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United States Government Accountability Office
Washington, DC 20548

April 30, 2010

The Honorable Max Baucus
Chairman
The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
United States Senate

The Honorable Sander M. Levin
Acting Chairman
The Honorable Dave Camp
Ranking Member
Committee on Ways and Means
House of Representatives

Subject: *Health Coverage Tax Credit: Participation and Administrative Costs*

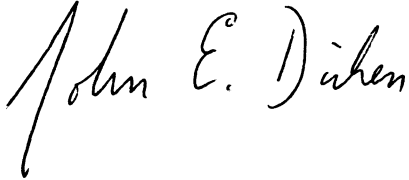
This report formally transmits the attached slides (see enclosure I) in response to section 1899L of the American Recovery and Reinvestment Act of 2009.¹ The statute required the Comptroller General to examine issues related to participation in and administrative costs associated with the Health Coverage Tax Credit program administered by the Internal Revenue Service (IRS) in the Department of the Treasury, and to provide the results to Congress by March 1, 2010. We provided briefings to staff of your committees on March 1 and 2, 2010. We incorporated additional information and revised as appropriate the slides we used to brief your staffs.

We provided a draft of this report to the IRS for review and comment. In its comments, IRS said that the per-participant administrative costs for the HCTC program were higher than for other programs it administers, and provided observations to explain the higher costs. (See enclosure II.) Evaluating the administrative costs of the HCTC program relative to other programs was beyond the scope of this report.

¹Pub. L. No. 111-5, div. B, title I, § 1899L, 123 Stat. 115, 435-36.

We are sending copies of this report to the Secretary of the Treasury and the Commissioner of IRS. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions regarding this report, please contact me at (202) 512-7114 or dickenj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributions to this report were made by Randy DiRosa, Assistant Director; Gerardine Brennan; Julianne Flowers; Jawaria Gilani; Krister Friday; Emily Loriso; and Jeffrey Miller.



John E. Dicken
Director, Health Care

Enclosures



Health Coverage Tax Credit: Participation and Administrative Costs

Briefing for the staffs of the

Committee on Finance
United States Senate

Committee on Ways and Means
House of Representatives

Updated

GAO-10-521R

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Overview

- Introduction
- Objectives
- Scope and Methodology
- Summary of Results
- Background
- Results
- Agency Comments
- Contributors



Introduction

- The Health Coverage Tax Credit (HCTC) is a tax credit created by the Trade Adjustment Assistance Reform Act of 2002 that pays a share of health plan premiums for eligible individuals:
 - certain workers who lost their jobs due to foreign competition and are eligible for Trade Adjustment Assistance (TAA) benefits, and
 - certain retirees age 55 and over whose pensions were taken over by the Pension Benefit Guaranty Corporation (PBGC).
- From calendar years 2003 through 2008,¹ the federal government incurred expenses of nearly \$680 million in tax credits and administrative costs for the program.

¹ At the time of this study, final data on tax credits were available only through 2008.



Introduction (cont.)

- **Congressional interest in the HCTC:**
 - **Participation:**
 - fewer than 30,000 of the hundreds of thousands of potentially eligible individuals each year have participated;
 - some individuals identified as potentially eligible for the credit may not actually be eligible;²
 - some eligible individuals may be going without insurance; and
 - the health status of those who choose to participate may be poorer than those who choose not to, which could adversely affect premium rates for HCTC participants and insurers' willingness to provide them coverage.
 - **Administrative costs:**
 - what the Internal Revenue Service's (IRS) costs are to administer the program; and
 - whether health plans incur additional costs for HCTC participants compared to nonparticipants.

² Not all individuals initially identified as potentially eligible will meet all eligibility criteria for the HCTC. For example, individuals entitled to benefits under Medicare are not eligible for the HCTC.



Introduction (cont.)

- The American Recovery and Reinvestment Act of 2009 (Recovery Act)³
 - made several temporary and permanent changes to the HCTC and the Trade Adjustment Assistance Program intended to increase participation—such as increasing the amount of the credit and expanding eligibility;⁴ and
 - authorized additional funding to implement these changes.
 - Certain Recovery Act changes to the HCTC expire on December 31, 2010.
- The Patient Protection and Affordable Care Act includes a tax credit similar to the HCTC.⁵

³Pub. L. No. 111-5, div. B, title I, 123 Stat. 115, 306-436.

⁴The changes took effect on various dates throughout 2009.

⁵Pub. L. No. 111-148, §§ 1401-21, as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, §§ 1001-05.



Objectives

The Recovery Act required that GAO examine issues related to HCTC participation and administrative costs.

