Applying 21st-Century Eligibility and Enrollment Methods to National Health Care Reform

December 2009

Stan Dorn
Senior Research Associate
The Urban Institute

The author thanks the Pharmaceutical Research and Manufacturers of America (PhRMA) for providing the funding that made this research possible. In addition, the author thanks Randall Bovbjerg, John Holahan, and Genevieve Kenney of the Urban Institute's Health Policy Center for their analysis of the concepts in this paper and their thoughtful review of earlier drafts. The author is also grateful to Aaron Lucas and Tim Waidmann of the Urban Institute for their respective analyses of data showing the relationship between the federal income tax system and uninsured adults and state Medicaid coverage for Medicare beneficiaries.

Table of Contents

Executive Summary

National health care reform is likely to leave millions of uninsured Americans without coverage unless policymakers include effective mechanisms for eligibility determination and enrollment. For both health insurance and other benefits, traditional eligibility and enrollment methods greatly limit participation levels, since many eligible people do not apply or fail to complete the enrollment process. For example:

- Despite intensive outreach and streamlined application procedures, the Children's Health Insurance Program enrolled only 60 percent of eligible, uninsured children five years after the program began;
- More than a decade after their enactment, Medicare Savings Programs, which help pay premiums, deductibles, and coinsurance for low-income Medicare beneficiaries, covered fewer than 33 percent of eligible, low-income seniors; and
- The Food Stamp program, which reached only 31 percent of intended beneficiaries after two years of program operation, recently implemented reforms that have achieved the program's historic high-water mark—67 percent participation.

By contrast, 21st-century systems that qualify people for benefits based on data matching rather than the completion of application forms can quickly and efficiently reach high levels of participation. Low-income subsidies (LIS) for Medicare Part D, for example, automatically go to beneficiaries when data matches show that they received Medicaid the previous year. As a result, 74 percent of eligible seniors received LIS by mid-June 2006, less than six months after the benefit first became available. By February 2009, 81 percent of eligible beneficiaries were participating.

For national health care reform, the federal income tax system could be a surprisingly useful mechanism for identifying the uninsured, determining their eligibility, and enrolling them into coverage without any need for households to fill out application forms. *In 2004, more than six out of seven uninsured people (86.3 percent) filed federal income tax returns.* Reform legislation could thus change tax forms to require an identification of household members who lack health coverage. Unless taxpayers asked for their returns to remain confidential, their tax information could be forwarded to the entity determining eligibility for health coverage assistance (through Medicaid, the Children's Health Insurance Program, and new subsidies). Without any need to wait for uninsured consumers to complete application forms, most Americans without coverage would rapidly be enrolled in insurance, receiving subsidies based on data matches with tax records.

Similar approaches have already achieved positive results with federal programs that use income tax information to qualify people for need-based assistance. Medicare Part B premium subsidies, stimulus rebate checks in 2008, and federally funded grants and loans for college all base annual subsidies on prior-year tax returns. If income has fallen since the previous year, families can seek additional subsidies. If income rose, subsidies are not cut until the following year. This approach substantially increases the number of eligible people who receive benefits. In addition, publicly funded, ongoing administrative costs and eligibility errors are substantially reduced when eligibility is based on data matches rather than the manual presentation, inspection, and verification of paper applications and documentation.

One disadvantage of using prior-year tax data is that subsidies will not be optimally targeted based on current income levels. Remedies are available to address this problem—for example, tax records could be automatically updated using more recent sources of income information—but each such remedy introduces important trade-offs.

Of course, back-up enrollment methods will be needed. Among the one in seven uninsured who do not file income tax forms, 84 percent are poor or near-poor (that is, they have incomes at or below 200 percent of the federal poverty level). To reach these people, policymakers need to go beyond traditional outreach. Health reform legislation can streamline their enrollment by:

- Whenever possible, determining eligibility based on available data, rather than income estimates provided by individuals on application forms;
- Automatically providing a chance to seek subsidized health coverage when uninsured workers start or end a job, when uninsured children start the school year, or when uninsured patients seek care; and
- Funding community-based organizations to help the uninsured fill out forms, gather documents, and take other steps needed to demonstrate eligibility and enroll into coverage.

Procedures for enrollment and eligibility determination will significantly affect participation rates, whether coverage is voluntary or mandatory. But other factors will also affect take-up, including whether low- and moderate-income adults, who comprise most of the uninsured, receive sufficiently large subsidies to make coverage affordable; whether benefits are comprehensive enough for consumers to find the coverage valuable; whether consumers are legally required to obtain coverage and, if so, whether that mandate is effectively enforced; and whether a strategically designed, well-resourced outreach campaign informs the public (including hard-to-reach groups) about new health coverage subsidies as well as any obligations to purchase health insurance.

