



FISCAL FACT

October 6, 2009
No. 193

Distributional Effects of the House of Representatives' Health Care Reform Bill

By Scott Hodge

Introduction

The health care reform bill that has cleared committee in the House of Representatives, HR 3200, has been praised as the fundamental reform that America's health care system needs and criticized as a step toward government-run health care.

In this *Tax Foundation Fiscal Fact*, we provide a somewhat different look at the bill by focusing on its distributional effects; that is, if it were signed into law as is, we estimate here how much income it would tax from some people to spend on others.¹

Income Redistribution Is at the Heart of Health Insurance Reform

For many champions of the health insurance reform plans currently being debated on Capitol Hill, a major goal is the redistribution of income down the income scale, yet no estimate of the House bill's distributional impact has thus far been done. Using economic analysis of the bill from the Congressional Budget Office (CBO),² this analysis utilizes the Tax Foundation's Fiscal Incidence Microsimulation Model to produce estimates of how income redistribution will change if the bill becomes law. Specifically, we allocate the budgetary amount of tax increases to each family, as well as the budgetary amount of spending changes to each family (see Notes at the end for methodological assumptions).

For fiscal year 2016, the first full year in which the health care bill would be in effect, income redistribution would increase from the very top income groups, due in large part to the proposed surtax on high-income individuals. Most of that new redistribution would be spent on families in the middle of the income spectrum,

¹ This analysis ignores any efficiency gains or losses (i.e. aggregate income growth) resulting from the proposed health care legislation.

² Letter to the Honorable Charles B. Rangel from Douglas W. Elmendorf, dated July 17, 2009. See <http://www.cbo.gov/ftpdocs/104xx/doc10464/hr3200.pdf>.

Scott Hodge is president of the Tax Foundation.

and to a lesser extent to families in the upper-middle and lower-middle income levels. Some families with low incomes would gain, but they are comparatively small because most families at the lower end of the income spectrum are already covered by Medicaid or another government-provided health insurance program.

The two tables and charts below present income redistribution estimates by income group, in a before-and-after format designed to isolate the effect of the health reform plan. First we estimate the amounts of income taken from or given to each income group if all of the policies that President Obama has spelled out in his Budget become law except his health reform plan. Then we estimate how much those levels of income redistribution would change if HR 3200 were signed into law.

Average Redistribution for a Family in Each Income Group

Chart 1 presents the average amount given to or taken from one family in each income group in 2016. For the top 5 percent as a whole (minimum family market income of \$358,193), the average net amount of income taken in 2016 would increase by nearly \$20,000, from \$167,761 to \$187,550 per family. The primary beneficiaries of this additional income redistribution would be middle-income families between the 40th and 60th percentiles. Outside these two deciles in the middle of the income spectrum, the two deciles that benefit the most are the fourth decile (30th-to-40th percentiles) who would gain an average of \$1,230 and the 7th decile (60th-to-70th percentiles).

