



Tax Preparers Could Help Most Uninsured Get Covered

Stan Dorn, Matthew Buettgens, and Jay Dev

Timely Analysis of Immediate Health Policy Issues

FEBRUARY 2014

In-Brief

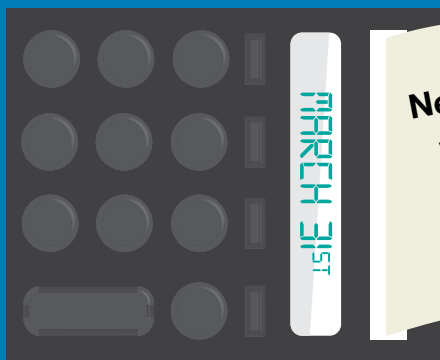
More than 74 percent of uninsured consumers who qualify for insurance affordability programs under the Patient Protection and Affordable Care Act (ACA) file federal income tax returns. This includes over 90 percent of consumers under age 35 who are eligible for subsidies to pay for qualified health plans (QHPs). Policies that effectively enroll federal income tax filers into health coverage could cover many uninsured Americans and secure a good mix of healthy participants, which would help promote a balanced risk pool and marketplace stability.

Tax preparers are a promising source of application assistance for these uninsured. Most low-income taxpayers file with the aid of tax preparers, including nearly two-thirds (64.6 percent) of people who claim the earned income tax credit (EITC). Federal and state officials as well as private sector leaders should seriously explore engaging for-profit and nonprofit tax preparers as partners in reaching the eligible uninsured during the final two months of open enrollment.

Using tax preparers to help enroll people in new or expanded insurance programs could significantly increase the number of people with health coverage. Why?



18.9M uninsured people who qualify for Medicaid or ACA Marketplace subsidies will file a tax return this year, most with assistance from professional tax preparers.



Nearly 80% of taxpayers with low to moderate incomes who qualify for the earned income tax credit will file their returns by the enrollment deadline.

Introduction

Rapidly enrolling eligible consumers into new or expanded health programs has never been easy. Even the Children's Health Insurance Program (CHIP), now very successful, along with Medicaid, in reaching nearly 9 in 10 eligible children (87.2 percent),¹ struggled during its early years. In 2001, three years after general CHIP implementation began, the Congressional Research Service observed, "until recently, there was general disappointment with the implementation progress under [CHIP], due to low enrollment rates early in the program."² Nationally, CHIP took five years to reach stable participation levels.³

The ACA, like CHIP, relies on federal-state cooperation. It is thus not surprising

that most eligible uninsured have not yet enrolled into either Medicaid or subsidized coverage in QHPs offered through health insurance marketplaces, which constitute the ACA's two insurance affordability programs (IAPs). Slow enrollment would be expected, even if all marketplace websites had functioned impeccably, which has not been the case. Many observers worry that, unless enough young and healthy adults join QHPs, premiums will rise in the individual market, potentially to unsustainable levels.⁴

This paper analyzes one setting in which these challenges can be addressed. We show that the vast majority of the ACA's target population, including young adults who qualify for QHP subsidies, files federal income tax returns, generally