That said, if federal policymakers want to achieve rapid and substantial progress covering the uninsured, carefully structured, effective mechanisms for eligibility determination and enrollment will be an essential component of effective national health care reform.

Applying 21st-Century Eligibility and Enrollment Methods to National Health Care Reform

Introduction

One of the main goals of national health care reform is to substantially reduce the number of uninsured. Whether reform reaches that goal will depend on many factors, including the frequently overlooked issue on which this paper focuses—namely, effective mechanisms for eligibility determination and enrollment.

This issue brief reviews how programs providing health coverage and other benefits frequently fail to reach a large proportion of eligible individuals when these programs use traditional approaches to eligibility determination and enrollment. It then explores how, by applying 21st-century methods of eligibility determination that grant benefits based on data matches rather than traditional application forms, several innovative programs have increased enrollment, lowered administrative costs, cut red tape, and reduced errors. The paper finally analyzes how policymakers could apply similar 21st-century approaches to national health reform. The most important such strategy uses federal income tax forms to identify the uninsured, determine their eligibility for assistance, and begin the process of enrolling them into coverage.

Eligibility and enrollment systems: A potential Achilles' heel of national health care reform

Enrollment and eligibility systems can easily escape notice when policymakers plan comprehensive health reform. But health coverage subsidies accomplish little if they go unused.

Cautionary tales abound:

- In bills passed from 1986 through 1990, Congress enacted Medicare Savings Programs (MSP)[1] providing Medicaid coverage of Medicare premiums and, in some cases, deductibles and co-insurance for seniors with incomes up to 120 percent of the federal poverty level (FPL).[2] By 2001—more than a decade later—fewer than one-third of eligible beneficiaries were enrolled.[3]
- In 1997, Congress passed the State Children's Health Insurance Program (recently renamed the Children's Health Insurance Program, or CHIP). Despite extensive outreach and streamlining of application procedures, fully five years after CHIP became effective only 60 percent of eligible children had enrolled.[4]
- When the Health Coverage Tax Credit (HCTC) for trade-affected displaced workers and certain early retirees was enacted in 2002, policymakers predicted that hundreds of thousands might benefit. By 2006, only 28,000 households received health coverage through HCTC—an estimated 12 to 15 percent of the eligible population.[5] For the first three years of implementation, HCTC subsidy payments were less than 30 percent of the level forecast when the legislation was enacted.[6]

Low participation rates are not limited to health coverage. For example:

- Two years after Food Stamps first became available, only 31 percent of eligible individuals received benefits.[7] As of fiscal year 2006, after numerous program reforms and efforts to encourage enrollment, participation rates reached their all-time high—just 67 percent.[8]
- The Earned Income Tax Credit may be the most widely received benefit among low-income, working families.[9] Even so, an estimated 25 percent of eligible individuals do not claim the credit.[10]

Effective methods of enrollment will be critically important to reducing the number of uninsured, whether coverage is voluntary or mandatory. After analyzing a broad range of mandates, including but going far beyond health insurance, Sherry Glied and colleagues concluded that mandates are most likely to be widely followed when several factors are present, including that "compliance is easy and relatively inexpensive."[11] In

other words, for participation in even a mandatory system to reach optimal levels, enrollment and retention need to be easy, and subsidies need to be large enough to make health coverage affordable.

If federal policymakers enact an individual mandate to obtain insurance, they may decide against applying it to low-income households. Massachusetts, for example, does not enforce its mandate against people with incomes at or below 150 percent of FPL. But in 2007, 53.7 percent of America's uninsured had incomes below that threshold,[12] highlighting the need for other methods of boosting enrollment.

Effective mechanisms for eligibility determination and enrollment will be important for an additional reason if poor or near-poor people are subject to a mandate. With problematic enrollment methods, many low-income households will remain uninsured. When an eligible, low-income family fails to complete a burdensome enrollment and eligibility process, the consequences would no longer be limited to a denial of health coverage for which the family properly qualifies—the consequences might also include, for the first time, financial sanctions that, depending on household circumstances and the amount of the penalty, could be quite severe.

