September, 2001

NEW MEXICO ADVOCATES FOR CHILDREN AND FAMILIES

Campaign to Reduce Child Poverty

PROGRESS REPORT

Two years ago, New Mexico Advocates for Children and Families identified child poverty as a root cause of many of the poor outcomes of child well being. Poverty significantly increases the probability that a child will experience one or more risk factors or negative outcomes such as teen pregnancy, dropping out of high school andjuvenile incarceration. [1] Poor children are 30% more likely than non-poor to have a learning disability, twice as likely to flunk a grade and three times as likely to be expelled from school. Each year a child spends in poverty increases by two percentage points the probability that he or she will score below grade level. [2]

One of four New Mexico children lives in poverty, and one in three children under 5 is poor. It is no wonder then, that in 2001, New Mexico was ranked as 47th in the country in births to teen mothers and 45th in the country in percent of teens who are high school drop outs. Forty eight percent (48%) of New Mexico's fourth gradestudents scored below the basic reading level in 1998, compared to 39% nationally.[3]

At New Mexico Advocates, we believe that the poor status of children effects us all. We believe that there are public policy responses at the state level that can relieve poverty and improve the status of children. For these reasons, we embarked on the Campaign to End Child Poverty, which is a multi-year initiative to educate the public and policy makers about child poverty, and to promote policy changes which would reduce poverty.

One of the principal tools in the Campaign is a series of policy briefs which highlight policy changes to decrease poverty. By June 30, 2001, we had published the first four policy briefs. We have had some modest success in our efforts to educate the public and policy makers about policies that could alleviate child poverty:

Policy Brief # 1 : *Expanding the Low Income Comprehensive Tax Rebate*

We proposed a $30 million dollar expansion to the state's low income comprehensive tax rebate (LICTR). LICTR rebates gross receipts taxes to poor and working poor families, and is most easily comparable to a state earned income tax credit, although it has an important distinction. Because it rebates gross receipts taxes (which all New Mexicans pay on food and goods) and not income tax, a LICTR rebate is available to extremely poor people who may not have adequate income to receive an income tax rebate. The NMACF proposal would have lifted 6,000 children out of poverty.

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During the 2001 legislative session, the Speaker of the House of Representatives, Ben Lujan, sponsored a LICTR expansion bill that NMACF proposed. Our original proposal of $30 million expansion was reduced to $10 million in the final tax package. Nonetheless, we believe that the expansion of LICTR represented an important step toward moving child poverty reduction to the center stage in the public policy debates.

The legislature passed the LICTR increase, which was tied to an income tax cut that Governor Johnson proposed. The Governor vetoed the measure, in part because he did not support the LICTR expansion. NMACF will continue efforts to expand LICTR in the 2002 legislative session.

Policy Brief # 2: *Mail-In Medicaid Enrollment: Reducing Barriers to Health Insurance for New Mexico's Low-Income Children*

Lack of health insurance for low income New Mexicans, especially children, continues to be a barrier to health in spite of efforts to increase enrollment of children in Medicaid. According to a recent survey by the New Mexico Health Policy Commission, 27.7% of New Mexico's children remain uninsured.[4] Research suggests that consistent health supervision over the course of a child's development not only prevents disease, it helps to ensure a child's success in school, at home, in the community, and in adulthood. [5] Many poor and working poor families cannot afford the costs of health insurance for their children.

NMACF recommended several policy and practice changes that would reduce barriers to enrollment and help the children of working poor families:

- We recommended that the Human Services Department (HSD) remove the requirement of face-to-face interviews with an income support division (ISD) employee before Medicaid enrollment could be completed. This requirement exceeded federal mandates.

  Result: As of July 1, 2001, HSD no longer requires face-to-face interviews for Medicaid re-certification. We continue to urge them to remove the face-to-face requirement for initial enrollment as well.

- Some ISD workers also required extensive verification of income and residency, again beyond what the federal government required. Parents were often hesitant because they were not citizens, and so would not enroll their children in Medicaid. NMACF recommended changing this practice.

  Result: HSD issued a directive clarifying this issue, and stated that parents would no longer be asked their residency. Practice among ISD workers continues to be problematic in this area. Practices for verifying cash income have been standardized among the ISD offices, but we believe the requirements by HSD/ ISD could be further simplified.

- Most significantly, we recommended that the state begin using the extensive, automated tax data system to automatically enroll children in Medicaid. Not only would the process make enrollment of children easier for parents, it would save the state money and free up ISD workers to perform other tasks.

  Result: HSD and the state Taxation and Revenue Department have reached a preliminary agreement to begin automatic re-enrollment of children next year. We believe this is significant progress. No other state in the country has yet begun automatic enrollments. Re-certifica-

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tion has been a major problem in most states because parents fail to re-enroll their children at the expiration of the one year eligibility term. Automatic re-enrollment will save the costs of enrolling these children again, and allow the state to make progress in reaching all eligible but unenrolled children.