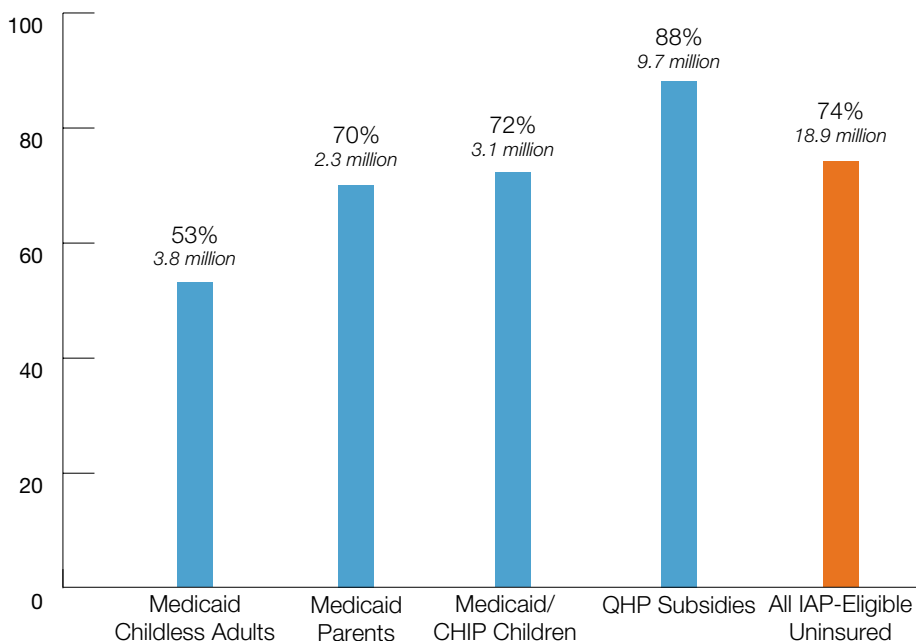
using tax preparers to complete the necessary forms. We briefly explore the potential that tax preparers offer for helping the ACA's target population qualify for IAPs.

Most Uninsured Who Qualify for Medicaid or QHP Subsidies File Income Tax Returns, Including Young Adults

To analyze the percentage of federal income tax filers among uninsured consumers who qualify for IAPs, we begin with Urban Institute's American Community Survey-Health Insurance Policy Simulation Model's (ACS-HIPSM) state-by-state estimates of the number and characteristics of such consumers,⁵ assuming Medicaid expansion decisions made by states as of December 11, 2013.⁶ We identify the eligible uninsured who either (1) are legally required to file income tax returns or (2) qualify for EITC and may thus file returns despite the absence of a filing requirement. In each group, we estimate federal income tax filing based on published research describing the characteristics and number of individuals who file returns. More information about our methodology is available online at http://www.urban.org/health_policy/health_care_reform/taxfilingmethodology.cfm.

The resulting numbers understate the proportion of tax filers. Administrative totals for income tax filing exceed our estimates, because many people file returns even if they neither have a filing requirement nor qualify for EITCs. Some such people file to claim refunds unrelated to the EITC—for example, because income tax was withheld from their pay even though they have no tax liability—or for other reasons. In future work, we hope to provide more comprehensive totals, which will exceed the estimates we provide here. For the time being, however, the reader should keep in mind that the following estimates likely understate the extent to which tax filing could be an effective setting for reaching and enrolling uninsured individuals into Medicaid and subsidized marketplace coverage.

Figure 1. Federal Income Tax Filers as a Percentage of Uninsured Consumers Who Qualify for IAPs Under the ACA



Source: HIPSM-ACS 2014.

Notes: Estimates understate the prevalence of federal income tax filing as compared to administrative data. Among uninsured children who are eligible for Medicaid, 67 percent are in families that file tax returns. For the CHIP-eligible uninsured, 96 percent live in tax-filing households. Estimates exclude Medicaid eligibility categories based on disability and age over 64. QHPs are qualified health plans. IAPs are insurance affordability programs. Estimates assume state Medicaid expansion decisions as of December 2013. The numbers overlaid near the top of each column show the estimated number of tax filers within the applicable category. For example, 3.8 million uninsured, childless adults who qualify for Medicaid file federal income tax returns, and they represent 53 percent of all uninsured, childless adults who qualify for Medicaid.

