# A NEW OPPORTUNITY TO PROVIDE HEALTH CARE COVERAGE FOR NEW YORK'S LOW-INCOME FAMILIES

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## EXECUTIVE SUMMARY

Although New York State currently provides health care coverage to uninsured children in low-income working families through its Medicaid and Child Health Plus programs, their parents are often left without any source of health insurance. Owing to a recent change in federal law, New York now has a little-recognized opportunity to use federal funds to help make health insurance coverage available to low-income working parents. This new option allows the state to provide coverage to vulnerable New Yorkers who are supporting their families through low-wage jobs that typically do not offer health insurance.

### LOW-INCOME WORKING PARENTS ARE AT HIGH RISK OF BEING UNINSURED

Some 424,000 low-income parents in New York—those with family incomes at or below 200 percent of the poverty level, or $27,760 a year for a family of three—lack health insurance coverage. Of these parents, six of seven are working or married to someone who works.

So many low-income working parents are uninsured because they often do not have access to health coverage through their jobs. At the same time, they are largely ineligible for publicly funded coverage under New York's current Medicaid rules. An uninsured mother with two children, for example, who earns as little as $5.80 an hour, or $11,600 a year—84 percent of the federal poverty level—is generally ineligible for Medicaid coverage for herself even though she lacks access to employer-sponsored health insurance. By contrast, New York offers publicly funded coverage to *children* in families with incomes that are nearly three times as high. In fact, children in households with incomes up to 230 percent of the federal poverty level, or $31,924 for a family of three, are eligible for health coverage through state insurance programs.

Under the state's Medicaid guidelines, working parents generally need to quit their jobs, or otherwise reduce their earnings to well below the poverty level, in order to qualify for Medicaid. As a result, low-income parents in New York who are working are more than twice as likely to be uninsured as low-income parents who are *not* working: approximately 35 percent of low-income parents with earnings are uninsured, compared with 14 percent of those without any earnings.

### A NEW OPPORTUNITY TO COVER LOW-INCOME WORKING PARENTS

Until recently, states had little opportunity to cover parents under Medicaid unless they were on welfare or had recently left welfare. The Personal Responsibility and Work Opportunities Reconciliation Act of 1996, however, broke the eligibility link between welfare and Medicaid. Just as states have for many years been able to provide Medicaid to low-income children and pregnant women with no connection to the welfare system, states can now—without a federal waiver—offer Medicaid coverage to low-income working parents, regardless of whether they have ever received welfare. Eligibility for Medicaid is now based on families' income and resource levels.

The option for states to expand Medicaid coverage derives from the broad flexibility that the 1996 federal welfare law accorded states in how they determine what "counts" as family income and resources when setting Medicaid eligibility standards. A new federal guide issued by the Department of Health and Human Services in March 1999 makes clear that this flexibility allows states to "expand coverage of families as far as state budget and policy preferences permit."* States are thus able to offer health coverage to low-income families who have not received public assistance as well as extend the coverage available to families leaving welfare for work. If states exercise the new option, the federal government will finance anywhere from 50 percent to 79 percent of the cost of expanding coverage, with the exact proportion to be determined by each state's Medicaid matching rate. In New York's case, the federal government would pick up half the cost of expanding Medicaid for low-income working parents.

New York could also use the new option to expand coverage of parents under a broader initiative to ensure coverage for all the state's low-income residents. Federal funding to help insure parents might enable the state to more easily finance the cost of insuring other groups of low-income New Yorkers for whom federal money may not be available.

The table below shows the estimated number of uninsured parents who would become eligible for coverage at various income levels if New York were to extend Medicaid to parents. Federal Medicaid funds are available to help provide coverage to working two-parent and single-parent families at any of these levels.

**Estimates of the Number of Uninsured Parents Who Could Be Made Eligible for Coverage by Medicaid Expansions to Various Income Levels***

* Health Care Financing Administration, Administration for Children and Families, *Supporting Families in Transition: A Guide to Expanding Health Coverage in the Post-Welfare Reform World*, March 1999, p. 20.

| *New income eligibility standard, as a percentage of the federal poverty level* | *Number of uninsured parents in the expansion range* |
|---|---|
| Expand to 133% | 130,000 |
| Expand to 150% | 165,000 |
| Expand to 185% | 242,000 |
| Expand to 200% | 266,000 |
| Expand to 230% | 309,000 |
| Expand to 250% | 335,000 |

* Based on tabulations performed by the Center on Budget and Policy Priorities using the Census Bureau's 1996–98 March *Current Population Surveys.* Note that these numbers consider those parents who would become eligible for Medicaid as a result of an expansion; there are additional low-income uninsured parents who are currently eligible for Medicaid but not enrolled.

If New York used the new option to expand coverage for families beyond present Medicaid eligibility levels for children, some children currently enrolled in the state's Child Health Plus program would likely need to be switched into the newly expanded Medicaid program.

## A GROWING NUMBER OF STATES ARE USING THE NEW OPTION TO FINANCE FAMILY-BASED COVERAGE

If New York takes advantage of this new opportunity to expand Medicaid eligibility for parents, it would follow the lead of a growing number of states. As their experiences demonstrate, states have significant discretion in determining the design and breadth of any expansion of Medicaid eligibility.

Rhode Island, the District of Columbia, and Wisconsin, for example, have used the new option to create family-based health coverage initiatives for low-income working parents and children with incomes up to 185 percent, and in some cases 200 percent, of the federal poverty level. Although the source of funding for these expansions is primarily Medicaid, each program has been "repackaged"—that is, given a name other than Medicaid and designed with simple, easy-to-follow application procedures.

Other states, such as Massachusetts and Oregon, have established broad-based coverage initiatives that rely on a combination of federal Medicaid and state funds. Although the expansions involve multiple funding sources for the various groups covered, each state administers its initiative as a unified program. Pennsylvania and Missouri, meanwhile, have adopted more limited expansions of coverage for low-income working parents. Both of these states, along with Oklahoma and Ohio, have used the new option to eliminate the assets test for parents, as well as children, applying for Medicaid.

## CONCLUSION

As more and more low-income parents enter the labor market—taking jobs that do not offer affordable health insurance—the number of those in New York without insurance is likely to grow unless the state makes publicly funded coverage available to working parents. By taking advantage of federal funds to expand Medicaid to low-income working parents, the state could provide health coverage to a substantial number of its uninsured residents and assure that parents are not forced to choose between their jobs and health care coverage. Such an initiative would also provide a boost to parents struggling to support their children.

