Sensitivity of the Distribution of Household Income to the Treatment of Health Insurance From 1979 to 2021

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Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

Introduction

What Is This Slide Deck About?

The Congressional Budget Office regularly analyzes changes in how total U.S. household income is shared across households, by income group and component of income. That distributional analysis of household income provides Congress with a basis for understanding how policies have affected or would affect households at various income levels.

This report provides details about how health insurance spending is measured in CBO's *Distribution of Household Income* report series. Those reports present the distributions of household income, means-tested transfers (cash payments or in-kind services provided primarily on the basis of income), and federal taxes. Those income measures are intended to show the impact of fiscal policy on resources available to households. This report shows how choices about health insurance measurement affect those measures of income.

This report supplements two recent CBO publications: *The Distribution of Household Income in 2021* (www.cbo.gov/publication/60341) and "Trends in the Distribution of Household Income From 1979 to 2021" (www.cbo.gov/publication/60342). Earlier reports in the series are available at www.cbo.gov/recurring-publication/55134.

Why Is Health Insurance Important for Income Measurement?

In CBO's analysis of the distribution of household income, compensation and government benefits in the form of health insurance contributed substantially to income growth between 1979 and 2021. In this report, CBO will demonstrate the impact of differing measures of health insurance on household income over that period.

CBO uses broad measures of income in its analyses that include health insurance provided through federal programs (such as Medicaid and Medicare) as well as employers' contributions toward health insurance. Those forms of health insurance spending—which provide households with health insurance or subsidize the purchase of health insurance—are included as income because they expand households' potential consumption.

Because health insurance benefits provided by employers and by the federal government affect a household's full economic resources, CBO counts spending on those benefits as a form of noncash income. This report shows how much measures of income change when there are changes in health insurance spending and changes in what is included in health insurance spending (that is, the treatment of health insurance spending).

What Types of Health Insurance Are Included in CBO's Distributional Analyses of Household Income?

Spending for five major types of health insurance is reflected in income after transfers and taxes (a measure of income that adds means-tested transfers and subtracts federal taxes):

- Employers' contributions for health insurance premiums (also called employer-sponsored insurance, ESI, or employment-based insurance),
- Medicaid and the Children's Health Insurance Program (CHIP),
- Medicare (net of premiums paid by enrollees),
- The Medicare Part D low-income subsidy (LIS), and
- Premium tax credits (refundable tax credits used to offset the cost of purchasing health insurance through the marketplaces established under the Affordable Care Act, or ACA).

CBO includes amounts spent by employers and governments in household income.

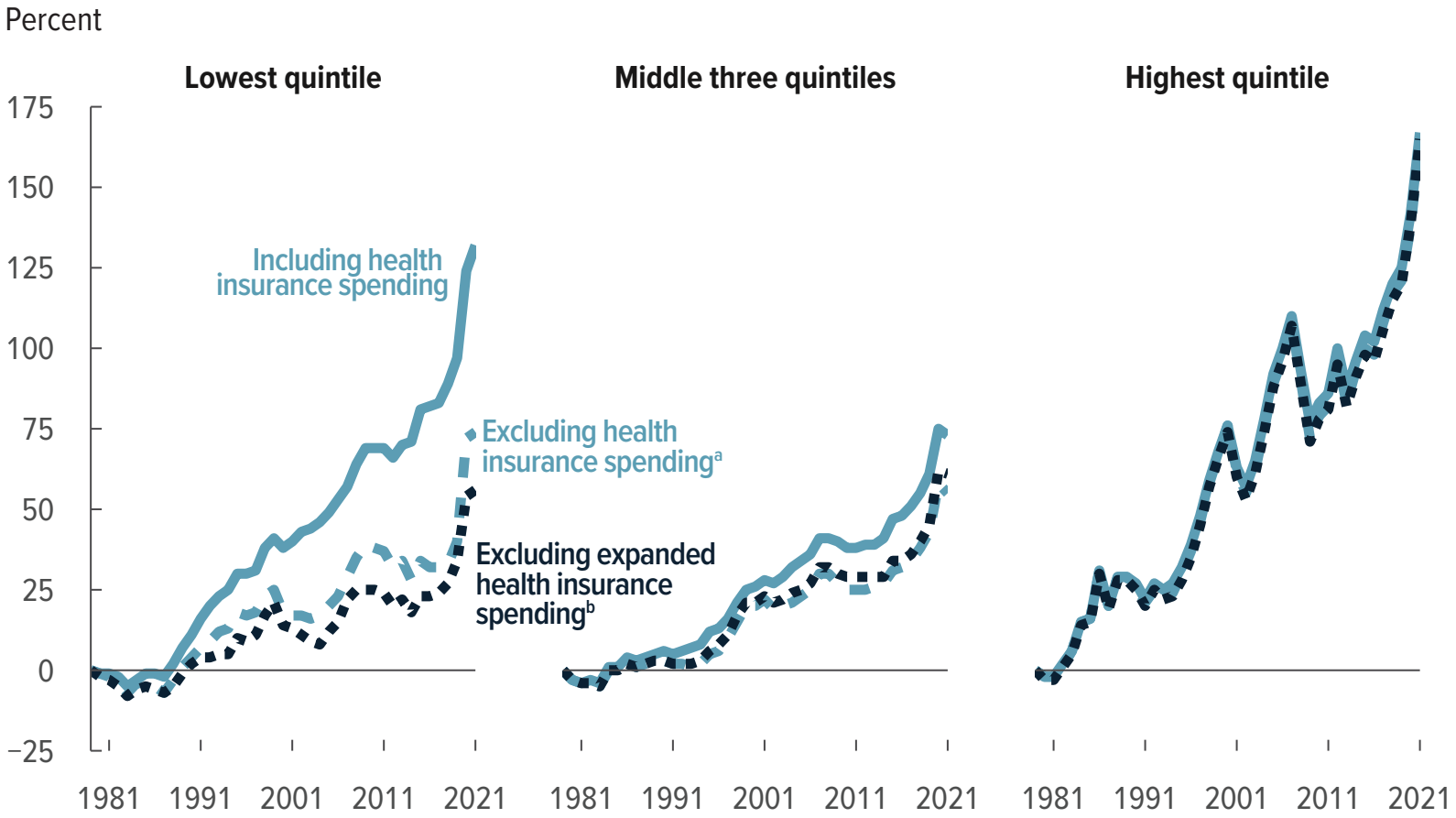
The analyses do not explicitly account for household premiums and other out-of-pocket expenses for health care. In general, income used to finance that spending is part of CBO's income measures.

How Is the Information in This Report Organized?

In this report, CBO examines the sensitivity of various income measures to the treatment of health insurance spending by:

- Analyzing the distribution of health insurance spending as reported in the agency's *Distribution of Household Income* series of reports;
- Developing a more comprehensive measure, called expanded health insurance spending, that incorporates household spending on health insurance premiums—spending that otherwise would not be available for saving or other forms of consumption; and
- Comparing the effects of those different measures of health insurance spending on income growth.

Summary Figure: How Does the Treatment of Health Insurance Spending Affect the Growth Rate of Household Income by Income Group?



The rate of growth of household income since 1979 is sensitive to the treatment of health insurance spending. Income excluding health insurance spending grows more slowly among households in the lowest quintile, or fifth, of the distribution, particularly when an expanded measure of health insurance spending is used. Income growth among households in the highest quintile is less sensitive to the treatment of health insurance spending because such spending is a smaller share of their income.

To calculate growth rates, CBO first converted all dollar amounts to 2021 dollars using the Bureau of Economic Analysis's price index for personal consumption expenditures.
a. Households are ranked by income before transfers and taxes.
b. Households are ranked by income before expanded health insurance spending.

Summary Table: What Is Included in Health Insurance Spending and Expanded Health Insurance Spending?

	Health insurance spending	Expanded health insurance spending
Medicare	X	X
Medicare premiums		X
Employers' contributions for ESI	X (From the CPS)	X (Scaled to NHE)
Household premiums for ESI		X
Medicaid and CHIP	X	X
Medicare Part D LIS	X	X
Premium tax credits	X	X
The cost of purchasing health insurance through the marketplaces established under the ACA		X

Income excluding health insurance spending equals income after taxes and transfers minus health insurance spending.[a]

Income excluding *expanded* health insurance spending equals income after taxes and transfers minus *expanded* health insurance spending.[b]

a Income after transfers and taxes is calculated using the Current Population Survey (CPS) measure of employers' contributions for health insurance premiums.
b. Income after transfers and taxes is calculated using employers' contributions for health insurance premiums that have been scaled to the national health expenditures (NHE).

CBO's Method of Measuring Health Insurance Spending in the *Distribution of Household Income* Reports

How Is Health Insurance Spending Calculated in the *Distribution of Household Income* Reports?

Some forms of spending on health insurance are included in the income measures used in *The Distribution of Household Income*.

- Employers' contributions for their employees' health insurance premiums are included because they are a portion of the compensation that employers provide to employees.
- Spending for government-provided insurance, the provision of which is based on eligibility criteria, is also included. CBO allocates that insurance according to the resource cost (the average cost of providing that insurance).

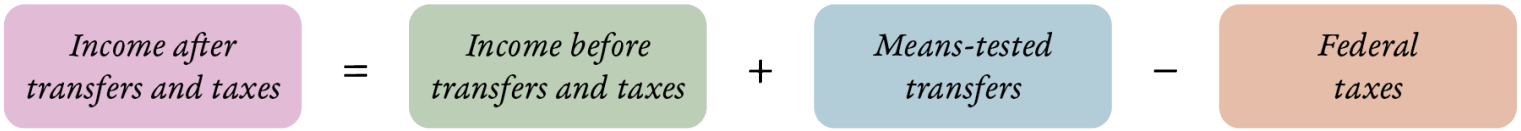
The Distribution of Household Income measures income, not consumption. As a result, it does not estimate the distribution of the following:

- Household spending on health insurance premiums, and
- Other out-of-pocket spending on health care.

What Forms of Health Insurance Spending Are Included in Income in the *Distribution of Household Income* Reports?

Five forms of health insurance spending are included in *The Distribution of Household Income*'s measure of income after transfers and taxes:

- Employers' contributions for health insurance premiums (included in income before transfers and taxes),
- Medicare (included in income before transfers and taxes),
- Medicaid and CHIP (included in means-tested transfers),
- The Medicare Part D low-income subsidy (included in means-tested transfers), and
- Premium tax credits, which subsidize health insurance policies purchased through the marketplaces established under the ACA (included in federal taxes).



Why Does CBO Include Health Insurance as Part of Income in the *Distribution of Household Income* Reports?

Receiving health insurance increases households' resources, enabling them to consume health services without giving up other goods. For example, employers' contributions for health insurance are a substitute for cash wages and carry tax advantages relative to cash. Tax credits for the purchase of health insurance are similar to tax credits for other activities in that they provide additional resources to households.

Health insurance is a large and growing share of compensation and transfers. Excluding it would understate income growth and the size of the tax-and-transfer system.

How Do Other Government Agencies Treat Health Insurance?

Organization	Income measure	Treatment of health insurance
Census Bureau	Money income (official poverty measure)	Excludes employers' contributions for ESI and spending for Medicare and Medicaid.
	Supplemental poverty measure (SPM)	Excludes employers' contributions for ESI and spending for Medicare and Medicaid. Also subtracts households' health care costs from income.
	Health inclusive poverty measure (HIPM)	Includes employers' contributions for ESI and spending for Medicare and Medicaid, at average cost. That is, the average cost of health insurance is included in the resource measure.
Bureau of Economic Analysis	Distribution of personal income	Includes employers' contributions for ESI and spending for Medicare and Medicaid, at average cost.
Joint Committee on Taxation	Expanded income	Includes employers' contributions for ESI and spending for Medicare and Medicaid, at average cost.

How Does CBO Allocate Health Insurance in the *Distribution of Household Income* Reports?

For this report and its reports about the distribution of household income, CBO allocates health insurance according to the average resource cost, which is total spending divided by the number of recipients.

Some health insurance spending can accrue to people other than direct beneficiaries. In particular, some spending on health insurance accrues to providers of medical services. (For example, some Medicaid spending reimburses care that otherwise would have been provided as charity, implying that some of the Medicaid dollars are, in effect, income for the health care provider rather than the Medicaid beneficiary.) CBO is investigating ways of allocating some health insurance spending to health care providers.

In related work, CBO allocated a portion of changes in Medicaid spending resulting from the 2025 reconciliation act (Public Law 119-21) to people owning and working for health care providers and insurers.[1]

1. See Congressional Budget Office, *Distributional Effects of Public Law 119-21* (August 2025), www.cbo.gov/publication/61367.

What Data Sources Does CBO Use for Its *Distribution of Household Income* Reports?

CBO's distributional analyses are based on annual cross-sectional data that are drawn from two sources: administrative tax data from the Statistics of Income (SOI) and the annual March supplements to the Current Population Survey (CPS).

