POLICY RESEARCH REPORT

Simplifying and Expanding Health Insurance Programs for Low-Income Working Parents and Their Children

Report to the Assembly Health Committee

authored by

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May 2000

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Based on Research Funded by a Technical Assistance Grant from the California Program on Access to Care

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Acknowledgements

This report is based on research funded by a technical assistance grant from the California Policy Research Center's California Program on Access to Care. The report was requested by Assemblymember Martin Gallegos, chair of the Assembly Health Committee.

The authors are grateful to Teri Boughton, chief consultant for the Assembly Health Committee, and Lucy Quacinella of the National Center for Youth Law for their assistance in developing the study. Special thanks to Bill Maxfield and Dave Rappolee of the California Department of Health Services (DHS) for their assistance on Medi-Cal eligibility and enrollment. Thanks also to Claudia Page of the Medi-Cal Policy Institute for providing information on eligibility, and Dan Rabovsky of the Legislative Analyst's Office and Maura Donovan of DHS for providing information on program costs.

The views expressed in this report are those of the authors and do not necessarily represent the UCLA Center for Health Policy Research, the Regents of the University of California, or the funding agency.

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Executive Summary

The number of Californians who have no public or private health insurance coverage has grown to 7.3 million residents—24 percent of the nonelderly population—in 1998. Eight in 10 (82 percent) uninsured Californians are workers or their dependents, whose poor access to job-based insurance and low to moderate incomes place health insurance coverage out of reach. In the absence of voluntary decisions by employers to provide generous contributions for their employees' coverage, the most effective way to make health insurance affordable to uninsured working families is to expand eligibility in public health care programs.

In the past few years, California has expanded income eligibility, mainly for children, in Medi-Cal and the Healthy Families Program. The fiscal year 1999-2000 budget act expanded children's eligibility in the Healthy Families Program by raising the income limit to 250 percent of poverty, allowing deductions from income that are used in the Medi-Cal program, and providing one year of state funding to cover recent immigrant children. The budget act also modestly expanded Medi-Cal coverage for parents of eligible children.

This report estimates the number of uninsured parents and children who are eligible for Medi-Cal or Healthy Families coverage as a result of changes made under the 1999-2000 budget act—and the number who would become eligible for these programs under four different policy proposals to simplify and expand eligibility.

UNINSURED PARENTS ELIGIBLE FOR COVERAGE NOW AND UNDER NEW PROPOSALS

Following the 1999-2000 budget act, a total of 381,000 uninsured parents are eligible for Medi-Cal under the new policy—23 percent of all uninsured parents.[1] This number includes 204,000 uninsured parents who would have qualified for Medi-Cal prior to the passage of the 1999-2000 budget act, if they had applied. The budget act raised the income limit for parents from about 80 percent to 100 percent of the federal poverty level and relaxed the "100-hour work rule." These changes added 177,000 uninsured parents to eligibility for Medi-Cal.

Current legislative proposals would further expand parents' Medi-Cal eligibility by raising the income limit, eliminating the asset test and the 100-hour work rule, and permitting income deductions to be used by applicants to reduce their countable income. We estimated the number of eligibles under two different income eligibility options:

[1] In the Executive Summary, we provide a single number ("point estimate") of uninsured persons who would be eligible under each policy provision. In the body of the report, we provide "range estimates": upper and lower bound estimates. The reader can have a greater degree of confidence in the range estimates than in the point estimates.

- **If income limits were raised to 150 percent of the federal poverty level, income deductions were allowed, and eligibility were simplified, an additional 207,000 uninsured parents would become eligible for Medi-Cal.** This would raise to 589,000 the total number of uninsured parents who would be eligible for public health insurance coverage—35 percent of all uninsured parents.

- If income limits were raised to 200 percent of the federal poverty level, current income deductions were allowed, and eligibility were simplified as above, 395,000 uninsured parents would be newly eligible for Medi-Cal. This would raise to 777,000 the total number of uninsured parents who would be eligible for coverage—46 percent of all uninsured parents.

In addition to eliminating the 100-hour rule and asset test, some policy makers have proposed a further simplification of eligibility by eliminating income deductions and compensating for this elimination by raising the income eligibility higher. We estimated the number of eligibles under two different income eligibility options:

- **If income limits were raised to 250 percent of the federal poverty level and eligibility were simplified as above, approximately 482,000 uninsured parents would be newly eligible for Medi-Cal.** This would raise to approximately 864,000 the total number of uninsured parents who would qualify for public health insurance—51 percent of all uninsured parents.

- **If income limits were raised to 300 percent of the federal poverty level and eligibility were simplified as above, approximately 576,000 uninsured parents would be newly eligible for Medi-Cal.** This would raise to 958,000 the total number of uninsured parents who would be eligible for public health insurance—57 percent of all uninsured parents.

UNINSURED CHILDREN ELIGIBLE FOR COVERAGE NOW AND UNDER NEW PROPOSALS

Of the 2 million uninsured children in California, approximately 1.48 million are eligible for Medi-Cal or Healthy Families coverage following enactment of the 1999-2000 budget act. The budget act expanded children's eligibility for the Healthy Families Program by raising the income limit to 250 percent of poverty and allowing applicants to use the same income deductions permitted in the Medi-Cal program. A total of 639,000 uninsured children are eligible for Healthy Families, including approximately 215,000 added by the 1999-2000 budget act. In addition, approximately 838,000 uninsured children are currently eligible for Medi-Cal but not enrolled in the program.

Legislative proposals would raise income eligibility for a new, integrated and simplified Medi-Cal and Healthy Families program to 300 percent of poverty, beyond the current Healthy Families income limit of 250 percent for children. **If eligibility were simplified and the income limit were raised to 300 percent of poverty, as has been proposed, an additional 79,000 uninsured children would become eligible.** This proposal

would bring the total number of children eligible for coverage up to 1.6 million, or 77 percent of uninsured children.

PARTICIPATION UNDER CURRENT AND PROPOSED POLICIES

Increased eligibility will expand health insurance coverage only to the extent that eligible persons actually enroll and participate in the program. We estimate the numbers of uninsured eligible persons who would enroll in these public programs, based on historical participation rates and assumptions about the effects of efforts to simplify the application process.

Approximately 66,000 currently uninsured parents would enroll in Medi-Cal in the first year of implementation of the 1999-2000 budget act, based on a participation rate of 75 percent of all eligible persons enrolled in the program. As the program progressed to 80 percent participation, an estimated 129,000 currently uninsured persons would enroll. With 90 percent participation, 255,000 currently uninsured persons would enroll. This potential increase in participation is contingent upon improvements in and simplifications of the eligibility process as well as effective outreach through public agencies and community-based organizations, churches, and schools.

If the state raised parents' income limits to 250 percent of poverty, as the Legislative Analyst's Office recommends, and participation rates reached 75 percent, approximately 428,000 new parents would enroll in Medi-Cal. After the initial phase-in period, if participation rates reached 80 to 90 percent, 515,000 to 690,000 currently uninsured parents would participate in the Medi-Cal program.

The budget act expanded Healthy Families eligibility for children up to 250 percent of poverty. **If the participation rate in the Healthy Families Program reached 75 percent—**a substantial jump from the current participation rate of only 42 percent**—334,000 currently uninsured children would enroll under the 1999-2000 budget act.** If outreach activities were extraordinarily successful and program participation increased to 90 percent, 444,000 uninsured children would participate.

If California enacted a proposal to increase both children's and parents' income eligibility to 300 percent of poverty under a new program combining Healthy Families and Medi-Cal, and the participation rate in the first year reached 75 percent, 613,000 uninsured eligible children and 499,000 uninsured eligible parents would enroll. As the program developed and outreach efforts improved, between 801,000 (at 80 percent participation) and 1,179,000 (at 90 percent participation) uninsured children and between 590,000 (at 80 percent participation) and 774,000 (at 90 percent participation) uninsured parents would enroll.

ESTIMATED COSTS OF EXPANDING COVERAGE

The federal government provides substantial funding for both Medi-Cal and the Healthy Families Program. Every dollar that the state spends on parents' coverage is matched

with one dollar by the federal government. The federal government pays one dollar for every dollar the state spends for most children in the Medi-Cal program and two dollars for every dollar the state spends for some children in Medi-Cal and for all children in the Healthy Families Program.

Effects of the 1999-2000 Budget Act

Under the provisions of the 1999-2000 budget act, if 75 percent of all currently eligible parents enrolled in the Medi-Cal program—including 66,000 currently uninsured parents added to eligibility by the budget act—the state would spend $31 million more from its General Fund than prior to this expansion. This would be matched by an equivalent amount in federal funds. If the participation rate reached 90 percent of eligible parents—including 255,000 currently uninsured—the state share would be $121 million than before this expansion, with an equivalent federal match.

If the Healthy Families program under its current provisions achieved a participation rate of 75 percent, with a total of 334,000 children enrolled, the state would spend $107 million from its General Fund and the federal government would contribute $214 million in matching funds. If Healthy Families participation reached 90 percent, with a total of 444,000 currently uninsured children enrolled, the state share would be $142 million, and the federal share, $284 million.

