare but are fearful that if they make too much they will lose their health benefits, (2) by helping parents add their children to their health plans at work, and, (3) by easing regulations and mandates that drive up the cost of insurance and drive insurers out of the market.



Grace-Marie Arnett is President of the Galen Institute, a public policy research organization based in Alexandria, Virginia, ([www.galen.org](http://www.galen.org)). She is the editor of *Empowering Health Care Consumers through Tax Reform*, recently published by the University of Michigan Press.

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The Galen Institute's research and public education efforts focus on:

- Tax reform so more Americans can own their own health insurance policies.
  - Untangling red tape so individuals and their doctors, not legislators and bureaucrats, control health care decisions.
  - Policy changes that promote choice and competition in the health sector.
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