We find that, among the 25.7 million uninsured who will qualify for the ACA's insurance affordability programs in 2014, at least 74 percent (18.9 million people) will file federal income tax returns. As shown in Figure 1, they include:

- 3.8 million Medicaid-eligible,
- 3.1 million uninsured children who

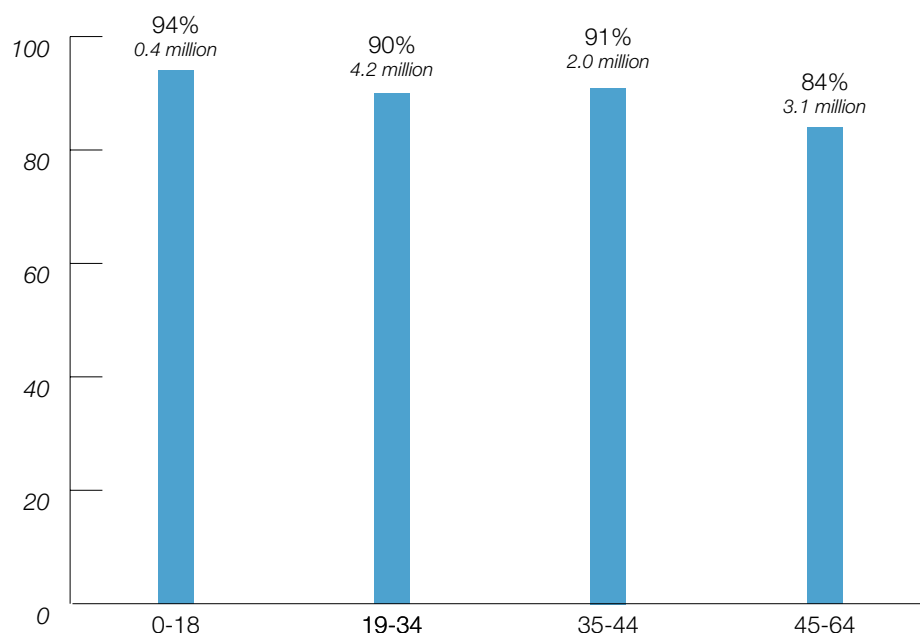
uninsured childless adults, or 53 percent of all such adults;

- 2.3 million uninsured, Medicaid-eligible parents, or 70 percent of all such parents;

qualify for Medicaid or CHIP, or 72 percent of all such children; and

- 9.7 million uninsured consumers who qualify for QHP subsidies, or nearly 9 in 10 (88 percent) of all such uninsured.

Figure 2. Federal Income Tax Filing Among the Uninsured Who Qualify for QHP Subsidies, by Age



Source: HIPSM-ACS 2014.

Notes: Estimates understate federal income tax filing as compared to administrative data. QHPs are qualified health plans. Estimates assume state Medicaid expansion decisions as of December 2013. The numbers overlaid near the top of each column show the estimated number of tax filers within the applicable category. For example, 0.4 million children age 0-18 who qualify for QHP subsidies are in families that file federal income tax returns, and they represent 94 percent of all uninsured children age 0-18 who qualify for such subsidies.

We also find that more than 90 percent of adults under age 35 and children who will qualify for QHP subsidies are in families that file federal income tax returns (Figure 2). Among all QHP-eligible uninsured who file income tax returns, 43 percent are adults under age 35 (data not shown). Uninsured tax-filers eligible for subsidies in the marketplace thus comprise a younger cohort than the consumers who enrolled in QHPs by February 1, 2014, of whom 25 percent were adults under age 35, according to recent federal reports.⁷ Enrollment strategies that effectively reach federal income tax filers could thus cover many eligible uninsured while moving towards a balanced risk pool that promotes long-term stability within the individual market.⁸

The Tax Preparer Network Is a Potentially Promising Source of Health Application Assistance

Most low-income taxpayers use in-person tax preparers to file their returns. From 2009 through 2011, an average of 64.6 percent of returns claiming EITCs were filed with the aid of tax preparers, compared to 59.1 percent of other returns.⁹ Among returns with \$30,000

Table 1. Tax Preparation Method, by Adjusted Gross Income, 2008

AGI	Total Returns (Millions)	Tax Preparation Method				
		No Identified Preparer	Paid Preparer	IRS-Prepared Return	Volunteer-Income Tax Assistance	Tax Counseling for the Elderly
Under \$30,000	67.9	40.9%	55.8%	0.3%	1.5%	1.6%
\$30,001-\$50,000	25.4	41.7%	56.7%	0.1%	0.8%	0.8%
\$50,001-\$100,000	31.0	40.0%	59.1%	0.0%	0.3%	0.5%
\$100,001+	18.3	35.4%	64.4%	0.0%	0.1%	0.1%
Total:	142.6	40.1%	57.8%	0.1%	0.9%	1.0%