# A NEW OPPORTUNITY TO PROVIDE HEALTH CARE COVERAGE FOR NEW YORK'S LOW-INCOME FAMILIES

## INTRODUCTION

The number of New Yorkers without health insurance has been climbing throughout the 1990s: in 1997, New York State had 3.2 million uninsured residents, one million more than it had in 1991.[1] The large and growing uninsured population has prompted state policymakers, health care provider organizations, labor unions, policy groups, and consumer organizations to call for new initiatives to increase health care coverage. Such initiatives are likely to consider ways to cover low-income working parents, a group that is at high risk of being uninsured.

Because of a provision in the Personal Responsibility and Work Opportunities Reconciliation Act of 1996—the federal welfare reform law—New York now has a little-recognized opportunity to use federal funds to extend Medicaid coverage to low-income working parents. Until recently, states generally could provide Medicaid only to parents on welfare or to those who had recently left welfare. Under the new option, however, working parents can be enrolled without regard to any current or recent ties to the welfare system.

New York now has the discretion to set eligibility levels for families with children based on income, and the federal government will pick up half of the cost. In just the past year, Rhode Island, the District of Columbia, and Wisconsin have taken advantage of the policy change to expand coverage to a broad group of low-income working parents. An expansion of coverage for parents could be an important part of a larger initiative to reduce the number of uninsured people in New York.

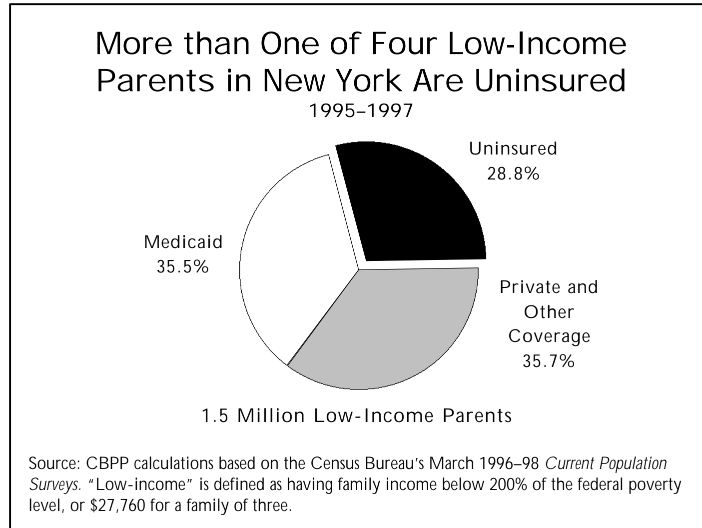
This paper explores New York's option to provide health care coverage to low-income working parents using federal Medicaid funds. It begins by examining why so many parents are uninsured, and then explains how the new policy might be applied in New York. The final sections review parent-coverage expansions adopted in other states and consider some of the choices available if New York elects to avail itself of this promising opportunity.

## LOW-INCOME WORKING PARENTS AT HIGH RISK OF BEING UNINSURED

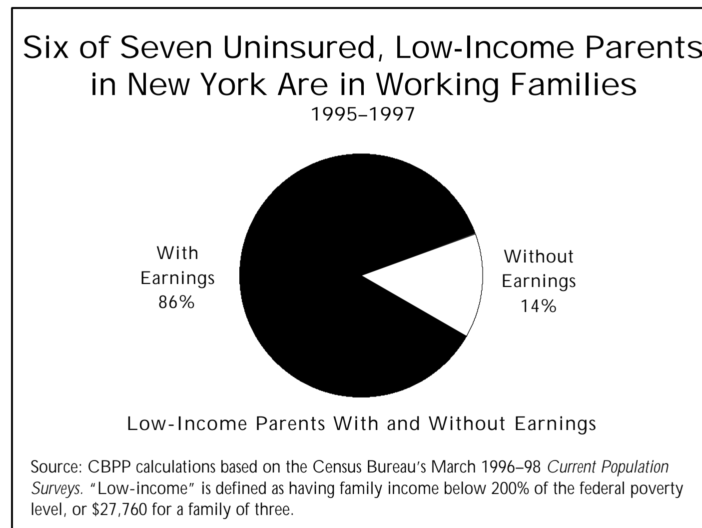
Although New York has taken important steps in recent years to make health insurance coverage available to children in low-income working families, their parents are largely

ineligible for publicly funded coverage. According to U.S. Census Bureau data from the mid- to late 1990s, low-income working parents—those with incomes below 200 percent of the poverty level, or $27,760 for a family of three—are at high risk of being uninsured.[2]

More than one of four (28.8%) low-income parents in New York, representing some 424,000 parents, lack health coverage. This figure includes 157,000 parents who are eligible for Medicaid under current rules and 266,000 parents who are ineligible. Nearly all uninsured low-income parents in New York—six of seven (86%)—are working or are married to someone who is working.[3]



Source: CBPP calculations based on the Census Bureau's March 1996–98 *Current Population Surveys.* "Low-income" is defined as having family income below 200% of the federal poverty level, or $27,760 for a family of three.



Source: CBPP calculations based on the Census Bureau's March 1996–98 *Current Population Surveys.* "Low-income" is defined as having family income below 200% of the federal poverty level, or $27,760 for a family of three.

**Low-Income Parents Have Limited Access to Employer-Sponsored Coverage**

Low-income working parents often do not have access to affordable coverage through their jobs. In 1996, only 43 percent of all workers in the United States making $7 or less per hour were offered health insurance by their employers.[4] Moreover, not all low-wage workers who are offered coverage can afford to purchase it, particularly as more of the cost of coverage has been shifted to employees in recent years.[5] Although nationally the vast majority of low-wage workers whose jobs include health coverage take up the offer, an increasing number are finding that they cannot afford even employer-subsidized insurance.

**Low-Income Working Parents Are Largely Ineligible for Publicly Funded Coverage**

Despite the fact that employer-based coverage is often not available to low-wage workers in New York, most of these workers are ineligible for Medicaid. Although low-income

parents can qualify for Medicaid in a number of different ways, in general they can receive Medicaid only if they are poor enough to qualify for welfare or have recently been poor enough to qualify.[6] Currently, to be eligible for Medicaid a mother with two children who applies for coverage generally must have an annual income of $11,500 or less, or 83 percent of the federal poverty level. In addition, even those parents whose incomes are well below the poverty level will be ineligible for Medicaid if they have more than a small amount of assets. (See Appendix for a description of New York's Medicaid eligibility rules for parents.)

