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Blueprint for Opportunity

No. 24

Implementation Memo

TO: Governor Ritter
Members of the 66th Colorado General Assembly

FROM: The Bell Policy Center – Robin Baker, Senior Policy Analyst

DATE: January 30, 2007

**RE: Implementing Bell's Blueprint recommendation No. 24
to make sure workers can take health care coverage with them**

In the 2006 Blueprint for Opportunity, the Bell Policy Center recommends:

Make sure workers can take health care coverage with them when they change jobs

We need to find ways to bring down the cost of coverage between jobs so that more middle class families can afford to continue coverage when they leave a job.

One approach may be to make Colorado's health care tax credit permanent and refundable, so workers can recover some of the costs of retaining health coverage between jobs. (*See Blueprint, page 33*)

This memorandum briefly discusses the issues surrounding this proposal, describes steps for implementing it, outlines some of the factors to consider and lists sources for additional information and resources.

If you are interested in pursuing this issue further, we are prepared to work with you. Please contact the author of this memo directly at (303) 297-0456 or baker@thebell.org, or Rich Jones, director of policy and research, at (303) 297-0456 or jones@thebell.org.

Overview of the issue

Most Colorado workers get health insurance coverage through their employers. This benefit offers significant tax advantages for employers, who can deduct the amount paid in premiums, and for workers, who don't pay income tax on the coverage. On average, employers pay 85 percent of the cost of coverage for individual workers, and 72 percent of the cost for covering the worker and their family.¹ When workers are laid off or change jobs, they must pay the full cost of their health care premium.

One way to help workers in between jobs pay their premiums is a health care tax credit. Most health care tax credits top out at \$1,000 per year, which cover only about one-third of the average

cost of a premium for an individual, not including deductibles. In 2005, more than half of adults with coverage they purchased themselves paid \$3,000 or more in premiums per year, plus per-person deductibles of \$1,000 or more.²

While health care tax credits help some workers, they won't make health care more accessible or more affordable — especially for workers unemployed for an extended time or for low-income families. Indeed, we can expect that as health insurance costs continue to grow, more adults will be forced to go without health insurance.³

However, making Colorado's health care tax credit permanent would be a valuable interim step toward the long-range goal of comprehensive health care reform.



Federal legislation and tax credits a step toward continuous health care coverage

The federal Consolidated Omnibus Budget Reconciliation Act, or COBRA, allows workers to continue health insurance coverage for a limited time after they leave a job. Congress passed COBRA in 1986 to give workers and their families the right to continue to receive coverage under their group health plan a limited period of time. Such COBRA coverage applies to:

- Workers who are laid off or fired (except in cases of gross misconduct)
- Workers who change jobs and don't receive coverage from their new employer during a probationary period.
- Workers whose hours are cut below the threshold for their current benefits package.
- Spouses who divorce from a covered worker.

The problem is that the worker (or their spouse) is usually required to pay their entire premium, up to 102 percent of the cost of the plan.⁴ For many, this price is prohibitive.

In 2002, legislation under the Trade Adjustment Assistance Reform Act created the federal health coverage tax credit. The credit applies only to workers who lose their job because of new trade agreements or retirees covered under the Pension Benefit Guarantee Corporation, and their health insurance plans must be either COBRA or COBRA-like plans sponsored by former employers or private health plans. The federal tax credit is fully refundable, so it may be claimed even if no federal income tax is owed. It may even be taken as an advance tax credit if workers file a monthly claim to help pay for health coverage.

Under federal rules, eligible individuals can use their tax credit to help pay for:

- COBRA coverage
- Coverage through a spouse's plan under limited conditions
- Coverage through an individual policy under limited conditions

The Colorado Department of Labor and Employment helps the federal government identify Coloradans who are eligible for the tax credit program. However, the federal government is responsible for administering the program. People who are eligible receive a program kit explaining how to apply for and use the tax credit.

States also have the authority to designate alternative options that qualify for the tax credit. Colorado has designated the state's high-risk pool, CoverColorado, as an acceptable option for the unemployed.⁵ The state legislature created CoverColorado to provide comprehensive major medical insurance for people who can't get coverage from private insurers because of a pre-existing medical condition.