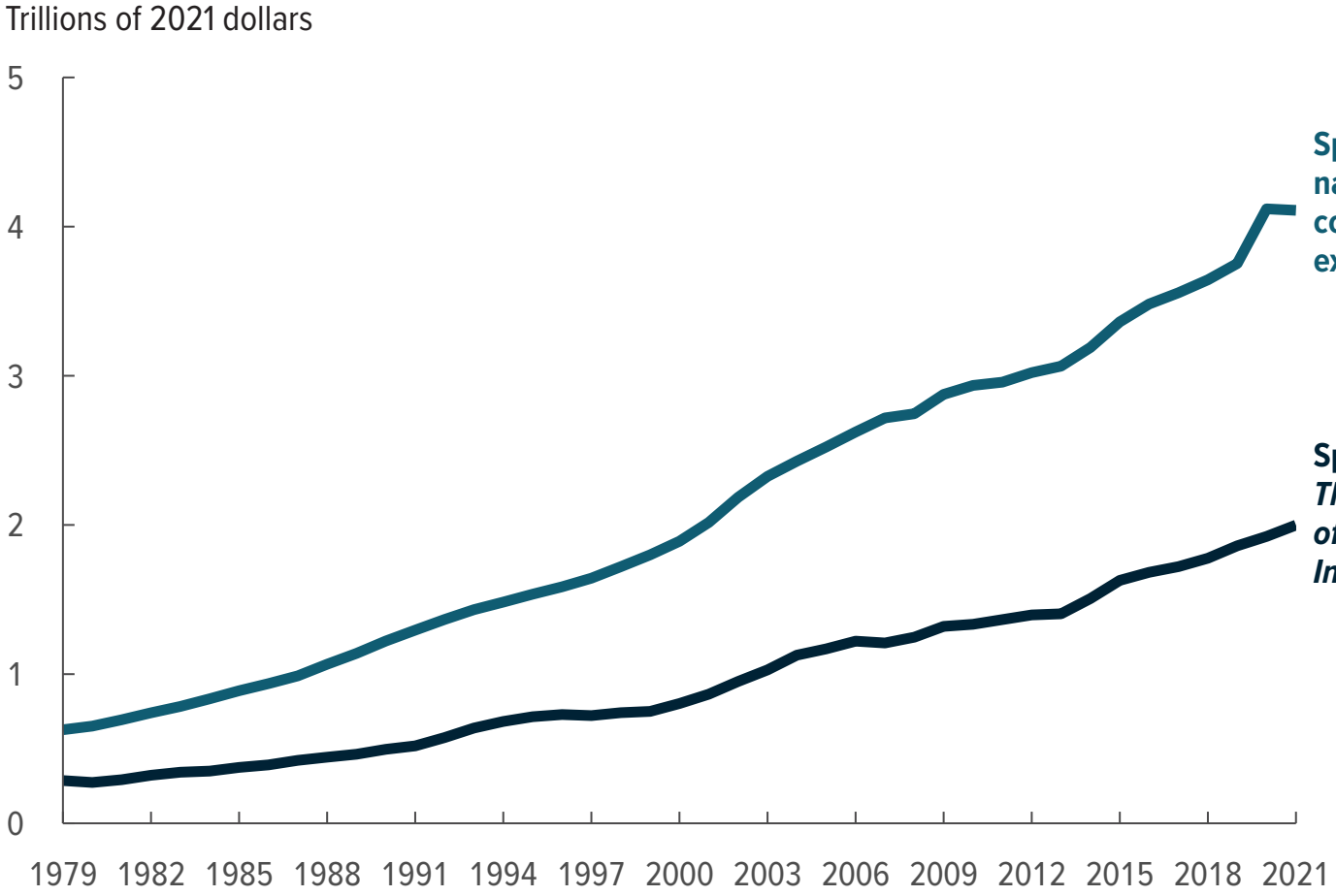
The SOI data provide information about federal taxes as well as about market income and Social Security for people who file tax returns (tax filers). Market income comprises wages and other forms of labor income (including cash wages, employers' contributions for health insurance premiums, and payroll taxes paid by employers), business income, capital gains, and other income sources.

The CPS supplements provide information about Medicare, means-tested transfers, and market income and Social Security for people who do not file tax returns (nonfilers).[2]

The SOI and CPS data are statistically matched to produce a single dataset. Tax units are created in the CPS, matched with their counterparts in the SOI on the basis of total income, and then reconstructed into households. CBO adjusts its sample totals to match administrative totals for Medicare and Medicaid.

2. For more information about CBO's treatment of Medicare and means-tested transfers, see Bilal Habib, *How CBO Adjusts for Survey Underreporting of Transfer Income in Its Distributional Analyses*, Working Paper 2018-07 (Congressional Budget Office, July 2018), www.cbo.gov/publication/54234.

How Does Health Insurance Spending in CBO's Distributional Analyses Compare With Health Consumption Expenditures?



Both measures include spending on health insurance by governments and employers. But health consumption expenditures include household spending on health insurance premiums and out-of-pocket medical expenses, spending on public health, and spending on health care for institutionalized people, whereas spending in *The Distribution of Household Income* does not.

To convert dollar amounts to 2021 dollars, CBO used the Bureau of Economic Analysis's price index for personal consumption expenditures. Health consumption expenditure data are drawn from the national health expenditures data, which are published by the Centers for Medicare & Medicaid Services and are available at www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/historical.

How Does the Inclusion of Health Insurance Affect the Growth of Income After Taxes and Transfers?

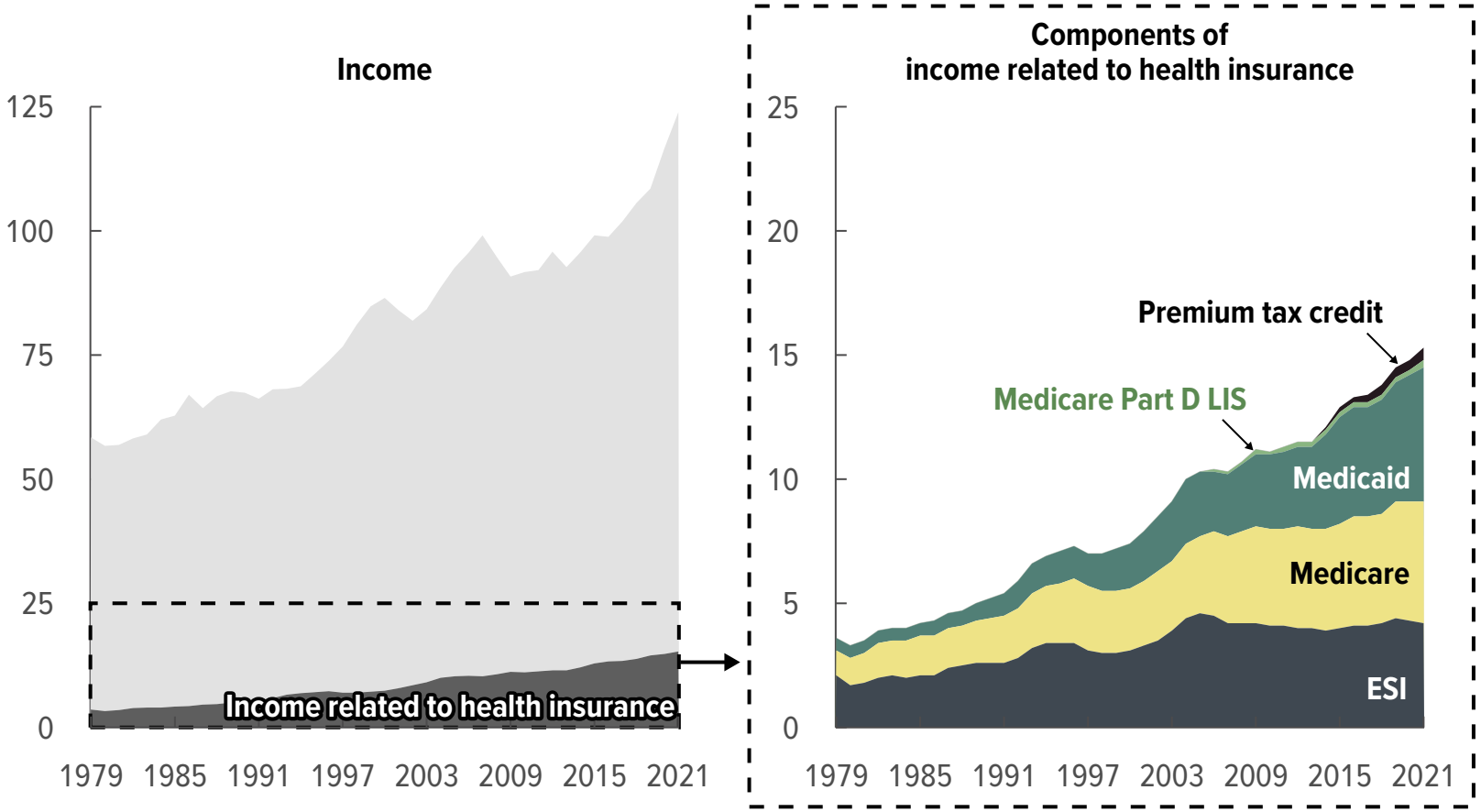
CBO uses a broad measure of income in its analyses of the distribution of household income. Providing households with health insurance or subsidies to purchase health insurance expands the potential consumption of a household. However, that insurance differs from cash or other resources that can be used flexibly to purchase goods or services.

Health care spending has grown as a share of income. Because health insurance spending varies by income group, the inclusion of health insurance spending has differential effects on real income growth (that is, growth adjusted to exclude the effects of inflation) across the income distribution.

If CBO excluded health insurance spending from measures of household income, the cumulative measured rate of growth of real household income would be slower, particularly for households in the lowest quintile of the distribution.

What Was Average Income After Taxes and Transfers and How Much of That Income Was Related to Health Insurance?

Thousands of 2021 dollars



As reported in *The Distribution of Household Income in 2021*, average health insurance spending increased from $3,600 (or 6.1 percent of average income after taxes and transfers) in 1979 to $15,300 (or 12.3 percent) in 2021.

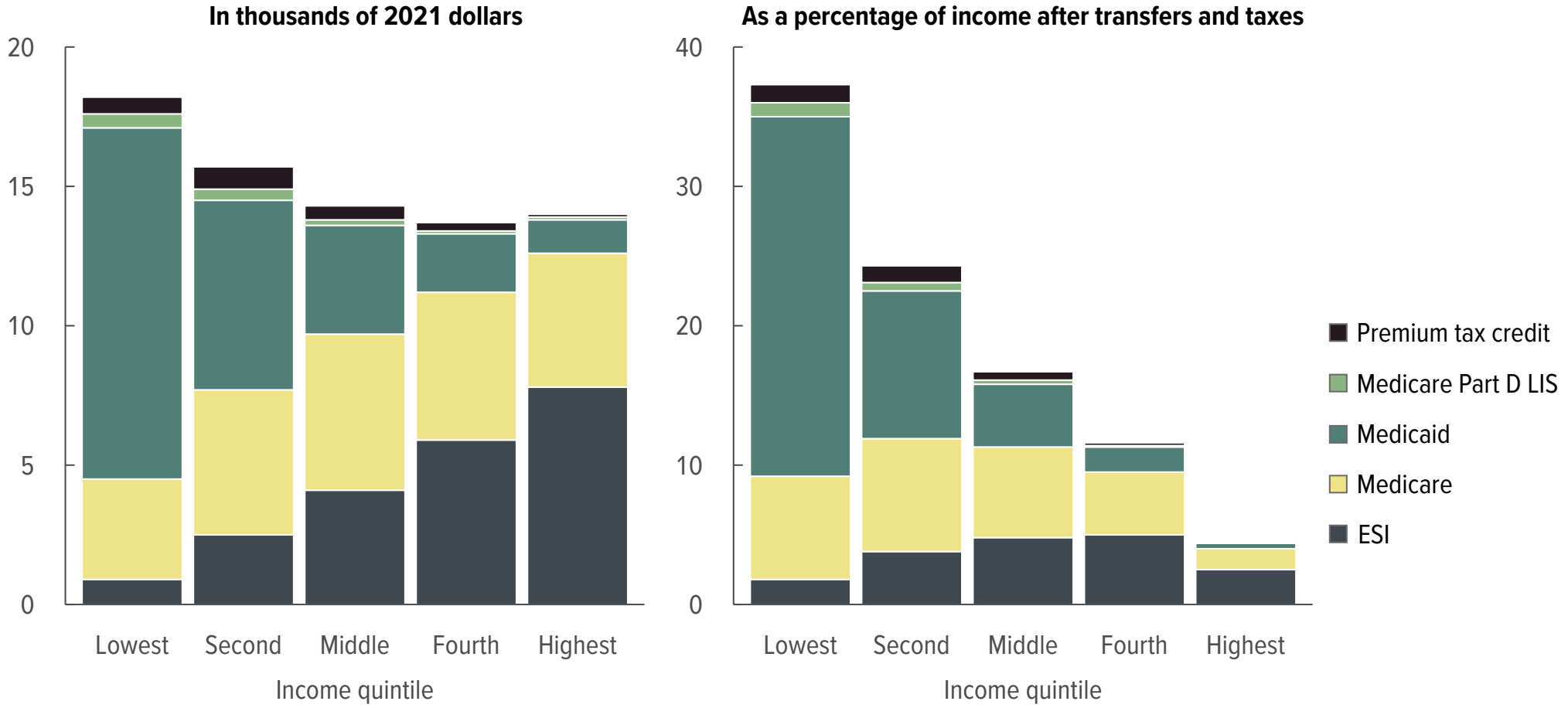
Of all income growth from 1979 to 2021, Medicaid increases accounted for 9 percent, Medicare increases for 7 percent, and ESI increases for 4 percent.

How Does Health Insurance Spending Vary Across Income Quintiles?