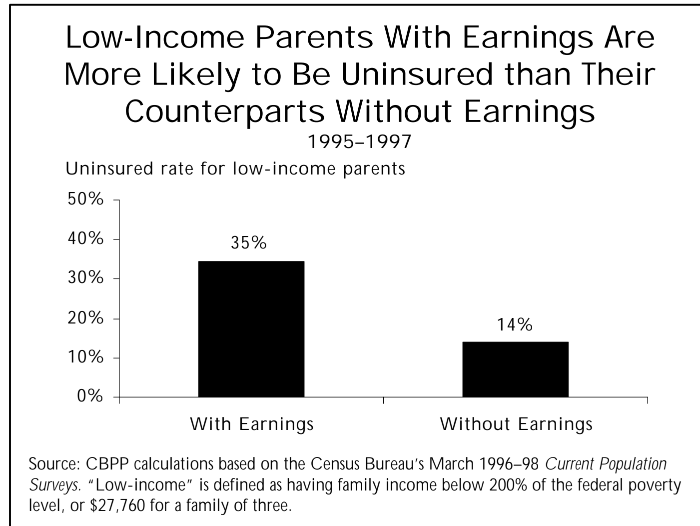
Consider, for example, a mother with two children living in New York City. While her children stay with a relative, she works full-time at a job that pays $5.80 an hour and does not offer health insurance coverage. Even though her gross earnings of $11,600 a year leave her family at only 84 percent of the poverty level, this mother earns too much to be eligible for Medicaid in New York. Her children can receive Medicaid, but she does not qualify.

New York does offer coverage on a slightly more generous basis to parents *already enrolled* in Medicaid who enter the workforce or increase their earnings. However, those parents must first be able to qualify for Medicaid under the more stringent rules that the state uses for people who are initially applying for coverage.

If the mother described above, for example, loses her job and goes on welfare, her income will be low enough to allow her to qualify for Medicaid. If she finds a full-time job after she is enrolled in Medicaid, she can retain her regular Medicaid coverage as long as she earns no more than $6.40 an hour. At this wage level, she will earn $12,800 a year, an income that brings her family to 92 percent of the poverty level. Once her earnings exceed this level, she is eligible for up to one year of transitional Medicaid coverage. At the end of the year, unless affordable coverage is available through her employer, she will once again become uninsured.

By relaxing the Medicaid eligibility standard somewhat for parents already enrolled in the program, New York provides at least a temporary source of coverage to some parents, including unemployed parents who enter or reenter the low-wage job market. These rules, however, offer no help to parents who have been working steadily at low-wage jobs and therefore have not been eligible for Medicaid. A parent who has been working regularly at a full-time job identical to that of the mother in the example above is ineligible for coverage even if she works the same number of hours at the same wage and has the same number of children.

As a result of their limited access to both employer-based and publicly funded health insurance, low-income working parents in New York are more than twice as likely to be uninsured as low-income parents who are not working. While one of seven (14%) low-income parents who have no earnings is uninsured, more than one of three (35%) low-income parents *with* earnings are uninsured.



Source: CBPP calculations based on the Census Bureau's March 1996–98 *Current Population Surveys*. "Low-income" is defined as having family income below 200% of the federal poverty level, or $27,760 for a family of three.

**The Problem Is Likely to Grow**

Unless New York makes publicly funded coverage available to a broader group of low-income working parents, the number of uninsured parents is likely to rise. The strong economy and changes in welfare policy are prompting more and more parents to enter the job market.[7,8] At the same time, the percentage of workers with employer-based coverage has declined significantly since the early 1990s.

Although the decline in private coverage is a nationwide phenomenon, it is particularly severe in New York. In 1996, 72.2 percent of the U.S. population had private coverage, a 3 percentage point decline since 1991. In New York, however, only 63.1 percent of state residents had private coverage in 1996, a 7.7 percentage point drop since 1991.[9]

## WHAT IS THE NEW OPPORTUNITY TO COVER LOW-INCOME WORKING PARENTS?

Until recently, most parents qualified for Medicaid based on their eligibility for welfare under the Aid to Families with Dependent Children (AFDC) program. Parents enrolled in AFDC were automatically enrolled in Medicaid. When AFDC was repealed by the 1996 federal welfare law, the eligibility link between welfare and Medicaid was broken and replaced with a new Medicaid eligibility category that established federal minimum standards for coverage. In so doing, the law preserved Medicaid coverage for low-income families with children and ensured that welfare rules, such as time limits, would not result in families losing their eligibility for health insurance.

Under the new eligibility category—often referred to as the "family coverage" or "section 1931" eligibility category—states must, at a minimum, offer Medicaid to families with children who could have qualified for AFDC (and, therefore, Medicaid) under the income and resource standards in effect in July 1996.[10] Along with establishing this minimum criteria for Medicaid eligibility, federal law allows states to expand coverage beyond the basic requirements.

First, states can raise their July 1996 family income and resource standards for Medicaid to reflect changes in the cost of living, thus offering states a limited opportunity to cover more families.[11] The more important expansion option, however, is derived from the broad flexibility the law provides states to define what counts as income and resources. With this latitude, states are now able to expand coverage for families to whatever income and resource levels are deemed appropriate.

An example may help illustrate how the option allows states to expand coverage to low-income working parents. Under current rules, New York requires a family of three to have *countable* income below $577 a month in order to initially qualify for Medicaid under the family coverage category. When calculating a family's countable income, federal law requires New York to disregard a minimum of $90 in earnings for each worker in a family. Thus, a working parent with two children whose gross monthly income is $700 is considered to have $610 a month in countable income after the $90 earnings disregard is applied ($700 – $90 = $610). At this level of income, the parent would not be eligible for Medicaid. Under the new option, however, New York could double the earnings disregard to $180, thereby reducing countable income to $520 and qualifying the parent for Medicaid ($700 – $180 = $520).