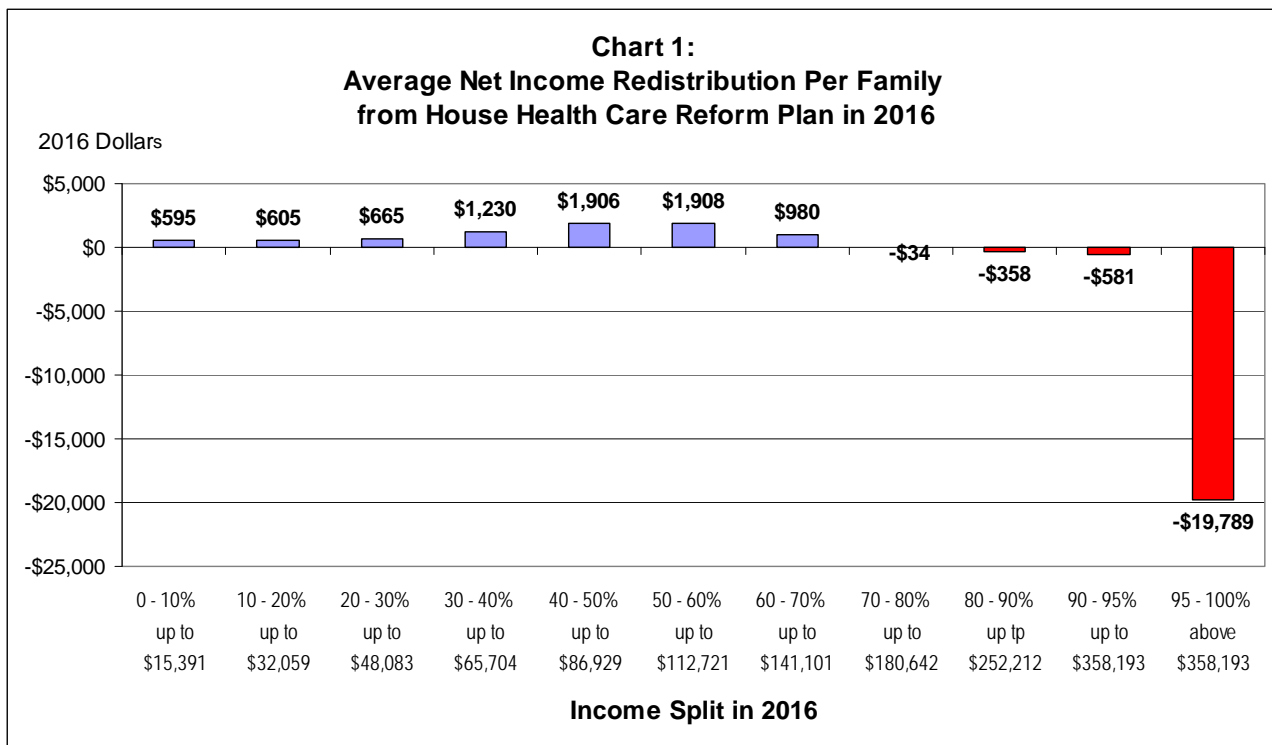


Table 1 shows the estimates in more detail. We estimate that the average amount of income redistributed from the top-earning one percent of American families would increase by \$88,729. That is the difference between \$586,970, the amount that each family in the top one percent will have redistributed from them according to President Obama’s budget except for his health plan, and \$675,698, the amount of redistribution that will occur with all those policies plus the provisions of HR 3200.

Table 1
Distributional Analysis of the House of Representatives' Health Care Reform
Average Amounts Taxed From and Spent on Each Income Group in Fiscal Year 2016

Family Market Income Percentile	Minimum Market Income to Be in This Group	Average Market Income Before Any Redistribution	Post-Redistribution				Average Amount HR3200 Redistributes From (-) or To (+) Each Group
			According to Obama Policy w/o Health Reform		If the House Health Reform Is Made Law		
			Average Income	Redistribution From (-) or To (+) Each Group	Average Income	Redistribution From (-) or To (+) Each Group	
0 – 10%	\$ 0	\$ 6,517	\$ 28,340	+ \$ 21,823	\$ 28,935	+ \$ 22,418	+ \$ 595
10 – 20%	\$ 15,391	\$ 23,674	\$ 37,618	+ \$ 13,944	\$ 38,223	+ \$ 14,549	+ \$ 605
20 – 30%	\$ 32,059	\$ 40,012	\$ 50,643	+ \$ 10,631	\$ 51,309	+ \$ 11,297	+ \$ 666
30 – 40%	\$ 48,083	\$ 56,420	\$ 64,602	+ \$ 8,182	\$ 65,832	+ \$ 9,412	+ \$ 1,230
40 – 50%	\$ 65,704	\$ 75,894	\$ 82,788	+ \$ 6,894	\$ 84,694	+ \$ 8,800	+ \$ 1,906
50 – 60%	\$ 86,929	\$ 99,391	\$ 104,444	+ \$ 5,053	\$ 106,352	+ \$ 6,961	+ \$ 1,908
60 – 70%	\$ 112,721	\$ 126,266	\$ 126,695	+ \$ 429	\$ 127,674	+ \$ 1,408	+ \$ 979
70 – 80%	\$ 141,101	\$ 159,448	\$ 155,155	– \$ 4,293	\$ 155,122	– \$ 4,326	– \$ 33
80 – 90%	\$ 180,642	\$ 210,818	\$ 199,942	– \$ 10,876	\$ 199,584	– \$ 11,234	– \$ 358
90 – 95%	\$ 252,212	\$ 295,639	\$ 279,039	– \$ 16,600	\$ 278,458	– \$ 17,181	– \$ 581
95 – 99%	\$ 358,193	\$ 519,162	\$ 457,767	– \$ 61,395	\$ 455,471	– \$ 63,691	– \$ 2,296
99 – 100%	\$ 917,709	\$ 2,712,382	\$ 2,125,413	– \$ 586,969	\$ 2,036,684	– \$ 675,698	– \$ 88,729
All Families	–	\$ 117,701	\$ 117,701	–	\$ 117,701	–	–