In sum, if 75 percent of all eligible children and parents participated in Medi-Cal and Healthy Families under the expanded provisions of the 1999-2000 budget act, it would cost California approximately $138 million a year more than it currently spends. The state cost at 90 percent participation rate would be approximately $263 million annually above current spending.

Effects of Expanding and Simplifying Eligibility

If Medi-Cal income eligibility for parents were raised to 250 percent of poverty and if 75 percent of all eligible parents participated in the program—including 428,000 who are currently uninsured—the state would spend $173 million more from its General Fund, and receive an equivalent increased amount in federal matching funds, than it would under current eligibility policies. If the participation rate reached 90 percent of eligible parents—including 690,000 currently uninsured parents—the increased state cost would be $208 million more than under current policies, again with an equivalent increase in the federal contribution.

If eligibility for children and parents were raised to 300 percent of poverty and participation rates reached 75 percent for both children and parents—including 613,000 currently uninsured children and 499,000 currently uninsured parents—the state General Fund cost would reach $223 million and the federal match, $238 million. If the participation rate reached 90 percent of eligible children and parents—including 1,179,000 currently uninsured children and 774,000 currently uninsured parents—the state share would be $343 million and the federal match, $437 million.

Introduction

The number of Californians who have no public or private health insurance coverage has continued to grow—from 6.5 million residents in 1995 to 7.3 million in 1998. One in four (24 percent) nonelderly Californians is uninsured, giving the state the third highest uninsured rate, compared to an average of 17 percent among other states. California now ranks last among the 50 states and the District of Columbia in its proportion of nonelderly residents with employment-based health insurance coverage: 58 percent in California compared with an average of 69 percent in the rest of the nation.

Most of California's recent growth in uninsured residents is due to falling Medi-Cal coverage, a result of the 1996 welfare reforms and a trend found in other states' Medicaid programs. Welfare reform legislation and its implementation restricted eligibility for noncitizens and discouraged many citizens and noncitizens alike from enrolling in Medi-Cal. Moreover, as Californians left the Medi-Cal rolls, many were unable to obtain employment-based health insurance.

The uninsured are overwhelmingly a working population—82 percent are workers or their dependents—but poor access to job-based insurance combined with low and moderate incomes places health insurance coverage out of the reach of many working families. One of the main barriers to Californians obtaining job-based insurance is that one in five California employees works for an employer that does not provide health benefits to any employees. In addition, many low-wage employees who work for employers that do offer health benefits cannot afford the employee's share of the cost.[2] As a result of these factors, the proportion of nonelderly Californians who receive health insurance through their own employment or that of a family member increased slightly, but not significantly, during the latter 1990s, despite unprecedented growth in the economy and employment.

California has removed some of the barriers to coverage in the private health insurance market by prohibiting discriminatory marketing practices such as exclusionary underwriting practices targeted at individuals and medium-sized businesses. However, 69 percent of uninsured Californians have family incomes below 200 percent of federal poverty guidelines (that is, less than $22,500 for a family of two or less than $28,300 for a family of three).[3] Another 16 percent have family incomes between 200 and 300 percent of the poverty

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[2] Brown ER, Rice T, "Employees' Access to Job-Based Insurance," in Schauffler HH, Brown ER, et al., *The State of Health Insurance in California, 1998*, Berkeley and Los Angeles: Health Insurance Policy Program, January 1999. This report is available through the Center's web site: http://www.healthpolicy.ucla.edu/.

[3] In 1999, the poverty level in the guidelines was $8,350 for a family of one, $11,250 for a family of two, $14,150 for a family of three, and $17,050 for a family of four, etc. The federal poverty guidelines are used for administrative purposes to determine eligibility for certain federally funded programs. See *Federal Register*, 65: Feb. 15, 2000, pp. 7555-7557. See also http://aspe.hhs.gov/poverty/00poverty.htm.

guidelines. These low- and moderate-income adults and children would be unlikely to find affordable family coverage in the private health insurance market. Without a substantial employer contribution or a public subsidy, they are likely to remain uninsured.

The voluntary system of employment-based health insurance limits states' options to encourage employers to offer coverage. Tax credits have been found to be inefficient and ineffective methods of inducing employers to do so,[4] and federal law precludes states from requiring employers to provide their workers with health benefits.[5] In the absence of voluntary decisions by employers to provide generous contributions for their employees' coverage, the most effective way to make health insurance affordable to uninsured working families is to expand eligibility in public health care programs.

Medi-Cal and the Healthy Families Program

Over the past several years, California has expanded income eligibility, mainly for children, in Medi-Cal and the Healthy Families Program. In 1997, the California Legislature and Governor Pete Wilson—with generous matching funds from the federal State Children's Health Insurance Program (CHIP)—increased children's income eligibility in Medi-Cal and created the new Healthy Families Program. These expanded programs offered coverage to children who are citizens or legally resident noncitizens with family incomes up to 200 percent of the federal poverty guidelines.

In 1999, the Legislature and Governor Gray Davis expanded eligibility for children and their parents. The fiscal year 1999-2000 budget act and the budget trailer bill (AB 1107, Chapter 146, Statute 1999) enhanced eligibility for children in the Healthy Families Program by raising the income limit to 250 percent of poverty, allowing deductions from income that are used in the Medi-Cal program, and providing one year of state funding to cover recent immigrant children. Previously, children who immigrated to the United States after August 22, 1996 were excluded from the Healthy Families Program, although not from Medi-Cal.

In addition, the budget act expanded Medi-Cal coverage for parents. It raised the income eligibility limit to 100 percent of poverty for individuals who would qualify under Section 1931(b),[6] and modified the "100-hour rule" for medically needy families and 1931(b)

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[4] *Are Employer Tax Credits the Most Effect Way to Expand Health Coverage for California's Uninsured?* Sacramento, CA: California Budget Project, May 2000.

[5] Butler P, *ERISA Preemption Primer*. Washington, DC: The Alpha Center and the National Academy for State Health Policy, 2000.

[6] Section 1931(b) of the Social Security Act was established by the federal welfare reform legislation in 1996. It requires states to include in Medicaid eligibility anyone who would have been eligible under the previous AFDC eligibility requirements, and it allows states to expand Medicaid eligibility for low-income families by adopting income and asset limits that are more generous than the old AFDC levels.

applicants.[7] These changes took effect on March 1, 2000. Finally, the budget act required the state to develop a simplified mail-in application for all beneficiaries. Together, the Medi-Cal and Healthy Families programs now offer the potential to cover nearly 1.5 million uninsured children—three-fourths of the state's 2 million uninsured children.

There are fewer options, however, for the 5.3 million uninsured nonelderly adults in California. Federally subsidized Medi-Cal coverage is available only to nonelderly adults who are disabled, pregnant, or in families with dependent children. In addition, income eligibility for adults has been very restricted. However, the continuing growth in California's uninsured population has focused more attention on ways to expand adults' eligibility in public programs.

One simple way for California to increase coverage options for adults is to expand Medi-Cal eligibility for parents who have children enrolled in or eligible for Medi-Cal or Healthy Families. This strategy has been incorporated into many legislative and budget proposals.

Estimating the Impact of the 1999 and Proposed Reforms

This report estimates the number of uninsured parents and children who are eligible for Medi-Cal or Healthy Families coverage as a result of changes in eligibility made under the 1999-2000 budget act. In addition, this report estimates how many parents and children would become eligible for public health insurance coverage under four different policy proposals to simplify and expand eligibility.

We have developed separate estimates for the number of persons who are now eligible since the passage of the budget act, and the number who would be eligible if income eligibility for adults were raised to 150 percent, 200 percent, 250 percent, or to 300 percent of the federal poverty level. Because not everyone who is eligible would enroll in the program, the report also presents a range of possible participation rates given the proposed changes, and cost estimates given those participation rates.

Source of Data

The UCLA Center for Health Policy Research regularly publishes and updates estimates of health insurance coverage of California residents. These estimates are used to

[7] Adults in two-parent families were previously eligible for Medi-Cal only when the primary wage earner was unemployed (defined as working less than 100 hours per month) or at least one spouse was disabled. This "100-hour rule" could make working parents ineligible, regardless of how poor they were. Under the 1999-2000 budget act, the 100-hour rule was not eliminated, but was modified to apply only to applicants who earn more than 100 percent of poverty. Because the upper income limit is 100 percent of poverty, it was hoped that the rule would be effectively eliminated. The administrative rules for implementation, however, have excluded some families with countable income below 100 percent of poverty.

track the number of persons who are uninsured and those who are covered by private health insurance or public programs.

The Center also develops estimates of uninsured children who are eligible for Medi-Cal or the Healthy Families Program. Like the most recent of those estimates,[8] ones developed for this report use data from the March 1999 Current Population Survey (CPS), the most recent data available on health insurance at the state level. These estimates are based on complex analyses that match demographic, employment, and income data in the CPS to the eligibility requirements for each specific program.