The ability to employ more generous earnings disregards and deductions when determining families' eligibility for Medicaid provides states with significant leeway to expand coverage for low-income working families. According to a recent U.S. Department of Health and Human Services guidance memo sent to state officials, the new option leaves states "free to raise their effective income eligibility thresholds" for family coverage categories "to whatever level they wish."[12] For example, a state could expand coverage for families with children up to 200 percent of the poverty level by simply disregarding all income between the eligibility threshold for the state's family coverage category and 200 percent of the poverty level. In a similar fashion, states have the authority to use more generous asset disregards to eliminate or ease the assets test imposed on families applying for Medicaid. State initiatives that have relied on the option to expand coverage for low-income working parents are described later in this report.[13]

The new Medicaid expansion option is often referred to as the "parent coverage option" because states have long had similar opportunities under federal law to extend Medicaid coverage to children from low-income working families. Moreover, the federal child health block grant created under the Balanced Budget Act of 1997 makes additional federal resources available to states to expand coverage for children.[14] The new option is therefore important for making federal Medicaid funding available for the first time to cover low-income working parents.

Nevertheless, the parent coverage option is really an opportunity to expand Medicaid for *families* with children, not just parents. Under the family coverage category, states that offer Medicaid to low-income working parents must also provide their children with Medicaid coverage if they have not already done so. States generally cannot expand Medicaid for parents alone, at least not without securing a waiver from the federal government.

## EXPANDING MEDICAID COVERAGE FOR PARENTS IN NEW YORK

With the new Medicaid option, New York can provide health coverage to low-income working parents as far up the income scale as it chooses. The state also has the discretion to ease or eliminate the assets test imposed on parents. Furthermore, as discussed later in this paper, New York has the flexibility to integrate an expansion of coverage for low-income working families with its existing Child Health Plus program, or to use the new option to help finance part of a larger health care initiative.

New York's current system of extending health care coverage to children in low-income families through a combination of Medicaid and Child Health Plus affects the ways in which the state can take advantage of the parent coverage option. New York now relies on Medicaid to cover children in low-income families up to 100 percent or 133 percent of the federal poverty level, depending on the child's age. Under legislation enacted last year, all children in New York—regardless of age—will eventually be covered through Medicaid if their family incomes fall below 133 percent of poverty.[15] Child Health Plus, meanwhile, covers children whose family incomes are above the Medicaid thresholds but below 230 percent of poverty.[16,17]

### Covering Parents Below 133 Percent of Poverty

Since New York already plans to insure children with family incomes up to 133 percent of the poverty level through Medicaid, the state could extend Medicaid coverage for parents in these families simply by exercising its option under the family coverage category. An

expansion to 133 percent of the poverty level would make health insurance available to some 130,000 uninsured parents in New York who are currently ineligible for Medicaid.

**Covering Parents Above 133 Percent of Poverty**

New York could also use the new option to finance the cost of a broader expansion of coverage for parents. Table 1 estimates the number of uninsured parents in the state who would become eligible for Medicaid if the state were to use the option to expand coverage to various income levels. If coverage were increased to 230 percent of the poverty level, for example, some 309,000 uninsured parents would become eligible for Medicaid.

**Table 1**
**Estimates of the Number of Uninsured Parents Who Could Be Made Eligible for Coverage by Expansions to Various Income Levels***

| *New income eligibility standard, as a percentage of the federal poverty level* | *Number of uninsured parents in the expansion range* |
|---|---|
| Expand to 133% | 130,000 |
| Expand to 150% | 165,000 |
| Expand to 185% | 242,000 |
| Expand to 200% | 266,000 |
| Expand to 230% | 309,000 |
| Expand to 250% | 335,000 |

* Based on the number of uninsured parents with gross family income above 83 percent of the 1999 poverty level, but below the identified expansion level. Eighty-three percent is used as the lower bound of the expansion range because it is the income level at which a working parent in a three-person family currently is ineligible for Medicaid under New York's medically needy category after a $90 earnings disregard is taken into account (see Appendix). Note that the table does not reflect that some parents in the expansion income ranges will be ineligible for coverage because their level of assets exceeds the maximum currently allowed. It also does not reflect that some parents with gross income above the expansion ranges may be eligible for coverage after deductions and disregards are taken into account.

Source: CBPP calculations based on the U.S. Census Bureau's 1996–98 *Current Population Surveys.*

If New York chooses to expand Medicaid coverage for parents beyond 133 percent of poverty, it also must make the children in these families eligible for Medicaid unless a waiver is secured to allow them to remain in Child Health Plus.[18] If, for example, the state expanded Medicaid to families with children living at 160 percent of poverty, it would need to switch a small group of children—those with family incomes from 133 percent to 160 percent of poverty—from Child Health Plus to Medicaid. New York would still continue to receive the enhanced federal matching rate available under the child health block grant—65 percent—for the cost of covering these children. For parents, however, the federal government offers New York its regular Medicaid matching rate of 50 percent.

### Eliminating or Easing the Assets Test

Regardless of whether New York elects to raise the income eligibility threshold for parents seeking Medicaid, the state could ease or eliminate the assets test imposed on families under the family coverage category. New York has already dropped the assets test for children and has taken some steps to ease the assets test for parents under the family coverage category. Many other states have either eliminated the assets test altogether or disregarded the full value of a family's automobile when determining eligibility. Along with providing coverage to some additional parents, dropping the assets test would allow New York to streamline the application process for families by eliminating the often time-consuming and costly process of gathering and verifying information about families' assets.

## EXPANSION INITIATIVES IN OTHER STATES

Changes in the welfare system and expansions of health coverage for children have prompted states to look for ways to provide health insurance to parents in low-income working families. Extending coverage to parents can help states meet several key objectives:

- **Providing support to working families.** The ability of low-income working families to remain financially afloat given limited earnings and relatively high expenses is often quite fragile. By helping parents retain jobs and providing them with health coverage regardless of their current or recent ties to the welfare system, the new expansion option also promotes state welfare reform goals. Wisconsin officials explain that their state launched its family coverage initiative in large part "to assure health care" to the parents who have left welfare and taken jobs.[19]

- **Meeting child coverage goals.** States that have expanded coverage for parents have done so in part because they believe it will bolster efforts to enroll more children in their publicly funded health insurance programs. Research suggests that insuring parents can improve participation rates among eligible children. Furthermore, children whose parents have health coverage and a connection to the health care system are more likely to use the health services available to them.[20]

- **Expanding health coverage for other uninsured groups.** Medicaid-financed expansions for parents could be part of larger state initiatives to broaden coverage. The federal funding available to help pay the cost of covering low-income working

parents could make it easier for states to afford to cover other groups for whom federal grants may not be available.