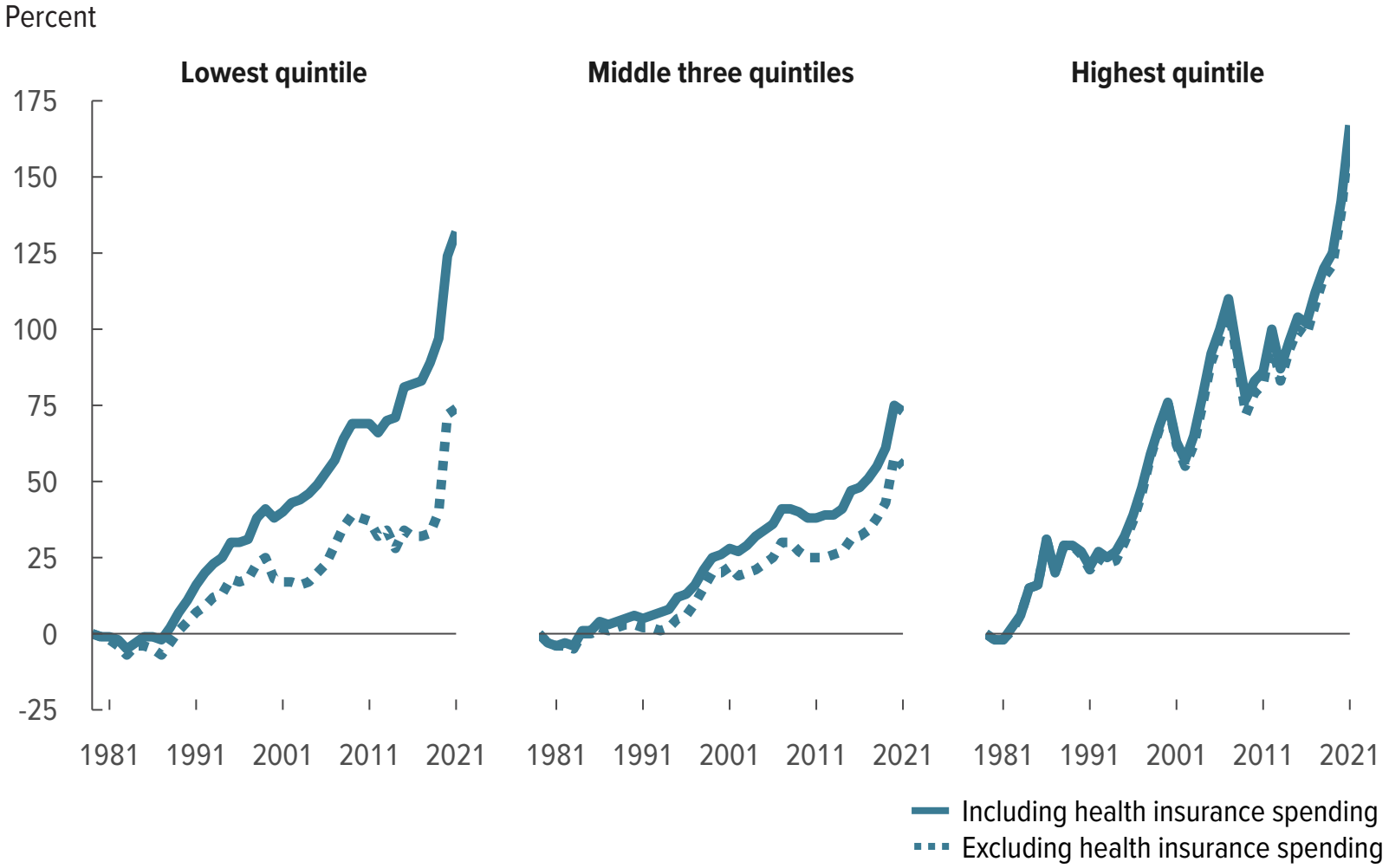
In CBO's reports about the distribution of household income, health insurance spending—which includes only the portions paid by the federal and state governments and by employers—is highest among households in the lowest quintile.

- Medicaid and Medicare account for most health insurance spending among households in the lowest quintile.
- Employers' contributions for health insurance account for a larger share of income among the middle three quintiles, whereas Medicaid spending for those groups is a smaller share.
- ESI accounts for most health insurance spending among households in the highest quintile.

How Much Was Average Health Insurance Spending in 2021, According to *The Distribution of Household Income in 2021*?



What Was Cumulative Real Income Growth Including and Excluding Health Insurance Spending?



Income among households in the four lower quintiles grew faster from 1979 to 2021 when health insurance spending is included in the measure of income than when it is not. Among households in the highest quintile, the growth rate of real household income was roughly the same whether health insurance spending is included or excluded. The period included Medicaid expansions, the passage of the Affordable Care Act, and rapid growth in health care spending.

To calculate growth rates, CBO first converted all dollar amounts to 2021 dollars using the Bureau of Economic Analysis's price index for personal consumption expenditures.

Expanding CBO's Measure of Health Insurance Spending

How Did CBO Expand Its Measure of Health Insurance Spending?

In this analysis, CBO started with health insurance spending as measured in *The Distribution of Household Income in 2021*, which comprises employers' contributions for health insurance premiums, spending for Medicare (net of premiums paid), federal and state spending for Medicaid, Medicare Part D LIS, and premium tax credits.

CBO adjusted ESI for measurement issues and to include employees' contributions by scaling to the national health expenditure (NHE) totals. CBO then added the premiums that households paid for Medicare and for plans offered through the health insurance marketplaces.

In this analysis, the new measure is called expanded health insurance spending.

CBO reranked households by income excluding expanded health insurance spending (instead of by income before transfers and taxes).

This analysis does not reflect all forms of health insurance spending or other spending on health care, such as out-of-pocket costs (copayments and deductibles) or unsubsidized nongroup insurance.

How Does CBO Treat ESI in This Analysis?

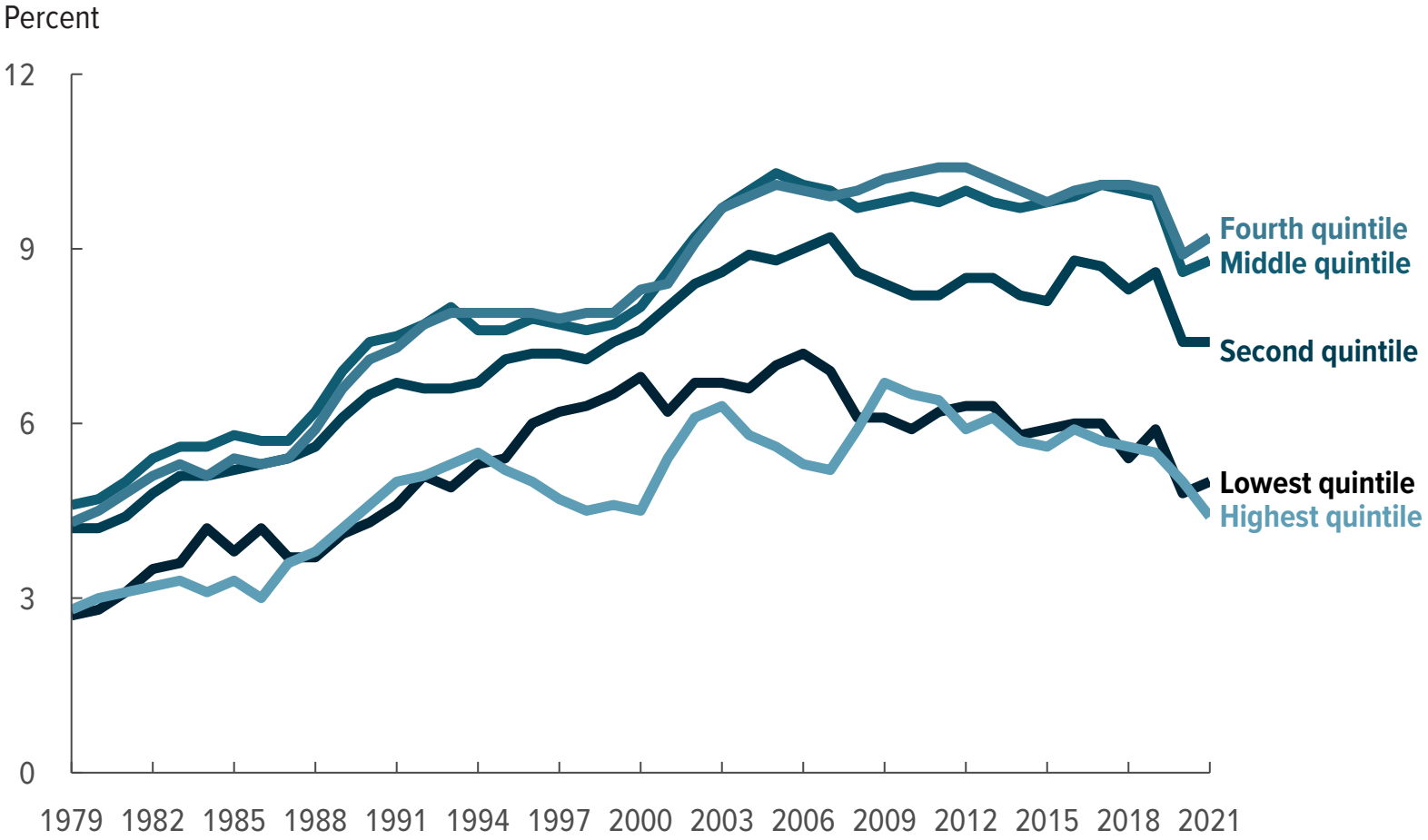
In this section, CBO expands the measure of health insurance used in *The Distribution of Household Income in 2021*.

- *The Distribution of Household Income* uses the CPS measure of employers' contributions to health insurance premiums.
- CBO scaled that measure to correspond to the measure of spending for total health insurance in the national health expenditures and national income accounts, which includes both employers' and employees' shares.

That scaling increases ESI by about 90 percent in 2021 (compared with ESI in *The Distribution of Household Income in 2021*).

ESI is generally exempt from federal income and payroll taxes. The value of that exclusion is called the tax expenditure. It is analogous to a measure of government spending.

What Was ESI (Employers' and Employees' Shares) as a Percentage of Income After Transfers and Taxes for Each Quintile?



From 1979 to 2021, ESI increased as a share of income for all five quintiles.

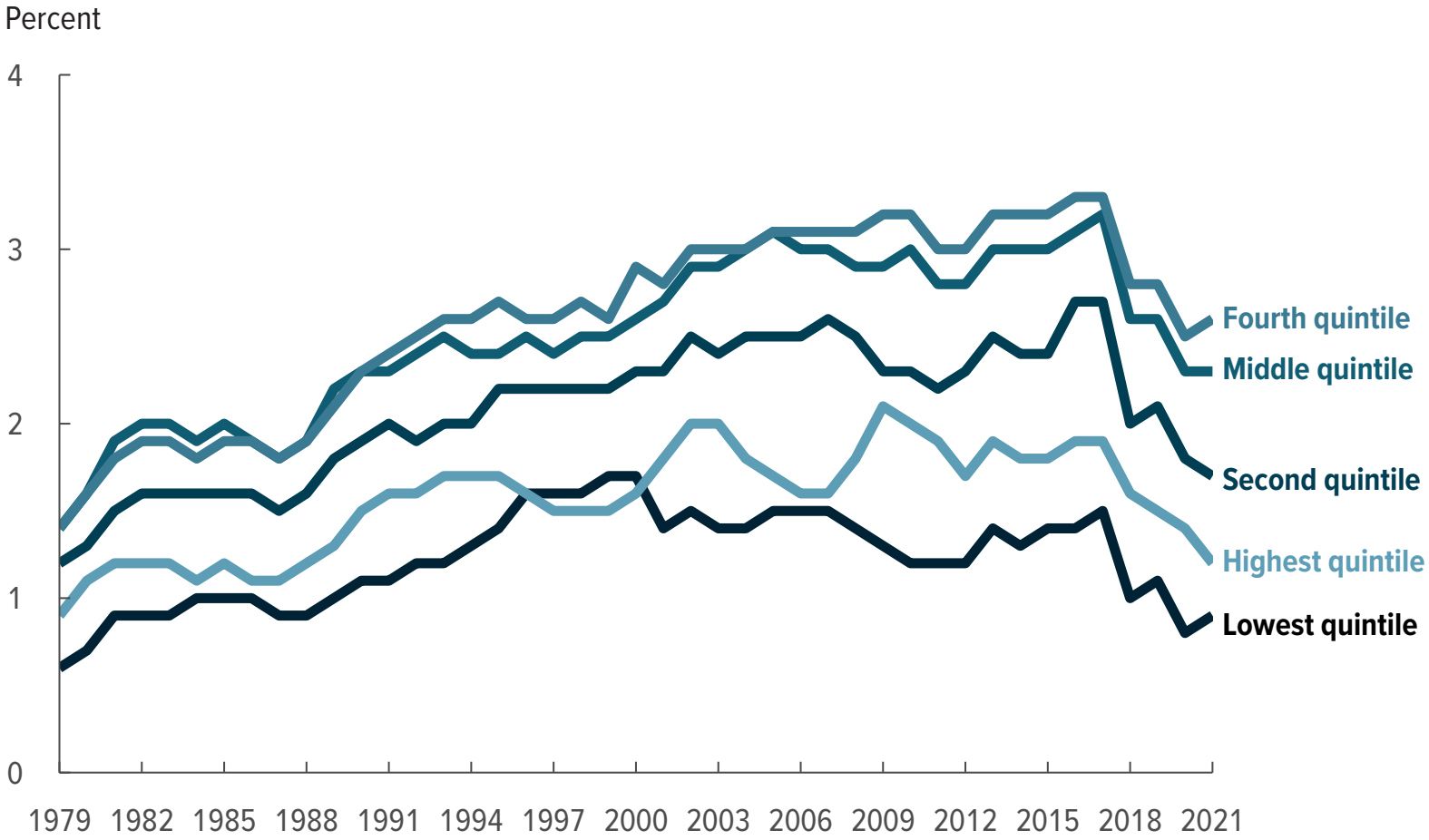
Most of that growth occurred during the 1980s and 1990s. In 2020 and 2021, ESI fell as a share of income in most quintiles because of faster growth in other forms of income after transfers and taxes.

