



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

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## MEMORANDUM

To: Reporters and Editors  
Re: GAO report on the health coverage tax credit  
Da: Monday, Oct. 4, 2004

Sen. Chuck Grassley, chairman of the Committee on Finance, today issued the following comments regarding a new report of the Government Accountability Office (GAO) on the health coverage tax credit ("HCTC") program established by the Trade Adjustment Act of 2002. Sen. Grassley and Sen. Max Baucus, ranking member, requested this report, GAO-04-1029, which can be accessed at [www.gao.gov](http://www.gao.gov).

"For many people, losing their jobs also means losing access to affordable health coverage. When faced with housing, food, and other needs, keeping health care insurance coverage can become out of reach. The HCTC program provides certain displaced workers and Pension Benefit Guaranty Corporation (PBGC) recipients assistance in obtaining health coverage. The program breaks new ground in that it helps these individuals by providing a tax credit in advance to help them offset the cost of health insurance for them and their families. The credit equals 65 percent of the cost of qualified health coverage.

"As with most health care programs, like Medicare, Medicaid, and the State Children's Health Insurance Program, the HCTC has a lot of moving parts. The Internal Revenue Service, Department of Labor, the Centers for Medicare and Medicaid Services, the PBGC, state agencies, and health plans all play a role in its operation. They deserve great recognition for their diligent efforts to make the HCTC available at year end in 2002 and on an advanced basis as of August 2003.

"Senator Baucus and I requested that the GAO examine the program's experience to date. We wanted to know who was taking advantage of the HCTC, what type of coverage was available, and overall, how the program is going, among other questions.

"The GAO report clearly shows that the HCTC was implemented at record speed and is providing valuable health care coverage to thousands of displaced workers and PBGC recipients. The program is a 'first of its kind' effort to provide federal assistance for purchasing health care insurance through the use of a tax credit. In a sense, the HCTC has been a live demonstration of this concept, and it is showing that the tax credit is an effective means for delivering assistance. The

GAO report provides important lessons learned from implementing the HCTC that will guide Congress and the agencies as we work to improve the program. That said, there are a couple of points to bear in mind.

“First, Congress wanted to make the HCTC available as quickly as possible because you don’t know when you might have a serious health problem. Facing a health crisis without insurance would make it all the more worse. The IRS had to acquire the systems and human resources capacity on a very short time frame to implement the HCTC. Congress was aware of the challenges the new program would present when it was enacted, but the necessity of getting the HCTC available to folks in as timely a manner as possible overrode these considerations.

“Second, initially Congress expected that more than 200,000 individuals would be eligible for the HCTC. The GAO reported that not all individuals initially identified as eligible will meet all of the requirements, citing surveys conducted by the IRS. So simply looking at the proportion of individuals receiving the credit compared to initial eligibility numbers will not likely lead to accurate conclusions. In fact, the GAO agreed, noting that determining an actual rate of participation is difficult for this reason. In addition, the enrollment numbers for the HCTC do not reflect all of the dependents who receive the HCTC as well.

“Without a doubt, the GAO found there’s room for improvement, especially when it comes to making people aware of the HCTC program and getting them enrolled. Potential recipients often have to contact two or more agencies. In one case, the GAO found that one agency would refer a potential recipient to another agency only to have that agency refer the individual back to the original agency. That’s an easy recipe for frustration that could cause some people to simply give up. The agencies involved in administering the program clearly need to work on that through better coordination among state and federal agencies involved in enrollment and in providing better information.

“The GAO found that right now, it can take three to six months for an individual to get enrolled in the advanced HCTC. During that time, the recipient has to pay the entire premium. Although those payments can be claimed at year-end, for someone who lost a job that’s a lot of money. We need to examine ways to shorten that time frame.

“While the GAO report did identify some early implementation issues with the HCTC program, it shows that an advanced HCTC program can and is delivering benefits to displaced workers and PBGC recipients. I look forward to working with my colleagues in the coming months to examine the GAO’s recommendations for program improvements and to work with the agencies involved in its operation to make the HCTC program stronger.”