

REPORT OF THE COUNCIL ON MEDICAL SERVICE

CMS Report 11 - A-03
(June 2003)

Subject: Health Coverage Tax Credit Program Under the Trade
Act of 2002

Presented by: Cyril "Kim" Hetsko, MD, Chair

Referred to: Reference Committee A
(Kevin T. Flaherty, MD, Chair)

1 In August 2002, the Trade Act of 2002 (P.L. 107-210) was signed into law. Title II of the Act
2 contained provisions that provide for federal tax credits for the purchase of health insurance for two
3 groups of individuals without such insurance: workers who have lost their jobs due to the effects
4 of international trade and Pension Benefit Guaranty Corporation (PBGC) beneficiaries. In
5 particular, the Internal Revenue Code was amended to allow for a refundable tax credit of 65% of
6 the health insurance costs for qualified individuals and family members. The Department of the
7 Treasury is responsible for administering the federal tax credits under its Health Coverage Tax
8 Credit program. The Act provides approximately \$610 million in tax credits and grants over a five-
9 year period.

10
11 A key component of the AMA's proposal to expand health insurance coverage and choice is
12 support for refundable, advanceable tax credits that are inversely related to income (Policies
13 H-165.920 and H-165.865, AMA Policy Database). Accordingly, the Council on Medical Service
14 believes that the Health Coverage Tax Credit program being developed by the Department of
15 Treasury in response to the relevant provisions of the Trade Act is an important and positive
16 development.

17
18 This report provides a summary of the key provisions of the Trade Act, highlights relevant AMA
19 policy, and presents several recommendations.

20 21 KEY PROVISIONS OF THE TRADE ACT OF 2002

22
23 The Trade Act of 2002 provides assistance to displaced workers (i.e., individuals participating in
24 the Trade Adjustment Assistance [TAA] program) and individuals receiving PBGC payments (i.e.,
25 people receiving PBGC pension payments who have reached age 55 and are not eligible for
26 Medicare) with the purchase of health insurance. The primary mechanism for such assistance is a
27 federal tax credit that is equal to 65% of the amount paid by the eligible individual for coverage for
28 the individual and qualifying family members under qualified health insurance. The government's
29 share (65% of the premium amount paid by the individual) will be combined with the eligible
30 individual's payment of the 35% and paid on a monthly basis to the qualified health plan in which
31 the individual has enrolled. The health insurance categories that automatically meet the Act's
32 definition of "qualified health insurance" are as follows:

- 33
34 • COBRA: any continuation coverage that the eligible individual has under the federal
35 Consolidated Omnibus Budget and Reconciliation Act of 1985 (COBRA).
36

- 1 • Spouse's Coverage: coverage under a group health plan that is available through the
2 employment of the eligible individual's spouse, if the spouse's employer contributes less than
3 50% of the total cost of coverage for the spouse, the eligible recipient, and any dependents.
4
- 5 • Individual Health Insurance: coverage under individual health insurance if the eligible
6 individual was covered under the insurance during the entire 30-day period that ended on the
7 date that the individual became separated from the employment that qualifies the person as a
8 TAA or PBGC recipient.
9

10 Under the Act, states also may choose to offer the following health insurance coverage options that
11 would qualify for the tax credit:
12

- 13 • State COBRA/Continuation Coverage: any state-based continuation coverage in a group plan
14 that is obtained under a state law that requires such coverage. For example, as noted in
15 Council on Medical Service Report 3 (A-03), which is before the House of Delegates at this
16 meeting, 38 states have laws that extend COBRA-like provisions to small employers.
17
- 18 • State High Risk Pool: coverage that is offered through a state high risk pool that is otherwise
19 open to "HIPAA eligibles" without imposing a preexisting condition exclusion. Twenty-four
20 states currently have high risk pools that qualify for this option.
21
- 22 • State Employee Health Plans: coverage that is offered under an existing state employee health
23 insurance program.
24
- 25 • Comparable State Employee Health Plans: coverage that is offered under a new state-based
26 health insurance program that is comparable to the health insurance program offered to state
27 employees.
28
- 29 • State Arrangements: coverage that is offered to the individual, or with a group health plan
30 (including multi-employer plans) through an arrangement entered into by the state with an
31 issuer, administrator, or employer.
32
- 33 • Purchasing Pool: a state arrangement for coverage that is provided through a private sector
34 purchasing pool (e.g., modeled after the Federal Employees Health Benefits Program).
35
- 36 • Other State Plans: coverage that is provided through a state operated health plan that does not
37 receive any federal financial assistance.
38