Of course, reform's approach to enrollment and eligibility determination is only one of several factors that determine participation levels. Other factors include (1) whether low- and moderate-income adults, who make up most of the uninsured,[13] receive sufficiently large subsidies to make coverage affordable; (2) whether benefits are sufficiently comprehensive that consumers believe the coverage is valuable; (3) whether consumers are legally required to obtain coverage and, if so, whether that mandate is effectively enforced; and (4) whether a strategically designed, well-resourced and well-implemented outreach campaign informs the public (including hard-to-reach groups) about new health coverage subsidies as well as any obligations to purchase health insurance.

That said, if federal policymakers want to achieve significant, rapid progress covering the uninsured, an additional issue, often overlooked, requires careful attention: (5) whether eligibility determination and enrollment procedures are streamlined and effective, including through using data matches and other strategies that substantially reduce the need for eligible households to complete application forms before receiving subsidized coverage.

Massachusetts provides an example of a state that has successfully addressed all of these factors, cutting to 2.6 percent the proportion of state residents who lack health insurance[14]—the lowest such percentage ever recorded by an American state. The policies that led to this result include significant subsidies to help uninsured residents with incomes up to 300 percent of FPL enroll in comprehensive health insurance; an individual mandate to obtain coverage, with financial sanctions enforced through the state's income tax system; an extraordinary campaign for public education, outreach, and enrollment, involving a broad range of public and private partners; and measures to streamline eligibility criteria, simplify enrollment procedures, engage an extensive network of providers and community-based organizations to complete application forms on behalf of consumers, and use data-matching strategies to relieve many low-income residents of the need to file application forms.[15] While there is no guarantee that the precise policies implemented in Massachusetts will yield the same results in other states, national policymakers are unlikely to achieve coverage rates close to Massachusetts levels unless they address all five policy elements that affect program participation, including effective, highly streamlined methods for eligibility determination and enrollment.

Traditional vs. 21st-century models for eligibility, enrollment, and retention

Traditional models

Notwithstanding significant innovations in recent decades, some key features of many public benefit programs remain largely unchanged since Dwight D. Eisenhower was President. With the traditional public benefit model:

- The government is responsible for—
  - informing the public about available benefits; and
  - processing applications.
- Before receiving assistance, the individual must—
  - determine whether he or she potentially qualifies for benefits;
  - complete an application form properly;
  - visit a local welfare office (perhaps more than once) to meet with a social worker; and
  - provide all relevant documentation of eligibility, including recent pay stubs, appraisals of asset values, etc.
- After enrolling, the individual is responsible for—
  - informing the government if household income rises by an amount that may affect eligibility; and
  - periodically—every six months, for example—filling out forms and providing documents that show continuing eligibility.

  A failure to successfully complete the renewal process terminates assistance.

This approach has significant disadvantages:

- Eligible people do not receive assistance if they fail to apply or if they fail to complete all procedural requirements for enrollment into and retention of coverage. The resulting participation gap can be quite large, as the previous section of this paper makes clear.
- Taxpayer-funded administrative costs are high since publicly-financed eligibility staff must evaluate and verify paperwork submitted by applicants.
- Households are inconvenienced by the requirement to complete forms and provide documentation, much of which has already been furnished to other government agencies in filing income tax returns or applying for other benefits.
- Errors are not uncommon. For example, an applicant may forget to report a bank account that generates a small amount of interest income; or a public employee may treat biweekly pay as if the applicant were paid twice a month, thus applying the wrong multiplier to calculate annual income.[16]

Modern models used by some existing programs

To avoid these problems, recent years have seen the emergence of new models for enrollment and eligibility determination that greatly reduce the need for eligible individuals to complete largely redundant application forms before receiving benefits. Two such models are discussed below: using prior-year income tax data to establish eligibility; and basing eligibility on income determinations that other government programs have already made.

Basing eligibility and enrollment on prior-year income tax data

Several diverse programs use prior-year income tax forms to determine eligibility. These programs typically share the following features:

- Eligibility for benefits during the current year is based on a previous year's federal income tax form.
- If income has dropped since the base year, households can obtain additional subsidies without delay.
- If income has increased during the current year, subsidy eligibility is not affected until the following year.[17]
- Prior-year and current-year income are not reconciled.
- With some exceptions, households who file federal income tax returns need not complete additional forms to obtain the benefit.

This general approach is used for Medicare Part B's means-tested premium subsidies, which base eligibility on income tax data with a two-year lag; 2008 stimulus rebate payments, which were means-tested based on 2007 tax returns; [18] and federally subsidized grants and loans for college, for which tax returns determine eligibility so long as adjusted gross income (AGI) is below $50,000.[19] Students can thus qualify for aid throughout the 2009-2010 school year based on their families' 2008 federal income tax returns.