We provide "point estimates" of uninsured persons who would be eligible under different policy provisions: a specific number of persons who are estimated to be eligible. In addition, we provide "range estimates": upper and lower bound numbers, within which one would find the "true" number 95 percent of the time. We recommend that the reader rely on the "range estimates" because the relatively small sample sizes on which these estimates are based generate greater sampling variation and error than if larger samples were available. For additional information on the methods used in this study, please see Appendix B.

[8] Brown ER, Ponce N, Teleki S, "Health Insurance Coverage of Californians," in Schauffler HH, Brown ER, et al., *The State of Health Insurance in California, 1999*, Berkeley and Los Angeles: Health Insurance Policy Program, January 2000. This report may be accessed through the Center's web site: http://www.healthpolicy.ucla.edu/.

Uninsured Parents and Their Eligibility for Public Health Insurance

Among California's 5.3 million uninsured adults, one-third—a total of 1,681,000—are parents, ages 19 to 64, in families with children. Of these 1.7 million uninsured parents, 90 percent are working or in a family with another working adult. These adults have very limited options for public coverage if their employers do not offer it or if they cannot afford the costs of an employer's health plan. Not included in this group are an estimated 78,000 pregnant women who are uninsured despite fairly generous eligibility provisions for their coverage.

In this section, we estimate how many parents were eligible for Medi-Cal under the rules in effect in 1999 and how many were added by the fiscal year 1999-2000 budget act. In addition, we estimate the number who would be eligible if public health insurance programs were further expanded under various policy proposals. We focus on parents and exclude pregnant women from our analysis because pregnant women, regardless of immigration status, currently are eligible up to 300 percent of the federal poverty level for pregnancy-related services under the Medi-Cal and Access for Infants and Mothers (AIM) programs.[9]

How many uninsured parents were eligible for Medi-Cal prior to the implementation of the 1999-2000 budget act?

We estimate that 204,000 uninsured parents (range: 150,000–259,000) were eligible for no-share-of-cost Medi-Cal under the eligibility requirements in place prior to the passage of the 1999-2000 budget and trailer bills. These are persons who are uninsured and not enrolled in Medi-Cal, but who, we estimate, would qualify if they applied.

These estimates include the following groups of uninsured persons:

- Adult parents who are eligible for, but not enrolled in, Medi-Cal under the section 1931(b) family coverage provisions; and
- Adult parents who are eligible for, but not enrolled in, Medi-Cal under the Medically Needy family coverage provisions with no share of cost.

Because of data limitations, the estimates do not include some uninsured persons who may be eligible under other programs. These groups are described in Appendix B.

[9] Pregnant women are eligible for Medi-Cal up to 200 percent of the federal poverty level. Women with incomes between 200 and 300 percent of poverty are eligible for the AIM program, provided they enroll within the first 30 weeks of pregnancy.

How many uninsured parents were added to eligibility by the 1999-2000 budget act?

The budget act modestly expanded Medi-Cal eligibility for low-income parents. It raised the income limit for parents from about 80 percent to 100 percent of poverty and relaxed the "100-hour work rule." The eligibility of pregnant women was not affected because they were already eligible through Medi-Cal or the AIM program up to 300 percent of poverty. As a result, 177,000 uninsured parents (range: 127,000–228,000) who were not previously eligible are now eligible for Medi-Cal (see Exhibit 1). Virtually all of them are in a family where at least one adult works. Including both newly eligible and previously eligible persons, a total of 381,000 uninsured parents (307,000–446,000) could be covered by Medi-Cal under the new policy—23 percent of all uninsured parents.

Exhibit 1: Impact of Fiscal Year 1999-2000 Budget Act on Medi-Cal Eligibility for Uninsured Parents

Policy Change	Uninsured Parents Added to Eligibility	Total Number of Eligible Uninsured Parents*	Percent of All Uninsured Parents Now Eligible
Raised income eligibility to 100% FPL and altered the 100-hour rule	**177,000** (range: 127,000 to 228,000)	**381,000**	**23%**

* This includes 204,000 uninsured parents (range: 150,000–259,000) who were already eligible for Medi-Cal before the passage of the 1999-2000 budget act. Pregnant women are not included in these estimates.

How many uninsured parents, not currently eligible for Medi-Cal, would be if eligibility were simplified and the income limit were raised to 150 percent or 200 percent of the federal poverty level?

Proposed legislation would simplify eligibility and expand coverage to uninsured parents who are not currently eligible for Medi-Cal. Legislative proposals would eliminate the asset test, which now severely limits the amount of personal assets that a family may have in order to qualify for Medi-Cal.[10] Proposed legislation would also completely eliminate the 100-hour rule, raise income eligibility, and permit current income deductions to be used by applicants to reduce their countable income.[11] Several different income limits have been

[10] Parents applying for Medi-Cal are not eligible if they possess assets valued at more than the allowable limit. The asset limit varies by family size. For instance, a family of four can have no more than $3,300 in assets and still qualify for Medi-Cal. The 1999-2000 budget act set the income limit for parents at 100 percent of poverty. Individuals with incomes this low rarely accumulate assets over the Medi-Cal limits. Eliminating the asset test is not likely to expand eligibility, but would reduce administrative costs, resulting in overall savings.

[11] Currently, families applying for Medi-Cal and Healthy Families may deduct from their countable

proposed, including 150 percent and 200 percent of the federal poverty level. We estimated the number of uninsured parents who are not currently eligible for public health insurance coverage but would be if:

(a) the 100-hour work rule and asset test were eliminated,

(b) income eligibility were raised to 150 percent or 200 percent of the federal poverty guidelines, and

(c) income deductions currently allowed were retained at the current "applicant" levels.

All of these newly eligible persons must be citizens or legal immigrants. Again, we exclude pregnant women from these estimates because they are already eligible for public health care insurance up to 300 percent of poverty.

Option 1: Raise the income limit to 150 percent of poverty

We estimate that 207,000 uninsured parents who are not currently eligible for Medi-Cal (range: 152,000-262,000) would be added to eligibility if the income limits were raised to 150 percent of the federal poverty level, income deductions were allowed, and eligibility were simplified as proposed (Exhibit 2). Ninety-two percent are working or live in a family with another working adult. The addition of these parents to eligibility would raise to 589,000 (range: 496,000-681,000) the total number of uninsured parents who would be eligible for Medi-Cal—35 percent of all uninsured parents.

Option 2: Raise the income limit to 200 percent of poverty

We estimate that 395,000 uninsured parents who are not currently eligible for Medi-Cal (range: 320,000–471,000) would be eligible if the income limits were raised to 200 percent of the federal poverty level, current income deductions were allowed, and eligibility were simplified as above (Exhibit 2). Ninety-six percent are working or live in a family with another working adult. Adding these parents to eligibility would raise to 777,000 (range: 671,000-883,000) the total number of uninsured parents who would be eligible for coverage—46 percent of all uninsured parents.

income a portion of the child support or alimony they receive, student assistance for college, court-ordered child support or alimony they pay, and, if they are working, childcare and work related expenses. These deductions may enable some persons to qualify even though their gross income is above the established eligibility level. Individuals who are currently receiving Medi-Cal ("recipients") have different eligibility requirements than those who are initially applying ("applicants"). For instance, recipients benefit from a more generous work expense deduction that allows them to earn more money and still qualify.

Exhibit 2: Impact of Four Proposed Policy Options on Medi-Cal Eligibility for Uninsured Parents*

Proposed Policy Change	Uninsured Parents Added to Eligibility	Total Number of Eligible Uninsured Parents**	Percent of All Uninsured Parents Who Would Be Eligible
If the asset test and 100 hour rule were eliminated, and income eligibility were raised to:			
150% FPL	**207,000** (range: 152,000 to 262,000)	**589,000**	**35%**
200% FPL	**395,000** (range: 320,000 to 471,000)	**777,000**	**46%**
If the 100-hour rule, income deductions and the asset test were eliminated, and income eligibility were raised to:			
250% FPL	**482,000** (range: 399,000 to 566,000)	**864,000**	**51%**
300% FPL	**576,000** (range: 485,000 to 668,000)	**958,000**	**57%**

* These estimates do not include pregnant women, who are already eligible up to 300 percent of poverty.
** Includes 381,000 parents who are already eligible under existing policy, but are uninsured.

How many uninsured parents, not currently eligible for Medi-Cal, would be if eligibility were further simplified, and if income limits were raised to 250 percent or 300 percent of the federal poverty level?

In addition to eliminating the 100-hour rule and asset test, some policy makers have proposed a further simplification of eligibility by eliminating income deductions. Income deductions reduce applicants' countable income and thus enable more people to qualify for the program, but they require applicants to provide more information and increase the complexity of eligibility determination. The proposals to eliminate income deductions would therefore be offset by raising the income eligibility limit. Income limits of 250 percent and 300 percent of the federal poverty level have been proposed. An increase in income eligibility and a minimization of the application burden would likely result in a higher rate of program participation, both by newly eligible individuals and by individuals who were eligible under

the old policy but who never enrolled. We estimated the number of uninsured parents who are not currently eligible for Medi-Cal but would be if:

(a) the 100-hour work rule and asset test were eliminated,

(b) income eligibility were raised to 250 percent or 300 percent of the federal poverty guidelines, and

(c) income deductions currently allowed were eliminated.