Colorado's health benefit plan tax credit

In 2000, Colorado established its own refundable health care tax credit (HB00-1104), which allows Colorado residents, employed or unemployed, to claim a credit up to \$500 per year for health benefit plans they purchase. Unlike the federal credit, Colorado's tax credit is not limited to workers impacted by trade agreements and PBGC retirees. But any Colorado taxpayer who claims the federal health care tax credit is not eligible to claim the state tax credit. Similarly, if an employer pays a share of an employee's health insurance, the employee does not qualify for the state health tax credit.⁶

Qualifying health benefit plans may include one that is provided through but not paid for by the taxpayer's employer or a plan purchased individually by the taxpayer (see [CRS 10-16-102 \(21\)\(a\)](#) for definition of health benefit plan). Individuals who pay Medicare Part B premiums would also qualify for the credit. The Colorado state credit is only available in years of TABOR revenue surplus.

The intent of the bill was twofold: to help cover the cost of purchasing one's health insurance in the private sector, and to establish a reasonable mechanism for refunding a portion of the excess state revenue under TABOR.

Given the increase in the number of uninsured adults, the rising cost of health insurance premiums and the decline in small business employer-sponsored insurance, we recommend that the state health benefit plan tax credit be made available in all years.

The problem of gaps in health insurance coverage is best addressed within the context of comprehensive health care reform. Ideally, a mechanism like the Massachusetts Health Insurance Connector, which essentially “connects” individuals to affordable quality health insurance,⁷ would be used to ensure that individuals are continually insured.

In the interim, providing taxpayers with a health tax credit may help pay for health insurance coverage for those who are between jobs or who work for an employer that does not offer a health insurance benefit.

Implementation step

- Make the state health benefit plan credit permanent by amending [CRS 39-22-125](#). The tax credit should be available in all years, not just in years when there is a TABOR surplus.

Factors to consider

Making the health benefit plan credit permanent will reduce state revenue. The net revenue reduction in years when there is no TABOR surplus would be the total of the credit, \$30 million to \$35 million.⁸ Since the credit is already available in years when there is a TABOR surplus, there would be no net revenue reduction in those years due to this recommendation.

In lieu of comprehensive health care reform and because the purpose of the health benefit plan tax credit is to help more Coloradans have uninterrupted insurance coverage, making the credit permanent is likely to reduce expenditures for state and local health services over the long-term.



Information and resources

Colorado Department of Revenue (2005). Health Benefit Plan Credit (Revised 11/05). Colorado Department of Revenue, Taxpayer Service Division.

↗ www.revenue.state.co.us/fyi/html/income43.html

Colorado Legislative Council (August 2000) TABOR Refund Issue Brief.

↗ http://www.state.co.us/gov_dir/leg_dir/lcsstaff/2000/research/issuebrf-00-7.pdf

Commonwealth of Massachusetts (2006). Health Care Access and Affordability Conference Committee Report.

↗ www.mass.gov/legis/summary.pdf

End notes

- ¹ America's Health Insurance Plans (2005). "Individual Health Insurance: A Comprehensive Survey of Affordability, Access, and Benefits. Center for Policy and Research," America's Health Insurance Plans.
↗ www.ahipresearch.org/pdfs/Individual_Insurance_Survey_Report8-26-2005.pdf
- ² Ibid.
- ³ Kaiser Family Foundation (2006). Kaiser Public Opinion Spotlight, Public Opinion on the Uninsured. Updated: January 2006.
↗ www.kff.org/spotlight/uninsured/upload/Spotlight_Jan06_Uninsured-3.pdf
- ⁴ United States Department of Labor (2007). Health Plans and Benefits: Continuation of Health Coverage: COBRA.
↗ www.dol.gov/dol/topic/health-plans/cobra.htm
- ⁵ State of Colorado (2003). Governor's press release.
↗ www.colorado.gov/ltgovernor/news/2003/PRpdfs/PR-Tax%20Credit.pdf
- ⁶ Colorado Department of Revenue, Taxpayer Service Division (2005). Health Benefit Plan Credit (Revised 11/05).
↗ www.revenue.state.co.us/fyi/html/income43.html
- ⁷ Commonwealth of Massachusetts (2006). Health Care Access and Affordability Conference Committee Report.
↗ www.mass.gov/legis/summary.pdf
- ⁸ Calculations by Bell staff based on Colorado Legislative Council [Fiscal Note for HB00-1104](#). Actual amount of tax credit for FY 1999-00 comes from an August 2000 Issue Brief on TABOR refunds from the Legislative Council.
↗ http://www.state.co.us/gov_dir/leg_dir/lcsstaff/2000/research/issuebrf-00-7.pdf