Effects of the Affordable Care Act on the Income Distribution

January 27, 2014

Henry J. Aaron  
THE BROOKINGS INSTITUTION

Gary Burtless  
THE BROOKINGS INSTITUTION
The Affordable Care Act and the income distribution

- Goal of ACA was to expand insurance coverage ... not to change the distribution of income
  - Broadens access to gov’t subsidized insurance
  - Requires large & mid-size employers to offer insurance
  - New channel for people to obtain insurance: Exchanges

- ACA will nonetheless affect income distribution

- Our analysis gives 1st assessment of potential distributional effects

- These turn out to be crucially affected by way we measure income.
How much of the cost of health coverage gets counted in income?

Census Bureau’s “money income” definition:
How much of the cost of health coverage gets counted in income?

Census Bureau’s “fungible value” income definition:

Health insurance subsidy per person, 2008

Source: Authors’ estimates based on the 2006 and 2008 MEPS household files and government health spending data.
How much of the cost of health coverage gets counted in income?

Total value of employer and government health subsidies:

<table>
<thead>
<tr>
<th>Decile of money income distribution</th>
<th>Nonfungible portion of health insurance subsidy</th>
<th>Fungible value of health insurance subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom</td>
<td>$2,161</td>
<td>$1,567</td>
</tr>
<tr>
<td>2</td>
<td>$2,597</td>
<td>$1,567</td>
</tr>
<tr>
<td>3</td>
<td>$2,868</td>
<td>$228</td>
</tr>
<tr>
<td>4</td>
<td>$2,985</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>$3,163</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>$3,258</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>$3,308</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>$3,383</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>$3,433</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ estimates based on the 2006 and 2008 MEPS household files and government health spending data.
How much of the cost of health coverage gets counted in income?

Impact of the ACA:

Health insurance subsidy per person, 2008
Value of employer & government health insurance subsidies as a percent of average money income in decile, 2008

Percent of household money income in decile, 2008

Source: Authors’ estimates based on the 2006 and 2008 MEPS household files and government health spending data.
What we do

- We use information on 60,000+ people interviewed in the 2006 & 2008 MEPS
  - Health coverage & its cost to families
  - Family incomes
  - Estimates of 2016 value of employer & government costs per insured

- Identify families that will be offered new insurance options
- Predict the insurance choice they will make
- Project implications for family income
  - Under four measures of family income
What we find

- Under our broadest measure of income—one that includes full cost of employer & gov’t health subsidies
  - Significant rise in gov’t health insurance in bottom fifth of income distribution
  - Boosts income—under *comprehensive* income definition—by +6%
- But the income gain is far smaller under narrow definition
  - Projected income in bottom fifth of distribution—under *money* income definition—increases just +1.4%
- On average families in top three-quarters of distribution experience small income losses under comprehensive measure
  - However, this measure assigns no value to the guaranteed availability of affordable insurance
Projected ACA impact on noncoverage:
Percent of persons who lack insurance before reform--

Percent of persons who lack health insurance before the ACA (2016)

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.
Projected ACA impact on noncoverage: Percent of persons who lack insurance before & after reform--

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.
Estimated ACA impact on insurance coverage:
After the Supreme Court decision

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.
Estimated ACA impact on insurance coverage: Before and after the Supreme Court decision

Increase in insurance coverage (percent of persons in decile)

![Graph showing increase in insurance coverage by income decile before and after the Supreme Court decision](chart.png)

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.
Enrollment in insurance plans obtained through state Exchanges, by position in income distribution

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.
Percent of persons who gain public insurance subsidies, by position in income distribution

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.
Change in average (household-size-adjusted) money income by tenth of money income distribution (2016)

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.
Change in average money + fungible insurance income, by tenth of income distribution (2016)

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.
Change in average money + total value of insurance income, by tenth of income distribution (2016)

Percent of pre-reform income

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.
Change in average money + total value of insurance – payroll tax income, by tenth of income distribution (2016)

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.
Change in average income near bottom of income distribution, under alternative income measures (2016)

Source: Authors’ projections based on the 2006 and 2008 MEPS household files.