Many families find it difficult to complete the application forms for student aid.[20] This is one major reason why 40 percent of college students never apply for assistance, even though most qualify for help.[21] To address this problem, the Bush Administration proposed a dramatic simplification in application forms by basing student aid entirely on two facts: prior-year AGI; and family size, determined by the number of exemptions claimed on the tax return.[22] The Obama Administration recently issued a similar proposal, simultaneously announcing a partnership between the Department of Education (DOE) and the Internal Revenue Service (IRS) through which, when a taxpayer consents, IRS automatically transmits his or her tax return data to help DOE determine eligibility for financial aid.[23]

Basing eligibility and enrollment on findings already made by other government agencies

When another government agency has already found that a family has low income, many programs automatically deem the family eligible for benefits, even if eligibility rules differ slightly among government agencies. For example:

- **Medicare Part D low-income subsidies.** By mid-June 2006, less than six months after the start of the Medicare Part D program, low-income subsidies (LIS) for prescription drug coverage reached nearly three out of four (74 percent) eligible seniors, only 14 percent of whom completed application forms.[24] This remarkably rapid achievement of a high take-up rate resulted from data-driven eligibility. Beneficiaries who received Medicaid or Supplemental Security Income (SSI) the previous year, as shown by data matches with state Medicaid agencies and the Social Security Administration (SSA), automatically qualify for LIS during the current year and are accordingly enrolled in Part D. This applies even in states with Medicaid coverage that includes beneficiaries who ordinarily are ineligible for LIS. For example, LIS is limited to households with assets below certain levels. Although 17.8 percent of Medicaid-eligible seniors live in states where Medicaid provides MSP based purely on income, without any consideration of assets,[25] MSP participants in those states automatically receive LIS.

  Application forms are needed only for people who do not qualify based on those data matches. This includes beneficiaries whose incomes have fallen since the prior year and are thus eligible for additional subsidies. As with the income-tax models described above, increased income during the current year does not affect subsidy eligibility until the following year.

  After initial program implementation, data-driven enrollment has continued to increase participation. By February 2009, LIS reached 81 percent of eligible beneficiaries, only 12 percent of whom submitted application forms.[26]

- **Massachusetts health care reform.** In its first year of operation, before the state required each adult resident to obtain health coverage, Massachusetts' health reform law reduced the number of uninsured in the Commonwealth by roughly 50 percent.[27] Adults with incomes below 100 percent of FPL qualified for premium-free coverage under the state's new Commonwealth Care (CommCare) program. Whenever data matches with eligibility files maintained by the state's previous program for subsidizing hospital uncompensated care showed eligibility for premium-free CommCare, individuals were enrolled automatically, without any need to file application forms. Within eight months of the new program's launch, the auto-enrolled group exceeded the Commonwealth's initial estimates of the total eligible population.[28] By contrast, in other eligibility categories, enrollment reached only 32 percent of the estimated eligible population.[29] Since that initial year, CommCare enrollment has more than doubled,[30] helping to achieve the state's above-described reduction in uninsurance.

- **Direct Certification for the National School Lunch Program** (NSLP) grants children free school lunches when their families have already qualified for temporary assistance to needy families (TANF) or food stamps.[31] In most cases, eligibility is established by data matches between schools and public benefit agencies. Direct Certification increases the number of eligible children receiving benefits, cuts publicly-funded administrative costs, and reduces eligibility errors.[32] Previously an option for local school districts, Direct Certification was made a national requirement during the Bush Administration.
- **Categorical eligibility for food stamps**. Without requesting income documentation, the food stamp program automatically qualifies households as "categorically eligible" whenever they receive certain forms of cash assistance.[33] This is among the procedural innovations that have raised food stamp participation rates to their highest levels ever recorded (although take-up remains far from universal, as noted above).
- **WIC adjunctive eligibility**. The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) grants automatic "adjunctive" eligibility to pregnant women and children who already receive Medicaid or certain other benefits. Federal officials characterize adjunctive eligibility as one of WIC's most important tools promoting program integrity.[34]
- **Student grants and loans**. Automatically qualifying for federally-subsidized college assistance are students with one or more family members who received Food Stamps, NSLP, TANF, or WIC at any point during the year covered by the applicable tax returns. Accordingly, if one family member received such benefits during part of 2008, the college student in the family automatically qualifies for assistance throughout the 2009-2010 school year.

