



# JOINT ECONOMIC COMMITTEE

## Senator Sam Brownback, Ranking Republican

December 10, 2009

### All the Wrong Incentives: How Democrats' Health Care Reform Proposals Would Harm Workers and Families

House and Senate Democrats have proposed legislation to extend health coverage to an estimated 94% of authorized U.S. residents at a cost to taxpayers of \$2.5 trillion over the first ten years of full implementation.<sup>1</sup>

**2** Second in a series

While covering only half the uninsured, these bills would set the U.S. on the path to a single-payer, government-run health insurance system of the sort found in Europe and Canada. In so doing, the proposals would reduce the control of individuals over their health care choices, and would limit the ability of doctors and hospitals to care for patients with the kind of personalized treatments that best suits patients' unique situations. Even more troubling, these proposals would create perverse incentives that would discourage marriage, ultimately harming parents, children, and families.

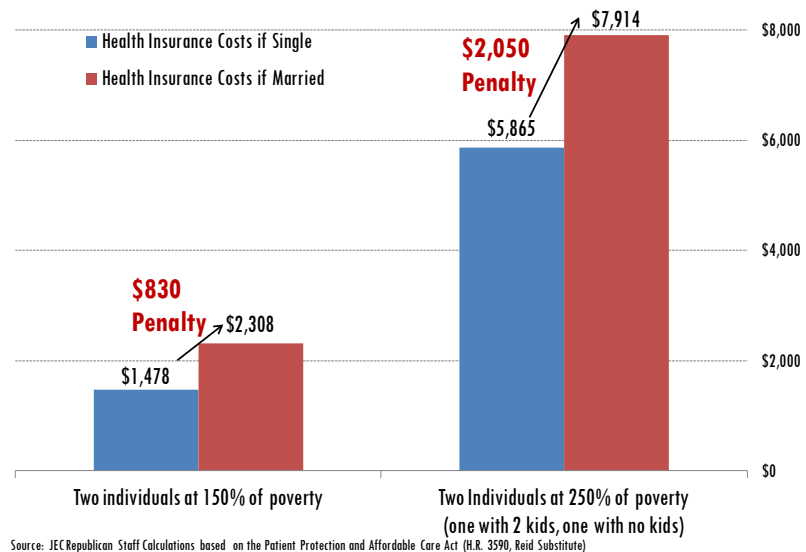
#### CASE #2: DISINCENTIVES FOR MARRIAGE

Marriage has been shown to have tremendous individual and societal benefits. Yet the Democrats' proposed health care legislation would create new marriage penalties for both low- to moderate-income and upper-income individuals and families. These penalties can be so large in some cases that couples might forgo marriage in order to avoid thousands of dollars in new taxes.

#### Subsidies Discourage Marriage

On the lower end of the income scale, the subsidies provided in the bills to individuals and families to purchase health insurance contain severe marriage penalties, and these penalties come on top of those already present under today's tax code. A marriage penalty occurs when married taxpayers filing jointly owe more in taxes than they would if they were unmarried and filing singly. The subsidies in the bills are calculated based on individuals'

#### Health Insurance Subsidies Contain Significant Marriage Penalties



<sup>1</sup> CBO estimates that 83% of authorized U.S. residents are currently insured.

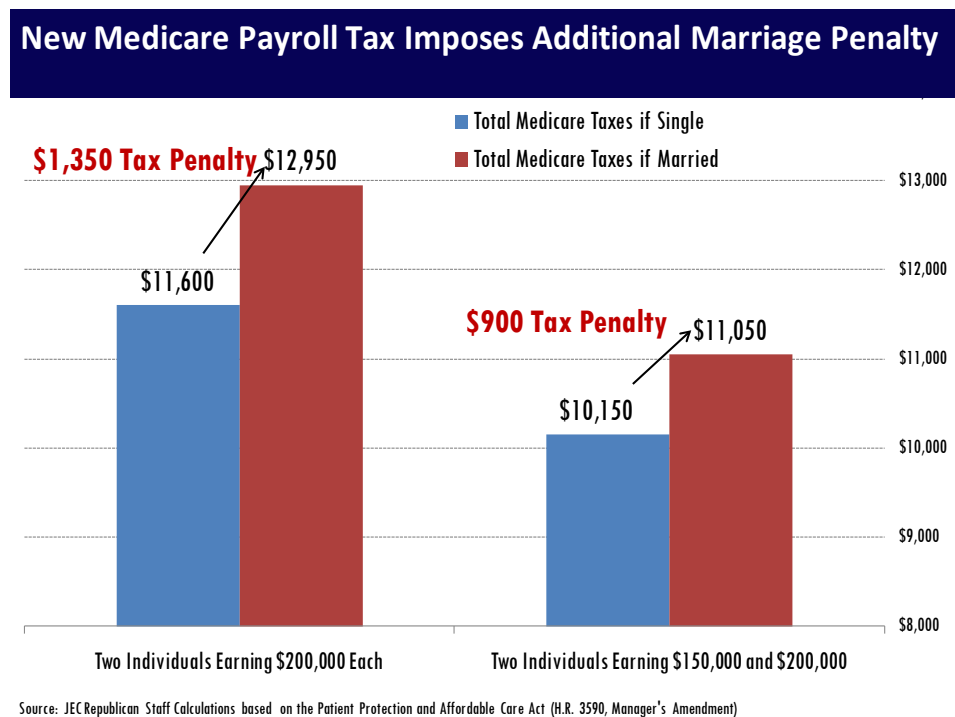
and families' incomes as a percentage of poverty, but poverty levels increase only marginally for each additional person in a household. Therefore, if two single individuals who both earn 150% of the poverty level were to get married, they would have to pay an additional \$830 toward their health insurance. And for two single individuals both earning 250% of the poverty level—one with two children and one without children—the marriage penalty contained in the health insurance subsidies would cause them to pay an additional \$2,050 towards their health insurance.

These marriage penalties are very significant for low- and moderate-income families who often live paycheck to paycheck. Given the already significant marriage penalties in low-income benefit programs, it seems ironic that the government would create yet another program that penalizes low-income individuals for “doing the right thing,” that is, getting married.

### Medicare Surtax Hits Marriage

The Medicare payroll tax is currently 2.9% on all earnings, counting both the employer and employee share. Senate Democrats propose an additional 0.9% surtax on earnings over \$200,000 for singles and \$250,000 for married couples. In addition to creating a new marriage penalty on low-income households

(that is, individuals and families earning up to 400% of the poverty level), the Democrats' Medicare surtax would create a marriage penalty of as much as \$1,350 for dual-income married couples. Although this may be a small percentage of these affected couples' incomes, it does not negate the principle that individuals should not be required to pay more in taxes



simply as a result of marriage. The additional marriage penalty contained in the new Medicare payroll tax adds insult to injury, since upper-income married couples and individuals who are contemplating marriage and who will be hit by this new marriage penalty already face a whole host of marriage penalties that flow from existing income tax brackets and a multitude of provisions in the tax code that phase out and eliminate certain deductions and credits for married couples with higher incomes.