ESI growth accounts for about 9 percent of all growth in income after transfers and taxes from 1979 to 2021.

On average, ESI rises with income, though it is a smaller share of income among households in the highest quintile than among middle-income households.

In this figure, households are ranked by income excluding expanded health insurance spending.

What Was the ESI Tax Expenditure as a Share of Income After Transfers and Taxes for Each Quintile?



From 1979 to 2021, the tax expenditure for ESI rose as a share of income after transfers and taxes.

The size of the tax expenditure depends in part on tax rates. The most recent change in rates occurred in 2017, when most marginal tax rates declined. That decrease reduced the expenditure as a share of income.

In this figure, households are ranked by income excluding expanded health insurance spending.

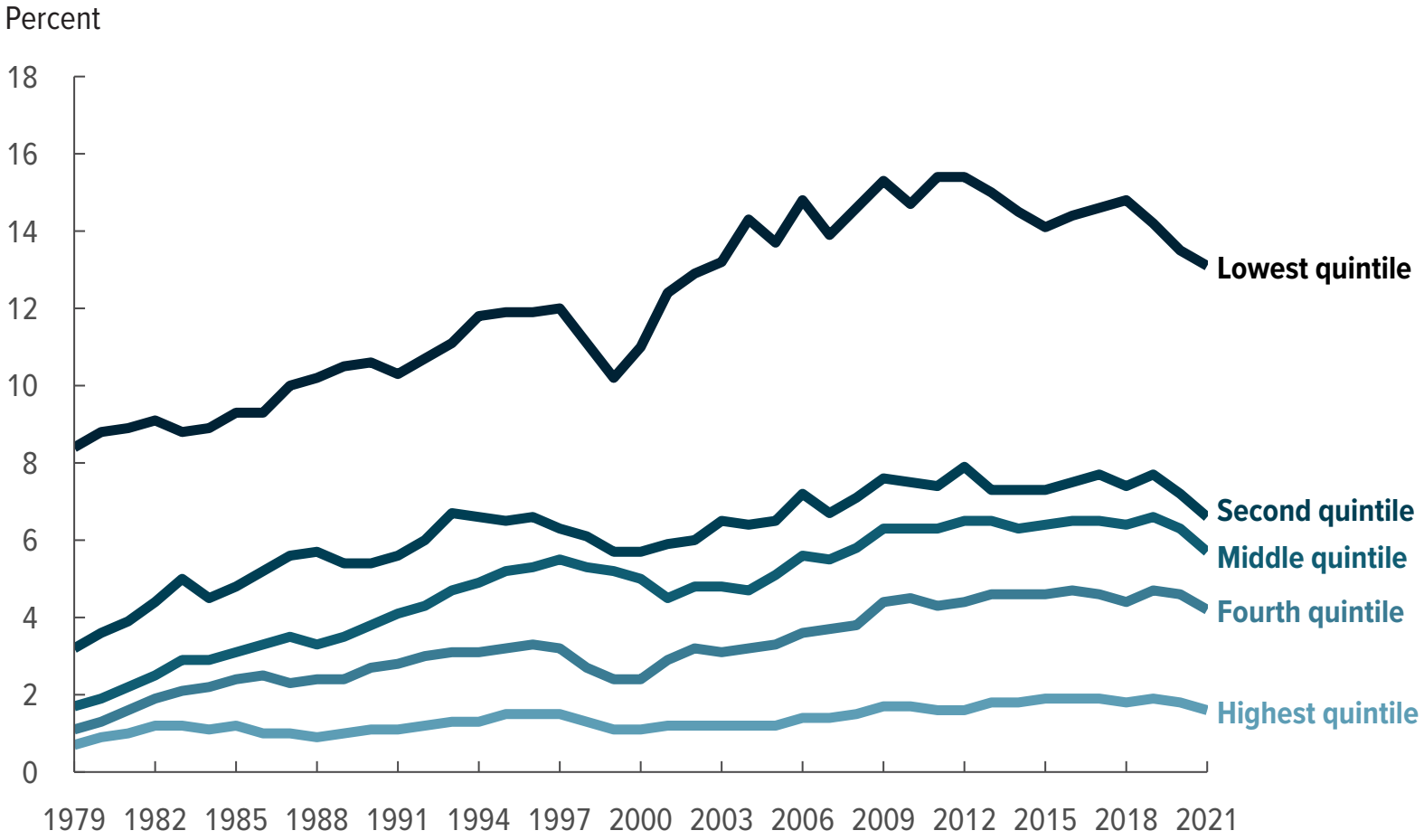
How Does CBO Treat Medicare Spending in *The Distribution of Household Income* and in This Analysis?

The measure of Medicare benefits in *The Distribution of Household Income* includes the federal government's average cost per enrollee of providing Medicare, net of premiums paid by enrollees. That measure includes Medicare Parts A, B, and D (which cover hospital insurance, medical insurance, and prescription drugs, respectively). The calculation excludes costs for institutionalized enrollees.

For this analysis, CBO scaled Medicare spending to account for premiums paid by enrollees for Parts A, B, and D and for some Part C (Medicare Advantage) premiums.[3] CBO refers to that measure as gross Medicare spending.

3. Premiums for Medicare Advantage plans that are deducted from beneficiaries' Social Security checks are included but not premiums that are paid directly to the Medicare Advantage plans. Some Medicare premiums are paid by Medicaid; those premiums are counted as Medicare spending in this analysis.

What Was Gross Medicare Spending as a Share of Income After Transfers and Taxes for Each Quintile?



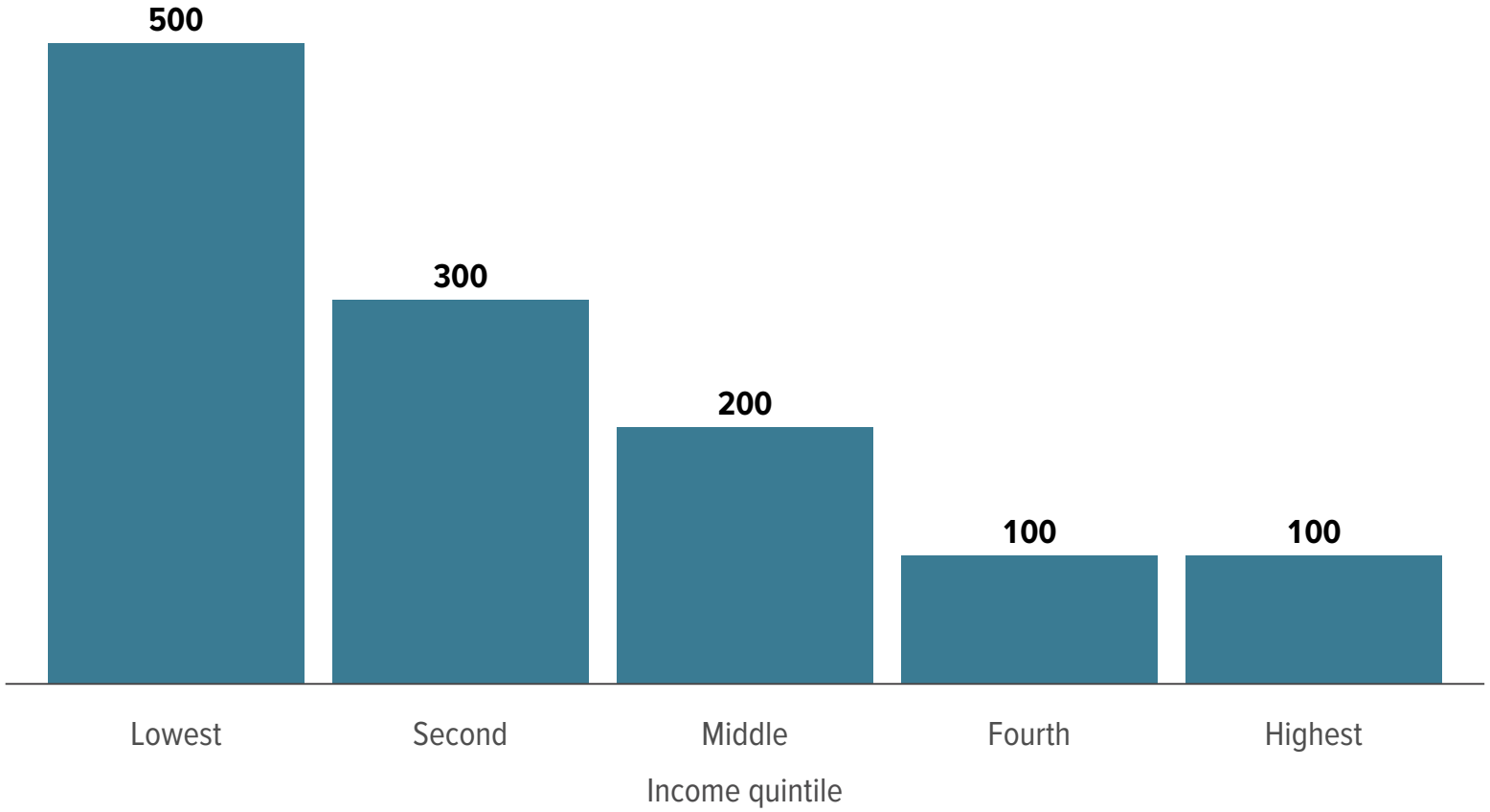
For all quintiles, gross Medicare spending increased as a share of income. Increases were greatest among households in the lowest quintile.

Growth in gross Medicare spending accounted for about 6 percent of the overall growth in income after transfers and taxes from 1979 to 2021. Among households in the lowest quintile, it accounted for about 17 percent of growth.

In this figure, households are ranked by income excluding expanded health insurance spending.

How Much Were the Low-Income Subsidies for Part D of Medicare for Each Quintile?

2021 dollars



Low-income subsidies for Part D of Medicare are for prescription drug coverage. Those subsidies are included in means-tested transfers in *The Distribution of Household Income*. This analysis uses the same methods to estimate the subsidies as those used in *The Distribution of Household Income*.

LIS benefits are assigned to some Medicare recipients who, CBO estimates, also receive other means-tested transfers. On average, households in the lowest quintile received $500 of LIS benefits in 2021.

In this figure, households are ranked by income excluding expanded health insurance spending. Although means-tested transfers target low-income people, data show that some high-income households also receive benefits. That can occur because income varies during the year, because people with low personal income live in high-income households, or because of misreporting of income, participation, or benefits in the survey data underlying CBO's estimates.

How Does CBO Treat Spending for Medicaid and CHIP in This Analysis?

Medicaid spending is allocated at the total cost to the federal and state governments divided by the number of recipients.

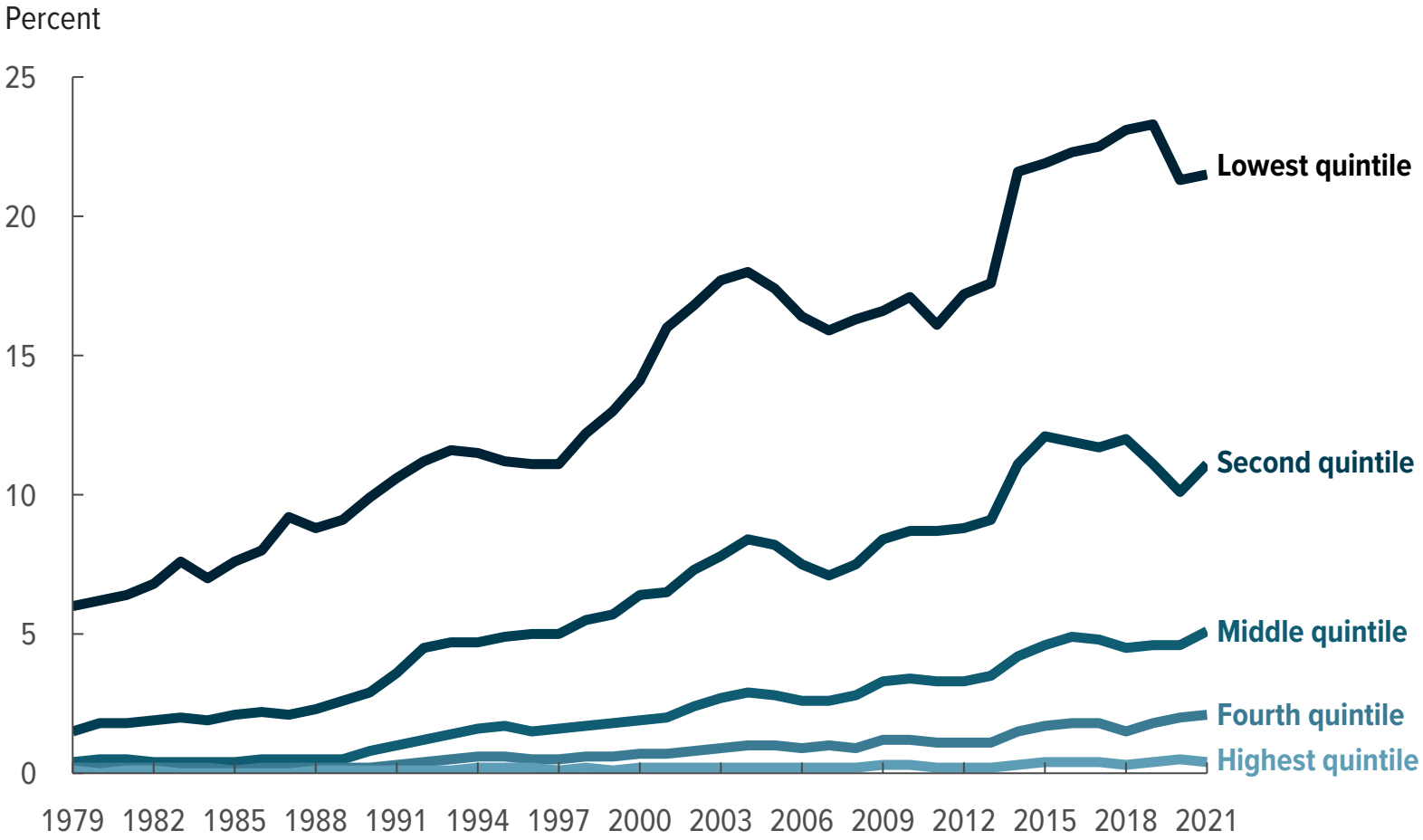
- That measure excludes spending on institutionalized recipients.
- Amounts vary by eligibility category: elderly, disabled, child (including CHIP recipients), and other adult.

