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How Obamacare could keep families trapped in poverty

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In order to help pay for the \$20 billion "Doc Fix" in Medicare payment rates, the government now has an "exchange recapture subsidy," which basically allows the government to compel low-income families to return any excess subsidies they might have gotten from Obamacare. Shikha Dalmia has [a must read piece at *The Daily Beast*](#) on the kind of perverse incentives this creates:

When the government hands out subsidies, it will use a household's income in the previous year as the basis for guessing what the household is qualified to get in the current year. But if the household's income grows midyear, the subsidy recapture provision will require it to repay anywhere from \$600 to \$3,500, compared to the \$450 that the law originally called for.

This will make it very hazardous for poor working families to get ahead. In the original law, the loss of subsidy with rising income already meant absurdly high effective marginal tax rates—the implicit tax on every additional dollar of income earned. How high? The Cato Institute's Michael Cannon puts them at 229 percent for families of four who increase their earnings by an amount equal to 5 percent of the federal poverty level or \$1,100. In other words, a family that added this amount to an income of \$44,700 would actually see its total income *fall* by \$1,419 due to the loss of subsidies.

The subsidy recapture provision—essentially a tax collection scheme—means that low-wage, cash-strapped families will have no escape from these perverse tax rates. Many of them will find themselves owing the government thousands of dollars in back taxes. Since it is unlikely that they will have this kind of money sitting around, they will face a massive incentive to either fudge their returns or work for cash to avoid reporting additional income.

Obviously, this is a complicated issue so Dalmia's column is worth reading in full. But it's hard to see how encouraging tax evasion and discouraging families to earn additional income is anything but terrible policy.

UPDATE: Over at Mahablog, once you get through the lazy ad hominem directed at me and Dalmia, it's pointed out that this new scheme to pay for the Doc Fix is actually a GOP amendment. While I recognize it's an attempt to reduce fraud in Obamacare subsidies and raise revenue, it seems obvious that this is bad policy anyway you slice it given the incentives it creates. So to recap -- the Democrats pass Obamacare, where lots of working poor people are set to receive expensive subsidies that will have to be paid for somehow. Then Republicans came along and tried to reduce the potential for fraud among those subsidies and save money, but despite good intentions, their fix may actually end up encouraging fraud.

In the end, this sounds to me like an argument for getting government less involved in health care and I will happily assign blame to both parties for mucking things up here. But whatever, Mahablog says I don't care about the poor because I'm to the right of Dennis Kucinich or something, so don't listen to me.

[Beltway Confidential](#) [doc fix](#) [obamacare](#) [perverse incentives](#) [subsidies](#)

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