Exhibit:

Top 20%	\$ 180,642	\$ 420,170	\$ 368,623	– \$ 51,547	\$ 363,349	– \$ 56,821	– \$ 5,274
Top 10%	\$ 252,212	\$ 629,358	\$ 537,172	– \$ 92,186	\$ 526,987	– \$ 102,372	– \$ 10,186
Top 5%	\$ 358,193	\$ 963,030	\$ 795,268	– \$ 167,761	\$ 775,480	– \$ 187,550	– \$ 19,789
Top 1%	\$ 917,709	\$ 2,712,382	\$ 2,125,413	– \$ 586,969	\$ 2,036,684	– \$ 675,698	– \$ 88,729

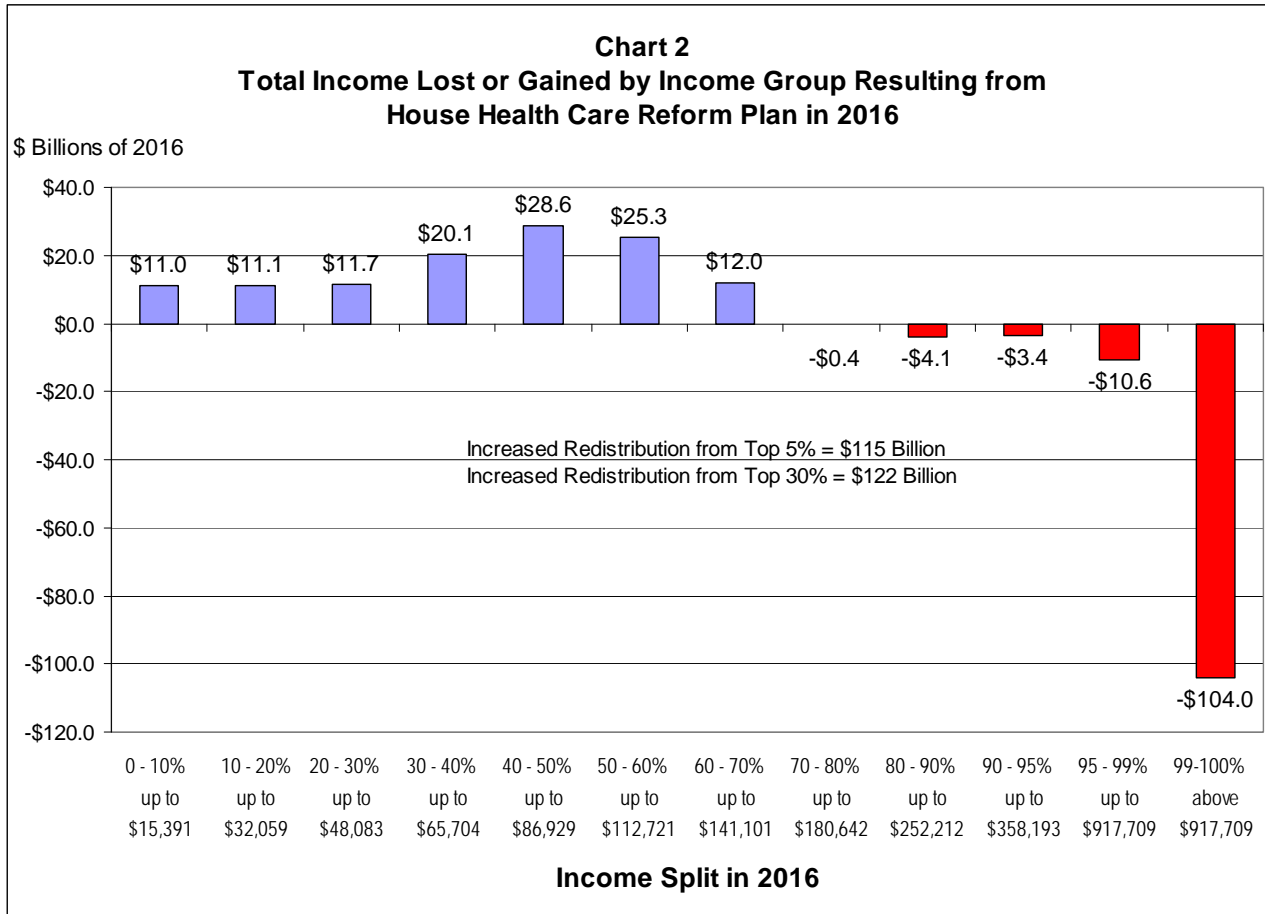
Notes: These estimates use economic assumptions spelled out in a methodology paper. See “Tax Foundation Working Paper, No. 7, “Methodology of the Tax Foundation’s Fiscal Incidence Project.” The deficit is assumed to be financed by combination of higher taxes and reduced spending on today’s families. Savings from Medicare and Medicaid are distributed as follows: 50 percent allocated based upon share of capital income and 50 percent of amount allocated based upon calculated benefit share of Medicare and Medicaid spending.