Policy Brief #3: *Enhancing the Benefits of Tax Rebates and Credits.*

The Earned Income Tax Credit (EITC) is a federal poverty relief program. Working poor families are eligible for an income tax credit if their income meets the federal guidelines. For the 2000 tax year, a family with two or more children and earned income of $10,000 was eligible to receive $3,888 in EITC. Designed as a poverty reduction tool at the national level, the EITC lifted approximately 20,000 New Mexican households and 36,000 children from poverty. But, NMACF'sresearch showed that many working poor New Mexicans paid high tax preparation fees and high interest rates for "rapid refund" loans. In Gallup, for example, many filers who qualified for the full EITC refund of $3,888 paid $90 for the tax preparation (compared to the usual fee of $30 to $60) and *an additional $580 for the rapid refund*. This charge of 15% of the EITC refund for a three week loan (the average time for the refund) is equivalent to an annual interest rate of 180%.

To remedy this problem, we suggested in the policy brief that the state enact Rapid Refund Anticipation Loan (RAL) legislation which would cap the interest rate. We introduced such legislation during the 2001 session. Sponsored by Senator Leonard Tsosie and Representative Ray Begay, the senate version of the bill was heard in several committees, but failed to pass a vote on the Senate floor.

The bill was hotly contested, especially by the trading post owners in the Gallup area who make many of the rapid refund loans, and by commercial bankers who were concerned that capping the interest rates on the rapid refund loans would result in interest rate caps for commercial loans as well. Because New Mexico does not have usury legislation, the bill was opposed by others who make high interest loans (like pay day and title loans) to low income people who are have no access to traditional lending sources.

While the bill failed to pass during the regular session, the legislature committed to study possible reforms of all high interest loans. To date (August, 2001), that study has not commenced.

The RAL legislation received excellent media coverage, including several lengthy stories in the statewide newspaper. Because of that attention, New Mexico's U.S. Senator Jeff Bingaman decided to introduce legislation at the national level to cap interest rates on RALs. He proposes to attach language to another bill, but his staff reports that H&R Block lobbyists are working hard to defeat such a measure. We continue to work with Senator Bingaman on this issue.

Policy Brief #4: *Medicaid Look Back Periods are Barriers to Health Insurance for Children*

Medicaid is a federally subsidized program that allows states to provide health insurance for low income children. In New Mexico, it is available to children 19 and under who live in households with incomes equal to or less than 185% of the federal poverty threshold. [6] The cost of Medicaid is shared by the state and the federal government at a ratio of one state dollar for three federal dollars.

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The federal government also makes funds available to expand children's health insurance beyond the limits defined by the state's Medicaid policies, at a match rate of one state dollar to four federal dollars. 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. [7]

However, the Human Services Department was concerned that providing free health insurance for children in households between 186% and 235% of federal poverty thresholds would "crowd out" private insurance providers. To counteract this concern, HSD enacted a policy called a "look back" period. Basically, the policy stated that if families with annual incomes of 186% - 235% of poverty dropped private health insurance coverage, they could not enroll their children in the free Medicaid coverage until 12 months had elapsed. Families were therefore forced to have their children uninsured for 12 months to take advantage of the free health insurance.

The policy brief examined the wisdom of the look back period from several viewpoints:

- the experiences in other states who had eliminated the look back period. In those states, research indicates that there had not been crowd out of private insurance carriers;

- the costs to the state of providing health care in the case of a catastrophic illness for a child with no health insurance;

- the affects on family budgets of health insurance costs. For example, a mother with two children who earned 210% of the federal poverty threshold, or $28,236, would have to pay $1,869 for health insurance for her two children. After other, regular household expenses, she would spend $1,880 more than her annual salary. With Medicaid, her expenses would equal her income.

Based on the analysis, the policy brief recommended eliminating the look back period. By doing so, low income families could make sure their children had health insurance, while also saving the costs of health insurance for other essential expenditures.

Result: Effective July 1, 2001, HSD revised their policies and eliminated the look back period. Children are now able to enroll without any delay or lapse in their health care coverage.

Conclusion. We believe that the Policy Briefs have been an effective tool to educate policy makers and the general public about how public policy canreduce poverty and increase the well being of children. The long term implications of the above changes in policy, and their impact on child poverty are issues requiring further research and evaluation.

[1] Duncan, G. and Brooks-Gunn, J. 1997. *Consequences of Growing Up Poor*. New York: Russell Sage.

[2] Arloc, Sherman (1997) *Poverty Matters: The Cost of Child Poverty*. Children's Defense Fund. http://www.childrensdefense.org/povmat.pdf

[3] Annie E. Casey Foundation *2001 Kids Count Data Book.*

[4] New Mexico Health Policy Commission, 2001.

[5] Green, M., and Palfry, J.S. eds, (2000) Bright Futures: Guidelines for Health Supervision of Infants, Children and Adolescents. Second Edition. Arlington, Va: National Center for Education in Maternal and Child Health.

[6] In 2001, for a family of three, 185% of the federal poverty threshold is an annual income of $27,065.

[7] In 2001, for a family of three, 235% of the federal poverty threshold is an annual income of $34,380.