In just the past year, a number of states have taken advantage of the new option to provide coverage to all members of low-income families. Although these initiatives involve Medicaid expansions financed through a combination of federal Medicaid and child health block grant funds, they often bear little resemblance to traditional Medicaid programs. Studying other states' efforts can provide New York policymakers with insight into ways in which the new option could be used to expand health coverage for low-income working parents.

**Rhode Island**

For many years, Rhode Island has provided expanded health care coverage to children and pregnant women in low-income families through its Medicaid program, known as RIteCare. Children and pregnant women are currently eligible for RIteCare until their family incomes reach 250 percent of the poverty level, or $34,700 a year for a family of three. RIteCare is operated under a waiver granted by the Health Care Financing Administration (HCFA) to move families into managed care. In November 1998, the state took advantage of the new option to extend RIteCare to parents with family incomes up to 185 percent of the poverty level, or $25,678 a year for a family of three. Rhode Island also eliminated the assets test for parents.

**District of Columbia**

In October 1998, the District of Columbia created DC Healthy Families, a program that provides Medicaid to families with earnings up to 200 percent of the poverty level, or $27,760 a year for a family of three. The District uses its child health funds to help finance the cost of expanding Medicaid to the children in these families and regular Medicaid funds to finance the cost of covering their parents. There is no assets test for families with children. To promote participation among eligible families, the District developed a simple, two-page application form that it is widely available to families at community sites throughout the city or by calling a toll-free number. Families can use the new application to apply for coverage through the mail.

**Wisconsin**

In July 1999, Wisconsin began implementing its BadgerCare program, which will provide health care coverage to families—parents and children—with incomes up to 185 percent of the poverty level. Once enrolled, families are allowed to retain their coverage until their income reaches 200 percent of the poverty level. The state will use regular Medicaid funds

to cover parents in BadgerCare families and child health funds to help finance the cost of covering children made eligible by the initiative.

Wisconsin elected to operate BadgerCare under a waiver from the federal government.[21] Although most aspects of the program could have been implemented under the family coverage category without a waiver, the state sought one in order to impose premiums on families with incomes above 150 percent of poverty and limit eligibility to uninsured individuals who do not have access to affordable employer-based coverage.

When BadgerCare was being developed, some Wisconsin policymakers raised the concern that using Medicaid as the vehicle for financing the program could create a fiscal burden on the state. In response, the state established a procedure for scaling back the expansion should spending begin to exceed expectations. If eligibility is scaled back, families already enrolled in BadgerCare will be allowed to remain in it.

**Other States Using the Parent Coverage Option**

Several other states have also found ways to take advantage of the new option. For example, Missouri, Oklahoma, Ohio, and Pennsylvania have used it to eliminate the assets test for families with children, and several other states have used it to disregard the value of the family vehicle in calculating assets. Maine has used the option to expand coverage for single-parent families with earnings up to 100 percent of the poverty level and is considering proposals that would expand coverage for parents to 150 percent of poverty.

**Additional State Models for Insuring Parents**

Even before the parent coverage option was created by the 1996 welfare legislation, a number of states, including Delaware, Massachusetts, Minnesota, Oregon, and Vermont, negotiated waivers with the federal government that allowed them to use federal Medicaid funds to expand coverage to parents and, in some cases, other adults. Massachusetts, for example, covers adults with gross incomes up to 133 percent of the poverty level, while Minnesota covers parents up to 275 percent of poverty. Since these states enacted their expansions prior to the availability of the parent coverage option, they often had to engage in lengthy and complex negotiations with HCFA in order to secure waivers. In particular, they had to guarantee that any increase in federal spending on coverage for parents would be fully offset by federal savings generated by other changes in state Medicaid policies. These negotiations and agreements are not required under the new option for expanding Medicaid under the family coverage category.

## DESIGN ISSUES FOR NEW YORK

If New York elects to implement the parent coverage option, it would have broad flexibility to determine the design as well as the breadth of the expansion.

### Options Under Federal Law

Federal law allows New York policymakers discretion in the following areas:

- **Controlling the cost of an expansion.** States have full discretion to scale back or totally eliminate an optional expansion of coverage to parents in response to fiscal pressures. If New York initially decided, for example, to spend a certain amount to expand coverage for families to up to 200 percent of the poverty level but then found that costs exceeded projections, it could scale back the expansion to the level necessary to keep spending within the original budget. If New York were compelled to scale back or even eliminate an expansion, it could continue to cover working parents already enrolled in Medicaid.[22]

- **Cost-sharing.** Although federal law bars states from imposing cost-sharing on children enrolled in Medicaid, they can impose "nominal" cost-sharing on adults.[23] For most services, states can charge adults covered under the family coverage category up to $3 per service or up to 5 percent of the amount that the state pays providers for the service.

- **Scope of benefits.** New York has considerable flexibility in determining the scope of benefits provided to adults enrolled in Medicaid, including parents. While states must offer all Medicaid beneficiaries certain services, such as inpatient hospital care and physician services, most are optional, and states can determine the amount, scope, and duration of the care they provide. The primary exception is the Early and Periodic Diagnosis, Screening, and Treatment requirements that apply to children, though not to parents age 21 or older.

### Options Under the Federal Waiver

Using authority available under section 1115 of the Social Security Act, HCFA has also granted waivers to states that allow them to vary from standard Medicaid rules when they expand coverage to low-income working families. Wisconsin, for example, has a section 1115 waiver allowing it to impose premiums on families with incomes above 150 percent of the poverty level. In addition, the state can limit BadgerCare eligibility to families who

lack private health insurance as well as access to subsidized coverage through an employer.

Similarly, HCFA has given Missouri a waiver to provide a slightly narrower set of benefits to adults covered under a Medicaid expansion than the state provides to its traditional Medicaid population. Although HCFA considers requests for waivers on a state-by-state basis, its actions to date indicate it is likely to permit states to use waivers to modify cost-sharing rules and benefit packages, as well as to limit coverage to uninsured parents, if those modifications apply to families with higher incomes.