For the middle 20 percent, we estimate that post-redistribution incomes would increase the greatest as a result of the health care bill. For example, in the middle 20 percent of the income distribution, the health care bill would increase the average amount of redistribution by \$1,907.

For families at the bottom of the income distribution, redistribution would increase somewhat as a result of the House’s health care bill. Redistribution to those in the bottom decile (bottom 10 percent) would increase by an average of \$595 per family, while redistribution to those in the second and third deciles would increase by about \$605 and \$665 per family, respectively. Finally, the fourth decile (30th – 40th percentiles) would see an increase in income redistribution from the health care bill by an average of \$1,230 per family.

Total Redistribution for Each Income Group

Chart 2 and Table 2 present the totals for each income group. In the aggregate, the amount of additional income redistributed from the top 30 percent to the bottom 70 percent by the House health care plan would be \$122 billion, the majority of which would come from families in the top-earning 5 percent.



The deciles that gain the most in total are the same as those that gain the most on average: the four in the middle from the 30th to the 70th percentiles. However, the total amounts are not a mirror image of the average amounts because there are an equal number of people in each decile, not an equal number of families. In general, family size increases with income. Two-earner families are most numerous in the upper-middle and upper-income groups, and low-income singles, each counting as a family unit, predominate in the lower-income groups. As a result, the lower-income groups appear to do better in the aggregate than on average because the totals are divided up among more families. At the high end, the reverse is true: redistribution seems more dramatic on average than in the aggregate.

Table 2 presents aggregate data in the same before-and-after format as Table 1. In FY 2016, the top-earning ten percent of the nation’s families is expected to earn about \$7.3 trillion dollars in market income. Of that, almost \$1.1 trillion will be redistributed down the income scale if all of President Obama’s policies become law except for health reform. If in addition to those policies, health insurance reform becomes law in the form of HR 3200, an additional \$117 billion will be redistributed, and the total income redistribution will increase to approximately \$1.2 trillion that year.

