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Expanding Coverage to Parents through Medicaid Section 1931

by Michael Birnbaum

Historically, Medicaid eligibility for parents has primarily been limited to those enrolled in welfare. The only way for states to cover more parents was through the federal waiver process, which often involved long and complicated negotiations with the Health Care Financing Administration (HCFA) and required states to achieve offsetting Medicaid savings.

By adding Section 1931 to the Social Security Act, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) created a new category of Medicaid eligibility for low-income parents. It requires states to cover at least those parents with incomes below 1996 state Aid to Families with Dependent Children (AFDC) income thresholds, regardless of whether they receive cash assistance. It also allows states to cover those with higher incomes. About half of all states already have expanded coverage beyond the minimum federal requirements.[1]

How does this law work?

According to technical assistance materials produced by HCFA, states "can expand coverage of families as far as state budgets and policy preferences permit. States can accomplish these policy changes through amendments to their Medicaid state plan; they do not need to obtain Federal waivers."[2]

Under Section 1931, states have great flexibility to cover more low-income adults via:

- income disregards;
- asset disregards; and
- increasing income and asset limits.

Income disregards are the most powerful tool available under Section 1931.

Federal law requires states to disregard at least $90 per month in earned income when assessing Medicaid eligibility. Section 1931 allows states to increase income disregards, effectively raising the income limits for Medicaid eligibility. Since there are no limits to these disregards, the law leaves states free to raise effective income limits as high as they choose.

States also must disregard at least the amount of child care and child support income stipulated in each state's July 1996 AFDC eligibility criteria. These amounts typically range from $175 to $200 per month for child care and $50 per month for child support.[3] As is the case with earned income disregards, states can increase child care and child support income disregards to whatever levels they choose.

Many states have experience in using income and asset disregards to expand Medicaid eligibility to

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How income disregards work

A state whose income eligibility limit is $600 per month (about 53 percent of the federal poverty level) has decided it wants to cover parents up to the poverty line. As illustrated below, the state increases its earned income disregard to $539 to allow a parent whose earnings are equivalent to 100 percent of FPL to fall within the eligibility limit, which nominally remains unchanged at $600 per month.

Gross income (100% FPL for family of three)	=	$1,138
Modified income disregard	=	539
Countable income	=	599
Eligibility limit	=	600

Monthly Earned Income Disregards for Applicants in Selected States[4]	
State	*Earnings Disregard*
District of Columbia	All income above previous AFDC limit and below 200% FPL
Iowa	60%
Maryland	20%
Minnesota	$120 + 33% of remainder
Montana	$200 + 25% of remainder
Ohio	$250 + 50% of remainder
Oklahoma	$120
Pennsylvania	50%

pregnant women and children. This method is often referred to as a Section 1902(r)(2) expansion. Section 1931 allows states to use this tool for low-income parents.

The comparable standards provision (Section 1902) generally requires state eligibility standards to be uniform for Medicaid applicants and recipients. Income disregards represent the sole exception to the comparable standards rule. Under Section 1931, states can apply earned income disregards differently for Medicaid applicants and recipients. Thus, states can continue Medicaid coverage at higher levels than they provide new coverage. When faced with budget restrictions, states can set differential income disregards to continue providing coverage for current recipients when it cannot finance coverage for new applicants. The following table shows examples of states who use more generous disregards for recipients than for applicants.

Monthly Earned Income Disregards in Selected States[5]		
State	*Disregard for applicants*	*Disregard for recipients after 12 months*
Alaska	$90	$90 + 33% of remainder
Arkansas	20%	68%
Connecticut	$90	Up to 100% FPL
Florida	$90	$200 + 50% of remainder
Kansas	$90	$90 + 40% of remainder
New York	$90	$90 + 46% of remainder

Asset disregards allow additional flexibility to expand coverage

Medicaid eligibility for adults requires an asset test in addition to income limits. The maximum generally allowed is $1,000 in assets, excluding the family's residential home and the value of one family car up to a state-specified limit. However, states have the same unlimited flexibility to disregard assets as they do income. Some states, such as Pennsylvania, Ohio, Missouri, Oklahoma and Mississippi, have effectively eliminated the asset test entirely by disregarding all family assets. Many other states have eased the asset test by increasing asset disregards.

The identification and valuation of assets is labor-intensive and time-consuming for Medicaid eligibility workers. In addition, research

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How does Section 1931 relate to the State Children's Health Insurance Program?

With some limited exceptions, federal CHIP funds cannot be used to provide coverage to parents. However, there are still ways for states to provide coverage to family units while taking advantage of the enhanced CHIP federal match rate for children. States can use Section 1931 to expand coverage to low-income parents and CHIP's Medicaid option to expand children's coverage. This allows states to claim the regular match rate for the cost of the parents and the enhanced match rate for children. The advantage of this option is the opportunity to cover families under one plan. Rhode Island's RIte Care program and the District of Columbia's Healthy Families program are examples of this approach.

indicates that few Medicaid applicants are denied coverage on the basis of their assets. An Urban Institute study concluded that asset tests generally are not cost-effective for the non-elderly.[6] As a result, many states have used their increased flexibility to eliminate asset tests or at least loosen them by increasing asset disregards.

Increasing nominal income and asset limits are weaker tools to expand coverage

Section 1931 allows states to increase nominal income and asset limits only as much as the increase in inflation since July 1996. After four years of approximately 3 percent inflation, states can only increase income and asset limits by about 10 percent. For example, a state that limited Medicaid eligibility in July 1996 to parents earning under $500 per month and holding no more than $1,000 in cash assets could increase these nominal limits by $50 per month and $100 in cash assets. These restrictions mean states would have only a minor impact on the number of parents eligible for coverage. By contrast, when states use income and asset disregards to change effective rather than nominal limits, they have complete flexibility and can have a major impact on eligibility.

