



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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MAKING HEALTH INSURANCE AFFORDABLE FOR MORE AMERICANS

Examples under President Bush's Standard Deduction Health Insurance Plan

Example 1: An uninsured family of four

Note: All figures are for 2009, the first year the policy is in effect.

Family #1

- A family of four earns \$60,000 in total compensation, but all of it comes in the form of wages, i.e. they do not get health insurance through their employer.
- On the non-group market, they would pay \$5,100 for an average policy, and \$4,100 for a basic low-cost policy.¹
- Under current law, the family receives no tax benefit for purchasing health insurance and is treated unfairly relative to those workers who receive health care through their employer.

President's Proposal:

- If this family buys health insurance, they deduct \$15,000, which reduces their taxable income from \$60,000 to \$45,000. This deduction lowers their taxes (income and payroll) by \$4,545.
- If this family bought an average policy (\$5,100), the cost of the insurance would, in effect, drop to \$555 ($\$5,100 - \$4,545 = \555).
- If this same family bought the basic low-cost policy (\$4,100), the family would get back \$445 ($\$4,100 - \$4,545 = -\445); they end up with \$445 more than if they remain uninsured!

¹ The parents of the two children are assumed to be 35 years old in 2009.

	Current law	President's Policy
Total compensation	\$60,000	\$60,000
Wages	\$60,000	\$60,000
Employer-provided health insurance	none	
New standard deduction for health insurance	n/a	\$15,000
Taxable income if they buy health insurance	\$60,000	\$45,000
Tax savings if they buy health insurance	0	\$4,545
Cost of health insurance (average policy)	\$5,100	\$5,100
Net after-tax cost of buying the basic policy	\$5,100	\$555
Effect of President's policy on after-tax price of insurance		-89%
Cost of health insurance (basic policy)	\$4,100	\$4,100
Net after-tax cost of buying the basic policy	\$4,100	\$-445

Example 2: A family of four that now gets health insurance through work

Note: All figures are for 2009, the first year the policy is in effect.

Family #2

- Now consider a family of four with the same \$60,000 in total compensation, but \$14,000 of it comes in the form of an employer-based insurance policy, of which the employer pays \$10,000 and the employee contributes \$4,000 on a pre-tax basis.
- This family has the same total compensation as in example 1, but their wages (and taxable income) would be \$46,000.
- Under current law, if this family switched to a less expensive basic insurance policy with a \$6,000 premium, they would receive \$8,000 more in wages, but they would have to pay 30.3% taxes on it (15% income + 15.3% payroll). So they would, in effect, get only \$5,576 higher wages for giving up \$8,000 of insurance. This is why the family probably does not switch to a less expensive insurance plan under current law – it’s not worth it.

President’s Proposal

- If the family changed nothing, their wages would still be \$46,000, but their taxable income would fall to \$45,000, and they would pay \$303 *less* in taxes after the standard deduction.
- If instead the family switched to a less expensive policy with a \$6,000 premium, they would get the same tax savings (\$303), but would receive \$8,000 more in wages. This family has given up \$8,000 of insurance premium for \$8,000 more in wages. They are much more likely to choose less expensive health insurance and higher wages.

	Current law	President’s Policy	President’s policy, but the family trades low cost health insurance for higher wages
Total compensation	\$60,000	\$60,000	\$60,000
Wages	\$46,000	\$46,000	\$54,000
Employer’s contribution to health insurance premium	\$10,000	\$10,000	\$6,000
Worker’s premium contribution	\$4,000 ¹	\$4,000	\$0
Taxable income before applying the standard deduction	\$46,000	\$60,000	\$60,000
New standard deduction for health insurance	n/a	\$15,000	\$15,000
Taxable income since they have health insurance	\$46,000	\$45,000	\$45,000
Wage increase			\$8,000
Tax savings	0	\$303	\$303
Type of health insurance	Average	Average	Basic

¹Under current law, the worker’s premium contribution is assumed to be made on a pre-tax basis through a cafeteria plan.

Example 3: An Uninsured Single Mom with 2 Children

Note: All figures are for 2009, the first year the policy is in effect.

Family #3

- A single mom with two children has \$20,000 of total compensation, all of it coming in the form of wages. If she were to purchase health insurance on the non-group market, she would pay \$5,100 for an average policy, and \$4,100 for a basic low-cost policy.²

President's Proposal

- Under the President's proposal, if this mom were to buy health insurance, she would deduct \$15,000 from her income and payroll taxes. This reduces her taxable income from \$20,000 to \$5,000.
- If she bought the average policy, she would save \$2,531 on her taxes. In effect, the price of the average policy would drop to \$2,569.
- Under the President's proposal, if she bought the basic low-cost policy, she would again save \$2,531 on her taxes. If she buys this basic plan, the cost of insurance would be \$1,569 after taxes.