Source: Urban Institute Tax Policy Center analysis of IRS 2008 Statistics of Income.

or less in Adjusted Gross Income (AGI), 55.8 percent were filed in 2008 using paid preparers; all volunteer and IRS tax preparation accounted for 3.4 percent of such returns (Table 1). For returns with \$30,000 to \$50,000 in AGI, 56.7 percent were filed by paid tax preparers, with 1.7 percent aided by volunteer or IRS tax assistance. This extensive involvement of tax preparers is not surprising, given the financial incentives for low- and moderate-income households to file returns that take full advantage of favorable provisions within the country's complex tax code—incentives that are not present with other sources of health application assistance. For example, 85 percent of taxpayers with AGI between \$20,000 and \$50,000 claimed refunds in 2012, which averaged \$2,771 per return.¹⁰

More than 78 percent of returns that claim EITCs are filed before March 31, which will end 2014 open enrollment for QHPs.¹¹ Among all returns filed by the

end of the year, IRS receives roughly 61 percent by the end of March, including 67 percent of all returns that claim income tax refunds.¹² These facts, together with our finding that most of the ACA's target population files federal income tax returns, suggest that in-person tax preparers could be an important source of assistance to complete forms on behalf of eligible, uninsured consumers and help them enroll into health coverage.

Along with in-person assisters, tax software vendors could play an important role. They could develop tools that let taxpayers complete a paper application for insurance affordability programs just by answering a few questions beyond those needed to file a tax return. If this effort includes vendors that participate in the IRS's "Free File" program, taxpayers with incomes low enough to use that service (AGI of \$58,000 or less in 2013)¹³ could simultaneously file tax returns and apply for subsidized health coverage without paying a fee.¹⁴

Such software development would help not only consumers who file their own returns, but also those who use in-person tax preparers. Preparers could more easily file IAP application forms, because, by asking their clients the additional questions specified by the software, they could use it to complete those forms for their clients.

Tax preparers have the capacity to reach many uninsured, including most young adults who qualify for subsidies in health insurance marketplaces. Public and private sector leaders interested in enrolling the eligible uninsured could seriously consider engaging with both the for-profit and nonprofit segments of this industry to maximize its ability to help uninsured clients obtain health coverage, certainly during the remaining months of 2014 open enrollment, and potentially thereafter as well.¹⁵

The views expressed are those of the authors and should not be attributed to the Robert Wood Johnson Foundation or the Urban Institute, its trustees, or its funders.

ABOUT THE AUTHORS & ACKNOWLEDGMENTS

Stan Dorn is a senior fellow, Matthew Buettgens is a senior research associate, and Jay Dev is a research assistant at Urban Institute's Health Policy Center. The authors are grateful for the financial support of the Robert Wood Johnson Foundation and the careful review of earlier drafts provided by Genevieve Kenney of the Urban Institute's Health Policy Center, Jim Nunns and Elaine Maag of the Urban Institute's Tax Policy Center, and Brian Haile, Senior Vice President for Health Policy of Jackson Hewitt Tax Service, Inc.

ABOUT THE URBAN INSTITUTE

The Urban Institute is a nonprofit, nonpartisan policy research and educational organization that examines the social, economic and governance problems facing the nation. For more information, visit <http://www.urban.org>. Follow the Urban Institute on Twitter www.urban.org/twitter or Facebook www.urban.org/facebook. More information specific to the Urban Institute's Health Policy Center, its staff, and its recent research can be found at www.healthpolicycenter.org.

ABOUT THE ROBERT WOOD JOHNSON FOUNDATION

For more than 40 years the Robert Wood Johnson Foundation has worked to improve the health and health care of all Americans. We are striving to build a national culture of health that will enable all Americans to live longer, healthier lives now and for generations to come. For more information, visit www.rwjf.org. Follow the Foundation on Twitter at www.rwjf.org/twitter or on Facebook at www.rwjf.org/facebook.