Receipt of Medicaid and CHIP benefits is substantially underreported in the CPS, so CBO makes adjustments to reflect administrative totals. Additional recipients are imputed on the basis of regressions that predict the probability of reporting Medicaid use.

Legislation expanded Medicaid starting in 2020. In exchange for enhanced federal funding for Medicaid, the federal government required states to maintain coverage for all Medicaid enrollees regardless of any changes in their income or circumstances that would otherwise have caused them to become ineligible for the program.

In this analysis, Medicaid and CHIP spending is estimated using the same methods as those used in *The Distribution of Household Income*.

What Was Medicaid Spending as a Share of Income After Transfers and Taxes?



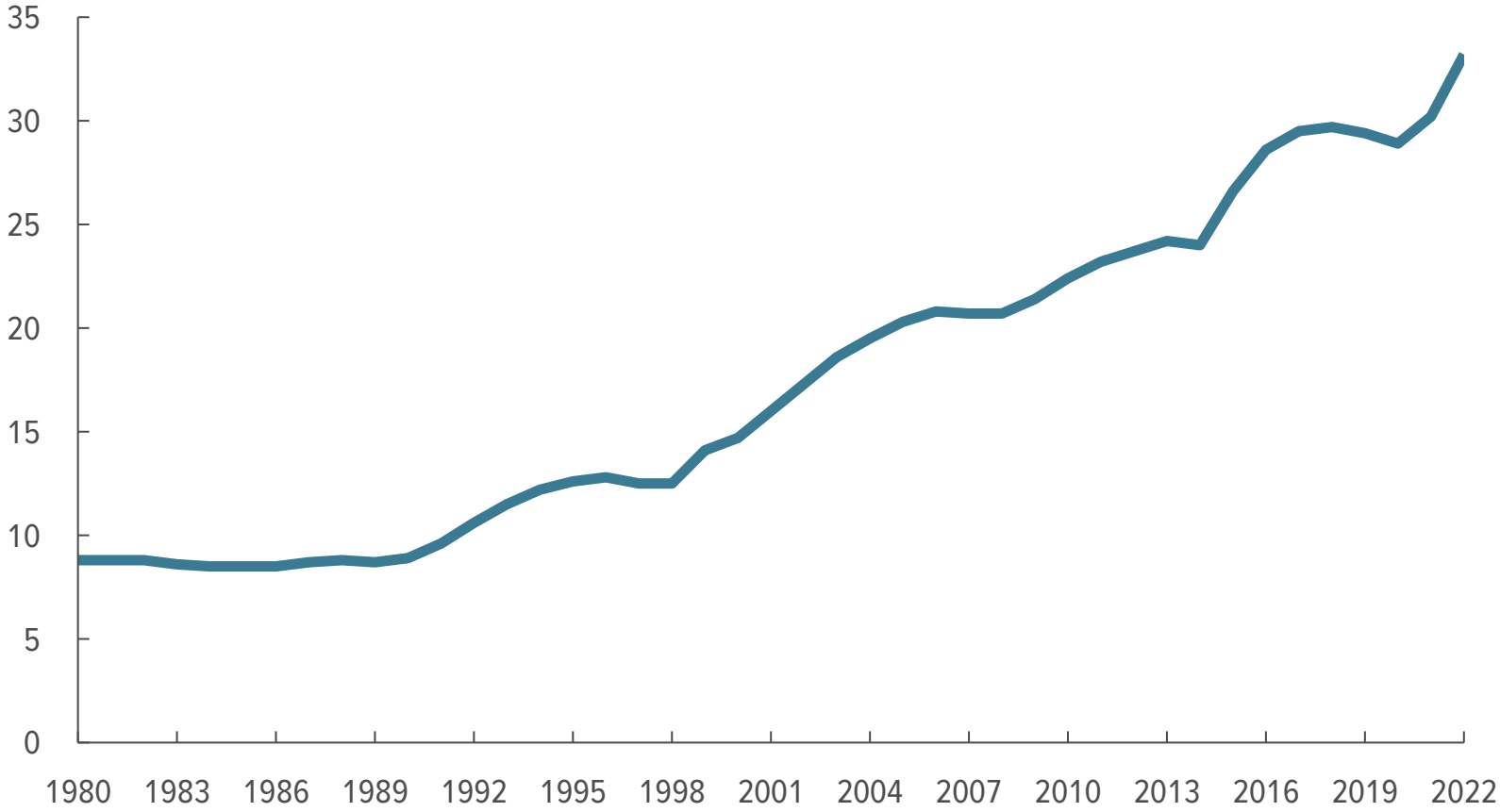
As a share of income, Medicaid (including CHIP) benefits among households in the lowest quintile nearly quadrupled from 1979 to 2021.

Medicaid spending contributed about 34 percent of the growth in income after transfers and taxes among households in the lowest quintile over that period. Among households in the second quintile, Medicaid contributed 21 percent of the growth.

In this figure, households are ranked by income excluding expanded health insurance spending. Although means-tested transfers target low-income people, data show that some high-income households also receive benefits. That can occur because income varies during the year, because people with low personal income live in high-income households, or because of misreporting of income, participation, or benefits in the survey data underlying CBO's estimates.

How Has Medicaid Enrollment Changed Over Time?

Percentage of the U.S. population



The percentage of households that were enrolled in Medicaid or CHIP increased from 8.8 percent in the 1980 CPS to 33.2 percent in the 2022 CPS. The largest increases occurred after legislative expansions. For example, enrollment increased after CHIP was introduced in 1998 and after many states expanded Medicaid eligibility under the Affordable Care Act in 2014. Legislation to address the effects of the pandemic also boosted enrollment starting in 2020.

CBO's model computes receipt on an annual basis and therefore targets administrative totals for receipt at any point during the year—referred to as "ever on" receipt. Each CPS data set contains data from the prior calendar year. For more information, see Bilal Habib, *How CBO Adjusts for Survey Underreporting of Transfer Income in Its Distributional Analyses*, Working Paper 2018-07 (Congressional Budget Office, July 2018), www.cbo.gov/publication/54234.

How Does CBO Treat the Premium Tax Credit in This Analysis?

The premium tax credit is a refundable tax credit that can offset the cost of purchasing health insurance through the marketplaces established under the ACA. In the budget, most of the premium tax credit is included as an outlay. In *The Distribution of Household Income*, it is reflected in the measure of taxes.[4]

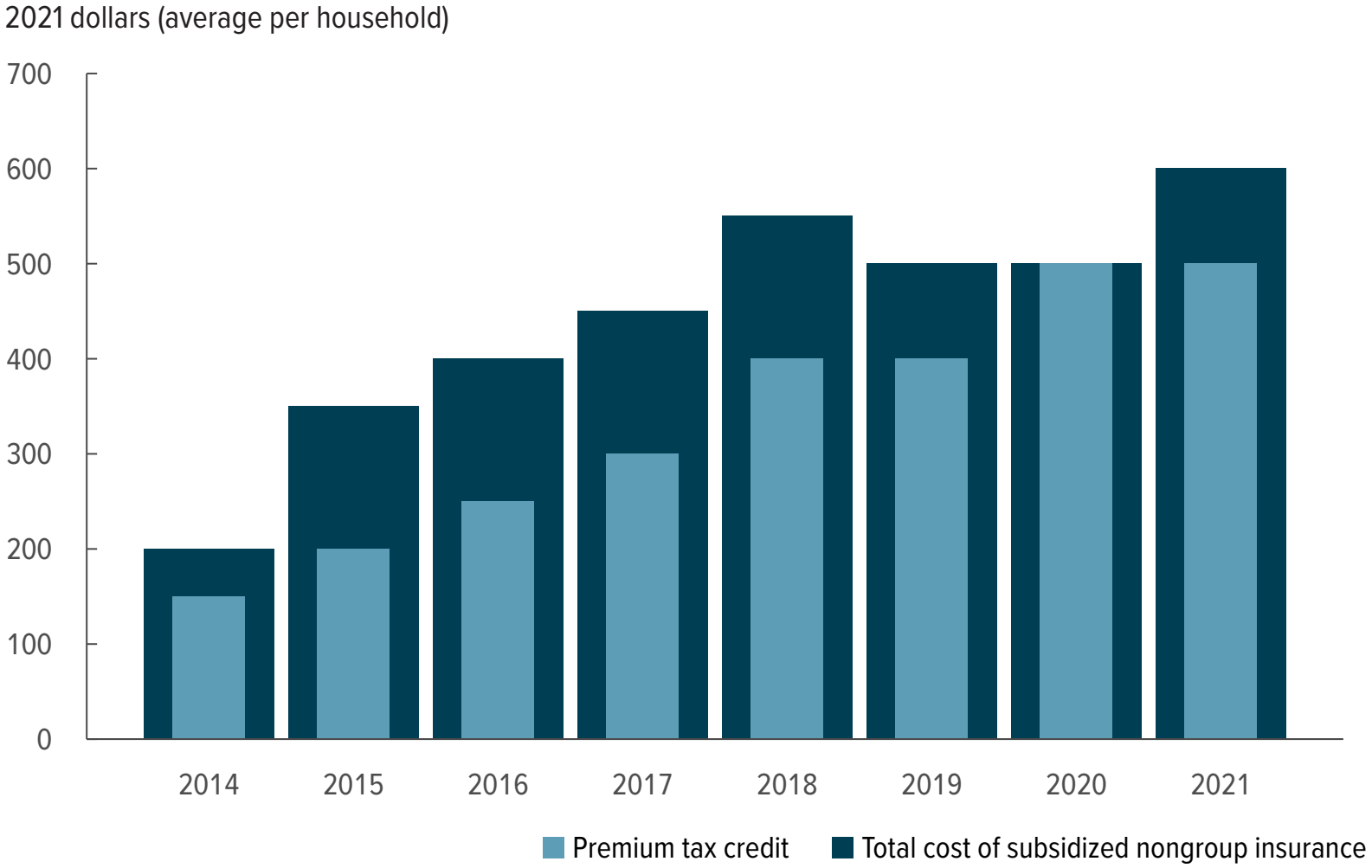
The amount of the credit for each household is drawn from tax returns.

For this analysis, CBO calculated the premiums paid by enrollees (as reported on their tax returns) that were not reimbursed by the tax credit. The data include marketplace premiums reported directly by tax filers on their returns, augmented with information returns when available.

On average, the premium tax credit is largest among households in the second quintile. It typically covers a greater share of the cost of insurance among lower-income households than it does among higher-income households. But many households in the lowest quintile are ineligible for marketplace coverage because their income is too low.

4. For more information about how CBO estimates the premium tax credit in its reports about the distribution of household income, see Congressional Budget Office, *The Distribution of Household Income*, 2014 (March 2018), www.cbo.gov/publication/53597.