1. Did HCTC participation change after key Recovery Act changes took effect and what factors have influenced participation?
2. What is known about the health insurance coverage and health status of HCTC participants and eligible nonparticipants?
3. What are the administrative costs of the HCTC to IRS and what additional administrative costs for HCTC participants are incurred by health plans?



Scope and Methodology

1. To examine how HCTC participation changed after key Recovery Act changes took effect, we:
 - Analyzed IRS program data on HCTC participation and eligibility.
 - We analyzed the average number of advance HCTC participants and potentially eligible individuals per month during the 6 months before and the 6 months after key Recovery Act changes took effect. We defined the pre- and post-Recovery Act periods as follows:
 - Pre-Recovery Act: October 1, 2008, through March 31, 2009
 - Post-Recovery Act: July 1, 2009, through December 31, 2009
 - We did not include 2003 through September 2008 data because we wanted to isolate changes in participation that may be related to the Recovery Act.
 - Participation in April, May, and June of 2009 was not included in this analysis because participation during these months may have been split among some individuals who applied for the credit before key Recovery Act changes took effect and others who applied after.
 - We interviewed officials from IRS and its HCTC program contractors and reviewed supporting documentation to clarify our understanding of the HCTC participation and eligibility data, and determined that the data were sufficiently reliable for the purposes of our reporting.



Scope and Methodology (cont.)

1. To identify what factors have influenced participation in the HCTC, we:
 - Analyzed IRS survey data from two surveys of individuals potentially-eligible for the HCTC conducted in 2009.
 - The first survey included responses from 1,205 individuals who became potentially eligible for the program before key Recovery Act changes took effect (before April 1, 2009), and had a response rate of 9 percent.
 - The second survey included responses from 942 individuals who became potentially eligible after key Recovery Act changes took effect (after June 30, 2009), and had a response rate of 12 percent.
 - For both surveys, IRS included questions we provided to support our analysis.
 - Because of low response rates, we cannot generalize the survey results to all individuals potentially eligible for the HCTC and we cannot meaningfully compare pre- and post-Recovery Act survey results for the questions relevant to our study. However, we determined that the data were sufficiently reliable to report combined results for these questions from the two surveys and to provide information about the views of those who responded to the surveys.⁶
 - Reviewed Recovery Act changes and examined data on TAA-related layoffs and PBGC pension takeovers which may have contributed to changes in HCTC participation after key Recovery Act changes took effect.

⁶The age, income, and geographical distribution of survey respondents was similar to that of nonrespondents.



Scope and Methodology (cont.)

2. To examine what is known about the health insurance coverage and health status of HCTC participants and nonparticipants, we:
 - Analyzed combined results from two IRS surveys of individuals potentially eligible for the HCTC conducted in 2009. Because of low response rates, we used the survey results only to provide information about the views of those who responded to the survey and were eligible to participate.
 - For comparative purposes, we also compared the health status data from IRS's surveys to data on self-reported health status of the U.S. population from the 2007 Community Tracking Study (CTS).
 - The CTS is conducted by the Center for Studying Health System Change, a nonpartisan policy research organization. It is a nationally representative survey of U.S. households that has been conducted five times since 1996—the most recent CTS data available are from 2007.
 - The response rate for the 2007 household survey was 43 percent. Based on our review of the survey documentation, we determined that these data were reliable for the purposes of our reporting.



Scope and Methodology (cont.)

3. To examine the administrative costs of the HCTC to IRS, we analyzed HCTC administrative costs as a share of total HCTC-related costs,⁷ using administrative cost and tax credit data obtained from IRS:

- Administrative cost data:
 - IRS administrative costs for 2003 through 2009
 - IRS's administrative spending plans for 2010 and 2011
- Tax credit data:
 - Total advance tax credits for 2003 through 2009
 - Total end-of-year tax credits for 2003 through 2008
- We interviewed IRS officials and reviewed supporting documentation to clarify our understanding of the administrative cost and tax credit data and determined that they were reliable for the purposes of our reporting.

⁷HCTC-related costs include IRS's administrative costs and total premiums paid to health plans. For the purposes of our analysis, total HCTC-related costs do not include participants' compliance costs, such as their costs to complete application forms, or out-of-pocket costs for health care not covered by the health plan.



Scope and Methodology (cont.)

3. To examine the additional administrative costs incurred by health plans for HCTC participants we obtained information from health plans and third-party administrators (TPA) that provide or administer coverage for HCTC participants.⁸
 - We requested information from the 10 health plans and 10 TPAs with the highest number of HCTC participants. We obtained information from 7 and 6, respectively.
 - The information obtained focused on whether the plans and TPAs incurred costs in addition to the administrative costs they typically incur for non-HCTC participants.

⁸A TPA is an organization that performs claims administration and related business functions for a self-insured employer.



