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# NEW MEXICO ADVOCATES FOR CHILDREN AND FAMILIES

## Campaign to Reduce Child Poverty

## Policy Brief #4

### Medicaid Look Back Periods are Barriers to Health Insurance for Children

Medicaid is a health insurance program for low-income children. In New Mexico it is available to children 19 years old and younger who live in households with incomes equal to or less than 185% of the federal poverty threshold[1].

The cost of Medicaid is shared between the state and federal governments at a ratio of 1:3. The federal government also made funds available to states at a match rate of 1:4 to expand children's health insurance beyond the limits defined by the state's Medicaid policies. Under this program, called the State Children's Health Insurance Program (SCHIP), New Mexico opted to extend health insurance coverage to children in households with income equal to or less than 235% of the federal poverty threshold[2].

When access to low-cost, publicly subsidized insurance is increased, as with New Mexico's SCHIP, some people who purchase or would purchase private health insurance choose Medicaid instead. Crowd-out is the displacement of private insurance with public insurance. Raising the income ceiling on Medicaid eligibility for children may "crowd out" private insurance by encouraging parents who purchase private insurance for their children to drop that coverage and enroll their children in Medicaid because it is less expensive and/or provides more comprehensive benefits.

Because of concern about potential crowd-out, New Mexico mandated a "look-back" period. Under current Human Services Department Medical Assistance Divsion Regulations (MADKID 422), SCHIP-eligible households that "voluntarily" drop private health insurance coverage must wait 12 months before enrolling their children in SCHIP.

The look-back applies even when insurance is dropped due to premium and/or cost sharing increases initiated by the insurance company or the employer[3]. The intent of the look-back period is to minimize crowd-out by limiting SCHIP coverage to families that would otherwise be uninsured. This policy brief examines the extent to which recent expansions in Medicaid eligibility for children may have "crowded out" private insurance coverage and the policy implications this has for New Mexico.

Specifically, this brief will demonstrate that:

- ***Look back periods are unnecessary and inequitable, especially when crowd-out originates with employers.***
- ***Current regulations cause children to remain uninsured for a year. The potential consequences of this choice far exceed the general fund savings attributable to the look- back period.***
- ***The cost of private health insurance for low-income households contributes to poverty.***
- ***Because of the generous 73% to 81% federal match, state investments in Medicaid and SCHIP will stimulate the New Mexico economy.***

***What is Crowd Out?***

The displacement of private insurance with public insurance such as Medicaid costs private insurers money because it reduces the size of the private insurers' risk pools and changes their composition. Children are a valuable component of risk pools because, after the first year of life, they are relatively inexpensive to insure. The profits associated with covering children offset the losses associated with insuring higher risk populations such as pregnant women and middle-aged men.

Insurers therefore contain premium costs for the population by subsidizing coverage for adults with premiums paid on behalf of children. The exit of children from private risk pools could thus increase insurance rates for all those who remain, including their parents. Some argue that the "cost shifting" attributable to crowd-out negates the benefits of Medicaid expansions by increasing the costs of insurance for parents and other privately-insured members of the community.

### *Does Crowd Out Really Happen?*

Private insurance coverage has been declining nationwide since the mid-1980's. This decline has occurred at the same time as expansions in Medicaid eligibility. It is probable that these two events are, to some extent, correlated; but it is also probable, due to the increase in two-earner households[4] and the rising cost of healthcare, that the most of the decline in private insurance coverage would have occurred in the absence of Medicaid expansions.

Approximately 90% of all Americans with private health insurance obtained that coverage through their employer. Despite the pressure recent economic growth has put upon labor markets, fewer and fewer Americans are obtaining health insurance through their employer and an increasing number are without any health coverage at all.

There have been many studies of Medicaid crowd out, all have found some evidence of its occurrence, but most have found its effect to be relatively small. Though estimates of magnitude vary, the majority of studies conclude that between 14% and 19% of new Medicaid enrollees would have obtained or maintained private insurance coverage had they not become eligible for Medicaid as a result of a Medicaid expansion.

### *Sources and Mechanisms of Crowd Out*

Few, if any studies have conclusively disaggregated crowd out attributable to the actions of the insured (typically employees) from crowd out attributable to the actions of insurance providers or purchasers (typically employers). The health consequences and policy implications of crowd out vary markedly with its source and mechanism.

