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## GEORGIA'S TAX BREAKS TO INCREASE USE OF HEALTH SAVINGS ACCOUNTS DID NOT EXPAND HEALTH COVERAGE

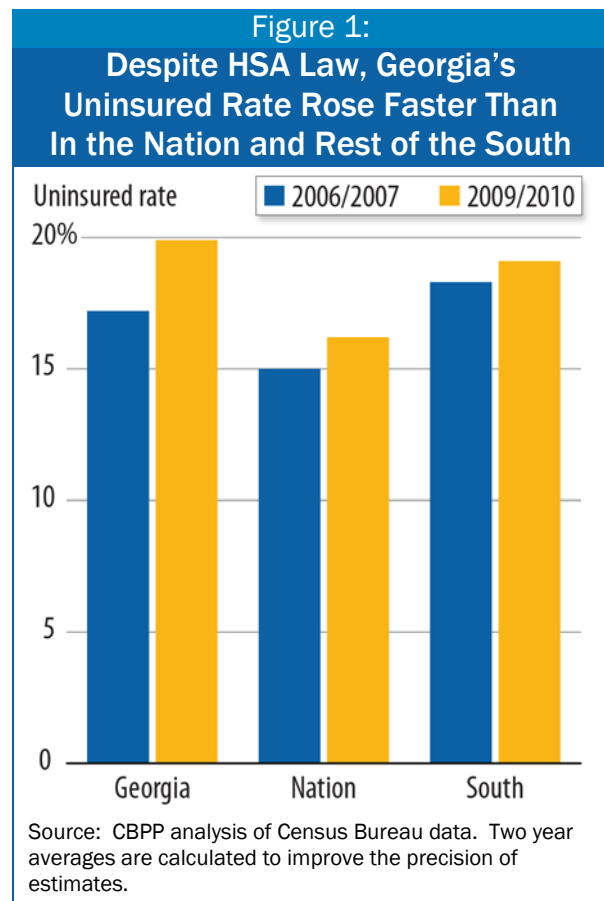
### Plan Promoted by Gingrich Group Has Failed to Deliver

By Jesse Cross-Call and Matt Broaddus

New data show that an approach to covering the uninsured that Newt Gingrich's Center for Health Transformation (CHT) largely designed and heavily promoted to Georgia policymakers — and that Georgia adopted in 2008 — has failed to produce the promised results.

The Georgia plan features multiple tax breaks to expand the use of Health Savings Accounts tied to high-deductible insurance plans. CHT claimed it would reduce the number of uninsured Georgians dramatically, but instead, the percentage of Georgians without insurance has substantially *increased*. In fact, since the law's enactment, the ranks of the insured have risen more rapidly in Georgia than in the rest of the South and in the nation as a whole (see Figure 1).

- Gingrich's group claimed the legislation would reduce the number of uninsured Georgians by 500,000. That number has instead increased by 319,000.<sup>1</sup>
- To be sure, the percentage of people who are uninsured has risen nationwide due to the economic downturn and the continued erosion of employer-sponsored insurance. Also, to be sure, unemployment rose a bit more in Georgia than in the rest of the South or the nation as a whole. Having said that, the percentage of people who are uninsured has risen *much* faster in Georgia than elsewhere. The percentage of Georgians without insurance rose from 17.2



<sup>1</sup> On average, some 319,000 more Georgians were uninsured in 2009 and 2010, the latest years for which these data are available, than in the two-year period preceding the law's enactment (2006-2007).

percent during the two-year period (2006/2007) before the law's enactment to 19.9 percent during the two-year period for which the most recent data are available (2009/2010). This increase is more than three times larger than the increase in the rest of the South, where the percentage of people without insurance rose from 18.3 percent to 19.1 percent. It is more than double the increase in the nation as a whole, where the percentage of people without insurance rose from 15 percent to 16.2 percent.<sup>2</sup>

These findings are relevant to ongoing debates over how to cover the uninsured. Not only Newt Gingrich, but also Presidential candidates Mitt Romney and Rick Santorum, as well as conservative policy organizations like the National Center for Policy Analysis, have called for repealing the Affordable Care Act and expanding Health Savings Accounts as a key part of the alternative.<sup>3</sup>

## The Georgia Law

Promoted by the Center for Health Transformation,<sup>4</sup> the Georgia law established a series of tax breaks for high-deductible health insurance plans that people purchasing the plans can pair with an HSA. It exempted from the state's taxes on health insurance premiums the premiums on these HSA-eligible high-deductible plans. It provided state tax credits to small businesses that offer these plans. And it created a tax deduction for individuals who buy such a plan in the individual health insurance market.<sup>5</sup>