**Integrating Coverage of Parents with Broader Health Care Initiatives**

As New York reviews its options, it will want to consider how a Medicaid-funded parent coverage expansion might fit together with current efforts to streamline and coordinate the Medicaid/Child Health Plus application process as well as with initiatives aimed at covering other populations. While a full disposition of the design choices available to New York is beyond the scope of this paper, examples of what some states have done in this area can suggest the range of options available to New York.

- The states using the parent coverage option generally have "repackaged" their Medicaid programs. They have developed simplified, shortened applications similar to the one New York is planning to use for children applying for Medicaid and Child Health Plus. They have also streamlined verification requirements and given their Medicaid programs new names such as BadgerCare (Wisconsin), RIteCare (Rhode Island), and DC Healthy Families (District of Columbia).

- Massachusetts and other states that have combined federal Medicaid dollars with other funding sources to create broader health care coverage programs offer models for how New York might build off its own Child Health Plus program. MassHealth, for example, includes a Medicaid component as well as coverage funded with federal child health block grant funds and state dollars. Beneficiaries enrolled in MassHealth are subject to different rules regarding benefits and cost-sharing, but the various components are organized and administered collectively as one program. The state makes decisions behind the scenes about which funding stream and which set of rules apply to a particular beneficiary. In a similar fashion, Oregon has combined its Medicaid and child health block grant programs. Although technically some beneficiaries are Medicaid recipients and others are not, they are all enrolled in the Oregon Health Plan.

In sum, the federal government provides New York with considerable leeway in designing an expansion of coverage for low-income working parents. The state can determine the scope of any expansion, roll back or restrict it at a later time in order to keep spending within budget constraints, and closely coordinate the effort with Child Health Plus and other programs as part of a broader coverage initiative.

**How Would Expanding Coverage for Parents Fit into New York's Partnership Plan?**

In July 1997, HCFA granted New York a section 1115 waiver that allowed the state to adopt a comprehensive Medicaid managed care program, known as the Partnership Plan. The waiver also significantly restructures how New York finances the cost of providing health care to Medicaid recipients and others. States do not need a waiver to exercise the parent coverage option, but New York may prefer to amend its 1115 waiver to incorporate the new group of parents into the Partnership Plan. Although New York's waiver was approved after extensive negotiations with HCFA, it seems likely that HCFA would readily allow New York to amend the Partnership Plan to expand eligibility to cover more low-income working parents. HCFA has already allowed Rhode Island, another state that operates a Medicaid managed care program under a 1115 waiver, to use the new option to expand coverage for parents to 185 percent of the poverty level.

While the managed care aspects of the Partnership Plan have not been implemented as quickly as anticipated, New York has begun to finance its Medicaid program through the structure established by its 1115 waiver. The state can now claim federal reimbursement for costs that were previously ineligible for federal Medicaid matching funds, including the cost of providing health care to recipients of Home Relief. At the same time, the waiver imposes a new limit on the total amount of federal Medicaid matching funds the state can claim. If New York chooses to expand coverage to more low-income working parents through its 1115 waiver, the formula used to determine the aggregate limit on federal Medicaid funding for New York would need to be revised to reflect the cost of covering newly eligible parents.

Currently, the aggregate limit on federal Medicaid matching funds for New York is based on a formula that grants New York an amount for each person enrolled in Medicaid. These per capita payments are higher for some groups, such as the disabled, than others. Under the funding formula, if more people enroll in Medicaid, the state's funding limit rises; if fewer people enroll, the state's funding limit falls. Since the present formula is based on multiplying the number of people in the program by a per capita allotment, incorporating parents into the existing formula would be relatively easy. The only point of negotiation between HCFA and New York would likely be what the appropriate per capita payment is for low-income working parents. Once that issue is resolved, the revised formula could automatically adjust the state's aggregate funding limit to take into account the increase in residents enrolled in Medicaid due to an expansion of coverage of low-income working parents.

## CONCLUSION

Welfare legislation enacted in 1996 has presented New York with an important opportunity to secure federal funding for half the cost of expanding Medicaid to low-income working parents. At present, most low-income working parents in New York are ineligible for publicly funded health coverage unless they quit their jobs or otherwise reduce their earnings to well below the poverty level. Limited access to Medicaid along with limited access to employer-based coverage has left many low-income working parents without health insurance. As more low-income parents enter the job market and the portion of workers with employer-based coverage continues to decline, the number of uninsured parents in New York will likely grow. By making publicly funded coverage more broadly available, the new parent coverage option can help New York reduce the number of uninsured adults as well as provide a critical boost to parents struggling to support their children.

## NOTES

[1] In 1991, 2.2 million people in New York were uninsured; by 1997, the number had increased to 3.2 million. Data for 1991 are taken from Kathryn Haslanger, Robert E. Mechanic, Mary Jo O'Brien, and Kenneth E. Thorpe, *Taking Steps, Losing Ground: The Challenge of New Yorkers Without Health Insurance*, United Hospital Fund of New York, 1998. Data for 1997 are based on Center on Budget and Policy Priorities tabulations of the U.S. Census Bureau's March 1998 *Current Population Survey*.

[2] Unless otherwise noted, data on the number and characteristics of uninsured parents in New York are based on tabulations by the Center on Budget and Policy Priorities using the Census Bureau's March *Current Population Surveys* for 1996, 1997, and 1998, which ask people about their experiences during the preceding year. The Center combined data from the three years in order to produce more accurate estimates. The term "parents" includes all individuals ages 18 to 65, and their spouses, who are heads of households or subfamilies and living in families with at least one child.

[3] The work effort of uninsured low-income parents is substantial. More than four of five (82%) parents in families with earnings worked at least 39 weeks out of the year alone or in conjunction with their spouses. Eighty-four percent of these parents worked alone or in conjunction with their spouse an average of 20 hours a week or more.

[4] Philip F. Cooper and Barbara Steinberg Schone, "More Offers, Fewer Takers for Employment-Based Health Insurance: 1987 and 1996," *Health Affairs* 16 (November/December 1997):142–149. The percentage of workers with wages at or below $7 per hour who have "access" to employer-based coverage is somewhat higher—55 percent in 1996—because some low-wage workers are offered coverage through the employer of a family member.