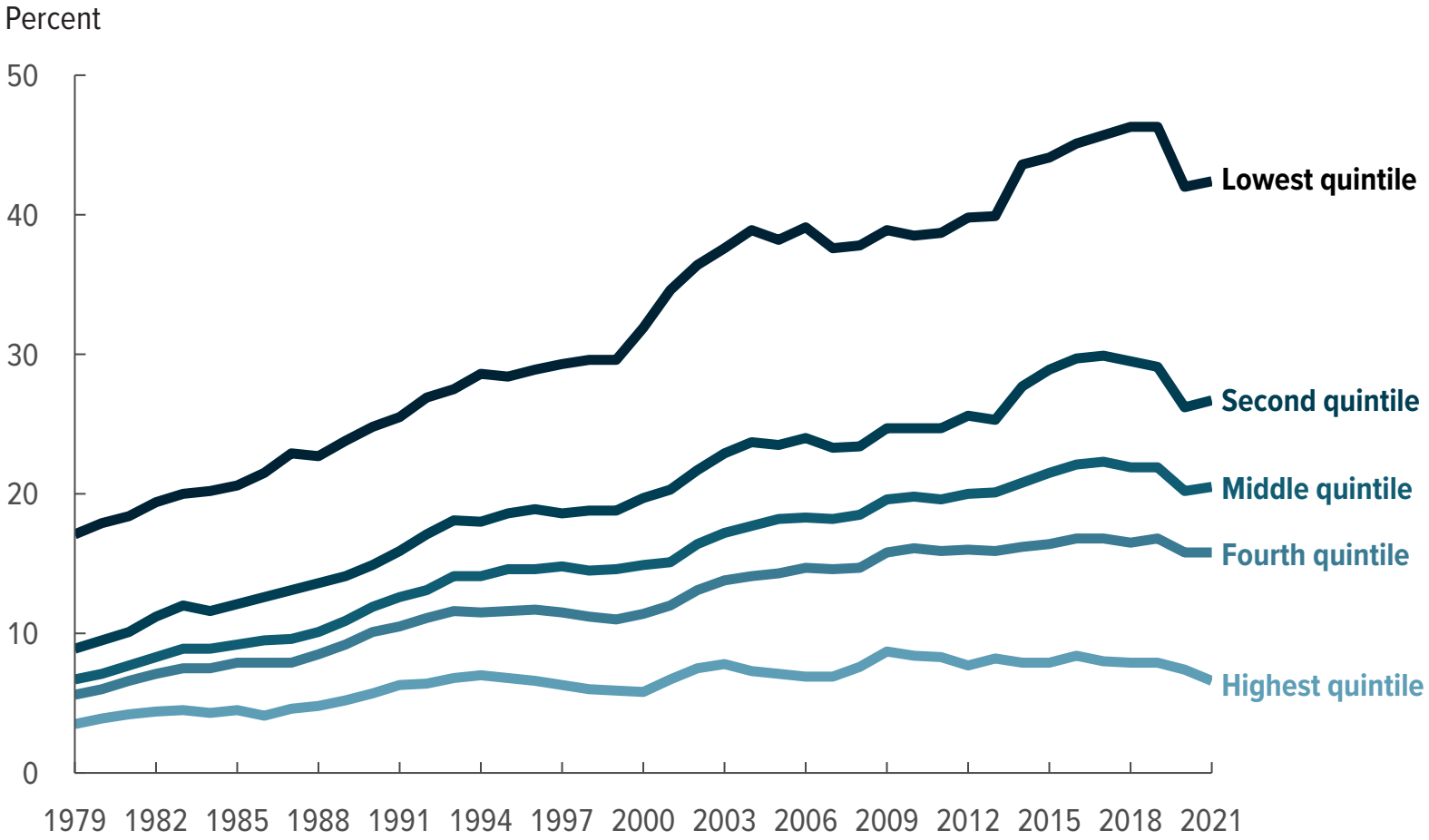
How Much of the Cost of Insurance for Marketplace Plans Did Premium Tax Credits Cover From 2014 to 2021, on Average?



From 2014 to 2021, the premium tax credit, on average, was 72 percent of a household's annual cost for insurance purchased through the marketplaces established under the ACA. That percentage rose for tax year 2020, when the requirement to repay excess advance payments of the premium tax credit was suspended.

The total cost of subsidized nongroup insurance premiums is based on tax return data for households that received the premium tax credit.

What Is Expanded Health Insurance Spending as a Share of Income After Transfers and Taxes?



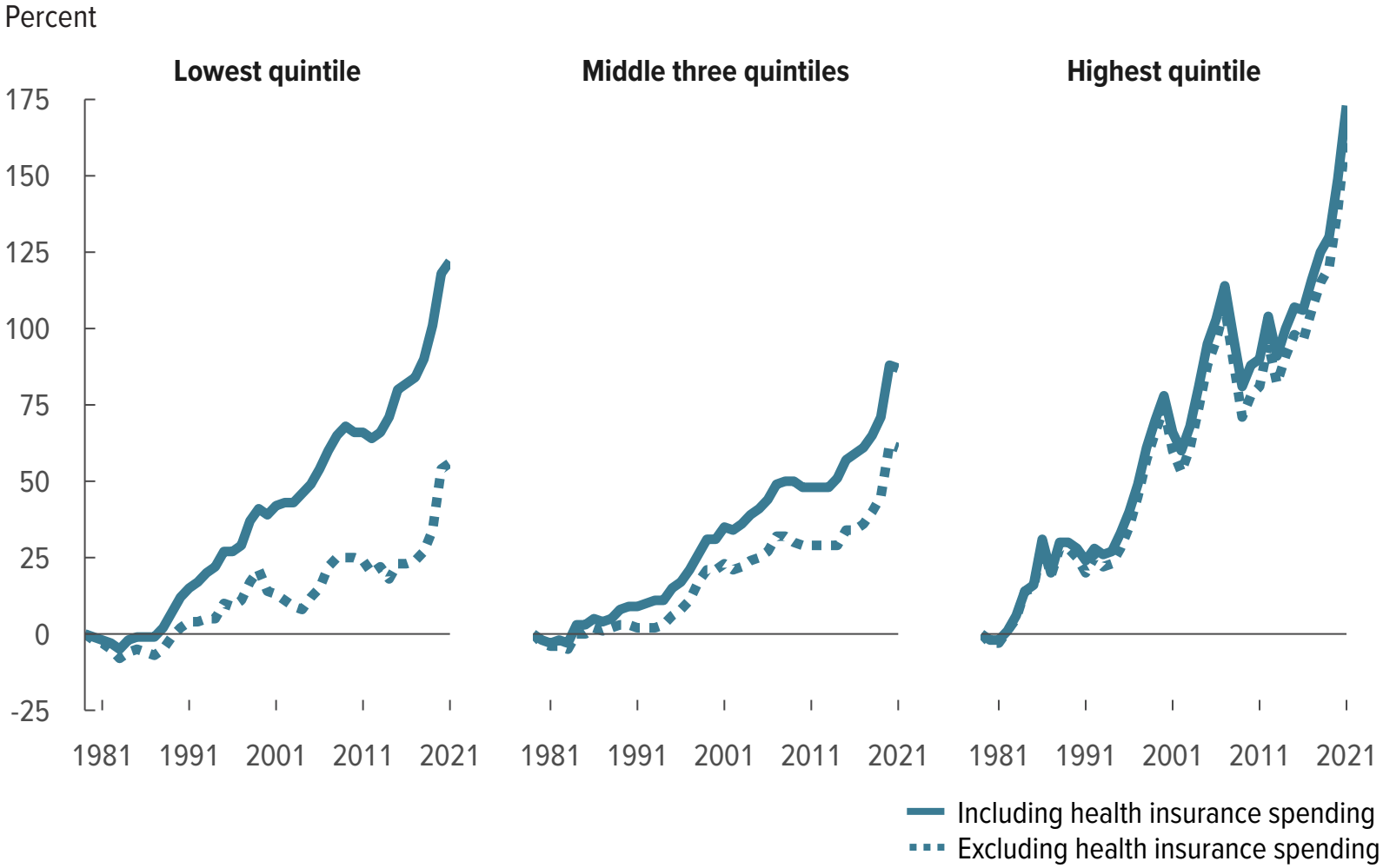
From 1979 to 2021, expanded health insurance spending (which includes certain household premiums and other adjustments) increased as a share of income for each quintile.

Overall, expanded health insurance spending explained about 23 percent of the growth in income after transfers and taxes over that period.

Among households in the lowest quintile, it accounted for 63 percent of the growth. Among households in the highest quintile, it accounted for 8 percent.

In this figure, households are ranked by income excluding expanded health insurance spending.

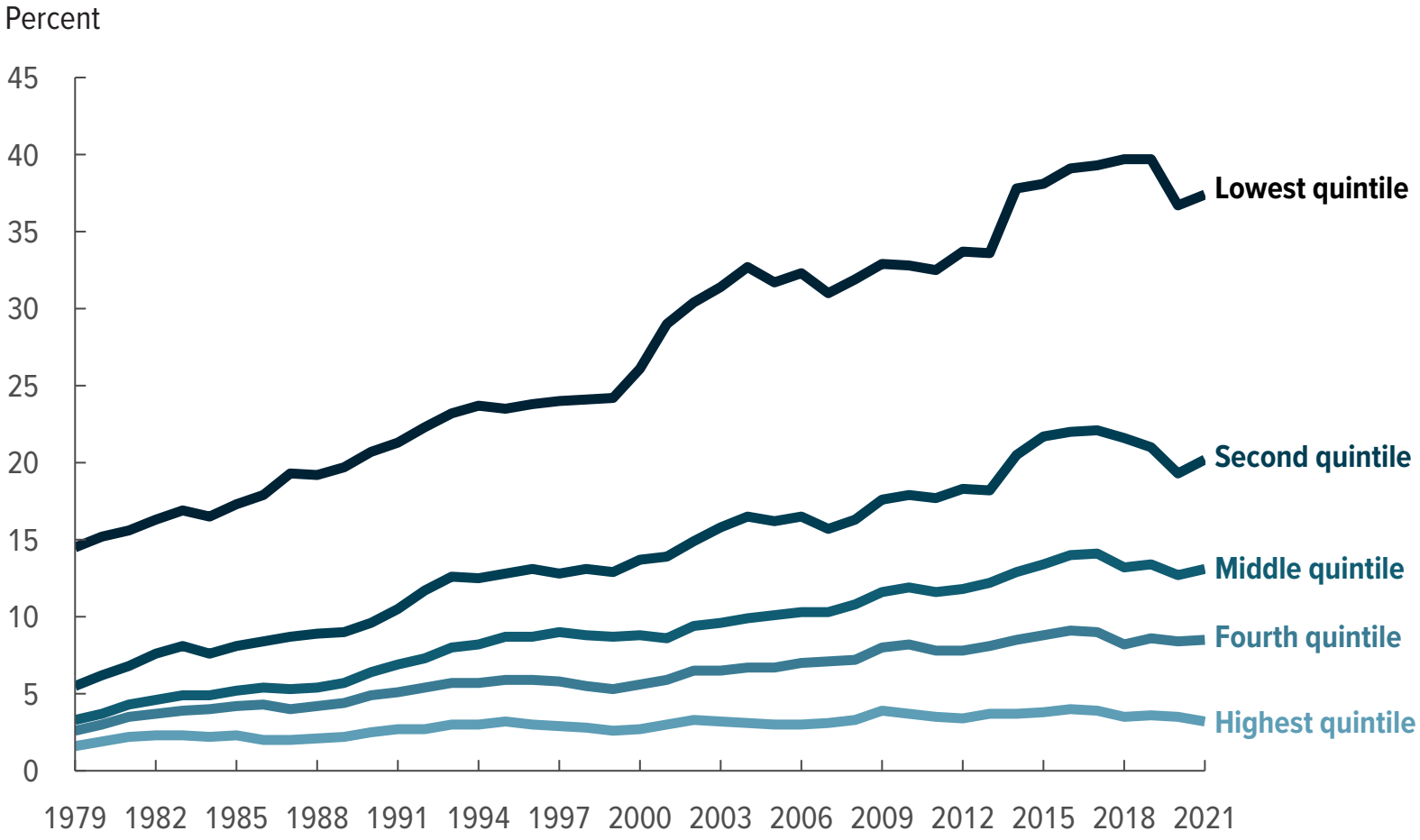
What Was Cumulative Real Income Growth Including and Excluding Expanded Health Insurance Spending?



Excluding expanded health insurance spending from income results in a measure that shows slower growth in income than does the measure that includes such spending—especially among households in the lowest quintile. Much of that group's income growth is driven by spending for health insurance rather than by other forms of income or means-tested transfers and taxes.

To calculate growth rates, CBO first converted all dollar amounts to 2021 dollars using the Bureau of Economic Analysis's price index for personal consumption expenditures. In this figure, households are ranked by income excluding expanded health insurance spending.

What Were Health Insurance Subsidies as a Share of Income After Transfers and Taxes?