Scope and Methodology (cont.)

- We conducted our work from May 2009 through March 2010 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and the data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.



Summary of Results

1. HCTC participation increased after key Recovery Act changes took effect, and respondents to IRS's surveys of potentially eligible individuals most frequently reported affordability as a reason for participation, and ineligibility as a reason for nonparticipation.
2. Over 20 percent of HCTC-eligible IRS survey respondents who did not intend to participate in the HCTC reported that they were uninsured, and most participants and nonparticipants reported good to excellent health status.
3. The HCTC administrative costs to IRS averaged 17 percent of total HCTC-related costs, and most health plans reported that any additional administrative costs were minimal.



Background

- Prior to the Recovery Act temporary increase, the HCTC covered 65 percent of health plan premiums for:
 - manufacturing workers who lost their jobs due to foreign competition and were eligible for Trade Adjustment Assistance (TAA) benefits, and
 - retirees between the ages of 55 and 64 whose pensions were taken over by the Pension Benefit Guaranty Corporation (PBGC).
- Participants can receive the HCTC in two ways:
 - end of year: as a tax credit when they file their federal income tax returns, or
 - advance: as an advance payment directly to their health plans when their premiums are due each month.



Background (cont.)

- Individuals who participate are responsible for paying their share of the health plan premium to IRS. Advance credit participants provide payments to IRS, and IRS processes the payment of the full premium to health plans—including the participants' and government's shares.
- HCTC participants may obtain coverage from the following types of health plans:
 - COBRA group plans,⁹
 - group plans obtained through a spouse's employer,
 - individual health insurance plans,¹⁰ and
 - state qualified plans, which may be group or individual.¹¹

⁹The Consolidated Omnibus Budget Reconciliation Act of 1985 requires employers who provide health insurance to continue to provide coverage to their employees and their families at the group rates in certain circumstances.

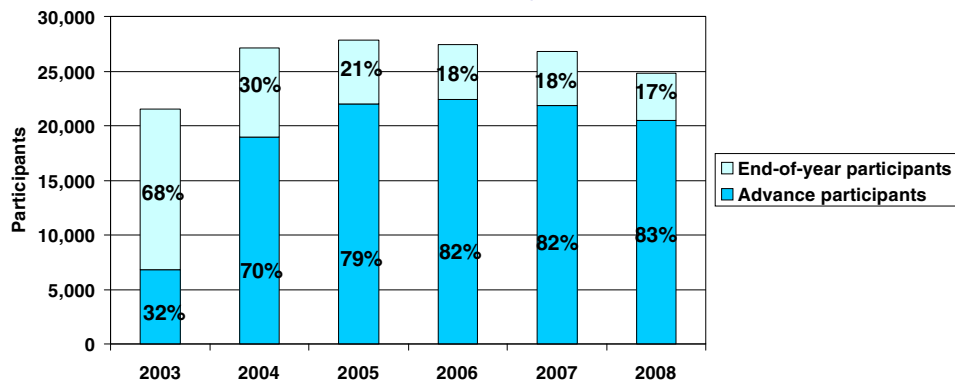
¹⁰Coverage under individual health insurance may be obtained when the individual was covered under individual health insurance for the entire 30-day period that ends on the date the individual became separated from the employment that qualified the individual for TAA or PBGC benefits.

¹¹Seven types of HCTC coverage alternatives may be designated by states, including private group or individual plans, mini-COBRA group plans, and high-risk pool plans. For more information on state-qualified health plans see, GAO, *Health Coverage Tax Credit: Simplified and More Timely Enrollment Process Could Increase Participation*, GAO-04-1029 (Washington, D.C.: Sept. 30, 2004.)

Background (cont.)

- From 2003 through 2008, total annual HCTC participation averaged about 26,000 individuals, with declining participation since 2005.
- During this period, the share of individuals participating in the advance credit increased.

Total annual participation in the HCTC, 2003 through 2008



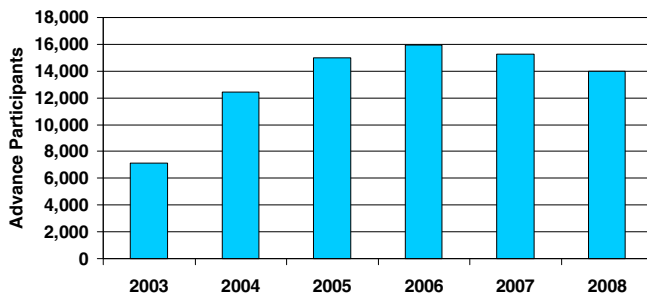
Source: GAO analysis of IRS program data.

Note: Advance participants include individuals who claimed both the advance and end-of-year credit in the same year, and end-of-year participants include those who only claimed end-of-year credits.