As with the previous estimates, all of these newly eligible persons must be citizens or legal immigrants.

Option 3: Raise the income limit to 250 percent of poverty

We estimate that 482,000 uninsured parents who are not currently eligible for Medi-Cal (range: 399,000–566,000) would be eligible if the income limits were raised to 250 percent of the federal poverty level and eligibility were simplified as proposed (Exhibit 2). Ninety-six percent are working or live in a family with another working adult. The addition of these parents to eligibility would raise to 864,000 (range: 752,000-976,000) the total number of uninsured parents who would be eligible for coverage—51 percent of all uninsured parents.

Option 4: Raise the income limit to 300 percent of poverty

We estimate that 576,000 uninsured parents who are not currently eligible for Medi-Cal (range: 485,000–668,000) would be eligible if the income limits were raised to 300 percent of the federal poverty level and eligibility were simplified as above (Exhibit 2). Ninety-six percent are working or live in a working family. The addition of these parents would raise to 958,000 (range: 840,000-1,076,000) the total number of uninsured parents who would be eligible for Medi-Cal—57 percent of all uninsured parents.

Uninsured Children and Their Eligibility for Public Health Insurance

In addition to estimating adult eligibility under the new budget and four proposed policy options, we estimate children's eligibility under expanded eligibility options. Because children are currently eligible up to 250 percent of the federal poverty guidelines, we focus most of this analysis on policies that would raise income eligibility above these levels.

California's uninsured population includes 2,025,000 children through age 18.[12] Eighty-two percent of the state's uninsured children are in families with at least one working adult.

How many uninsured children are eligible for Medi-Cal or Healthy Families after enactment of the 1999-2000 budget act?

Approximately 1.48 million uninsured children are eligible for coverage through either Medi-Cal or Healthy Families—three-fourths of the state's total number of uninsured children. These eligible children include an estimated 838,000 who are currently eligible for Medi-Cal, but are not enrolled in the program. In addition, 639,000 are eligible for Healthy Families, including 424,000 children who were eligible under the policy provisions in effect prior to the implementation of the 1999-2000 budget act.

The 1999-2000 budget act added approximately 215,000 uninsured children (range: 160,000-272,000) to eligibility for Healthy Families by raising the income eligibility limit to 250 percent of poverty and allowing applicants to use the same income deductions that are permitted in the Medi-Cal program (Exhibit 3). (The budget act did not change children's eligibility for Medi-Cal.) Virtually all of these children are in families in which at least one parent works.

Exhibit 3: Impact of the Fiscal Year 1999-2000 Budget Act on Healthy Families Eligibility for Uninsured Children

Policy Change	Uninsured Children Added to Eligibility	Total Number of Eligible Uninsured Children*	Percent of All Uninsured Children Now Eligible
Raised eligibility to 250% FPL, allowing income deductions	**215,000** (range: 160,000 to 272,000)	1,477,000	73%

* This includes 1,262,000 uninsured children who were already eligible for Medi-Cal or Healthy Families prior to the passage of the 1999-2000 budget act

[12] This estimate is based on the most recent data available, from the March 1999 Current Population Survey.

How many uninsured children, not currently eligible for public health insurance, would be if eligibility were simplified and the income limit were raised to 300 percent of poverty?

The eligibility requirements for children in the Healthy Families and Medi-Cal programs are far more generous than the Medi-Cal eligibility requirements for adults. Changes to the 100-hour work rule did not affect children's eligibility, because it did not apply to children's programs. The proposed legislation to raise income limits for family coverage to 150 percent, 200 percent, and 250 percent of poverty would not increase the number of children eligible for public health insurance coverage. Children in families that earn up to 250 percent of poverty are already eligible for the Healthy Families program.

Raising the Medi-Cal income limit to 250 percent of poverty or above would integrate the Healthy Families and Medi-Cal program into a *new* unified program. Integration would be a significant advantage because it would reduce fragmentation that families now face. Some families have one child eligible for Healthy Families, another for Medi-Cal, a pregnant mother eligible for AIM, and a father not eligible for any coverage. Integration would also reduce administrative complexity and expense, permitting more of the state's funds to help pay for coverage.[13]

The most generous of the proposed policies considered in this report would raise income eligibility for the new, integrated program to 300 percent of poverty, beyond the current Healthy Families income limit of 250 percent for children, and would increase the number of children eligible for coverage. If the income limits for a new program were raised to 300 percent of poverty, an additional 79,000 uninsured children would be added to eligibility (range: 45,000-113,000), bringing the total number of children eligible for coverage up to 1.6 million, or 77 percent of uninsured children (Exhibit 4). Of these children, 97 percent would be from working families.

Exhibit 4: Impact of Proposed Policy on Uninsured Children's Eligibility for a New Integrated Program

Proposed Policy Change	Uninsured Children Added to Eligibility	Total Number of Eligible Uninsured Children*	Percent of All Uninsured Children Who Would be Eligible
Raise income eligibility to 300% FPL with no income deductions	79,000 (range: 45,000 to 113,000)	1,556,000	77%

* This includes 1,477,000 uninsured children who are currently eligible for Medi-Cal or Healthy Families.

[13] Brown ER, "Building a System of Affordable Coverage for All Californians," in *Expansion of Health Care to the Working Poor*, Berkeley, CA: California Policy Research Center, 1999, pp. 77-94.

How Much Would These Expansions and Simplifications Cost?

By raising income limits and eliminating the 100-hour rule, eligibility could be expanded to include more adults and children. A trio of bills introduced into the 1999 legislative session by leaders in the California Assembly—AB 43 (authored by Assembly-member Antonio Villaraigosa), AB 93 (Assemblymember Gilbert Cedillo), and AB 1015 (Assemblymember Martin Gallegos)—would also streamline the application process for families. They would eliminate the asset test, replace specific income deductions with a higher income eligibility, eliminate the required local welfare office review, and grant automatic eligibility to persons who are enrolled in the federal WIC, Head Start, School Lunch, or Food Stamps programs. Such simplifications would reduce current barriers to participation in Medi-Cal and Healthy Families and thus increase the proportion of eligible persons who participate.

Eligible and Enrolled: Participation Rates in Medi-Cal and Healthy Families

We assume that not every eligible person would enroll in the Medi-Cal and Healthy Families programs even under these improved conditions. Actual participation rates would be influenced by several factors, including the eligible population's knowledge of the program, any provisions granting automatic eligibility, whether recertification is required annually or quarterly, other program design features, the availability of employer-sponsored coverage, the cost of job-based coverage if it is available, and other factors.

About 80 percent of eligible parents currently participate in Medi-Cal.[14] In addition, about 70 percent of eligible children enroll in Medi-Cal. The participation rate for Healthy Families is much lower, at about 40 percent. The Legislative Analyst's Office (LAO) developed a program model with many features that were in some ways similar to policies modeled here.[15] For this program model, the LAO estimated that 80 percent or 90 percent of eligible children who would otherwise be uninsured would participate in the program, and that 100 percent of parents whose children enroll would themselves enroll.

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[14] We calculate the participation rate as the number of eligible persons enrolled in the program divided by the sum of eligible persons enrolled and eligible persons who are not enrolled and are uninsured.

[15] Rabovsky D, *A Model for Health Coverage of Low-Income Families*, Sacramento, CA: Legislative Analyst's Office, June 1, 1999. The LAO model is a waiver program that features anti-crowd-out provisions including premiums, blackout periods, and buy-ins. Eligibility is determined using a simple gross income test without the complications of " Sneeding is an eligibility process that came out of *Sneed vs. Kizer*. It enables eligibility workers to divide certain families into mini budget units when determining eligibility if the family is not eligible when considered as a whole. Eliminating Sneeding excludes some families with incomes over 250 percent of poverty who would have had subfamilies qualify under the usual Medi-Cal financial responsibility and Sneeding rules.

It is unlikely that participation rates for newly eligible individuals will reach 80 percent immediately after program implementation. It is difficult to make system changes quickly, and it takes time to do outreach and education before eligible persons understand the changes and enroll in the program. Participation rates are likely to be initially low and gradually increase to 75, 80, or even 90 percent as implementation improves, eligible persons learn about the program, and any glitches in the program are corrected. The Healthy Families program in California is a clear example of this process. Nearly two years into implementation, program participation is only about 40 percent. Because no one knows what the true participation rate would be once programs get into full swing, we applied alternative participation rates of 75, 80 and 90 percent to all persons who would be Medi-Cal or Healthy Families eligible and who would otherwise be uninsured.