The Center for Health Transformation coordinated a "Georgia Uninsured Working Group," which produced the report that formed the basis for the Georgia legislation. CHT promoted the legislation heavily, claiming it would reduce the number of uninsured Georgians by 500,000 by making high-deductible plans less expensive, which in turn would lead many more individuals and small businesses to enroll in them.<sup>6</sup>

After the Georgia law was enacted, the Center for Health Transformation and other proponents of the Georgia law urged other states to adopt this approach as well, claiming that the law was

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<sup>2</sup> Georgia's unemployment rate rose by 5.6 percentage points, compared to 4.9 percentage points in the rest of the South and five percentage points in the United States as a whole. This somewhat greater increase in unemployment appears to be only one contributing factor to the large increase in the number of uninsured Georgians. Even after adjusting for the difference in growth in the unemployment rate, the increase in the uninsurance rate in Georgia appears to be greater on a statistically significant basis than the increase in the rest of the South.

<sup>3</sup> For Newt Gingrich's health care proposals, which include expanding HSAs, see [www.newt.org/solutions/healthcare](http://www.newt.org/solutions/healthcare). For Mitt Romney's health care proposals, see [www.mittromney.com/issues/health-care](http://www.mittromney.com/issues/health-care). For Rick Santorum's health care proposals, see [www.ricksantorum.com/repeal-and-replace-obamacare-patient-centered-healthcare](http://www.ricksantorum.com/repeal-and-replace-obamacare-patient-centered-healthcare). Also, see John Goodman, "What Would Republican Replacement Look Like?," *National Journal*, January 30, 2012, available at [healthcare.nationaljournal.com/2012/01/what-would-republican-replacem.php](http://healthcare.nationaljournal.com/2012/01/what-would-republican-replacem.php).

<sup>4</sup> See, for example, Ronald E. Bachman, "A Guide for State Legislators: Creating an HSA State," Center for Health Transformation, March 2007.

<sup>5</sup> For more information about the specific tax provisions in the Georgia law, see Judith Solomon, "New Georgia and Florida Health Plans Unlikely to Reduce Ranks of Uninsured," Center on Budget and Policy Priorities, July 1, 2008, and Timothy Sweeney, "Analysis of HB 977," Georgia Budget and Policy Institute, March 2008.

<sup>6</sup> For the working group's report to the state Assembly, see Center for Health Transformation, "Recommendations for Free-Market Solutions to Insure All Georgians for Healthcare," 2008.

sharply reducing the ranks of the uninsured in Georgia. For example, an op-ed by a conservative organization in New Mexico used the CHT number and claimed that Georgia was on a path to cover 500,000 uninsured individuals, and urged New Mexico lawmakers to follow Georgia's lead.<sup>7</sup>

Yet the CHT coverage estimates were deeply flawed, and highly exaggerated, from the start. The Center on Budget and Policy Priorities issued an analysis shortly after the Georgia law's passage pointing out severe flaws in the methodology used to generate the CHT estimate.<sup>8</sup>

CHT asserted that the decline in the ranks of the uninsured in Georgia would be greatest among people with incomes over \$50,000. Census data show that the law has failed with this group, as well, just as it has failed for uninsured Georgians generally. The percentage of Georgians with incomes over \$50,000 who are uninsured *increased* from 7.5 percent before the law was enacted to 10.1 percent in the most recently available data (data for 2009/2010). This is a much larger increase than occurred among this income group nationwide; the percentage of people with incomes over \$50,000 who are uninsured nationally rose from 7.8 percent to 8.6 percent, while in the rest of the South, the percentage increased from 9.5 percent to 10.1 percent.

Furthermore, despite the Georgia law's new tax breaks for high-deductible HSA-eligible plans, the growth in enrollment in those plans appears no different in Georgia than in the country as a whole. Since 2008, the number of people with high-deductible policies eligible for an HSA has grown by an average of 24 percent per year in Georgia compared to a 23 percent growth nationwide, according to an industry study.<sup>9</sup> (These percentage increases are large because they reflect growth off a relatively small base.)

State tax data similarly indicate that Georgians have not moved to high-deductible plans in large numbers as a result of the 2008 law. In 2008, the Georgia State University Fiscal Research Center estimated that state revenues would fall by as much as \$141 million over five years as a result of the law's new subsidies (in part because some individuals who already had insurance would switch from more traditional plans to high-deductible plans).<sup>10</sup> But the actual revenue loss resulting from these tax breaks has fallen well short of the original estimates because far fewer individuals and small businesses are taking advantage of the deductions and credits than projected. Georgia has reported that the law resulted in \$1 million in forgone state premium tax revenue during state fiscal year 2011, only about 7 percent of the projected \$14 million loss. Similarly, the \$250 tax credit for small employers offering high-deductible plans resulted in less than \$1 million in forgone revenue in 2011, compared to a projected loss of more than \$13 million.<sup>11</sup>

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<sup>7</sup> Paul Gessing, "State should follow Georgia's model on health care," *Las Cruces Sun-News*, June 3, 2008.