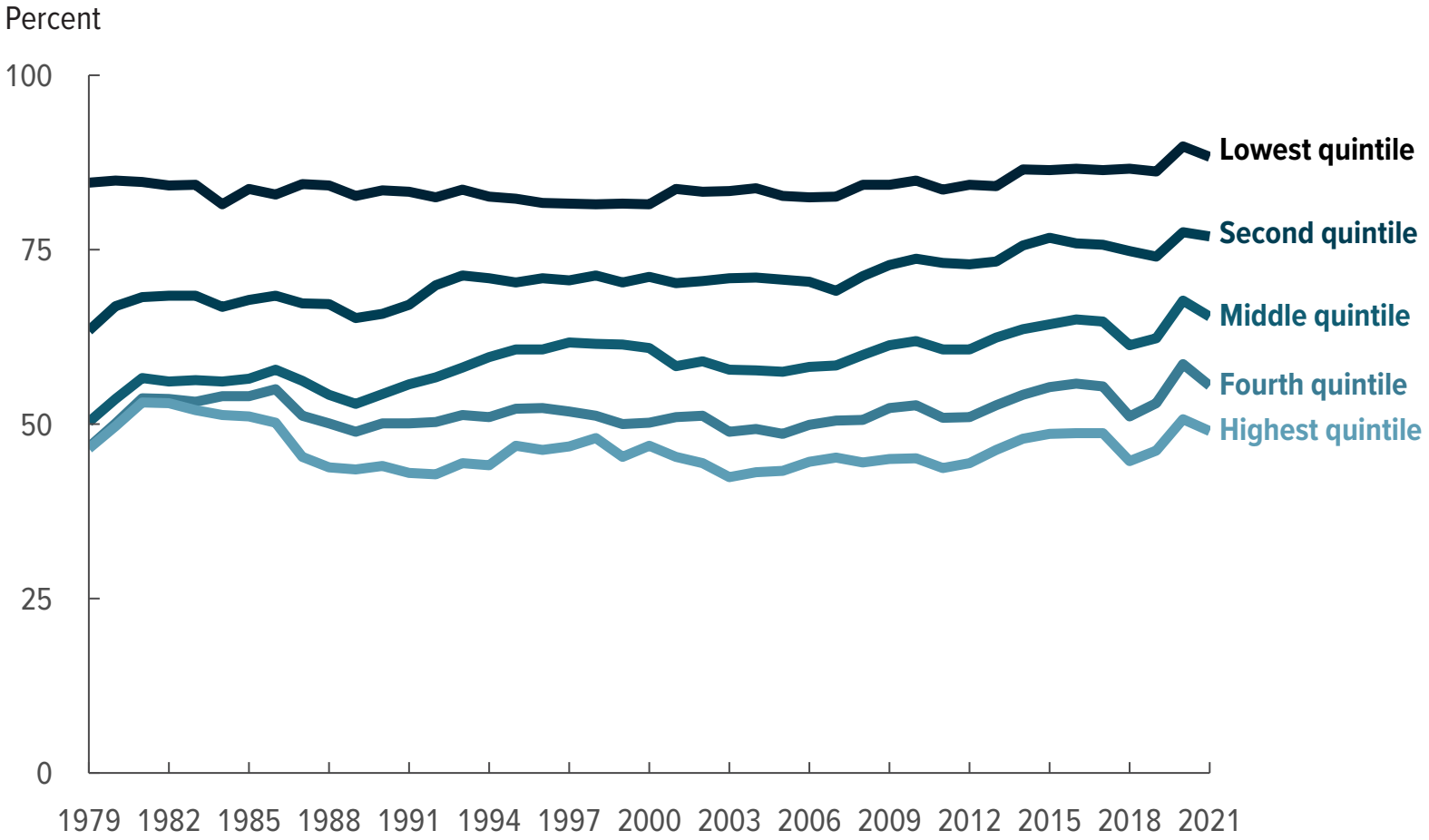


Health insurance subsidies include the ESI tax expenditure, Medicare (net of premiums paid by enrollees), Medicaid, Medicare Part D LIS, and premium tax credits.

From 1979 to 2021, health care subsidies rose as a share of income after transfers and taxes, most noticeably among households in the lowest quintile.

In this figure, households are ranked by income excluding expanded health insurance spending.

What Were Health Insurance Subsidies as a Share of Expanded Health Insurance Spending?



Health insurance subsidies were relatively stable as a share of expanded health insurance spending across all five quintiles from 1979 to 2021.

In this figure, households are ranked by income excluding expanded health insurance spending.

Comparing the Effects of Those Different Measures of Health Insurance Spending on Income Growth

How Do These Results Differ From Results in *The Distribution of Household Income in 2021*?

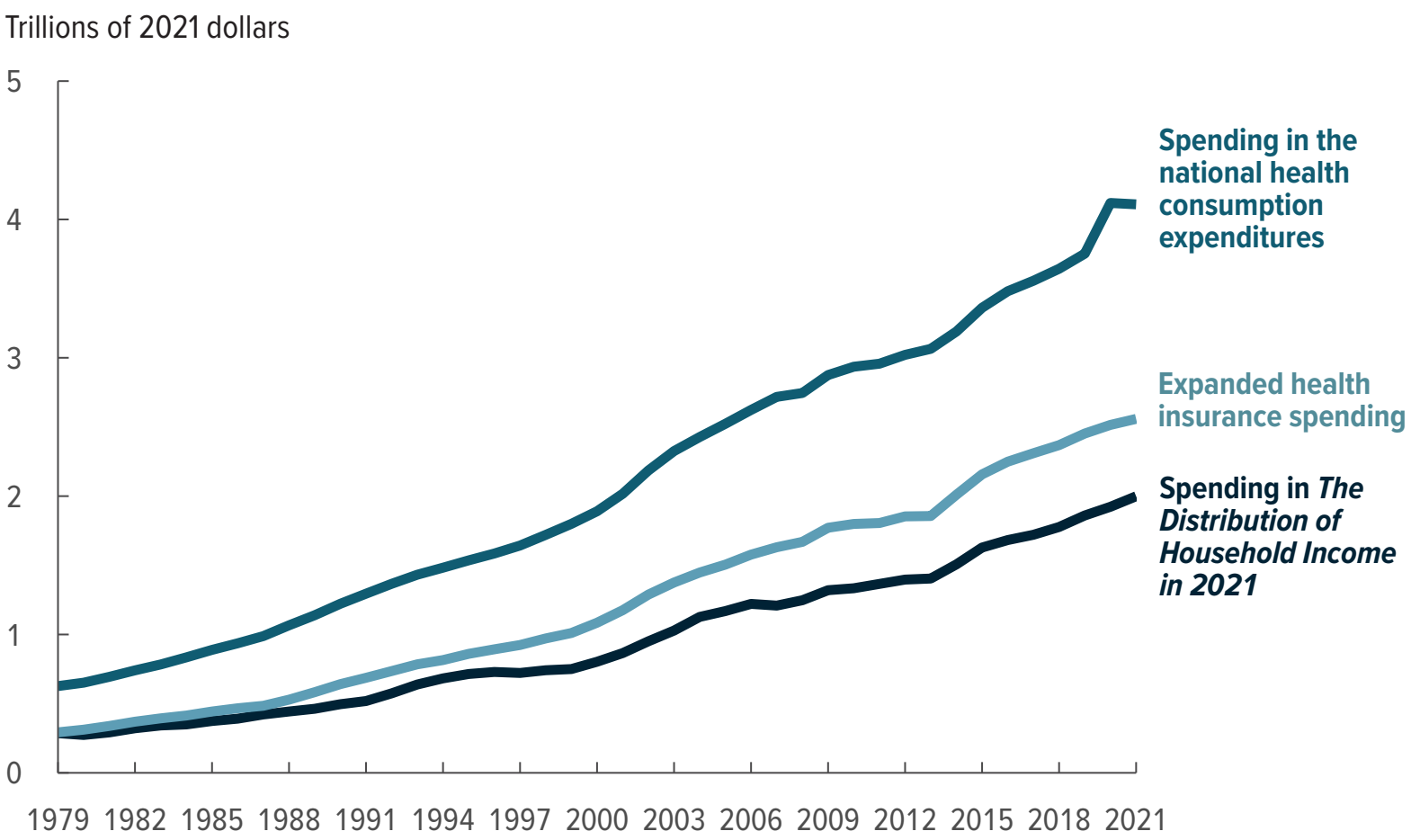
Expanded health insurance spending adds several new measures of household spending on health insurance to *The Distribution of Household Income*'s measure of health insurance spending:

- Household premiums for ESI,
- Household premiums for Medicare, and
- Household premiums for subsidized marketplace plans (net of premium tax credits).

For its measure of expanded health insurance spending, CBO takes two additional steps:

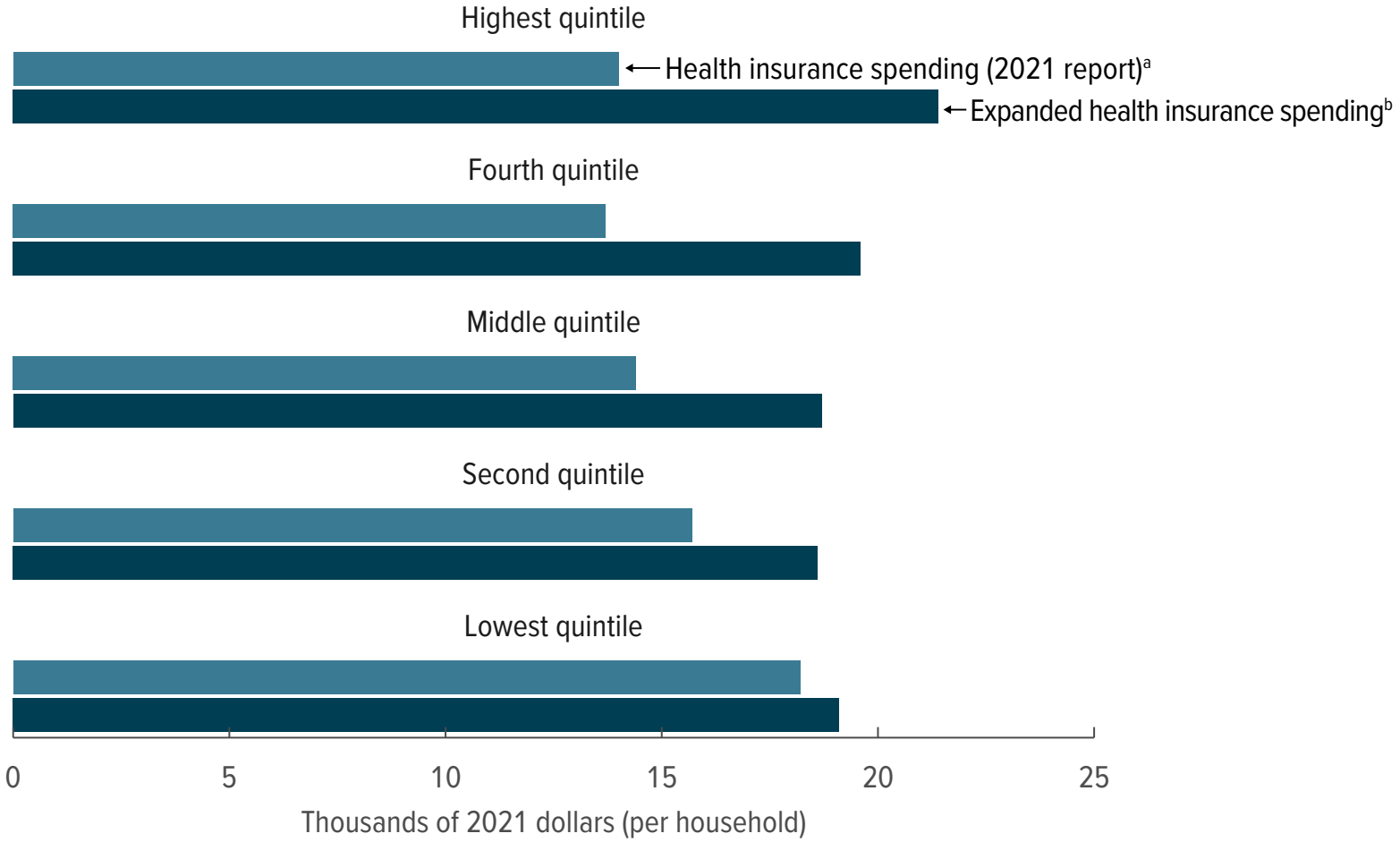
- It adjusts ESI for measurement issues and employees' contributions by scaling to NHE totals, and
- It ranks households by income excluding expanded health insurance spending instead of by income before taxes and transfers.

How Does Growth in Health Insurance Spending, Expanded Health Insurance Spending, and the National Health Consumption Expenditures Compare?



Compared with health insurance spending in *The Distribution of Household Income in 2021*, expanded health insurance spending was higher throughout the period from 1979 to 2021. Those measures do not include all categories of spending in the national health consumption expenditures; such spending was higher still over the period.