Common elements of these modern models for eligibility and enrollment

Before adopting the above-described policies for eligibility determination and enrollment, policymakers decided that when a family has already demonstrated low income by completing forms for one government agency, the benefits of asking the family to complete a new form for a second government agency were outweighed by the disadvantages of denying assistance until the family successfully completes a largely redundant application process.

A key feature of these policies is that they tailor eligibility criteria to fit available data. As a result, data matches can determine qualification for benefits without requiring applicants to provide additional information. This can yield higher participation rates, lower administrative costs, reduced red tape for households, and fewer eligibility errors. But at the same time, adjusting eligibility criteria to fit available data can reduce the precision with which benefits are targeted to need.

These trade-offs are illustrated by a thought experiment. As noted above, both the former Bush Administration and President Obama have advocated simplifying the process for seeking college grants and loans. Suppose that policymakers instead moved in the opposite direction, applying traditional public benefit rules to tightly focus federally funded student aid on those who most need help based on current household circumstances. In that case, applicants would need to document current income and assets, attaching to their student aid application forms pay stubs, appraisals of property value, and so forth. Those who received assistance would, during the school year, need to file renewal forms to keep their aid. For the 27.1 percent of American undergraduates who receive such assistance,[35] college administrators or federal officials would need to verify these renewal forms and the accompanying documentation. If a family forgot to notify the federal government of an increase in income, that family would risk civil and criminal sanctions, and federal auditors would cite the student aid program for eligibility errors. It is not obvious that the gains in targeting would outweigh the compromised program integrity, widespread inconvenience, and increased administrative costs as well as the many *fully eligible* students who would lose financial aid because of their families' failure to meet the increased procedural requirements for obtaining and retaining assistance.[36]

A 21st-century approach to eligibility determination and enrollment under national health care reform

National health care reform could borrow strategies from these other programs to construct a 21st-century eligibility and enrollment system that maximizes the enrollment of eligible Americans into health coverage, lowers administrative costs, cuts red tape, and reduces errors. As the Government Accountability Office (GAO) noted in discussing the administration of need-based programs in general:

> "[P]rogram administrators told us of several strategies that increase access while maintaining and even improving integrity… Improved information systems, sharing of data between programs, and use of new technologies can help programs to better verify eligibility and make the application process more efficient and less error prone. These strategies can improve integrity not only by preventing outright abuse of programs, but also by reducing chances for client or caseworker error or misunderstanding. They can also help programs reach out to populations who may face barriers."[34]

The approach discussed here is based primarily on the federal income tax system. However, it also uses other enrollment strategies to reach the small proportion of uninsured Americans who do not file federal income tax returns.

More than six out of seven uninsured file tax returns

A large proportion of uninsured individuals—78.6 percent—are legally required to file tax returns, based on their characteristics reported in the Current Population Survey-Annual Social and Economic Supplement (CPS-ASEC) (Table 1). Another 8.5 percent are not legally required to file but have an incentive to do so because they qualify for the Earned Income Tax Credit (EITC). Still other uninsured fit into neither of these categories but file to obtain a refund of monies withheld from their paychecks.

Of course, some people do not file tax returns even if they are legally required to do so or if they qualify for EITC. Based on research by the Treasury Department[37] and the GAO[38] showing the proportion of tax filers among these two groups as well as administrative records documenting the total number of tax filers, Urban Institute researchers have found, using CPS-ASEC data, that ***in 2004 federal income tax forms were filed for an estimated 86.3 percent of the uninsured, or more than 6 out of 7*** (Table 1).

Table 1. Uninsured individuals, by age, parenting status, and federal income tax filing status: 2004

	Children	Parents	Other adults	**Total**
Number of uninsured (millions)	7.5	10.7	24.4	**42.6**
Among the uninsured, the percentage who are legally required to file	84.6	82.4	75.1	**78.6**
Among the uninsured, the percentage who are not legally required to file but who qualify for EITC	8.6	10.2	7.8	**8.5**
Among the uninsured, the estimated percentage who file tax returns or are included on returns as dependents	90.7	91.2	82.9	**86.3**

Sources: Urban Institute analysis of March 2005 CPS-ASEC and IRS income tax data for tax year 2004.
Notes: See Appendix for methodological notes.

Health reform legislation could use federal income tax returns to identify the uninsured and to provide an initial income determination

The previous section's findings suggest that national health care reform legislation could reach the vast majority of uninsured Americans through an approach like that applied by Medicare Part B, stimulus rebate checks in 2008, and the proposed use of federal income tax data to qualify college students for grants and loans. That is, federal income tax forms could:[39]

- Require taxpayers to identify their uninsured household members; and
- Ask taxpayers whether they want to have their tax information shared with the entity that, under reform legislation, determines eligibility for Medicaid, CHIP, and other health coverage subsidies. The purpose of such disclosure would be to see whether uninsured household members qualify for free or reduced-cost health insurance.