39 With respect to the formation of high risk pools, the Act makes grants available, through the
40 Centers for Medicare and Medicaid Services, to each state that has not yet created a risk pool, or
41 whose existing risk pool has not yet qualified. Similarly, matching grants to cover up to 50% of
42 losses incurred by the state in operating such a risk pool are also available.
43

44 In addition, states that choose to design and administer these additional health coverage options are
45 eligible for National Emergency Grants (NEG). The first type of NEG is available to assist eligible
46 TAA and PBGC recipients, on an interim basis, in paying up to 65% of the premiums for qualified
47 health insurance (i.e., equivalent to the Federal share under the tax credit) until the advance tax

1 credit mechanism becomes available in August 2003. The second type of NEG is available to
2 provide resources to assist the states with the start-up and administrative costs relating to
3 enrollment of qualified health insurance plans (e.g., eligibility verification, certification,
4 notification of eligible individuals). The Department of Labor is responsible for administering both
5 types of NEG's.

6
7 RELEVANT AMA POLICY

8
9 Current AMA policy supports individually selected and individually owned health insurance as the
10 preferred method for people to obtain health insurance coverage (Policy H-165.920[5]); supports
11 replacing the present exclusion from employees' taxable income of employer-provided health
12 expense coverage with tax credits for individuals and families (Policy 165.920[12]); and states that
13 tax credits are preferred over public sector expansions as a means of providing coverage to the
14 uninsured (Policy H-165.920[17]). In addition, the AMA has established a series of principles to
15 guide the replacement of the present exclusion from employees' taxable income of employer-
16 provided health expense coverage with tax credits (Policy H-165.865). Key among the principles
17 are that tax credits should be contingent on the purchase of health insurance, should be refundable,
18 and should be of a size that is inversely related to income.

19
20 DISCUSSION

21
22 In January 2003, the Council on Medical Service met with an official of the Centers for Medicare
23 and Medicaid Services who is providing assistance to the Department of Treasury in its
24 implementation of the Health Coverage Tax Credit program. It has been estimated that as many as
25 260,000 people nationwide may be able to claim a tax credit for health insurance coverage during
26 2003. Combined with qualifying dependents, this means more than 500,000 people could benefit
27 from the Health Coverage Tax Credit program.

28
29 At the time that this report was written, Treasury Department officials were working with a variety
30 of state governments to facilitate their respective participation in the Health Coverage Tax Credit
31 program. The states play a critical role in the administration of the assistance provided under the
32 Tax Act of 2002. Of particular importance to the success of this program are state efforts to ensure
33 the availability of coverage for which the assistance can be used, making eligible individuals aware
34 of the program, and increasing the options available to them.

35
36 Earlier this year, the governors of all 50 states received guidance for elections of qualified health
37 insurance under the Trade Act of 2002. The purpose of the guidance, which was sent jointly by the
38 Secretaries of the Treasury, Labor, and Health and Human Services, was to inform the states of the
39 program and to explain their role in making health insurance options available to eligible
40 individuals.

41
42 As previously noted, refundable and advanceable tax credits are a key component in the AMA's
43 health insurance reform proposal. As a result, the Council is strongly encouraged by the provision
44 of federal tax credits under the Health Coverage Tax Credit program, and believes that it provides
45 an important "stepping stone" for further tax credit programs. In its 2004 budget proposal, for
46 example, the Bush Administration has proposed spending \$89 billion over 10 years for the further
47 expansion of coverage to the uninsured through the use of tax credits.

48

1 Accordingly, the Council believes that state medical associations should take an active role in
2 encouraging their respective state governments to participate in the Health Coverage Tax Credit
3 program, and to expand the state coverage options available under the program. The Council also
4 believes that the AMA should inform physicians of Health Coverage Tax Coverage program and
5 encourage them to help make eligible patients aware of the program.

6

7 RECOMMENDATIONS

8

9 The Council on Medical Service recommends that the following be adopted and the remainder of
10 the report be filed:

11

- 12 1. That the AMA urge state medical associations to encourage their respective state
13 governments to actively participate in facilitating the implementation of the Health
14 Coverage Tax Credit program under the Trade Act of 2002, and to seek to expand state
15 coverage options available under the program. (Directive to Take Action)
- 16
- 17 2. That the AMA inform physicians of the Health Coverage Tax Credit program under the
18 Trade Act of 2002, and encourage them to help make eligible patients aware of the
19 program. (Directive to Take Action)