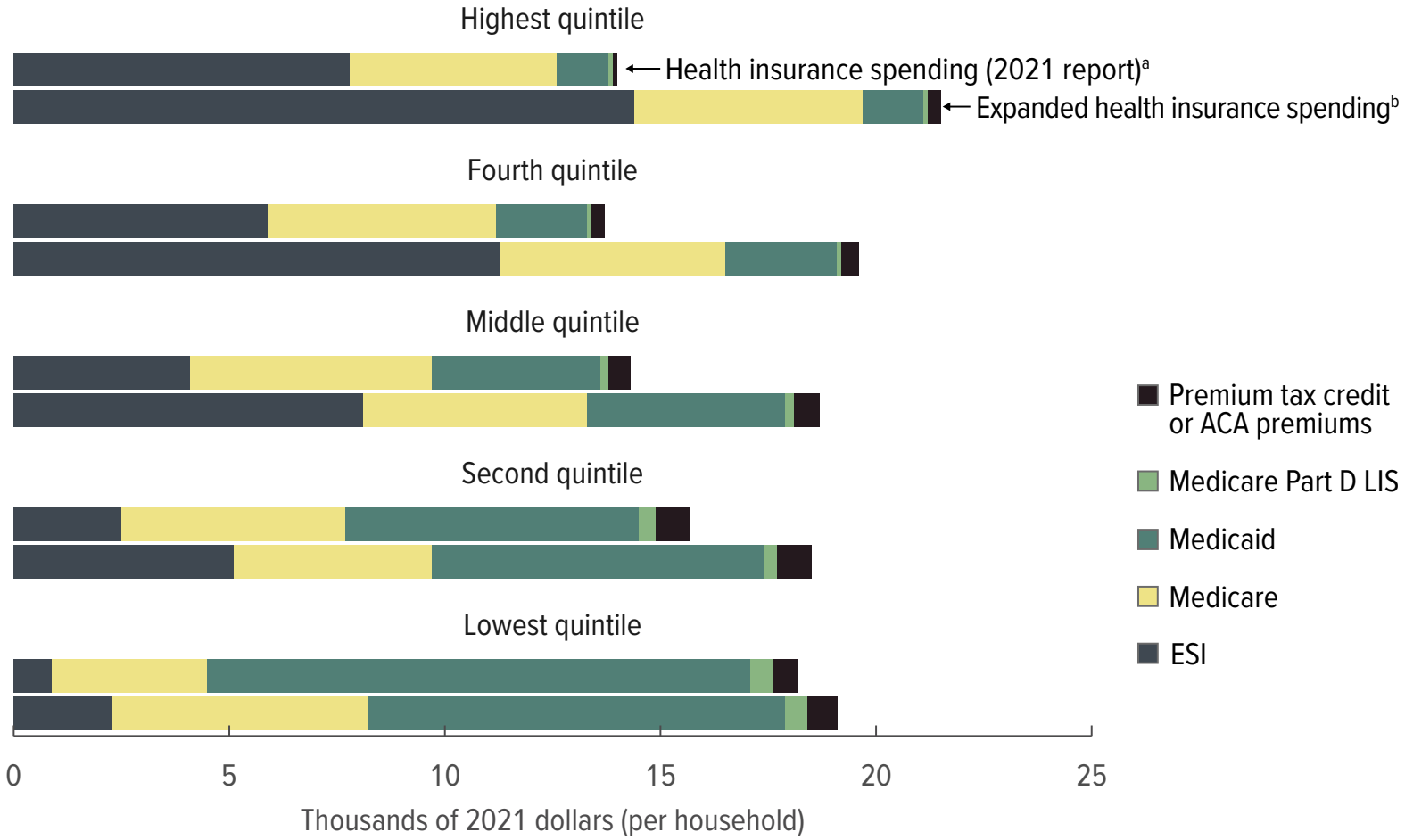
How Much Did Health Insurance Spending in 2021 Vary by Income Quintile and Measure?



In CBO's 2021 report, health insurance spending accounted for the largest share of income among households in the lowest quintile. In this analysis, expanded health insurance spending as a share of income in 2021 was greatest among households in the highest quintile. The expanded measure of health insurance spending incorporates household premiums and other data adjustments.

Data may not add up to totals because of rounding.
a. Households are ranked by income before transfers and taxes.
b. Households are ranked by income before expanded health insurance spending.

What Was the Distribution of Health Insurance Spending by Type of Insurance in 2021?



Among households in the lowest quintile, most of the difference between expanded and nonexpanded health insurance spending resulted from the addition of Medicare premiums. By contrast, adding household premiums for ESI increased health insurance spending the most among households in the highest quintile.

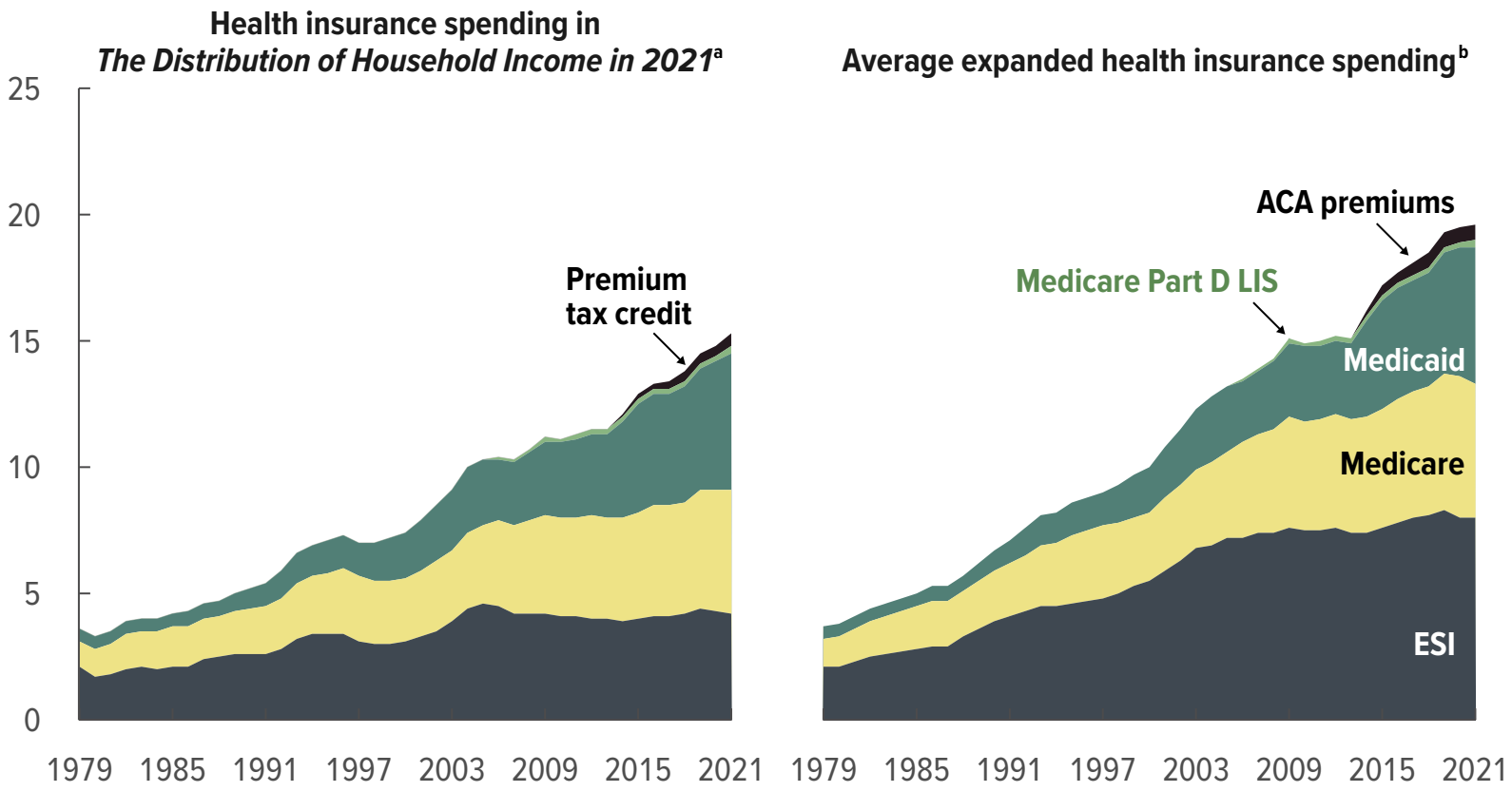
Data may not add up to totals because of rounding.

a. Households are ranked by income before transfers and taxes. Spending includes the premium tax credit.

b. Households are ranked by income before expanded health insurance spending. Spending includes ACA premiums.

What Was Average Health Insurance Spending per Household by Type of Insurance?

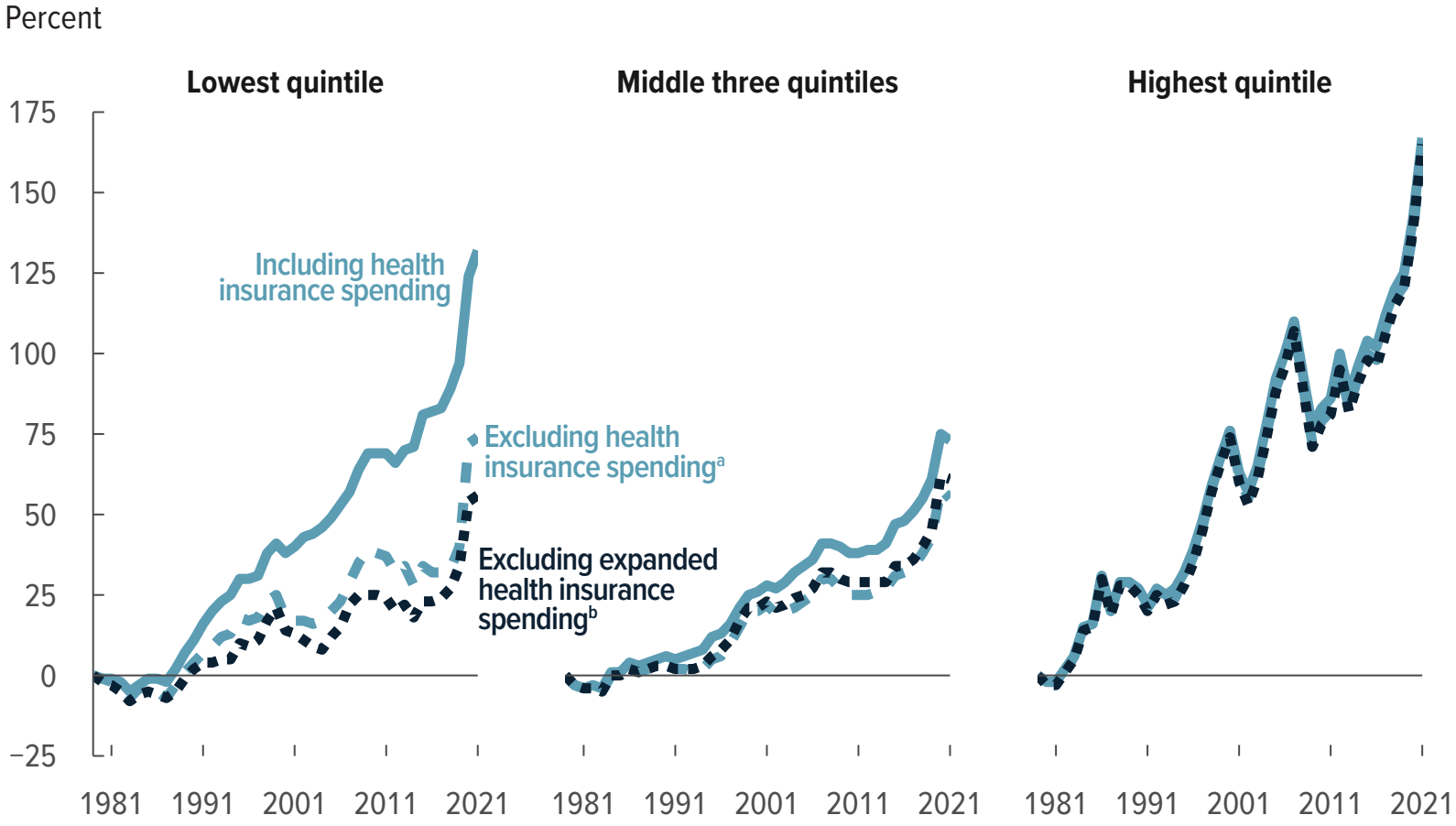
Thousands of 2021 dollars



Expanded health insurance spending grew faster than health insurance spending in *The Distribution of Household Income in 2021*. That faster growth was the result of incorporating household premiums for Medicare and ESI.

a. Households are ranked by income before transfers and taxes.
b. Households are ranked by income before expanded health insurance spending.

How Does the Treatment of Health Insurance Spending Affect the Growth Rate of Household Income by Income Group?



Among households in the lowest quintile, income excluding expanded health insurance spending grew more slowly than income excluding health insurance spending. Growth rates of those two measures were more similar among households in the four higher quintiles.

To calculate growth rates, CBO first converted all dollar amounts to 2021 dollars using the Bureau of Economic Analysis's price index for personal consumption expenditures.
a. Households are ranked by income before transfers and taxes.
b. Households are ranked by income before expanded health insurance spending.

What Health Insurance Topics Does CBO Plan to Explore in Future Distributional Analyses?

This report supplements the recurring reports in CBO's *Distribution of Household Income* series. More reports about CBO's distributional analyses are available at www.cbo.gov/topics/income-distribution.

CBO plans to incorporate new data, including information from tax returns, in its measure of employers' contributions for health insurance premiums in its future distributional analyses.[5]

The agency is exploring the ultimate incidence of federal subsidies for health insurance, including the incidence of Medicaid spending—the topic of a working paper currently underway.

5. For more information about tax return data on insurance premiums, see Ithai Z. Lurie and Corbin L. Miller, "Employer-Sponsored Health Insurance Premiums and Income in U.S. Tax Data," *Journal of Public Economics*, vol. 224 (August 2023), https://doi.org/10.1016/j.jpubeco.2023.104942.

About This Document

This document was prepared as part of CBO's recurring analysis of trends in the distribution of household income. That recurring analysis is undertaken at the request of the ranking member of the Senate Committee on Finance. In keeping with CBO's mandate to provide objective, impartial analysis, the document makes no recommendations.

Ellen Steele prepared the document with guidance from Edward Harris and John McClelland. Bilal Habib and Naveen Singhal contributed to the analysis, and Nicholas Johnson fact-checked the document. David Austin, Justin Falk, Tamara Hayford, Asha Saavoss, Julie Topoleski, Chapin White, and Timothy Young provided comments.

Jeffrey Kling reviewed the document, and Christine Bogusz edited it. Casey Labrack and Jorge Salazar created the graphics, and Jorge Salazar prepared the document for publication. The document is available at www.cbo.gov/publication/61910.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

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Director