	Current law	President's Policy
Total compensation	\$20,000	\$20,000
Wages	\$20,000	\$20,000
Employer-provided health insurance	none	
New standard deduction for health insurance	n/a	\$15,000
Taxable income if they buy health insurance	\$20,000	\$5,000
Tax savings if she buys health insurance	0	\$2,531
Cost of health insurance (average policy)	\$5,100	\$5,100
Net after-tax cost of buying the average policy	\$5,100	\$2,569
Effect of President's policy on after-tax price of <i>average</i> insurance		-50%
Cost of health insurance (basic policy)	\$4,100	\$4,100
Net after-tax cost of buying the basic policy	\$4,100	\$1,569
Effect of President's policy on after-tax price of <i>basic</i> insurance		-62%

² The mother is assumed to be 35 years old in 2009.

Example 4: A family of four that now gets health insurance through work

Note: All figures are for 2009, the first year the policy is in effect.

Family #4

- A family of four earns \$100,000 of total compensation with an average employer-based insurance policy that costs \$14,000 in 2009, of which the employer contributes \$10,000 and the employee pays \$4,000 on a pre-tax basis. This family's current wages (and taxable income) are \$86,000.
- Under current law, if this family switched to a less expensive basic insurance policy with a \$6,000 premium, they would get \$8,000 in higher taxable wages, but they would have to pay about 41.3% taxes on it (26% income + 15.3% payroll).³ So they would, in effect, get only \$4,696 higher wages after taxes for giving up \$8,000 of insurance. This is why the family probably does not switch to a less expensive plan under current law – it's not worth it.

President's Proposal

- If the family changed nothing, their wages would still be \$86,000, but their taxable income would fall to \$85,000, and they would pay \$413 less in taxes after the standard deduction.
- If instead the family switched to the less expensive policy with a \$6,000 premium, they would get the same tax savings (\$413), and would receive \$8,000 more in wages. This family has given up \$8,000 of insurance premium for \$8,000 more in wages. They are much more likely to choose less expensive health insurance and higher wages.

	Current law	President's policy	President's policy, but the family trades low cost health insurance for higher wages
Total compensation	\$100,000	\$100,000	\$100,00
Wages	\$86,000	\$86,000	\$94,000
Employer's contribution to health insurance premium	\$10,000	\$10,000	\$6,000
Worker's premium contribution	\$4,000 ¹	\$4,000	\$0
Taxable income before applying the standard deduction	\$86,000	\$100,000	\$100,000
New standard deduction for health insurance	n/a	\$15,000	\$15,000
Taxable income since they have health insurance	\$86,000	\$85,000	\$85,000
Wage increase			\$8,000
Tax savings	0	\$413	\$413
Type of health insurance	Average	Average	Basic

¹ Under current law, the worker's premium contribution is assumed to be made on a pre-tax basis through a cafeteria plan.

³ This taxpayer would be subject to the 26 percent alternative minimum tax (AMT) rate.

Example 5: A family of four that now gets health insurance through work

Note: All figures are for 2009, the first year the policy is in effect.

Family #5

- Now consider another family of four with the same \$100,000 of total compensation, but \$20,000 of it comes in the form of an employer-based insurance policy, of which the employer pays \$15,000 and the employee contributes \$5,000 on a pre-tax basis. This family’s current taxable wages are \$80,000.
- Under current law, if this family switched to a less expensive basic insurance policy with a \$6,000 premium, they would get \$14,000 in higher taxable wages, but they would have to pay 40.9% taxes on it (25.6% income + 15.3% payroll).⁴ So they would, in effect, get only \$8,276 more in wages after taxes for giving up \$14,000 of health insurance. This is why the family probably does not switch to a less expensive plan under current law – it’s not worth it.

President’s Proposal

- If the family changed nothing, their wages would still be \$80,000, but their taxable income would rise to \$85,000, and they would pay \$2,007 *more* in taxes.
- If instead the family switched to the average policy with a \$14,000 premium, they would face the same tax increase (\$2,007), but they would have \$6,000 higher taxable wages. This family has given up \$6,000 of health insurance premium for \$6,000 of wages. They are much more likely to choose less expensive health insurance and higher wages.

	Current law	President’s policy	President’s policy, but the family trades low cost health insurance for higher wages
Total compensation	\$100,000	\$100,000	\$100,000
Wages	\$80,000	\$80,000	\$86,000
Employer’s contribution to health insurance premium	\$15,000	\$15,000	\$14,000
Worker’s pre-tax premium contribution (cafeteria plan)	\$5,000 ¹	\$5,000	\$0
Taxable income before applying the standard deduction	\$80,000	\$100,000	\$100,000
New standard deduction for health insurance	n/a	\$15,000	\$15,000
Taxable income since they have health insurance	\$80,000	\$85,000	\$85,000
Wage increase			\$6,000
Tax savings	0	-\$2,007	-\$2,007
Type of health insurance	Expensive	Expensive	Average

¹ Under current law, the worker’s premium contribution is assumed to be made on a pre-tax basis through a cafeteria plan.

⁴ A portion of the \$14,000 would be subject to the 26 percent alternative minimum tax (AMT) rate.