[5] From 1988 to 1996, for example, small and medium-size employers (those employing fewer than 200 people) increased the employee premium contribution for individual health coverage from 12 percent of the cost to 22 percent. For family coverage, these employers increased the employee premium contribution from 34 percent to 44 percent. See Jon Gabel, Kelly Hunt, and Jean Kim, *The Financial Burden of Self-Paid Health Insurance on the Poor and Near-Poor*, The Commonwealth Fund, April 1998.

[6] New York has special eligibility categories that offer coverage on a more generous basis to parents who are pregnant or disabled or who have high medical bills. Children can also qualify for Medicaid under additional eligibility categories that have higher income and resource eligibility thresholds than the thresholds that apply to most parents.

[7] According to data reported by New York to the U.S. Department of Health and Human Services, over the past four years the number of families on welfare has fallen by 162,000 families, from a high of 464,000 in December 1994 to 302,000 in December 1998.

[8] A recent review of studies that examine the health insurance status of families who have left welfare found that most of the adults were no longer on Medicaid when surveyed some months after leaving welfare. They often lack private coverage as well: the studies typically found that among those who find jobs after leaving welfare, the share reporting having employment-based coverage is 25 percent or less. See Mark Greenberg, *Participation in Welfare and Medicaid Enrollment*, Kaiser Commission on the Future of Medicaid, September 1998.

[9] Kathryn Haslanger, Robert Mechanic, Mary Jo O'Brien, Kenneth Thorpe, *Taking Steps, Losing Ground: The Challenge of New Yorkers Without Health Insurance*, United Hospital Fund, 1998. Note that "private insurance" refers to coverage secured through an employer or purchased through the individual insurance market.

[10] The new coverage category is sometimes referred to as the section 1931 eligibility category because it was created by section 1931 of the Social Security Act.

[11] States can increase the income and resource standards they use to determine eligibility under the family coverage category by as much as the increase in the consumer price index (CPI) since July 16, 1996. Although this option allows states to adjust their Medicaid income and resource standards to reflect inflation, it does not provide broad flexibility to expand coverage for low-income working parents, since the CPI cap allows for only a small change in income and resource standards. States are also allowed to lower their income standards, but not below May 1988 levels.

[12] Health Care Financing Administration, Administration for Children and Families, *Supporting Families in Transition: A Guide to Expanding Health Coverage in the Post-Welfare Reform World*, March 1999, p. 20.

[13] New York has already used the new option to provide a modest expansion of coverage to some low-income working parents. The change allows families already enrolled in Medicaid to continue to receive regular coverage when they find work as long as their incomes remain below certain levels. The state made this change by adopting an expanded earnings disregard for Medicaid recipients covered under the family coverage category. Using the new option, New York increased the asset limit for families from $1,000 to $3,000 and excluded from the assets test up to $4,650 in the fair market value of a family's car (see Appendix for a more detailed description of these rules).

[14] Under the block grant, New York receives an "enhanced" matching rate of 65 percent for the cost of expanding Medicaid eligibility for children beyond the levels in place in spring 1997, as well as for covering children under the Child Health Plus program.

[15] The legislation calls for expanding Medicaid to 133 percent of the poverty level for children age one and older once either of two events occurs: (1) the state receives approval from the federal government to enroll these children in its Medicaid managed care demonstration project, or (2) 50 percent of all Medicaid beneficiaries in the state are enrolled in managed care.

[16] Note that Medicaid uses a "countable" income test to determine children's eligibility for coverage; that is, it compares a family's income, after deductions and disregards have been taken into account, with the applicable income standard. Thus, in many circumstances, children with *gross* family income above the applicable Medicaid income standard are eligible for coverage. Child Health Plus, in contrast, uses a gross income test to determine children's eligibility for coverage.

[17] Child Health Plus offers children in families with incomes below 160 percent of the poverty level a package of benefits similar to that offered by Medicaid—at no cost. Families with incomes above this level are charged monthly premiums.

[18] It is not yet clear under what circumstances, if any, HCFA would be willing to grant New York or other states a waiver allowing them to enroll low-income working parents in Medicaid and their children in a different program. HCFA would be more likely to consider this option if the children are provided with coverage on the same or better terms than their parents.

[19] Peggy Bartels and Pris Boroniec, "BadgerCare: A Case Study of the Elusive New Federalism," *Health Affairs* 17 (November/December 1998):165–169.

[20] See Kenneth E. Thorpe and Curtis S. Florence, *The Impact of Medicaid Eligibility Expansions on Medicaid Participation and the Number of Uninsured Children*, Tulane University School of Public Health and Tropical Medicine (unpublished paper); and Karla Hanson, "Is Insurance for Children Enough? The Link Between Parents' and Children's Health Care Revisited," *Inquiry* 35 (Fall 1998):294–302. Hanson found that children—whether they are insured or not—are more likely to have a physician visit if their primary parent also had one and to have more physician visits if their primary parent had more.

[21] See Health Care Financing Administration, *Special Terms and Conditions for Wisconsin's Medicaid Section 1115 Health Care Reform Demonstration Proposal* (BadgerCare), January 22, 1999.

[22] States are generally required to apply the same eligibility criteria to all families with children applying for or receiving Medicaid under the family coverage category. One exception permits states to apply different earnings disregard policies for applicants and recipients, since AFDC rules historically allowed such a distinction. See Department of Health and Human Services, *Supporting Families in Transition: A Guide to Expanding Health Care Coverage in the Post-Welfare Reform World*, March 1999, p. 6. Since the new option is based on states expanding coverage through the adoption of more generous earnings disregard policies, the ability to apply different policies to applicants and recipients lets states scale back coverage for applicants without reducing coverage for working recipients.

[23] The definition of nominal cost-sharing is set out in federal regulations (45 CFR Section 447.54). Federal law prohibits states from imposing cost-sharing on pregnant women enrolled in Medicaid and on other adults for selected services such as family planning.

## Appendix
## New York's Current Medicaid Eligibility Rules for Parents

In order to qualify for Medicaid in New York, parents who are neither pregnant nor disabled generally must:

- meet the income and resource tests that the state uses to determine eligibility under the family coverage category;
- qualify for Transitional Medical Assistance; or
- meet the state's "medically needy" eligibility criteria.

Each of these routes to Medicaid eligibility for parents is described below. Note that children in low-income working families have further opportunities for coverage that are not described here.