The May revision of Governor Davis' FY 2000-01 budget proposes to eliminate quarterly status reporting requirements for parents and children enrolled in Medi-Cal. Currently, many families drop off the rolls because they fail to complete the complicated quarterly recertification, even when they still qualify. This reduces program participation. The Legislative Analyst's Office estimates that replacing quarterly recertification with an annual recertification process would increase program participation by about 17 percent among children who are eligible based solely on income.[16]

Expected participation by parents

The 1999-2000 budget act, passed by the Legislature, expanded Medi-Cal eligibility for parents to 100 percent of poverty and, for families up to the poverty level, relaxed the 100-hour rule. This legislation increased the number of uninsured parents eligible for Medi-Cal by 177,000, bringing to 381,000 the total number of uninsured parents eligible for the program. About 880,000 parents are already enrolled in Medi-Cal.[17] After the first year of implementation, if 75 percent of eligible persons participate in the program, about 66,000 currently uninsured parents would enroll in Medi-Cal (Exhibit 5). As the program progresses, we estimate that between 129,000 and 255,000 currently uninsured persons would enroll (80 percent and 90 percent participation rates, respectively). This potential increase in participation is contingent upon improvements in and simplifications of the eligibility process as well as effective outreach through public agencies and community-based organizations, churches, and schools. Increasing income eligibility above 100 percent of poverty would increase further the number of individuals who would enroll, as shown in Exhibit 6.

[16] Personnel correspondence from Dan Rabovsky, of the Legislative Analyst's Office, May 19, 2000.

[17] This estimate is based on the Current Population Survey; estimates based on Medi-Cal administrative data would be somewhat higher.

Exhibit 5: Estimated Program Participation for Uninsured Parents Eligible for Medi-Cal Under the Fiscal Year 1999-2000 Budget Act*

Uninsured Parents Who Would Enroll At Program Participation Rates of:		
75%	**80%**	**90%**
66,000	129,000	255,000

* Includes uninsured parents who would be *added* to eligibility by the proposed policy, and uninsured parents who are *currently* eligible under existing policy. In addition, about 880,000 parents are already enrolled in Medi-Cal. For an explanation of how program participation rates are computed, see Appendix B.

If the state raises parents' income limits to 250 percent of poverty, as the LAO recommends, we estimate that 482,000 uninsured low-income parents would be added to eligibility, bringing the total number of uninsured eligibles to 864,000. After the start up years, if participation rates reach 75 percent, we estimate that about 428,000 new parents would participate. Once the program gains speed, if participation rates reach 80 to 90 percent, 515,000 to 690,000 currently uninsured parents would participate in the Medi-Cal program (see Exhibit 6).[18] Of course, smaller numbers of parents would enroll if income eligibility were raised to only 150 or 200 percent of poverty, as shown in Exhibit 6.

If California raises income eligibility to 300 percent of poverty, 576,000 uninsured parents who are not currently eligible for Medi-Cal would become eligible for coverage, for a total of 958,000 eligible uninsured parents. After the first year, about 499,000 currently uninsured adults would enroll if program participation were 75 percent (Exhibit 6). As the program ramps up and participation increases, we estimate that between 590,000 and 774,000 (80 and 90 percent, respectively) uninsured adults would enroll.

[18] Rabovsky D, *A Model for Health Coverage of Low-Income Families*, Sacramento, CA: Legislative Analyst's Office, June 1, 1999. It should be noted that our estimates are different from those of the LAO, because the LAO used a different method to calculate participation rates.

Exhibit 6: Estimated Program Participation for Uninsured Parents Eligible for Medi-Cal Under Various Policy Options

Policy Change	Uninsured Parents* Who Would Enroll at Participation Rates of:		
	75%	80%	90%
If the asset test and 100-hour rule were eliminated, and income eligibility were raised to:			
150% FPL	222,000	295,000	442,000
200% FPL	363,000	446,000	611,000
If income deductions, the 100-hour rule, and asset tests were eliminated, and income eligibility were raised to:			
250% FPL	428,000	515,000	690,000
300% FPL	499,000	590,000	774,000

* Includes uninsured parents who would be added to eligibility by the proposed policy, and uninsured parents who are currently eligible under existing policy. In addition, about 880,000 parents are already enrolled in Medi-Cal. For an explanation of how program participation rates are computed, see Appendix B.

The budget act expanded Healthy Families eligibility for children up to 250 percent of poverty, allowing for income deductions like those allowed in the Medi-Cal program. These changes increased the number of uninsured children eligible for Healthy Families by 215,000, bringing the total number of uninsured eligible children to 639,000. As of May 1, 2000, somewhat more than 280,000 children were enrolled in Healthy Families. The budget act also allocated $21 million to improve outreach and increase enrollments in the Medi-Cal and Healthy Families programs. It seems reasonable to expect that a growing proportion of eligible children will enroll in these programs as these outreach efforts are fully implemented. If program participation rates increase to 75 percent, 334,000 uninsured children would participate in the Healthy Families Program. If outreach activities are extraordinarily successful and program participation increases to 90 percent, 444,000 uninsured children would participate (see Exhibit 7)—a dramatic increase over the current 40 percent program participation in Healthy Families.

Exhibit 7: Estimated Program Participation for Uninsured Children Eligible for Healthy Families Under the Fiscal Year 1999-2000 Budget Act*

Uninsured Children* Who Would Enroll at Participation Rates of:		
75%	**80%**	**90%**
334,000	371,000	444,000

* Includes uninsured children who are newly eligible, and uninsured children who were already eligible for Healthy Families under the old policies. The estimates in this table do not include children currently enrolled in Healthy Families. For an explanation of how program participation rates are computed, see Appendix B.

If California enacts a proposal to increase income eligibility to 300 percent of poverty, an additional 79,000 uninsured children would become eligible for coverage under a new program combining Healthy Families and Medi-Cal, for a total of 1,556,000 uninsured eligible children. After the start up years, about 613,000 of these children would enroll in the program if the participation rate reached 75 percent (Exhibit 8). Again, as the program developed and outreach efforts improved, we estimate that between 801,000 and 1,179,000 (80 percent and 90 percent participation, respectively) uninsured children would enroll.

Exhibit 8: Estimated Program Participation for Uninsured Children Eligible for a Proposed Integrated Program

Policy Change	Uninsured Children* Who Would Enroll at Participation Rates of:		
	75%	**80%**	**90%**
If eligibility were simplified and the income limit were raised to 300% of poverty	613,000	801,000	1,179,000

* Includes uninsured children who would be newly eligible, and uninsured children who are already eligible for Healthy Families or Medi-Cal under existing policies, but not enrolled in the programs. The estimates in this table do not include children currently enrolled in Medi-Cal or Healthy Families. For an explanation of how program participation rates are computed, see Appendix B.

Estimating Costs of New Participants

Expanding income eligibility for the Medi-Cal and Healthy Families programs will result in increased program enrollment. Simplifying the eligibility process will likely result in greater participation by persons who were previously eligible, but not enrolled. Increased enrollment will result in additional costs to the state.

The LAO and the state Department of Health Services each produce estimates of the average treatment cost for persons on Medi-Cal, with separate cost estimates for parents and children. Based on LAO cost figures, we developed estimates of the cost of expanding Medi-Cal and simplifying eligibility under the existing policy and four proposed policy options.

Using our eligibility estimates and participation rates, and the projected cost data from the Department of Health Services and the Managed Risk Medical Insurance Board (MRMIB), we were able to estimate the fiscal impact of the budget act and the four expansion proposals. We provide cost estimates based on program participation rates of 75 and 90 percent. We do not estimate any additional costs that may be incurred should currently insured individuals drop private health coverage in order to enroll in Medi-Cal ("crowd-out"). A growing body of research suggests that crowd-out would not be a significant problem under the proposed expansions. (For a more detailed discussion of crowd-out, see Appendix A).

In addition to estimating the total cost of expanding the program, we estimated the federal match that California would receive by investing in the proposed expansions—a 2:1 federal match for eligibility expansions for children and a 1:1 match for eligibility expansions for parents.[19]

Estimated costs under the 1999-2000 budget act

The 1999-2000 budget act expanded eligibility for parents and children. If 75 percent of all eligible parents enroll in the Medi-Cal program—including 66,000 currently uninsured parents as well as those already covered by Medi-Cal—the state will spend an additional $31 million from its General Fund, matched by an equivalent amount in federal funds (Exhibit 9). If the participation rate reaches 90 percent of eligible parents—including 255,000 currently uninsured—the state share will be $121 million with an equivalent federal match.

Exhibit 9: Estimated Cost of Expanding and Simplifying Eligibility for Families Under the 1999-2000 Budget Act

Policy Change	75% Participation Rate §		90% Participation Rate §	
	State Costs	Federal Match	State Costs	Federal Match
Raised adult eligibility to 100% of poverty and modified 100-hour rule for parents*	$31 million	$31 million	$121 million	$121 million
Raised children's eligibility to 250% of poverty**	$107 million	$214 million	$142 million	$284 million

* State and federal costs for expanded eligibility and program participation of parents *beyond* those that were in effect prior to the FY 1999-2000 budget act.

** State and federal costs for expanded eligibility and program participation of children *beyond* those that were in effect prior to the FY 1999-2000 budget act.