#### Employer-Side Crowd Out

If an employer considers publicly provided insurance, such as Medicaid, to be a costless substitute for the private insurance that she subsidizes on behalf of her employees, she may encourage eligible employees to switch to Medicaid by:

1. ceasing to offer coverage to both employees and their dependants;
2. continuing to offer employee coverage, but ceasing to offer coverage to dependants;
3. increasing the employees' share of premiums.

#### Employee-Side Crowd Out

If an employee regards publicly provided insurance as an inexpensive substitute for private insurance he may:

1. decline employer-provided coverage when it is offered;
2. disregard the availability and type of healthcare coverage when choosing between jobs.

In most cases crowd out is probably the product of actions taken by both the employer and the employee. Employers are responsive to signals sent by prospective and new employees, particularly when the labor market is tight. If new employees do not enroll in employer-sponsored health coverage the employer may choose to substitute higher wages for health insurance, believing this compensation package to be more attractive to workers. Of course, if the health insurance offered by the employer excludes dependants or requires large employee contributions, the new employees' failure to enroll in health coverage through their job may say relatively little about their preferences for wages relative to benefits. The same will be true if the ability of prospective employees to "shop around" for employment is relatively limited.

Few studies have examined employer-side crowd-out, probably because it is difficult to isolate. In a time of increasing premium costs and declining coverage rates, an employer may have many reasons besides the availability of Medicaid for encouraging her employees to seek coverage elsewhere. While a firm with a high percentage of Medicaid eligible employees may simply drop coverage for dependants, one with a more heterogeneous workforce may have to take a more subtle approach, for instance, increasing employee cost sharing or offering insurance only to managers. This form of crowd out, which is difficult to detect and probably the most prevalent, can masquerade as employee-side crowd out. Current Medical Assistance Division regulations penalize employees with a look-back period even if insurance is dropped because of increased costs or other employer action.

***Unsubstantiated Fear of Crowd-Out is Costly to New Mexico***

***New Mexico is allotted more than $57 million a year under the SCHIP program. But in its first 10 months of implementing the program, the state spent only about $3 million. New Mexico lost $54 million in SCHIP monies when the deadline for using the monies passed in September.***

Based on estimates from the existing literature and a demographic profile based on 1998 state personal income tax filings and Census data, we estimate that MADKID 422 excluded approximately 700 additional children from SCHIP in 1999, saving the state general fund around $300,000[5].

At present there are roughly 15,000 SCHIP-eligible children in New Mexico. Eliminating existing insurance status as a determinant of SCHIP eligibility would increase this number to roughly 50,000 and enable New Mexico to take full advantage of its current and future SCHIP allotments.

***Unintended Consequences***

Covering Kids, a project funded by the Robert Wood Johnson Foundation that assists states in enrolling eligible children in Medicaid, reports a disturbing consequence of the look back requirement. Medicaid community enrollment representatives claim that some families are dropping their private insurance and remaining uninsured for 12 months in order to enroll in SCHIP. This information is anecdotal, but even if relatively few families are doing this, the risks they impose on themselves and the state by going without health insurance are great. Just one child permanently disabled by a condition that could have been prevented with appropriate, timely care could easily cost the state more than its entire 1999 general fund savings attributable to the SCHIP look-back period.

***Benefits to Low Income Households***

The average SCHIP-eligible single-parent, two-child household had income of $28,236 in 1998. At 210% of poverty this household did not qualify for food stamps or household was eligible for a CYFD childcare subsidy, but was required to make a monthly payment of $191 per child per month. Because this household had income above $22,000, it was not eligible for the state Low Income Comprehensive Tax Rebate (LICTR), and, even after all applicable rebates and credits (EITC, federal childchild credit), incurred positive state and federal income tax liability.

The following table contrasts income and expenditure for a single-parent two-child household at 210% of poverty. The first column is income, the second column is expenditure when the family has employer-sponsored HMO coverage, and the third column is expenditure after both children are switched from the employer-sponsored HMO coverage to SCHIP.