Notes

- 1 Kenney GM, Anderson N and Lynch V. “Medicaid/CHIP Participation Rates among Children: An Update.” Washington, DC: Urban Institute, 2013. <http://www.urban.org/uploadedpdf/412901-%20Medicaid-CHIP-Participation-Rates-Among-Children-An-Update.pdf> (accessed February 7, 2014).
- 2 Herz E and Baumrucker EP. “Reaching Low-Income, Uninsured Children: Are Medicaid and SCHIP Doing the Job?” Washington, DC: Congressional Research Service, 2001. <http://www.policyarchive.org/handle/10207/bitstreams/1043.pdf> (accessed February 7, 2014).
- 3 Lewit E. “Lessons from CHIP for Implementation of the Affordable Care Act: CHIP Roll Out and Early Enrollment – Implications for the ACA.” Washington, DC: First Focus, 2013. <http://www.firstfocus.net/sites/default/files/ACA%20Briefs%20-%20Enrollment%20Trends.pdf> (accessed February 7, 2014); Broadus M. “CHIP Experience Shows That Health Reform Enrollment Will Take Time to Ramp Up.” Washington, DC: Center on Budget and Policy Priorities, 2013. <http://www.cbpp.org/files/11-12-13health.pdf> (accessed February 7, 2014).
- 4 However, serious questions have been raised about the significance of these concerns at this early stage of ACA implementation. See, for example, Blumberg LJ and Holahan J. “The Affordable Care Act Can Survive Low Enrollment and Adverse Selection in the First Year.” Washington, DC: Urban Institute, 2013. <http://www.urban.org/UploadedPDF/412975-The-Affordable-Care-Act-Can-Survive-Low-Enrollment-and-Adverse-Selection-in-the-First-Year.pdf> (accessed February 7, 2014); Levitt L, Claxton G and Damico A. “The Numbers Behind ‘Young Invincibles’ and the Affordable Care Act.” Palo Alto, CA: Kaiser Family Foundation, 2013. <http://kff.org/health-reform/perspective/the-numbers-behind-young-invincibles-and-the-affordable-care-act/> (accessed February 7, 2014).
- 5 For information about ACS-HIPSM, see Buettgens M, Resnick D, Lynch V and Carroll C. “Documentation on the Urban Institute’s American Community Survey-Health Insurance Policy Simulation Model (ACS-HIPSM).” Washington, DC: Urban Institute, 2013. <http://www.urban.org/UploadedPDF/412841-American-Community-Survey-Health-Insurance-Policy-Simulation-Model.pdf> (accessed February 7, 2014).
- 6 Those decisions are shown on <http://kff.org/health-reform/state-indicator/state-activity-around-expanding-medicaid-under-the-affordable-care-act/> (accessed February 7, 2014).
- 7 Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (ASPE). “Health Insurance Marketplace: February Enrollment Report, For the period: October 1, 2013 – February 1, 2014.” Washington, DC: ASPE, 2014. http://aspe.hhs.gov/health/reports/2014/MarketPlaceEnrollment/Feb2014/ib_2014feb_enrollment.pdf (accessed February 13, 2014). The two totals are not precisely comparable. We classify 18-year-olds as children, consistent with the definition used for Medicaid and the Children’s Health Insurance Program eligibility. ASPE counts 18-year-olds as adults. Bringing these two definitions into alignment would further increase, by a small amount, the estimated difference between the proportions of young adults among the tax-filing group and among current QHP enrollees. On the other hand, uninsured tax filers who qualify for QHP subsidies include a slightly smaller percentage of children (4 percent, data not shown) than are present among QHP enrollees to date, as reported by ASPE (6 percent). Note that ASPE’s estimates involve consumers who have selected a QHP, without regard to whether premiums have been paid.