§ For an explanation of how program participation rates are computed, see Appendix B.

[19] The federal match is limited for the small number of eligibles who recently immigrated to the United States—legal immigrants who entered the U.S. after August 22, 1996. See Appendix for more details.

If the Healthy Families program achieves a participation rate of 75 percent, enrolling 334,000 currently uninsured children, the state will spend $107 million from its General Fund and the federal government will contribute $214 million in matching funds (Exhibit 9). If Healthy Families participation reaches 90 percent, with a total of 444,000 currently uninsured children enrolled, the state share will be $142 million, and the federal share, $284 million.

Estimated costs if parents' eligibility were raised to 250 percent of poverty

If Medi-Cal income eligibility for parents were raised to 250 percent of poverty and if 75 percent of all eligible parents participate in the program—including 428,000 who are currently uninsured—the state will spend $173 million more from its General Fund, and receive an equivalent increased amount in federal matching funds, than it would under current eligibility policies (Exhibit 10). If the participation rate reaches 90 percent of eligible parents—including 690,000 currently uninsured parents—the increased state cost will be $208 million more than under current policies, again with an equivalent increase in the federal contribution. This proposal does not expand eligibility for children, but would integrate the Medi-Cal and Healthy Families programs into a new, combined family program.

Exhibit 10: Estimated Cost of Expanding and Simplifying Medi-Cal Eligibility for Families Under Various Policy Options

Policy Change	75% Participation Rate §		90% Participation Rate §	
	State Costs	Federal Match	State Costs	Federal Match
If the asset test and 100-hour rule were eliminated and the income limit were raised to:				
150% of poverty*	$75 million	$75 million	$90 million	$90 million
200% of poverty*	$142 million	$142 million	$170 million	$170 million
If the asset test, 100-hour rule, and income deductions were eliminated and the income limit were raised to:				
250% of poverty*	$173 million	$173 million	$208 million	$208 million
300% of poverty**	$223 million	$238 million	$343 million	$437 million

* State and federal costs for expanded eligibility and program participation of parents *beyond* those included in FY 1999-2000 budget act.

** State and federal costs for expanded eligibility and program participation of children and parents *beyond* those included in FY 1999-2000 budget act.

§ For an explanation of how program participation rates are computed, see Appendix B.

Estimated costs if children's and parents' eligibility were raised to 300 percent of poverty

The most generous of the proposed policies would raise eligibility for children and parents to 300 percent of poverty. Under this proposal, if participation rates reach 75 percent for both children and parents—including 613,000 currently uninsured children and 499,000 currently uninsured parents—the State General Fund cost will reach $223 million and the federal match, $238 million (Exhibit 10). If the participation rate reaches 90 percent of eligible children and parents—including 1,179,000 currently uninsured children and 774,000 currently uninsured parents—the state share will be $343 million and the federal match, $437 million.

Putting It All Together

The 1999-2000 Budget Act. The 1999-2000 budget act made modest progress toward extending eligibility to more uninsured families in California. First, the budget act increased income eligibility for children from 200 percent to 250 percent of the federal poverty guidelines, and it permitted children just above that level to qualify if newly allowed income deductions brought their countable incomes under 250 percent of poverty. Second, it increased income eligibility of parents to 100 percent of poverty and modified the 100-hour rule for working parents. This legislation added an estimated 215,000 uninsured children and 177,000 uninsured parents to Medi-Cal or Healthy Families eligibility. With these expansions, a total of 1,477,000 uninsured children and 381,000 uninsured parents now have an opportunity to obtain coverage—73 percent of all uninsured children and 23 percent of all uninsured parents.

However, not all eligible persons are likely to participate. Effective program implementation should result in 75 percent of all eligible children and parents participating (counting those who are currently enrolled as well as those who are currently uninsured but eligible to enroll). In that case, 334,000 currently uninsured children (16 percent of all uninsured children) and 66,000 currently uninsured parents (4 percent of all uninsured parents) would receive coverage through either Medi-Cal or Healthy Families—at a cost to California of approximately $138 million a year more than it currently spends (Exhibit 11). If participation rates rose to 90 percent of all eligible children and parents, then 444,000 currently uninsured children (16 percent of all uninsured children) and 255,000 currently uninsured parents (15 percent of all uninsured parents) would be covered—at an annual state cost of approximately $263 million above current spending.

Exhibit 11: Estimated Participation and State Costs for Uninsured Families Under the 1999-2000 Budget Act

75% Participation Rate			90% Participation Rate		
Number of Uninsured Children & Parents to Enroll	**Percent of All Uninsured Children and Parents**	**Cost to State General Fund ***	**Number of Uninsured Children & Parents to Enroll**	**Percent of All Uninsured Children & Parents**	**Cost to State General Fund ***
334,000 children 66,000 parents	16% of children 4% of parents	$138 million	444,000 children 255,000 parents	22% of children 15% of parents	$263 million

* State costs for expanded eligibility and program participation of children and adults *beyond* the pre-budget act expected expenditures. For an explanation of how program participation rates are computed, see Appendix B.

Raising Income Eligibility for Parents to 250 Percent of Poverty. Many proposals would provide opportunities for coverage to more low- and moderate-income families. One option, developed by the Legislative Analyst's Office, would raise income eligibility for parents to 250 percent of poverty—the same as for their children, but without income deductions. With this expanded eligibility, a total of 864,000 currently uninsured parents would be eligible—51 percent of all uninsured parents. This expansion for parents would not expand children's eligibility, but it would be likely to increase children's enrollment because more families would gain coverage for the entire family, simplifying the application process and increasing the incentives for families to apply.

If 75 percent of all eligible children and parents participate under these policies, then 428,000 currently uninsured parents and 334,000 currently uninsured children would receive coverage—25 percent of all uninsured parents and 16 percent of all uninsured children—at an annual cost to the state of approximately $173 million (Exhibit 12). If participation rates rose to 90 percent of all eligible children and parents, then 690,000 currently uninsured parents (41 percent of all uninsured parents) and 444,000 currently uninsured children (22 percent of all uninsured children) would be covered—at an annual state cost of approximately $208 million.

Exhibit 12: Estimated Participation and State Costs for Uninsured Families Under Proposed Policy Options

Policy Change	75% Participation§			90% Participation§		
If the asset test, 100-hour rule, and income deductions were eliminated and the income limit for families were set at:	**Number of Uninsured Children & Parents to Enroll**	**Percent of All Uninsured Children & Parents**	**Cost to State General Fund**	**Number of Uninsured Children & Parents to Enroll**	**Percent of All Uninsured Children & Parents**	**Cost to State General Fund**
250% of poverty	334,000 children 428,000 parents	16% of children 25% of parents	$173 million *	444,000 children 690,000 parents	22% of children 41% of parents	$208 million *
300% of poverty	613,000 children 499,000 parents	30% of children 30% of parents	$223 million **	1,179,000 children 774,000 parents	58% of children 46% of parents	$343 million **

* State costs for expanded eligibility and program participation of parents *beyond* those required for enrollees eligible under the FY 1999-2000 budget act.

** State costs for expanded eligibility and program participation of children and parents *beyond* those required for enrollees eligible under the FY 1999-2000 budget act.

§ For an explanation of how program participation rates are computed, see Appendix B.

Raising Income Eligibility for Parents and Children to 300 Percent of Poverty. Other proposals, which would raise the income limit for parents and children to 300 percent of poverty, would extend eligibility to 576,000 more uninsured individuals than under current policy, providing assistance to 163,000 low- and moderate-income families, 92 percent of

which are working families. Altogether, 2.5 million of California's 7.3 million uninsured residents could obtain coverage under these policies.

If 75 percent of eligible children and parents participate under these policies, we estimate that 613,000 currently uninsured children and 499,000 currently uninsured parents would receive coverage—30 percent of all uninsured children and parents—at an annual cost to the state of approximately $223 million (Exhibit 12). If participation rates reached 90 percent of all eligible children and parents, then 1,179,000 currently uninsured children (58 percent of all uninsured children) and 774,000 currently uninsured parents (46 percent of all uninsured parents) would be covered, at an annual state cost of approximately $343 million.

Conclusion

California has opportunities and substantial federal funding to provide coverage to many of its 7.3 million uninsured residents. The great majority of these uninsured Californians are unable to afford to obtain health insurance on their own, despite the fact that more than eight in 10 are workers or in working families. Either their employers do not offer health benefits to anyone who works for them, or they cannot afford the coverage that is offered. This problem persists during this extraordinary economic boom because so many of California's jobs pay low wages, offer few benefits, and provide little employment security.[20]

The federal government offers California an opportunity to make a significant dent in this problem. As we have shown, under current policy 1.9 million uninsured children and uninsured parents are eligible for Medi-Cal or Healthy Families. Enrolling all these eligible persons would require more vigorous and effective outreach and implementation than we have seen up to now. With a 90 percent participation rate for both programs—a high, but not unobtainable goal—we could cover nearly 700,000 currently uninsured children and their parents. We estimate that implementation of existing programs at that level will cost California annually $263 million more than under the old policies, drawing in an increased federal match of $405 million.