Background (cont.)

- From 2003 through 2008, the average number of advance participants per month peaked at 16,000 in 2006, and then declined to about 14,000.¹²

Average monthly participation in the advance HCTC 2003 through 2008



Source: GAO analysis of IRS program data.

Notes: This analysis includes individuals who claimed both advance and end of year credits in the same year, but does not include HCTC participants who only filed for the end-of-year. In 2003 the advance credit was not available until August, and a larger share of HCTC participants that year took the end-of-year credit compared to the other years.

¹²Individuals who participate in the advance credit are typically enrolled in the program for more than 1 month, but many are not enrolled for an entire year. Therefore, total participation in any given month is never as high as total annual participation.



Background (cont.)

- **Key Recovery Act changes to the HCTC in 2009**
 - Made it easier for TAA participants to receive the HCTC by suspending certain HCTC eligibility requirements (March 1)¹³
 - Increased the credit from 65 percent to 80 percent of premiums (April 1)
 - Expanded TAA eligibility to additional workers (May 18)
 - Required retroactive credits for payments made to health plans while a participant's eligibility was being determined (August 17)¹⁴
- Most HCTC-related Recovery Act changes will expire on December 31, 2010. Certain changes, such as the expansion of TAA eligibility to additional workers, are permanent changes.

¹³Prior to the Recovery Act, in order for TAA participants to be eligible for the HCTC they were generally required to be receiving certain payments under TAA and enrolled in TAA training programs—the Recovery Act suspended these requirements.

¹⁴IRS began notifying eligible individuals about this new provision in April 2009.



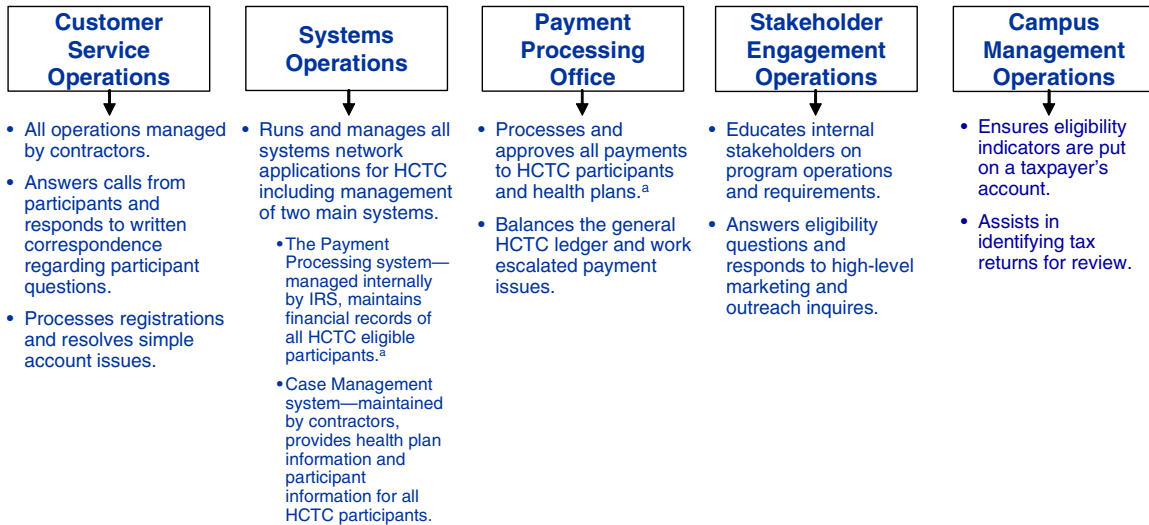
Background (cont.)

- IRS and its contractors administer the HCTC—
administrative activities include:
 - Management of computer systems and customer calling centers
 - Communication with potentially eligible individuals
 - Processing of applications for enrollment in the advance credit
 - Collection of participants' share of premiums
 - Processing government's share of premium payments to health plans



Background (Cont.)

HCTC Operational Divisions



Source: GAO analysis of IRS information.

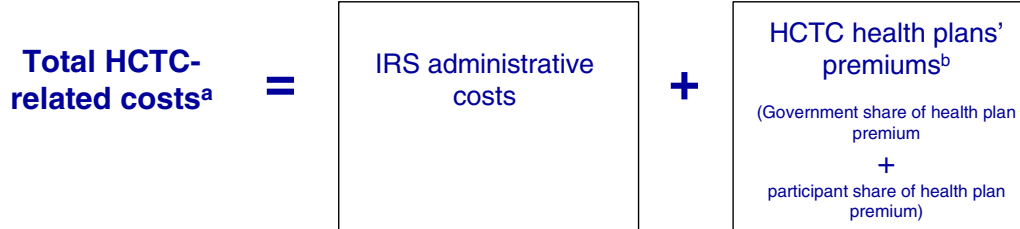
^aAll payments that are made to HCTC participants and health plans are made by the Financial Management Service, a separate agency within the Department of the Treasury.



