Insight

Effect of a Tax Credit for Out-of-Pocket Medical Costs on Federal Spending

JONATHAN KEISLING, DOUGLAS HOLTZ-EAKIN | SEPTEMBER 24, 2015

A recent proposal aimed at lowering out-of-pocket (OOP) health care costs would give tax credits to those individuals and families that spend 5 percent or more of their annual income on OOP costs. Individuals that reach this threshold could receive up to $2,500, while families could receive up to $5,000.

How many people would this affect and what would it cost the taxpayers? From 2011 to 2013, average household incomes ranged from $50,054 to $51,939[1][2]. A Medical Expenditure Panel Survey report stated that in 2011, 8.2 percent of the U.S. population spent greater than $2,000 on OOP expenditures while the average for the top 10 percent of the population was $3,525[3][4]. Since $2,000 is nearly 4 percent of $50,054 (the median income in 2011), this is very close to the threshold 5 percent threshold. As a rough estimate, we assume that 7 percent of insured population would be eligible.

The table below uses the aforementioned assumptions to create a range of possible outcomes for federal spending. It is worth noting that all of these numbers are pre-Affordable Care Act (ACA) and since deductibles have risen significantly in the last two years, the percentage of the insured population eligible for these tax credits are likely much higher than the number would have been in 2011.

Average 2013 Credits	Estimated Annual Budget Cost of Tax Credit Proposal (in Billions)
$250	$27
$500	$54
$750	$82
$1000	$109*

*Represents the cost in the case where all credits go to families

[1] https://www.census.gov/prod/2012pubs/p60-243.pdf