But California could go further by raising income eligibility, particularly for parents in working families, whose health needs have been neglected as we focused on improving children's access to health care over the past three years. By raising parents' income eligibility to 250 percent of the poverty level, about the same level as for their children, the state could offer coverage to 2.4 million currently uninsured parents and their children. And with effective program implementation—that is, enrolling 90 percent of eligibles—California could cover 1,134,000 uninsured parents and their children. At this level of participation, this expansion and reform of eligibility policies would cost the state $208 million annually, and it would bring an increased federal match of the same amount.

Covering parents not only improves their access the health care; it also increases enrollment of children and their access to care. Other states, such as Wisconsin, have found that when parents are eligible to the same extent as their children, they are more likely to enroll their children in coverage programs than if the parents are not eligible.[21] In addition to boosting enrollment of children, covering parents also enhances children's utilization of health care services. This collateral benefit for access to services occurs because a parent's

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[20] *Will Work Pay? Job Creation in the New California Economy*. Sacramento, CA: California Budget Project, April 2000

[21] Personnel correspondence from Priscilla Boroniec, MPP, Deputy Administrator, Division of Health Care Financing, Wisconsin Department of Health and Family Services, and from Cindy Mann, JD, Director of Family and Children's Health Programs Group, Health Care Financing Administration, Department of Health and Human Services, May 15, 2000.

use of health services is a strong predictor of their children's use as well.[22] Thus, children are more likely to enroll in a program and utilize health services if their parents are also enrolled. Finally, California could be more generous during this period of multi-billion dollar budget surpluses and receipt of more than $400 million dollars a year from the tobacco lawsuit settlement.[23] Last year, the Assembly leadership proposed raising income eligibility for children and their parents to 300 percent of the poverty level. If the state enacted this legislation, more than 2.5 million currently uninsured parents and children would be eligible. And if the participation rate reached 90 percent, California would cover 1,953,000 uninsured parents and children at an annual cost to the state (above the costs of current eligibility policies) of $343 million, with an increased federal match of $437 million.

These would be very impressive gains, indeed. They would bring improved access to health care to more than tens of thousands of working families in California—low- and moderate-income families that currently struggle to find adequate health care while still meeting other essential needs. Even at these levels of eligibility and vigorous implementation, California would continue to have more than 3 million uninsured adults without children and with no provisions to subsidize their health care. These policy options are fiscally feasible both because they bring generous federal matching funds and because California has an ongoing source of funds—the tobacco lawsuit settlement—that would cover a substantial portion of the state's costs. These options would also be an important next step toward the goal of providing universal and affordable access to quality care.

[22] Hanson, Karla L., "Is Insurance for Children Enough? The Link Between Parents' and Children's Health Care Use Revisited." *Inquiry* 1998; 35:294-305.

[23] *California Update: California's Extraordinary Revenue Developments*, Sacramento, CA: Legislative Analyst's Office, April 2000; and *The Tobacco Settlement: What Will It Mean for California?* Sacramento, CA: Legislative Analyst's Office, January 14, 1999.

Appendix A: The Issue of Crowd-out

Some policy analysts worry that expanding eligibility for public health insurance to more individuals in low- to moderate-income brackets will encourage them to drop private coverage and enroll in lower-cost public programs.[24] The concern is that this "crowd-out" will shift costs from private employers and individuals to the public sector. In this study, we estimate how many uninsured persons would be likely to participate in public health insurance if eligibility were expanded, but we do not estimate how many privately insured persons would drop that coverage and enroll in the public program.

A growing body of research indicates that crowd-out is not likely to be a large-scale problem, and that only a small portion of Medicaid caseload increases have been attributable to crowd-out.[25] Using data from a longitudinal survey, Thorpe and Florence found that only 16 percent of newly enrolled Medicaid children likely had access to private insurance through a parent.[26] Holahan estimates that between 7.5 and 12.5 percent of families who would save $300 or more would drop employer-sponsored coverage to enroll in a public program.[27] Blumberg, Dubay, and Norton found that between 6 and 15 percent of privately insured children who became eligible for Medicaid enrolled in the program. This is a high estimate, because it does not account for those children who would have lost private coverage anyway due to the recession and concurrent declines in private coverage during the period under study.[28] In a study of enrollees in Florida's Healthy Kids Program, the authors found that only 5 percent of the children had employer-based coverage before program enrollment.[29]

To the extent that crowd-out occurs, it would shift cost from private resources to the public program, and dilute the effect of federal and state dollars intended to expand coverage to the uninsured. It should be noted that tax credits typically also crowd-out private

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[24] Cutler D, Gruber J. "Medicaid and Private Insurance: Evidence and Implications." *Health Affairs*, 1997; 16(1): 194-200.

[25] Dubay L. *Expansions in Public Health Insurance and Crowd-Out: What the Evidence Says.* Washington, DC: The Urban Institute, October 1999.

[26] Thorpe, KE; Florence, CS. "Health Insurance Among Children: The Role of Expanded Medicaid *Inquiry*, 1998-99; 35:369-79.

[27] Holahan J, Uccello C, Feder J, Kim J. "Children's Health Insurance: The Difference Policy *Inquiry*, 2000; 37:7-22.

[28] Dubay L. *Expansions in Public Health Insurance and Crowd-Out.*

[29] Shenkman E, Bucciarelli R, Wegener DH, Naff R, Freedman S, "Crowd Out: Evidence from the Florida Healthy Kids Program." *Pediatrics*, 1999; 104(3 Pt 1):507-13.

expenditures to the extent that such incentives to purchase coverage are used by employers or individuals who currently purchase private insurance.[30]

It is also important to keep in mind that even if crowd-out occurs, it carries some positive benefits for low-income individuals and families who switch from higher-cost private insurance to less costly or free public programs. First, Medi-Cal and Healthy Families are restricted to persons with low or moderate incomes. Thus, potential enrollees who are currently paying for private coverage are likely to be expending a considerable portion of their disposal income on health insurance premiums. In 1997, California employees paid between 30 percent and 40 percent of the premium cost of family coverage, with monthly employee costs ranging from $140 for HMO coverage to $210 for POS coverage.[31] Low-income families whose employer offers coverage but does not pay for most of the costs will find their required share of premiums a significant burden after they are finished paying for essential housing and utilities, childcare, food, and transportation.[32] Among enrollees in Florida's Healthy Kids Program, for example, Shenkman and colleagues found that 26 percent had access to family coverage through their employers, but that the family share of the premiums represented, on average, 13 percent of their incomes.[33] Thus, families that dropped their private coverage may have faced premium contributions that represented large financial burdens.[34]

Second, the exemption of employer-paid health insurance from taxable income largely benefits more affluent individuals and families because of their higher marginal tax rate. This tax benefit cost the federal government about $79 billion in 1998[35]—a subsidy that benefits middle- and upper-income employees. Permitting some degree of crowd-out among low- and moderate-income persons would reduce this inequity. As Lisa Dubay and Genevieve Kenney noted in their Congressional testimony on this issue, "In order to assure that most uninsured children receive health insurance coverage, we may need to accept a shifting of the

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30 *Are Employer Tax Credits the Most Effect Way to Expand Health Coverage for California's Uninsured?* Sacramento, CA: California Budget Project, May 2000.

31 Schauffler HH, Brown ER, Rice T, et al., *The State of Health Insurance in California, 1997*, Berkeley and Los Angeles: Health Insurance Policy Program, January 1998.

32 *Making Ends Meet: How Much Does It Cost To Raise A Family in California?* Sacramento, CA: California Budget Project, October 1999.

33 Shenkman E, Bucciarelli R, Wegener DH, Naff R, Freedman S, "Crowd out: evidence from the Florida Healthy Kids Program." *Pediatrics*, 1999; 104(3 Pt 1):507-13.

34 Dubay L, Kenney G. "Lessons From the Medicaid Expansions For Children and Pregnant Women: Implications For Current Policy," Testimony before U.S. House Committee on Ways and Means, Subcommittee on Health, April 8, 1997.

35 *Reducing the Deficit: Spending and Revenue Options*, Washington, DC: U.S. Congress, Congressional Budget Office, March 1997, p. 348.

distribution of who pays for such coverage from the private to the public sector as part of the cost of this coverage."[36]

[36] Dubay and Kenney. "Lessons From the Medicaid Expansions For Children and Pregnant Women."

Appendix B: Methods

Limitations of the Data

The data used for this study have several limitations. First, surveys, like the Current Population Survey (CPS), typically *underestimate enrollment* in Medicaid and public assistance programs. The UCLA Center for Health Policy Research, like many other research agencies, uses the CPS to estimate the number and percent of the population with different sources of health care coverage as well as those who are uninsured. It is widely accepted that the CPS, a population-based survey, underestimates the number of persons covered by Medicaid compared to administrative data provided by the states to the federal Health Care Financing Administration. The California Department of Health Services' administrative data on Medi-Cal enrollment are about 10 percent higher than estimates derived from CPS data for comparable periods of time.[37]

Second, the estimates produced by this study may *underestimate current eligibility* for Medi-Cal—that is, the number of persons who are not currently covered by Medi-Cal but who are already eligible. Although the study counts all persons who report being enrolled in Medi-Cal in estimates of Medi-Cal eligibility and enrollment, the report may underestimate eligibility for the following groups due to data limitations:

The Medically Needy. This study does not capture parents who qualify under the Medically Needy Families program with a share-of-cost, but who are not enrolled. We determined current Medi-Cal eligibility using income limits for no-share-of-cost Medi-Cal.