Background (cont.)

- Health plans provide coverage for HCTC participants.
- Total HCTC-related costs include IRS administrative costs and HCTC health plans' premium costs.

Total HCTC-related cost components



Source: GAO analysis.

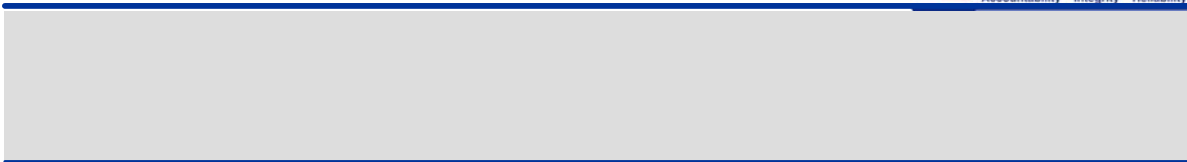
^aFor the purposes of our analysis, total HCTC-related costs do not include participants' compliance costs, such as their costs to complete application forms, or out-of-pocket costs for health care not covered by the health plan.

^bHealth plan premiums cover medical care costs and the plans' administrative costs. Health plans' administrative costs may include billing, enrollment, claims payment, taxes, risk charges, underwriting, broker commissions, overhead, and profit.



Background (cont.)

- The Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act of 2010 includes a tax credit to help individuals pay for health coverage. Like the HCTC, it will be:
 - administered by the IRS and
 - available in advance as a payment directly to health plans or as a credit on participants' end-of-year taxes.
- A key difference between the administration of the new credit and the HCTC is that, under the new credit, participants will pay their share of the health plans' premiums directly to the health plans and IRS will only process the governments' share of the payment.



Results



1: Change in Participation and Factors Influencing Participation

- HCTC participation increased after key Recovery Act changes took effect.
- Respondents to IRS's surveys of potentially eligible individuals most commonly reported improved affordability of health insurance coverage as a reason for participation in the HCTC and most commonly reported ineligibility for the credit as a reason for nonparticipation in the HCTC.
- Recovery Act changes and other factors may have contributed to increased participation.



1: Change in Participation and Factors Influencing Participation (cont.)

Participation

- HCTC participation increased after key Recovery Act changes took effect:
 - The average number of advance participants per month increased by 36 percent.¹⁵
 - This was higher than the increase in the average number of potentially eligible individuals per month—23 percent.
- Increased participation was primarily among TAA-eligible individuals rather than PBGC-eligible individuals.

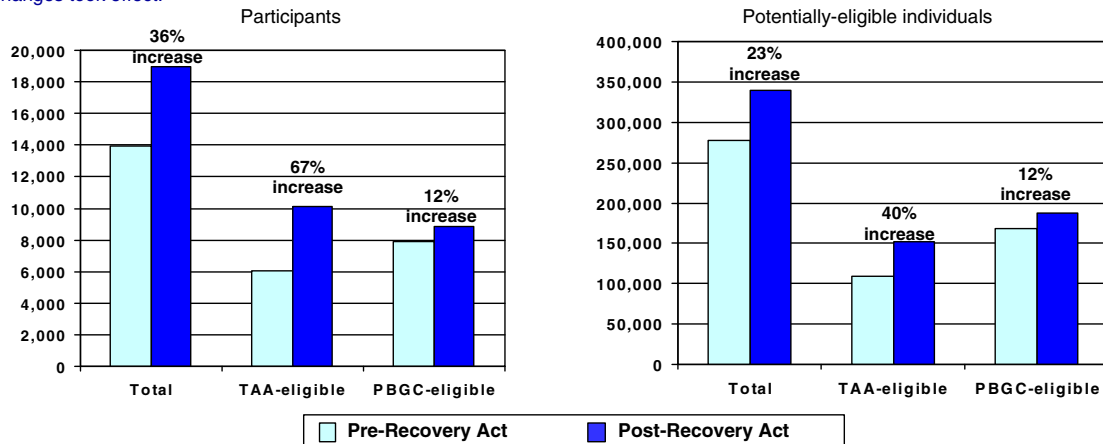
¹⁵This analysis compares data from the 6 months preceding the first major Recovery Act change (October 2008 through March 2009) and the 6 months following the implementation of most Recovery Act changes (July 2009 through December 2009). Data from the months of April, May, and June of 2009 were not included in this analysis because participation during these months may have been split among some individuals who applied for the credit before the Recovery Act changes took effect and others who applied after. The analysis of participants does not include participants who filed for the end-of-year credit, because these data were not available at the time of our analysis. Advance participants made up over 80 percent of total participation from 2006 through 2008.