Table 2
Distributional Analysis of the House of Representatives' Health Care Reform
Aggregate Amounts Taxed From and Spent on Each Income Group in Fiscal Year 2016

Income Percentile	Minimum Income to Be in This Group	Income Before Any Redistribution		Income After Redistribution				Total Amount HR3200 Redistributes From (-) or To (+) Each Group (\$Millions)
				According to Obama Policy w/o Health Reform		If the House Health Reform Is Made Law		
		\$Millions	Share of Total	\$Millions	Share of Total	\$Millions	Share of Total	
0 – 10%	\$ 0	\$ 120,351	0.7%	\$ 523,363	2.9%	\$ 534,351	3.0%	+ \$ 10,988
10 – 20%	\$ 15,391	\$ 435,567	2.5%	\$ 692,116	3.9%	\$ 703,247	4.0%	+ \$ 11,131
20 – 30%	\$ 32,059	\$ 701,575	3.9%	\$ 887,980	5.0%	\$ 899,658	5.1%	+ \$ 11,678
30 – 40%	\$ 48,083	\$ 922,418	5.2%	\$ 1,056,186	5.9%	\$ 1,076,296	6.1%	+ \$ 20,110
40 – 50%	\$ 65,704	\$ 1,139,180	6.4%	\$ 1,242,660	7.0%	\$ 1,271,270	7.2%	+ \$ 28,610
50 – 60%	\$ 86,929	\$ 1,319,313	7.4%	\$ 1,386,386	7.8%	\$ 1,411,713	7.9%	+ \$ 25,327
60 – 70%	\$ 112,721	\$ 1,548,151	8.7%	\$ 1,553,411	8.7%	\$ 1,565,414	8.8%	+ \$ 12,003
70 – 80%	\$ 141,101	\$ 1,887,507	10.6%	\$ 1,836,688	10.3%	\$ 1,836,297	10.3%	– \$ 391
80 – 90%	\$ 180,642	\$ 2,439,073	13.7%	\$ 2,313,242	13.0%	\$ 2,309,100	13.0%	– \$ 4,142
90 – 95%	\$ 252,212	\$ 1,711,423	9.6%	\$ 1,615,328	9.1%	\$ 1,611,964	9.1%	– \$ 3,364
95 – 99%	\$ 358,193	\$ 2,397,483	13.5%	\$ 2,113,962	11.9%	\$ 2,103,359	11.8%	– \$ 10,603
99 – 100%	\$ 917,709	\$ 3,178,190	17.9%	\$ 2,490,419	14.0%	\$ 2,386,452	13.4%	– \$ 103,967
All Families	–	\$ 17,764,338	100.0%	\$ 17,764,338	100.0%	\$ 17,764,338	100.0%	\$ 0
Exhibit:								
Top 20%	\$ 180,642	\$ 9,726,169	54.7%	\$ 8,532,951	48.0%	\$ 8,410,875	47.3%	– \$ 122,076
Top 10%	\$ 252,212	\$ 7,287,096	41.0%	\$ 6,219,709	35.0%	\$ 6,101,775	34.3%	– \$ 117,934
Top 5%	\$ 358,193	\$ 5,575,673	31.4%	\$ 4,604,381	25.9%	\$ 4,489,811	25.2%	– \$ 114,570
Top 1%	\$ 917,709	\$ 3,178,190	17.9%	\$ 2,490,419	14.0%	\$ 2,386,452	13.4%	– \$ 103,967
Notes: These estimates use economic assumptions spelled out in a methodology paper, <i>Tax Foundation Working Paper, No. 7</i> “Methodology of the Tax Foundation’s Fiscal Incidence Project,” by Gerald Prante and Patrick Fleenor. The deficit is assumed to be financed by combination of higher taxes and reduced spending on today's families. Savings from Medicare and Medicaid are distributed as follows: 50 percent of amount allocated based upon share of capital income and 50 percent of amount allocated based upon calculated benefit share of Medicare and Medicaid spending.								

Notes:

- Surtax is assumed to be borne entirely by those who face higher individual income tax liabilities.
- Fungible value of Medicaid is assumed to benefit recipient only, whereas the residual is allocated 50/50 to all families as a public good (public health) and paternalism to those families receiving Medicaid.
- For the exchange subsidies, it is assumed that the full benefit flows to those participating in the exchange and receiving subsidies.

- For a complete discussion of the methodology of the Tax Foundation's Fiscal Incidence Project, click [here](#).

© 2009 Tax Foundation

529 14th St. NW, Suite 420
Washington, DC 20045
Ph: (202) 464-6200

www.taxfoundation.org