In one sense, there are no income limits for the Medically Needy program. Instead, families with incomes that exceed a certain amount must incur a share-of-cost each month before Medi-Cal will pay for services received. The monthly share of cost is the difference between a family's monthly income and the "maintenance need income level" for Medi-Cal. This means that many more parents are eligible for Medi-Cal with a share-of-cost, as long as they meet other program criteria. These criteria include being in a household with children and passing the asset test.

Transitional Medi-Cal. Families who become ineligible for welfare because their earnings increase beyond the Section 1931(b) limits are eligible for transitional Medi-Cal. They are eligible for Medi-Cal with no income limit for the first six months, and a limit of 185 percent of poverty for an additional 18 months. Families who qualify for transitional Medi-Cal, but are not enrolled, are not captured in this study as eligible.

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[37] A recent study by the Center assessed differences between the CPS and Department of Health Services estimates of Medi-Cal enrollment in California. See Brown ER, Yu H, Fong K, Wyn R, Cumberland W, Levan R, *Adjusted Population-Based Estimates of Medi-Cal Coverage*. Los Angeles: UCLA Center for Health Policy Research, August 1997.

Section 1931(b) "Applicants" vs. "Recipients." There are differences in the eligibility requirements for individuals who are applying for Medi-Cal (applicants) and for those who are continuing on Medi-Cal (recipients). Recipients are allowed to have higher incomes. Individuals are considered recipients for four months after they go off Medi-Cal. Among persons who were not already enrolled in Medi-Cal, we were able to identify those who would qualify as *applicants* but, due to data limitations, not able to identify eligible individuals who would qualify as *recipients.* As a result of this limitation, estimates of persons currently eligible for Medi-Cal would be higher if we were able to identify those persons who were uninsured but had been covered by Medi-Cal within the last four months.

Child Support or Alimony Paid. The CPS asks about child support or alimony received by a family, but it does not ask about any family expenses paid, including those for child support or alimony. Therefore, in considering eligibility, child support and alimony *paid* were not deducted from family income as they would be in an actual eligibility determination process. As a result, our estimates of current eligibility do not capture individuals who are not enrolled in Medi-Cal, and who meet income eligibility only when child support and alimony *they paid out* are deducted from their family income. The absence of information about child support payments should not greatly affect the estimates because child support enforcement rates are low in California—only 39.7 percent of child support cases pay any money at all toward child support (State Office of Child Support).

Estimating Eligibility, Participation, and Costs

As noted in the Source of Data section of this report, we used data from the March 1999 Current Population Survey to make our estimates. We used CPS data to construct variables that reproduce, as closely as feasible with these data, the eligibility requirements for Medi-Cal and Healthy Families under the various policies. We took account of age, family structure, pregnancy status, family income, "program linkage" (disability, hours worked per month, marital status), an estimated value of family assets, and immigration and citizenship status.

Income Eligibility

Certain income that is not counted or is "disregarded" in the eligibility process was subtracted from family income. This includes:

- Supplemental Security Income/State Supplementary Program (SSI/SSP) payments,
- Foster care payments,
- CalWORKS payments,
- General Relief payments, and

We also subtracted from income, where appropriate, the income deductions allowed in the determination of eligibility. These included:

- $90 work expense per worker,

- Childcare expenses at $200 per month for each child under age 2 and $175 per month for each child 2 and older,
- Student assistance for college, and
- The first $50 of alimony or child support received.

Due to data limitations, we were not able to identify disabled adults who require dependent care while their primary caretaker works. For this reason, we were not able to use the $175 deduction allowed by Medi-Cal for the dependent care of a disabled adult.

Participation Rates

We calculated participation rates by dividing the number of participants (individuals enrolled in the program) by the number of eligibles (eligible individuals enrolled in the program plus eligible individuals who are uninsured). To determine the number of uninsured eligibles who would enroll in the program at, say, a program participation rate of 75 percent and income eligibility up to 300 percent of the poverty level, we first estimated the total number who would be eligible up to that income level (individuals currently enrolled in the program, plus the estimated number of uninsured who are eligible for the program, plus the estimated number of uninsured who would be eligible if income eligibility were raised to 300 percent of poverty). We then multiplied that number by .75 (i.e., 75 percent) to estimate the total program enrollment under that policy. To estimate the number of *new* participants added by the policy, we subtracted the number of persons currently enrolled from the total estimated enrollment at that participation rate.

Cost Estimates

To estimate *new* administration costs that would be incurred under the new and proposed policies, we estimated the number of new cases that would enroll in Medi-Cal at several different participation rates. This was a two-step process. The first step was to determine the number of families represented by the eligible uninsured parents under each policy. Next, we determined which of these families had no family member already enrolled in Medi-Cal. These families represent the number of new cases containing at least one eligible uninsured parent. We then determined the number of these cases who would enroll in Medi-Cal at each participation rate. An administration cost of $186.34 per case was applied to new cases only. The California Department of Health Services (DHS) attributes no additional administrative cost to enroll an additional family member in an existing case. To estimate the total treatment costs, we multiplied the average treatment cost by the number of eligible uninsured individuals who would enroll at each participation rate. The treatment and administration costs were then added together for the total cost estimate.

According to the LAO, the average annual treatment cost in Medi-Cal is $840 for a parent and $600 for a child.[38] In addition, the LAO estimates that the average annual cost of administering a single Medi-Cal case (that is, a family and its eligible members) once eligibility has been simplified will be about $186.34.[39] This represents the cost of one intake and 11 months of ongoing administration costs for a family. There is no additional cost attributed for adding a new family member onto an existing Medi-Cal case. These administrative cost estimates are predicated on simplified eligibility, including annual recertification of eligibility (as opposed to the current quarterly recertification) and family eligibility determination, both of which are features of the Assembly leadership and LAO proposals.

The Medical Risk Management Insurance Board (MRMIB) has also developed cost estimates for the Healthy Families Program. MRMIB estimates that treatment and administration costs total about $960.96 for 12 months of health, dental, and vision coverage for one child in Healthy Families.

The federal government matches, dollar for dollar, California's Medi-Cal expenditures for all adults and for children who would have been eligible before the 1997 CHIP expansions. The federal contribution is more generous for children with incomes above the CHIP expansion levels—that is, mainly for children in the Healthy Families program and in any further expansions of income eligibility. For every dollar California spends on Healthy Families, the federal government contributes two dollars. Thus, we applied a 2:1 federal match for eligibility expansions for children and a 1:1 match for eligibility expansions for parents.[40]

The federal match is limited for persons who recently immigrated to the United States—legal immigrants who entered the U.S. after August 22, 1996. For these individuals, the federal government matches expenditures in Medi-Cal or Healthy Families only for emergency and pregnancy-related services. Based on CPS data, we estimate that only 25,000, or about 1.5 percent, of uninsured individuals who are eligible for Medi-Cal or Healthy

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[38] These cost estimates exclude pregnancy and some inpatient costs, because these are not *additional* costs to the state. Under the current system, the state generally ends up paying these costs because women up to 300 percent of poverty become eligible for coverage when they become pregnant. Also, low- to moderate-income parents who become seriously ill and are hospitalized may also qualify for Medi-Cal if they are not working and, as a result, become eligible. The cost of providing hospital services to uninsured, low-income people is also partially offset by DSH payments.

[39] This figure represents base costs, and does not reflect the cost of certain policy changes that had not yet been implemented in the past fiscal year.

[40] All children added to eligibility by the proposed expansions would receive a 2:1 federal match. Some children who enroll in Medi-Cal also receive a 2:1 federal match. Other children who are already eligible for Medi-Cal, such as children under 133 percent of poverty, would not receive a 2:1 match, but would receive a 1:1 match.

Families are legal immigrants who came to the United States after 1996. Moreover, program participation for this population may be disproportionately low. Many immigrant families are reluctant to enroll in the Medi-Cal and Healthy Families programs because they believe that use of these programs will negatively affect the family's immigration status.[41] Undocumented immigrants are ineligible for Medi-Cal or Healthy Families except for emergency medical services (for which there is a federal match) and prenatal care (for which the state pays the full cost).

In January 2000, President Clinton proposed giving states federal matching funds for full coverage of recent immigrants, and increasing the federal match for program expansions covering parents to 2:1. These policies would result in an increased share of total expansion costs being paid by the federal government.

[41] *Opening the Door: Improving the Healthy Families/Medi-Cal Application Process*. Oakland, CA: Medi-Cal Policy Institute, October 1998.

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