1: Change in Participation and Factors Influencing Participation (cont.)

Participation

Average number of advance HCTC participants per month and potentially eligible individuals, before and after key Recovery Act changes took effect.



Source: GAO analysis of IRS program data.

Notes: This analysis compares data from the 6 months preceding the first major Recovery Act change (October 2008 through March 2009) and the 6 months following the implementation of most Recovery Act changes (July 2009 through December 2009). Data from the months of April, May, and June of 2009 were not included in this analysis because participation during these months may have been split among some individuals who applied for the credit before the Recovery Act changes took effect and others who applied after. The analysis of participants does not include participants who filed for the end-of-year credit, because these data were not available at the time of our analysis.

These figures do not include participants' qualified family members, who are also eligible to participate in the HCTC. IRS's estimate of the total number of covered individuals, including qualified family members, equals the number of participants multiplied by a factor of 1.6.



1: Change in Participation and Factors Influencing Participation (cont.)

Influencing Factors

- Most commonly reported factors influencing participation among IRS survey respondents:
 - Participants most commonly reported affordability of health insurance coverage as a reason for participation in the HCTC, followed by the need for health insurance.
 - Among individuals who said they were interested in participating in the HCTC but did not intend to participate, the most commonly reported reasons for nonparticipation were:
 - ineligibility—for example due to being covered by Medicare or Medicaid or not meeting an age requirement,
 - followed by affordability—such as being unable to afford to pay for premiums even with the credit or to pay for premiums while waiting for their enrollment to be approved.



1: Change in Participation and Factors Influencing Participation (cont.)

Influencing Factors

- Recovery Act changes provided incentives for increased participation.
 - The increase in the amount of the credit and the retroactive credit made health plan premiums more affordable.
 - Expanded HCTC eligibility rules for TAA individuals and the expansion of TAA eligibility to additional industries increased the number of people eligible.
- Economic factors increased the number of individuals potentially eligible to participate.
 - Increased trade-related layoffs.
 - PBGC took over more pensions.



2: Health Insurance Coverage and Health Status of Survey Respondents

- Insurance coverage status:
 - Over 20 percent of IRS survey respondents who were eligible for the HCTC, but did not intend to participate, reported that they were uninsured.¹⁶
- Health status:
 - IRS survey respondents who were eligible for the HCTC and insured—including HCTC participants and nonparticipants with other coverage—reported health status that was similar to or better than the health status of the U.S. population. Over 80 percent of each group reported good to excellent health status.
 - Uninsured survey respondents who were eligible for the HCTC but did not plan to participate reported somewhat lower health status—with fewer than 70 percent reporting good to excellent health status.

¹⁶This analysis excluded certain individuals who were not eligible for the HCTC because they were covered by Medicare, Medicaid, or military health care, or because they did not meet an age requirement.



3: HCTC Administrative Costs

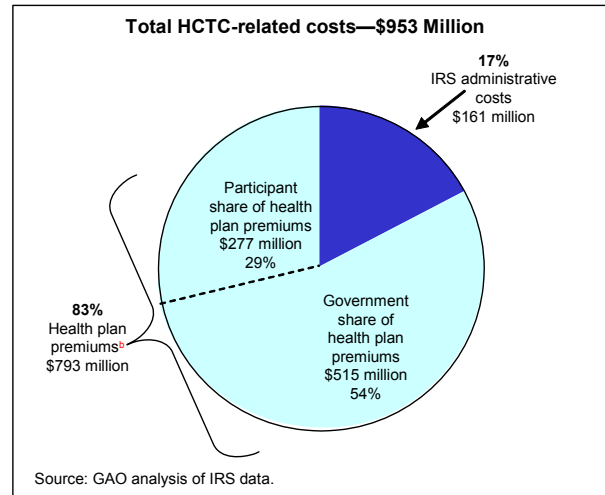
- From 2003 through 2008, HCTC administrative costs to IRS averaged 17 percent of total HCTC-related costs, with variation related to start up costs in early years.
- Most HCTC health plan and TPA officials that provided information reported that any additional administrative costs for HCTC participants compared to the typical costs incurred for non-HCTC participants were minimal.

3: HCTC Administrative Costs (cont.)

IRS Costs

- Administrative costs of the HCTC to IRS from 2003 through 2008 totaled \$161 million, accounting for 17 percent of total HCTC-related costs during that time.

Total HCTC-Related Costs, 2003 through 2008^a



Note: Numbers do not always sum to totals due to rounding.

