Marriage Penalties Rise Under the New Healthcare Law

By Diana Furchtgott-Roth

Diana Furchtgott-Roth, former chief economist at the Department of Labor, is a senior fellow at the Hudson Institute and a contributing editor at RealClearMarkets.com.

This article describes the marriage penalties in the new healthcare laws, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. Single earners below 400 percent of the poverty line who receive premium credits to help them afford health insurance will see the credits shrink rapidly or disappear when they marry. Upper-income earners will face disincentives to marry and work based on the new Medicare taxes, which apply to singles earning $200,000 and joint filers earning $250,000.

For a bill that is supposed to make Americans healthier, the disincentives for marriage and work under the new healthcare law are truly startling. Beginning in 2013, when many of the bill's provisions take effect, Americans will find it more advantageous to stay single than to marry, even more so than under the current tax code. And women will face greater incentives to leave the workforce.

For some couples, love conquers all, and crude financial considerations will not enter into their decision as to whether to tie the knot. Still, under the new law, others might defer marriage either temporarily or permanently, contributing to a host of social problems, such as increases in fatherless families and crime, which are all beyond the scope of this article.

Marriage penalties from taxes in general and from the new healthcare law in particular fall into two categories: disincentives to marry and disincentives to work. Many individuals will be primarily affected by the interaction between government-provided health insurance credits and the poverty line, and upper-income married taxpayers will face earnings losses because of increases in the Medicare tax on earned and unearned income, which begin at $200,000 for singles and $250,000 for couples.

Health insurance premium credits in the new law are linked not directly to income, but to the poverty line, resulting in a particularly steep marriage penalty for low-income Americans. With $10,830 as the poverty line for one person and an additional $3,740 for a spouse, marriage means less government help with health insurance. Because the new qualified benefit health plans offered in the health exchanges won't come cheap — no copayments for preventive services and no exclusions for preexisting conditions will drive up prices — getting government help with the premiums will become vital.

Here's how the system will work when it is implemented in 2014. The new healthcare bill will offer refundable, advance premium credits to singles and families with incomes between 133 and 400 percent of the federal poverty line. These credits can only be used to buy health insurance through the new health exchanges. The amount of the credits will be linked to the second lowest cost plan in the area and are structured so that health insurance premium contributions are limited to the following percentages of income for specified income levels, as is shown in Table 1.

Table 1. Premium Tax Credits

Household Income as Percentage of Federal Poverty Line	Premium Payment as Percentage of Income
Up to 133%	2%
133%-150%	3%-4%
150%-200%	4%-6.3%
200%-250%	6.3%-8.05%
250%-300%	8.05%-9.5%
300%-400%	9.5%

Source: Health Care and Education Reconciliation Act of 2010, section 1001(a).

In addition to the premium credits, under the new law the government also gives cost-sharing subsidies to singles and to families. These subsidies reduce amounts that people pay for health insurance.

Since premium credits and cost subsidies are calculated with reference to the federal poverty line, there is every incentive to not necessarily have as low an income as possible, but to be on the lowest possible poverty line. In that way, the government pays a larger share of health insurance.

An examination of the Department of Health and Human Services poverty guidelines for 2009 in Table 2 shows that one person earning $10,830, or two married people earning $14,570, are at 100 percent of the poverty line. Moving up the income scale, a single earning $43,320 and a married couple earning $58,280 would be at 400 percent of the poverty line.

This is not a minor problem, because household median income is approximately $50,000. In 2008, the latest data available, 190 million people, or 63 percent of the total, were below 400 percent of the poverty line.

Two singles would each be able to earn $43,000 and still receive help to purchase health insurance, but if they got married and combined their earnings to $86,000, they would be far above the limit. As a married couple, the most they could earn and still get government help with

Table 2. Department of Health and Human Services 2009 Poverty Guidelines	
Persons in Family or Household	48 Contiguous States and D.C.
1	$10,830
2	$14,570
3	$18,310
4	$22,050
5	$25,790
6	$29,530
7	$33,270
8	$37,010
Greater than 8 persons	Add $3,740 for each additional person
Source: Department of Health and Human Services, 2009 Poverty Guidelines, released February 28, 2009.	

health insurance premiums is $58,000, a difference of almost $30,000, or 32 percent. This is a substantial disincentive to getting married, or to working while married.

Such marriage penalties exist even for those couples who earn below 400 percent of the poverty line when married. Let's look at the example of June and Jake. Living alone, each earns $21,660, putting them at 200 percent of the federal poverty guideline. Unmarried, their premium would be about 6.3 percent of their income, or $1,365 each, $2,730 in total. If they were to marry, their combined income would be $43,320 — approximately 300 percent of the poverty line for a family of two. This would push their premium close to the 9.5 percent bracket, or $4,115 of their combined income. This would be a marriage penalty equal to $1,385, even before income taxes and phaseouts of the earned income tax credit. The temptation would be either not to marry, or, if married, to work fewer hours.

The penalty also extends to single mothers. Say Sally is a single mother earning $43,710, putting her and her baby at 300 percent of the poverty line. They would be eligible for the health insurance premium assistance credit. But what if she wants to marry Sam, the father of her child, who earns $43,320 and is at 400 percent of the federal poverty line? Their total earnings, at $87,030, would exceed the 400 percent poverty line for a family of three ($73,240). Married, they would no longer receive help with their health insurance premiums, despite both earning the credit when unmarried. To keep her government health insurance benefit, Sally could only marry someone earning less than $30,000.

Although affecting far fewer people, the new healthcare law increases the marriage penalty at higher incomes. An additional 0.9 percent Medicare tax falls on wage and salary income, and a new 3.8 percent Medicare tax is levied on investment income for singles and couples earning more than $200,000 and $250,000, respectively. Two singles earning $180,000 each would not be subject to the surtax, but marriage would become more expensive.

As well as discouraging marriage, the healthcare law gives an incentive to the lower-earning spouse, generally the woman, to leave the labor force, lowering the returns on her education.

The penalty would be greatest for women who have invested the most in their education, hoping to shatter the glass ceiling and compete with men. The tax discourages married women not just from working, but also from seeking the next promotion, from pursuing upwardly-mobile careers.

Women are more affected by the marriage penalty than men because they have a greater tendency to move in and out of the labor force, depending on the ages of their children. Most American women, married and single, have children, and many take time out of the workforce at some point to look after them.

The new taxes and premium subsidies in the healthcare law discourage couples from getting married. When couples are married, those taxes and subsidies discourage more educated women from working. That's not a healthy piece of legislation.