| Budget for Single Parent, 2 Child Household at 210% of Poverty | | | |
|---|---|---|---|
| | | W/O SCHIP | With SCHIP |
| | income | expenses | expenses |
| Income | $28,236 | | |
| State income tax | | $193 | $311 |
| Federal income tax | | $832 | $311 |
| EITC | $394 | | |
| Food | | $4,830 | $4,830 |
| Housing & utilities | | $7,200 | $7,200 |
| Clothing | | $1,427 | $1,427 |
| Childcare | | $2,292 | $2,292 |
| Household supplies | | $1,776 | $1,776 |
| Car payments | | $3,080 | $3,080 |
| Car ins, gas, & maintanence | | $2,297 | $2,297 |
| Personal care | | $298 | $298 |
| School & books | | $316 | $316 |
| Medical services | | $500 | $165 |
| Health Insurance | | $2,750 | $881 |
| Medicines | | $280 | $92 |
| Disposable Income | | -$1,880 | -$38 |

*Source: U.S. Bureau of Labor Statistics, 1998 Consumer Expenditure Survey.*

***A typical New Mexico single parent family with two children earning $28,236 -- 210% of poverty guidelines -- cannot afford basic necessities and pay for private health insurance.***

***General Fund Considerations***

Concerns about Medicaid expansions have focused, not inappropriately, on their potential cost to the state. Look-back periods are an attempt to limit those costs, but they may inadvertently compound them by encouraging households with children to become uninsured.

Ultimately, the state pays the cost of failing to insure its low income population, whether it be through state aid to people disabled by untreated conditions, lost productivity, poor educational outcomes for sick children, or massive tax expenditures on hospitals that treat indigent patients[6].

The federal government matches New Mexico SCHIP expenditures at a rate of approximately 82%. This means that every $1 of general fund money spent on SCHIP brings an additional four federal dollars into the state. Federal Medicaid spending stimulates the New Mexico economy in the same way that other injections of outside cash such as federal defense spending, tourism, and natural resource exports do.

Reduced co-payments and deductibles resulting from the switch from private insurance to Medicaid may also enable parents to seek medical care for their children sooner and more often. Increased demand for physicians' services increases physicians' income, which, when spent in New Mexico, further stimulates the economy.

Expanding Medicaid coverage also has positive tax consequences. The parent depicted in the table on page 3 saved $1,842 annually by switching her two children from employer-sponsored HMO coverage to SCHIP. Employer-sponsored insurance, including, in most cases, the employee contribution, is tax exempt income. Therefore, the shift from private insurance to public insurance costs her $118 in increased state income taxes. She will spend the remaining $1,724 in New Mexico, stimulating the economy and sending gross receipts tax to the state general fund and local governments.

### *Policy Implications*

Although federal regulations require that a state's SCHIP plan address crowd out, they do not require look back periods or other punitive measures to discourage it. States can comply with the federal mandate to "address" crowd-out by simply monitoring it and taking action if it becomes a problem.

***Eighteen states have no waiting period at all. New Mexico and Alaska are the only states that impose a 12 month waiting period. The average waiting period is 3 months.***

None of the 18 states that have opted for this approach have observed crowd out sufficient to warrant imposing a look back period.

Most states with waiting periods allow numerous exceptions including circumstances in which[7]:

- The employees share of the cost is more than 10% of household income (Maine).
- The employer doesn't pay at least 80% of the cost of coverage (Wisconsin).
- Family premiums are more than $50 (Connecticut).

### *Conclusion*

Look-back periods are effective cost-containment strategies if and only if most crowd out originates with employees, a contention that is not, at present, supported by either state-specific or national evidence.

***Unless it can be proven that insuring all low-income children is an inefficient use of state resources, New Mexico should support its low income working families by eliminating the look-back period.***

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[1] For a family of three 185% of the 2000 federal poverty threshold is an annual income of $26,178.
[2] For a family of three 235% of the 2000 federal poverty threshold is an annual income of $33,253.
[3] Households with income between 185% and 235% of the federal poverty threshold are eligible for SCHIP. Look-back periods do not apply to households with income below 185% of the federal poverty threshold because they are eligible for conventional Medicaid.
[4] Many working couples choose family coverage through one spouse's employer and turn down coverage offered by the other spouse's employer.
[5] Estimate assumes that the look back period reduced SCHIP enrollment by 15%. The average capitation rate for children in Medicaid is $178 per month.
[6] State tax expenditures on hospitals exceed $150 million annually. Expenditure estimates are available from the New Mexico Department of Taxation and Revenue and the New Mexico Health Policy Commission.
[7] *State Children's Health Insurance Program (SCHIP): Crowd-Out Provisions.* National Conference of State Legislatures http://www.ncsl.org/programs/health/crowdout.htm

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