^aHCTC-related costs include IRS's administrative costs and HCTC health plan premiums.

^bPremiums paid to health plans cover participants' medical care and the plans' administrative costs, which are distinct from IRS's administrative costs.



3: HCTC Administrative Costs (cont.)

IRS Costs

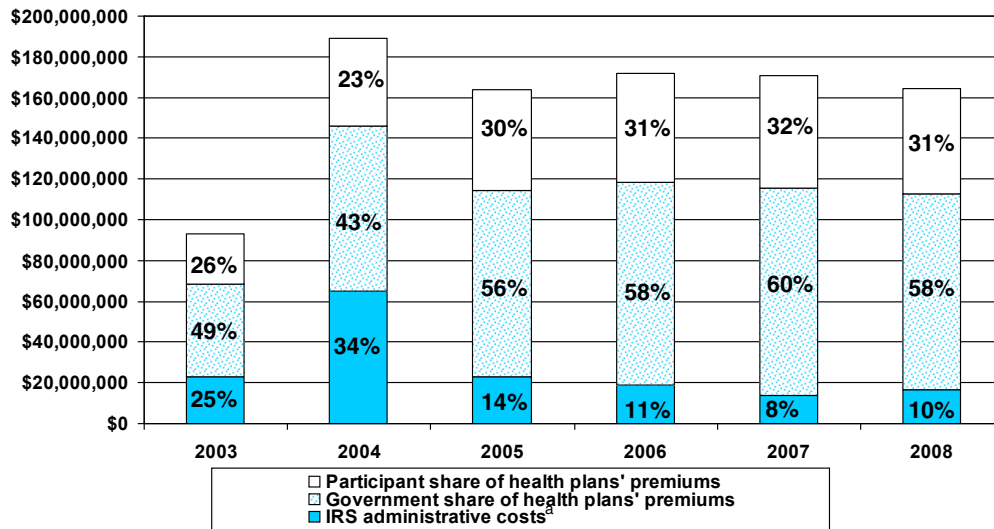
- From 2003 through 2008, IRS’s administrative costs varied each year due primarily to the amount of funds required for start up costs early in the program.
 - In 2003 and 2004, IRS incurred large program start up costs, such as for the development of computer systems. These costs accounted for 25 percent and 34 percent of total HCTC-related costs in these 2 years, respectively.
 - From 2005 through 2008, IRS’s administrative costs did not include similar costs, and as a result, administrative costs ranged from 8 to 14 percent of total HCTC-related costs.
 - IRS officials told us that they expect similar variation in annual spending based on cyclical requirements, such as systems upgrades.¹⁷

¹⁷The HCTC systems upgrades are typically handled by contractors, and IRS does not depreciate such costs over time.



3: HCTC Administrative Costs (cont.) IRS Costs

Components of HCTC-Related Costs as a Share of Total Costs, 2003 through 2008



Source: GAO analysis of IRS data

*From 2003 through 2008, 92 percent of IRS's administrative costs were for contractors' services and supplies, and 8 percent were for expenses internal to IRS, such as staff salaries and printing.



3: HCTC Administrative Costs (cont.)

IRS Costs

- IRS's future administrative costs for the HCTC could vary based on cyclical requirements and the number of participants.
 - From 2009 through 2011 IRS plans to spend about \$40 million for the HCTC program to implement legislative changes and upgrade computer systems, thus administrative costs as a share of total HCTC-related costs are likely to rise during these years.
 - IRS officials told us that absent major program changes, they would not expect similar levels of spending on these types of systems operations until the need for another systems upgrade, thus administrative costs as a share of total HCTC-related costs would likely decrease after 2011.
 - According to IRS officials, computer systems upgrades are typically required every 5 to 6 years.
 - IRS analysis indicates that some economies of scale could be realized for the program if participation increases. For example, the analysis found that increased participation would not result in increased costs for computer systems.



3: HCTC Administrative Costs (cont.)

Health Plan Costs

- A share of the \$793 million in health plan premiums paid from 2003 through 2008 covers the health plans' administrative costs.
- Industry estimates of health plans' typical administrative costs for all enrollees vary greatly, from 5 to 26 percent for group plans, such as employer-sponsored plans, and 25 to 40 percent for individual, nongroup plans.¹⁸
- In 2009, most advance HCTC participants were enrolled in group plans. The monthly average percentages of advance participants by plan type were:
 - 63 percent in group plans under COBRA,
 - 37 percent in state qualified plans, which include both group and individual plans,¹⁹ and
 - 1 percent in other individual health insurance plans.²⁰

¹⁸These ranges are based on GAO's review of industry data from 4 studies published between 2000 and 2007, and two government reports, see CBO, *Key Issues in Analyzing Major Health Insurance Proposals* (Washington, D.C.: December 2008), and GAO, *Private Health Insurance: Small Employers Continue to Face Challenges in Providing Coverage*, GAO-02-8 (Washington, D.C.: Oct. 31, 2001).