Program Design Issues

Federal law provides states with considerable flexibility in designing Section 1931 coverage for parents. The following are examples of key program design issues that fall within state jurisdiction:

- *Phase-in expansion.* States can phase-in Section 1931 expansions in order to monitor and evaluate the program's success, and ensure that state expenditures do not exceed budget restrictions. States can gradually increase income (and asset) disregards according to a pre-determined schedule tied to implementation and budget targets.
- *Limit enrollment.* States have the ability to control the cost of Section 1931 initiatives by scaling back or eliminating expansions at any time. States retain flexibility to treat recipients and applicants differently, which allows them the opportunity to effectively cap enrollment in the case of budgetary limitations or pressures. Therefore, state sensitivity toward creating new entitlements should not discourage consideration of Section 1931 expansions.
- *Define scope of benefits and cost sharing.* Federal law requires states to provide certain core Medicaid benefits such as inpatient hospital care and physician services; however, some services that are required for pregnant women and children are optional for adults receiving coverage through Section 1931 expansions. States can tailor the scope of care they provide to parents and they also have limited flexibility to impose copayments of either 5 percent of provider payment or $3 per service.[7]

Outreach and Administration

Once states have elected to expand coverage through Section 1931, there are several steps they can take to improve outreach and enrollment. The following are examples of how states can encourage eligible parents to seek coverage:

- *Increase public awareness of new coverage options.* Even in states that have already expanded coverage, many eligible parents lack awareness of their new opportunities. States can use outreach methods such as toll-free telephone information lines, print ads, and radio and television public service announcements to educate their new target groups.
- *Make Medicaid application sites more accessible.* Application materials and eligibility workers can be stationed at a range of locations other than Temporary Assistance for Needy Families (TANF) offices where services are provided to low-income families, including hospital emergency rooms, community health centers, state and county child care offices, WIC offices, Head Start locations, and employment and job training centers.[8] Keeping sites open during evenings and weekends increases their accessibility to working parents.

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Coverage opportunities for adults are limited.

More than 5 million low-income working parents are uninsured.[9] Near-poor working parents also have high uninsured rates. State welfare program changes that take effect over the next few years will shift more low-income parents from TANF to employment without health insurance. Unless states act, the situation is likely to get worse before it gets better.

Few states currently provide health insurance beyond transitional Medicaid for low-income working parents leaving TANF. Consequently, many parents who are working full- or part-time are not eligible for Medicaid coverage even if their jobs pay low wages and do not offer health insurance to employees. Currently, parents earning just enough to bring them to the poverty line are ineligible for Medicaid in 44 states. In some states, parents working half-time at minimum-wage jobs earn *too much* to qualify for Medicaid. Section 1931 provides states with an opportunity to increase Medicaid eligibility for these working parents.

- *Simplify the enrollment process.* Medicaid applications should be separate from TANF applications to clarify that eligibility for the two programs are no longer linked. This adjustment alone should increase the likelihood that eligible adults will apply. In addition, states can modify application procedures as they did successfully under the State Children's Health Insurance Program (CHIP) by simplifying and shortening application forms, reducing burdensome documentation requirements, and allowing mail-in applications.

Does Section 1931 allow states to expand transitional Medicaid as well?

Yes. States can also use income and asset disregards for the more limited purpose of broadening access to transitional Medicaid coverage. Federal law requires states to provide transitional Medicaid coverage for 12 months to families who would lose Medicaid coverage due to new earnings. The target group for this provision consists of newly employed parents whose jobs do not offer employer-sponsored insurance. If a state wants to lengthen the coverage period beyond 12 months without creating a permanent benefit, it could use the income disregard mechanism for a specified period of time to make working parents eligible for extended transitional coverage.

States can also use more sophisticated income disregard methods to allow different periods of transitional coverage for different income levels. Thus, they can continue to offer coverage to the lowest-earning parents while encouraging higher-earning parents to explore private coverage options. This type of expansion can offer much-needed support to working parents as they leave TANF and may be attractive to states whose budget restrictions make permanent expansions unaffordable.

Endnotes

1. State Policy Documentation Project. *States' Implementation of Selected Medicaid Provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.* January 2000, pp. 20-28.

2. Health Care Financing Administration, *Supporting Families in Transition: A Guide to Expanding Health Coverage in a Post-Welfare Reform World.* March 1999, p. 14.

3. State Policy Documentation Project, pp. 20-28.

4. State Policy Documentation Project, pp. 11-14.

5. Ibid.

6. Moon, M., The Urban Institute. *Asset Limits and Medicaid.* Kaiser Commission on the Future of Medicaid, April 1993.

7. Guyer, J. and C. Mann, Center on Budget and Policy Priorities. *A New Opportunity to Provide Health Care Coverage for New York's Low-Income Families.* Commonwealth Fund, June 1999, p. 10.

8. There are virtually no restrictions on who provides eligibility information, accepts applications and administers initial processing activities, or where these activities take place. However, Medicaid requires authorized state eligibility workers to evaluate applications and make eligibility determinations. A strong and well-linked administrative system ensures that outreach work is followed up quickly by appropriate state officials.

9. Guyer, J., and C. Mann, *Employed But Not Insured: A State-by-State Analysis of the Number of Low-Income Working Parents Who Lack Health Insurance.* Center on Budget and Policy Priorities, February 1999, p. 1.