<sup>8</sup> To generate its estimate, CHT used a ten-year-old CBO analysis of mental health parity legislation that included an outdated estimate of the sensitivity of employer-sponsored coverage to premium increases. CHT also assumed, without any basis, that the cost of high-deductible plans would fall by 41 percent as a result of the law. For more information about the deficiencies in the methodology, see Solomon, *op.cit.*

<sup>9</sup> America's Health Insurance Plans, "January 2011 Census Shows 11.4 Million People Covered by Health Savings Account/ High-Deductible Health Plans (HSA/HDHP)," June 2011.

<sup>10</sup> Georgia Department of Audits and Accounts, Letter to the Honorable Judson Hill, March 25, 2008.

<sup>11</sup> Georgia Department of Audits and Accounts, "Georgia Tax Expenditure Report for FY 2013," December 12, 2011.

One likely reason that the Georgia law did little to expand coverage is that the income tax deduction for the purchase of high-deductible plans does little to make coverage more affordable for most of Georgia's 1.9 million uninsured residents, the majority of whom earn *less* than \$50,000. People who don't earn enough to owe state income tax receive no benefit from the deduction, and because the state income tax rates range from 1 to 6 percent, the deduction provides a subsidy of just one to six cents for each \$1 in insurance premiums.<sup>12</sup> That amount bridges only a small part of the affordability gap for health coverage that uninsured people, most of whom have low or moderate incomes, face.

## Conclusion

Enacting tax breaks favoring high-deductible plans that can be paired with Health Savings Accounts has failed to produce the promised coverage gains in Georgia. Instead, Georgia's uninsured rate has increased markedly, outpacing the rest of the South and the nation as a whole. These findings cast serious doubt on claims that increasing HSA use is central to strategies to expand coverage, and even greater doubt on using HSAs as one of the principal vehicles for providing coverage while repealing the Affordable Care Act, a measure that the Congressional Budget Office estimates will cover 34 million people who would otherwise be uninsured.

The developments in Georgia also supplement the body of findings from earlier studies on the limitations of federal tax breaks related to HSAs, which have shown that the people who benefit most from these tax breaks are people at high income levels, an unsurprising result since the federal tax benefits related to HSAs are heavily tilted toward those individuals. Contributions to HSAs are tax-deductible, so the higher an individual's federal income tax bracket, the greater the value of the tax benefit. Lower- or middle-income people in the 10 or 15 percent tax bracket receive a subsidy of 10 or 15 percent for their HSA contributions, and people who owe no federal income tax receive no subsidy at all while the largest subsidies by far go to people in the top income tax brackets.<sup>13</sup>

Finally, there is a growing body of evidence that families covered by high-deductible plans are more likely to forgo or delay health care because of the care's cost. This trend has been found to be pronounced among lower-income families and people with chronic health conditions, and it has been found to be associated with increased stress, loss of time at work or school, and temporary disability.<sup>14</sup>

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<sup>12</sup> In Georgia, the state income tax rate starts at 1 percent for the first \$750 of taxable income for individuals and \$1,000 for married couple filing jointly, rising to 6 percent for taxable income in excess of \$7,000 for individuals and \$10,000 for married couples filing jointly. The standard deduction is \$2,300 for an individual or head of household and \$3,000 for a married couple filing jointly. Additionally, the personal exemption is \$2,700 for an individual or head of household and \$3,000 for each dependent.

<sup>13</sup> For more background on Health Savings Accounts, see Edwin Park, "Informing the Debate About Health Savings Accounts: An Examination of Some Misunderstood Issues," Center on Budget and Policy Priorities, June 13, 2006.

<sup>14</sup> Alison Galbraith, et al., "Delayed and Foregone Care for Families With Chronic Conditions in High-Deductible Health Plans," *Journal of General Internal Medicine*, January 2012. Also, see Jeffrey Kullgren, et al., "Health Care Use and Decision Making Among Lower-Income Families in High-Deductible Health Plans," *Archives of Internal Medicine*, November 22, 2010 and Paul Fronstin and Sara Collins, "Findings from the 2007 EBRI/Commonwealth Fund Consumerism in Health Survey," Commonwealth Fund, March 2008.