

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)

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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.

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

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21 KEY PROVISIONS OF THE TRADE ACT OF 2002

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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).

- 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

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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

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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.  
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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.

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.

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7 RECOMMENDATIONS

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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)