- 8 It is possible that correcting for the underestimates we describe above would yield a disproportionate increase in the estimated percentage of tax filers who are age 45 and older. This increase would make the overall risk profile of QHP subsidy-eligible adults who file income taxes significantly less favorable than what is shown in Figure 2. However, we think this is unlikely for several reasons. First, an underlying reason for comparatively low income tax filing rates among older adults is that they are less likely to have dependent children, and the presence of dependent children in the household substantially increases EITC claim amounts, EITC eligibility, and the likelihood of income tax filing among EITC-eligible individuals. Second, corrected estimates may yield income tax filing rates for young adults that are well above the 90 percent level shown in our Figure 2 estimates. Earlier research, using a different methodology, found that in 2004, 94 percent of uninsured adults of all ages between 200 and 400 percent of FPL filed federal income tax returns. This result comes from an unpublished Urban Institute analysis of 2005 CPS-ASEC data. That analysis used the methodology described in Dorn S, Garrett B, Perry C, Clemans-Cope L and Lucas A. “Nine in Ten: Using the Tax System to Enroll Eligible, Uninsured Children into Medicaid and SCHIP.” Washington, DC: Urban Institute, 2009. http://www.urban.org/UploadedPDF/411844_tax_system.pdf (accessed February 7, 2014).
- 9 Internal Revenue Service (IRS). “Taxpayer Filing Attribute Report.” Publication 4822 (Rev. 01-2013). Washington, DC: IRS. http://www.irs.gov/pub/irs-utl/Pub_4822_Sept_2013.pdf (accessed February 7, 2014).
- 10 Authors’ calculation. IRS. “Table 3.3 All Returns: Tax Liability, Tax Credits, and Tax Payments, by Size of Adjusted Gross Income, Tax Year 2011.” SOI Tax Stats - Individual Income Tax Returns Publication 1304. Washington, DC: IRS, 2013. http://www.irs.gov/file_source/pub/irs-soi/11in33ar.xls (accessed February 9, 2014). Similar financial incentives lead taxpayers of all income levels to seek aid from tax preparers, both to claim refunds and to calculate tax liabilities accurately. For example, among 2011 returns at all income levels, 80 percent reported net overpayments (which result in either refunds or credits that apply to the following year’s return), which averaged \$3,221 per return.
- 11 During the average year in 2009-2011, 78.2 of all returns claiming EITC were filed by the end of the first calendar quarter. Authors’ calculation, IRS, Taxpayer Filing Attribute Report, op cit.
- 12 These estimates represent averages for the 2013 and 2012 filing seasons. They compare the number of returns received by March 30, 2012, and March 29, 2013, with the number received by December 28, 2012, and December 27, 2013. Authors’ calculation, IRS. “Filing Season Statistics for Week Ending March 29, 2013.” Washington, DC: IRS, 2013. <http://www.irs.gov/uac/Filing-Season-Statistics-for-Week-Ending-March-29-2013> (accessed February 8, 2014); IRS. “2013 Filing Season Statistics: Cumulative statistics comparing 12/28/12 and 12/27/13.” Washington, DC: IRS, 2014. <http://www.irs.gov/PUP/newsroom/12-27-2013.pdf> (accessed February 8, 2014).
- 13 For a description of the “Free File” program, see “FreeFile – Prepare and File your Taxes Online for Free,” IRS, <http://www.freefile.irs.gov/index.html> (accessed February 7, 2014).
- 14 If satisfactory arrangements can be developed with marketplaces, such IAP applications could be filed electronically. Otherwise, they may need to be printed out, signed, and mailed.
- 15 Such engagement could give tax preparers the support they need to be effective in assuming this new role while, at the same time, obtaining commitments that the recipients of such support will follow best practices in helping consumers apply for IAPs, thereby preventing problems that have sometimes been reported in connection with a number of tax preparers. See, e.g., National Taxpayer Advocate. 2013 Annual Report to Congress, “Volume One.” Washington, DC: IRS Taxpayer Advocate Service, 2014. <http://www.taxpayeradvocate.irs.gov/userfiles/file/2013FullReport/Volume-1.pdf>.