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Misplaced Priorities

Should protecting frail seniors trump subsidizing well-off seniors' medical and dental costs?

If the budget proposed by the Co-Chairs of the Joint Ways and Means Committee becomes a reality, programs serving frail seniors will be cut back, with some seniors losing the assistance they need to live independently in their own homes. The state's system for providing seniors with assistance is facing over $100 million in budget cuts.

And yet, at the same time the budget for care for frail seniors is being slashed, Oregon's tax code provides an unlimited subsidy to seniors with incomes of $100,000 or more to help them pay their medical and dental expenses.[1] The subsidy covers a variety of health-related costs, including expenses for things such as contact lenses, treatment for alcohol addiction, acupuncture, vasectomies, laser eye surgery, psychoanalysis and certain weight-loss programs.[2] The tax subsidy for seniors with incomes of $100,000 or more is expected to cost about $48 million in the upcoming budget period.

The legislature enacted the subsidy in 1991 and never chose to place a sunset on it. Thus, it continues unabated, regardless of what is happening in the economy and in the budget process to programs that protect frail seniors.

Which should be a higher priority, protecting frail seniors or providing a subsidy for well-off seniors?

Proposed cuts threaten the ability of frail seniors to remain in their homes and receive quality care

Under the Co-Chairs' proposed budget, services to seniors and persons with disabilities take a big cut. Among those of most concern to advocates are funding for in-home services that allow frail seniors to continue living in their homes and cuts to employee benefits and training that help reduce turnover and improve care.

Specifically, the Co-Chairs' budget cuts:

- In-home care services provided through Medicaid and Oregon Project Independence ($31.8 million).[3] Such services assist with tasks such as bathing, housekeeping, shopping and transportation, allowing seniors to live independently at home.

- Health insurance benefits and training for in-home care workers ($18.1 million).[4] Training and healthcare benefits ensure a more stable workforce, which means that seniors get assistance from experienced caregivers.

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Both seniors and the state lose when these services are not funded. Seniors lose their independence and dignity. For the state of Oregon, it could mean higher costs in the long run, because the cost of living in a nursing home is higher than assisted, in-home care.

The costly medical deduction disproportionately subsidizes well-off seniors, offering little help to low-income seniors

Oregon allows taxpayers age 62 or older — no matter how high their income — to deduct all of their out-of-pocket medical and dental expenses from their taxable income. In the upcoming 2009-11 budget cycle, Oregon will spend about $127 million on the unlimited subsidy. That's an increase of $20 million, or 19 percent, from the cost in the current budget cycle. In 1995-97 the subsidy cost $41.4 million.

The subsidy disproportionately benefits well-off seniors. About $48 million of the projected $127 million cost — 38 percent — will go to households with income over $100,000.[5] These higher-income seniors will get about 38 percent of the subsidy's value, even though they constitute only about 15 percent of seniors receiving the subsidy.[6] In part, this is because the subsidy is worth more to high-income taxpayers who have more income taxed at the top rate of 9 percent.[7]

Low-income seniors, on the other hand, will receive almost no benefit from the subsidy. The lowest-income seniors — those with incomes under $20,000 a year — will reap just 3 percent of the value of the subsidy, even though they make up 25 percent of seniors using the subsidy.[8]

Not only do wealthier seniors as a group receive a disproportionate share of the tax subsidy, but the average subsidy to the wealthiest seniors is greater than the average subsidy to low-income seniors. In 2006 low-income seniors on average received a subsidy of just $30, while seniors making over $100,000 averaged a tax subsidy of $602.

Two factors account for why the subsidy largely fails to help low-income seniors. First, the deduction is useless to seniors whose income is so low that they do not file income taxes. Second, a deduction for out-of-pocket expenses doesn't help those with little money in their pocket. By contrast, wealthy seniors with cash to spend on medical and dental services not covered by Medicare or their supplemental insurance can take advantage of the deduction.

Conclusion

Any budget, especially one that responds to a fiscal crisis, should reflect the priorities of Oregonians. Do Oregonians really value subsidizing seniors with incomes of $100,000 or more over helping frail seniors stay in their homes and receive services from well-trained workers?

To reflect better Oregonians' priorities, the legislature should eliminate the medical deduction for seniors making over $100,000.

Endnotes

[1] All taxpayers may deduct from their federal taxable income out-of-pocket medical and dental expenses that exceed 7.5 percent of income. In Oregon, all taxpayers aged 62 or over – regardless of income – may deduct ALL of their out-of-pocket medical and dental expenses. The $48 million cost figure is for the 2009-11 biennium and refers only to the additional Oregon tax break taxpayers aged 62 and over receive.

[2] For a full list of allowable deductions, see Internal Revenue Service, *Medical and Dental Expenses*, publication 502 (2008), available at www.irs.gov/publications/p502/ar02.html#en_US_publink100014757.

[3] The Co-Chairs' budget proposes $18.8 million in reductions to the in-home care program by limiting "non-critical" services. The budget does not specifically cut Oregon Project Independence but rather notes "supplemental funding to be determined." $13 million would restore Oregon Project Independence to its 2007-09 funding level.

[4] The Co-Chairs' budget would cut $16.7 million by eliminating health insurance coverage for home care workers who work less than 80 hours per month and $1.4 million by reducing the training budget for home care workers by 50 percent.

[5] That amount includes some, but not all, of their income from Social Security, meaning that these households' real financial resources top $100,000 a year. Specifically, it includes the portion of Social Security income that is taxable at the federal level.

[6] This estimate is based on 2006 data, the most recent data available from the Oregon Department of Revenue.

[7] The subsidy will become even more valuable to the highest-income seniors if the legislature enacts HB 2649, temporarily creating two new tax brackets of 10.8 and 11 percent for high-income taxpayers in 2009 through 2011 and permanently creating a single new 9.9 percent tax bracket for high-income taxpayers beginning in 2012.

[8] OCPP analysis of 2006 Oregon Department of Revenue data.

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