¹⁹As of December 2009, 62 percent of the HCTC state-qualified health plans were private group or individual plans, 21 percent were high-risk pool plans, 13 percent were mini-COBRA group plans, and 4 percent were other types of plans.

²⁰Numbers do not add to 100 due to rounding.



3: HCTC Administrative Costs (cont.)

Health Plan Costs

- Officials from all seven health plans and four of the six TPA's that provided information reported that any additional administrative costs for HCTC participants compared to non-HCTC participants were minimal.
 - Officials from all plans and TPAs providing information said that one or more administrative processes for HCTC participants were different than those used for non-HCTC participants. For example, several said they received a single monthly payment for all HCTC participants, rather than separate payments for each, and this payment needed to be reconciled with their records.
 - Officials also told us that the different processes did not typically translate into notable additional costs, either because the number of HCTC participants were small or because the processes were not cumbersome.
 - Officials from two of the TPAs reported additional administrative costs for HCTC participants compared to non-HCTC participants on a per participant basis, citing additional manual processes—such as the manual handling of credits back to IRS when participants dropped coverage.
 - One health plan told us that it cost no more to administer plans for HCTC participants compared to non-HCTC participants, and one TPA reported that it likely costs less to administer plans for HCTC participants. Both made systems changes to help improve their ability to manage HCTC participants.



Agency Comments

- We provided a draft of this report to the IRS. In its comments, IRS said that the per-participant administrative costs for the HCTC program were higher than for other programs it administers, and provided observations to explain the higher costs (see enclosure II). Evaluating the administrative costs of the HCTC program relative to other programs was beyond the scope of this report.



Contributors

- If you or your staffs have any questions regarding this briefing, please contact John E. Dicken at (202) 512-7114 or dickenj@gao.gov. Key contributions to this briefing were made by Randy DiRosa, Assistant Director; Gerardine Brennan; Julianne Flowers; Jawaria Gilani; Krister Friday; Emily Loriso; and Jeffrey Miller.

Comments from the Department of Treasury



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Mr. John E. Dicken
Director, Health Care
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Dicken:

Thank you for your helpful work on the draft report entitled, *Health Coverage Tax Credit: Participation and Administrative Costs*. Your report recognizes the considerable efforts of the Internal Revenue Service (IRS) to effectively and efficiently deliver the Health Coverage Tax Credit (HCTC) to eligible taxpayers each year. On behalf of nearly 30,000 taxpayers, the IRS consistently pays over 1,000 health insurers and third party administrators to subsidize health care costs for beneficiaries.

The Trade Adjustment Assistance Act of 2002, recently reauthorized by the American Recovery and Reinvestment Act of 2009, created the unique HCTC to serve two very specific populations: those receiving Trade Adjustment Assistance benefits and those individuals whose pension was taken over by the Pension Benefit Guaranty Corporation. Considerable effort is expended by the IRS to ensure pre-qualified individuals are notified about the availability of the tax credit, the eligibility requirements, and the health plan options available to claim the credit. These tasks are particular to the success of the HCTC.

I know that one of the areas that your report examines is administrative costs of the HCTC. The IRS is committed to running efficient programs that deliver the benefits and services available to taxpayers at the lowest possible cost. I would observe that the unit costs of operating the HCTC are substantially higher than other more broad-based programs that the IRS administers, because of a few important factors.

First, the HCTC is only available to very small population relative to the approximately 140 million individual tax filers. As a result, the fixed costs that are a part of any tax program are spread over fewer filers. Second, HCTC is not available to the general public, and significant administrative resources are expended in determining who may be eligible by virtue of receiving Trade Adjustment Assistance or receiving benefits from the Pension Benefit Guaranty Corporation. Eligibility for the program in many cases varies depending on the specific employer involved as well as the specific geographic location where the individual worked. These determinations are communications- and resource- intensive. In addition, once trade-affected workers are enrolled, the IRS must work with state workforce agencies to confirm eligibility of beneficiaries on a monthly basis.

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In order to accommodate these requirements specific to trade-affected workers and PBGC beneficiaries, the IRS had to create one-off program features that do not benefit from the economies of scale that the tax system generally provides. Notwithstanding these observations on costs, the IRS remains focused on maximizing outreach and delivering high quality services to the populations that the HCTC was designed to assist.

Thank you again for the valuable feedback included in the report. If you have any questions, please contact David Williams, Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division, at (202) 622-7990.

Sincerely,



Steven T. Miller

(290852)

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