**New York's Family Coverage Category**

When the 1996 federal welfare law was enacted, it required New York to replace the automatic eligibility link between welfare and Medicaid with a new family coverage category for families with children. New York created its new family coverage category at the same time that it enacted legislation implementing the rules for its Temporary Assistance to Needy Families (TANF) program. Although families do not have to be receiving TANF benefits in order to qualify for Medicaid under the new family coverage category, New York's eligibility rules for the new category are virtually identical to those used in its TANF program.

To qualify for Medicaid under the family coverage category, a family must meet two income tests and a resource test.

- **Gross income test.** This test requires a family's gross income (i.e., income before deductions and earnings disregards are taken into account) to fall below 185 percent of the "standard of need"—a measure of the amount necessary for families of various sizes to maintain a minimum standard of living. First developed to determine eligibility under the now-repealed Aid to Families with Dependent Children (AFDC) program, the standard varies by county. In New York City, which has the state's largest number of Medicaid beneficiaries, 185 percent of the

standard of need for a family of three is equal to $1,067 a month, or 92 percent of the poverty level for 1999.

- **"Countable income" test.** Families who meet the gross income test must also have countable income (i.e., income after earnings disregards and deductions have been taken into account) below the standard of need. In New York City, this means that a family of three is eligible for Medicaid only if countable income is below $577 a month.

  When determining countable income, New York applies a number of disregards and deductions. The state disregards child care costs of up to $175 a month per child ($200 per child under age 2) as well as a portion of workers' earnings, the exact amount of which depends on whether a family is applying for or is already enrolled in Medicaid. For families applying for coverage, New York disregards $90 in earnings per worker. However, for families already enrolled in Medicaid, the state disregards $90 plus 45 percent of the worker's remaining earnings.

  New York adopted its more generous earnings disregard for families already enrolled in Medicaid by relying on the same option that allows it to expand coverage more broadly to low-income working parents. The state adjusts the size of the earnings disregard on an annual basis so that a family of three already enrolled in Medicaid can earn up to 100 percent of the poverty level and still meet the state's countable income test. Note, however, that because New York has retained its gross income test, a family of three is nevertheless cut off from Medicaid in most parts of the state before earnings reach 100 percent of the poverty level. As explained above, the gross income test makes a family of three ineligible for Medicaid in New York City when a parent's earnings reach 92 percent of the poverty level.

- **Resource test.** In addition to meeting these two income tests, a family must also have less than $3,000 in countable assets in order to qualify for Medicaid under the family coverage category. When applying the assets test, New York disregards up to $4,650 of the fair market value of a family's car and certain other items.

New York has elected to use its family coverage category to provide Medicaid to two-parent families on the same terms as it is provided to single-parent families. Although under federal minimum standards New York is required to cover only single-parent

families and a small number of two-parent families (based on old AFDC rules), the state has extended Medicaid to all two-parent families who meet the income and resource eligibility criteria.

**Transitional Medical Assistance for Low-Income Working Families**

Since 1988, federal law has required states to provide a time-limited extension of Medicaid coverage—Transitional Medical Assistance (TMA)—to families who are leaving welfare because they have earnings or child support income. The 1996 federal welfare law continued the TMA coverage rules in modified form: states must provide up to a year of transitional Medicaid coverage to families who would otherwise lose their eligibility for Medicaid under the family coverage category because of earnings or child support.

Pursuant to federal rules, New York provides an initial six months of coverage to these families, plus an additional six months of coverage for families whose gross incomes—less child care expenses—remain below 185 percent of the poverty level. Four months of TMA is available to families who would lose eligibility for Medicaid because of an increase in child support. To qualify for TMA, the family must have received Medicaid under the family coverage category for at least three of the prior six months.

**"Medically Needy" Coverage of Families with Children**

New York has also exercised an option available under federal law to establish a "medically needy" eligibility category that offers an additional way for low-income parents with children to receive Medicaid, particularly those with high medical bills. Under this category, families are eligible for coverage if they have income and resources below thresholds established by New York (subject to limits set by federal law) or if their income and resources are below these levels after they "spend down" their income and resources on medical bills. Although states have traditionally used the medically needy eligibility category to allow people with high medical bills to receive some Medicaid coverage, New York families whose incomes and resources are below the state's medically needy standards can qualify regardless of their medical bills.

New York's medically needy income and resource standards are set at levels somewhat above those that apply to the family coverage category. A family of three, for example, must have countable income below $867 a month to qualify for Medicaid under New York's medically needy eligibility category. The asset limit is $5,000.

When determining a family's countable income under the medically needy standard, New York disregards the amount a family must spend on medical expenses. In addition, the state applies disregards and deductions similar to those used for the family coverage category. Families already enrolled in Medicaid, however, do not receive the disregard of $90 plus 45 percent of remaining earnings available under the family coverage category. Thus, a working mother with two children is eligible for Medicaid under the medically needy category if her earnings fall below $957 a month, regardless of whether she is applying for or already enrolled in Medicaid (assuming she receives the $90 earnings disregard, but no other disregard or deductions). On an annual basis, these eligibility rules allow her to earn up to $11,484 in gross income, an amount equivalent to 83 percent of the poverty level.

**Comparing the Categories**

Since the rules for obtaining Medicaid coverage affect families in different ways, determining which category has the more generous eligibility standards is not possible. In some cases, parents are eligible for coverage under the medically needy category but not the family coverage category, and vice versa.

Consider a working mother with two children who resides in New York City and is eligible for an earnings disregard under Medicaid, thought not for any other deductions or disregards. If she is *applying* for coverage, she must have monthly earnings of $957 or less, or 83 percent of the poverty level, to be eligible under the state's medically needy category. To be eligible under the family coverage category, she must have monthly earnings of $666 or less, or 58 percent of the poverty level. If she is *already enrolled* in Medicaid, however, the family coverage category allows her to retain coverage when her income rises; in fact, she can have earnings up to $1,067 a month without losing eligibility for Medicaid. Even after her earnings exceed this level, she can receive up to a year of coverage through TMA. In contrast, under the medically needy category she can retain her eligibility for Medicaid only if her monthly earnings do not exceed $957.

Despite the complexity of New York's Medicaid eligibility rules for parents, the bottom line is that most low-income working parents are ineligible for coverage. Although the state has adopted rules that are slightly more generous for parents already enrolled in Medicaid who then find employment or increase their earnings, these rules do not provide coverage to the vast majority of low-income working parents who lack health insurance.