Unless a taxpayer with an uninsured household member objects to disclosure,[40] IRS would send the following information to the entity that determines subsidy eligibility:

- The names and social security numbers of all household members, with an indication of which members were identified as uninsured;
- The number of household members in the tax-filing unit (based on the number of exemptions claimed by the taxpayer); and
- The adjusted gross income (AGI) reported on the return.

Just as both President Obama and former President Bush have proposed with means-tested grants and loans for college, uninsured individuals[41] could qualify for health coverage subsidies based on AGI and the number of people in the household. Those two numbers would allow a calculation of such individuals' income as a percentage of FPL.[42] As the Department of Education concluded, if the only data that must be conveyed by IRS involve AGI and the number of exemptions on the return, *"it is possible that, under a set of data matching protocols, the IRS could provide those items either in 'real or near-real time.'"*[43]

An important feature of this approach is IRS' limited responsibility. IRS would simply provide data to the entities responsible for eligibility determination under health reform, which could also access other relevant information. If eligibility decisions turned out to be erroneous, those entities, rather than IRS, would be responsible for taking corrective action. Such an allocation of responsibilities would help make the system more administratively manageable for IRS.

This approach will require "up front" investments in information technology needed for efficient data matching and automated data entry into eligibility systems used by Medicaid, CHIP, and any new subsidy programs. However, such investments will lower the operating costs of eligibility determinations, potentially by large amounts.

Of course, it will be essential to establish a back-up mechanism through which the uninsured can submit more traditional application forms. For example:

- Someone whose income has fallen since the previous year may need to submit an application documenting those income declines;
- Income data accessible to government agencies may contain errors; and
- Alternative methods of applying for coverage will be needed for people who do not file federal income tax forms.

As explained above, Medicare Parts B and D provide such a backup application process, allowing beneficiaries to file traditional applications if data matches do not establish eligibility.

With backup subsidy applications for national health care reform, traditional enrollment systems can be streamlined in several ways. First, individuals could qualify for subsidies based on income determinations already made by other means-tested programs.[44] Second, data accessible to the government can expedite applications and eligibility determination, even for people who do not file federal income tax forms. Such individuals typically have a data trail documenting income as follows:

- Annual W-2 forms show employment earnings, including for workers who do not file federal income tax forms.
- Quarterly wages and new hires are reported to state workforce agencies

and consolidated nationally in the National Directory of New Hires (NDNH) maintained by the Office of Child Support Enforcement inside the U.S Department of Health and Human Services.

- Much non-wage income, including payments to independent contractors and unearned income, is reported annually to IRS via 1099 forms.
- The eligibility files of public assistance programs like food stamps and TANF contain income records for many people.

With access to such data, enrollment systems under national health care reform could give the uninsured an option to seek health coverage subsidies, not by filing traditional application forms that estimate and document income, but by triggering data matching. To allow such data matching, the individual would need to provide the names and social security numbers of everyone in the individual's household. The agency taking the application would then compile the most recent available income information for people in the household, using the results to "pre-populate" an application form and present it to the individual for correction and updating. If the individual failed to make necessary changes, sanctions would be imposed. If no corrections were forthcoming, the form would become the basis of the eligibility determination. Similar approaches are taken today by:

- The California income tax system, which allows people with simple tax situations to ask state tax authorities to calculate the amount taxpayers owe based on their 1099 and W-2 forms;
- The federal Earned Income Tax Credit, which lets taxpayers ask IRS to calculate the credit amount;
- Stimulus rebate checks paid out in 2008, which were determined by IRS based on information on income tax forms, rather than estimated by the taxpayer;
- Medicaid and CHIP programs that engage in so-called "passive renewal," which is one of the eight "best practices" encouraged by the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA);[45] and
- The Obama Administration's proposed simplification of college student aid, which will "pre-populate" application forms through data matches with IRS, after receiving consent from the taxpayer.[46]

Of course, traditional applications requiring the uninsured individual to fill in the blanks would be needed for people who did not or could not provide SSNs for all household members; without SSNs, data matching would be much more difficult. Such forms would also be needed for people who prefer to document income themselves, rather than rely on the government to ascertain income through data-matching. But under the approach discussed here, traditional applications would be used only when requested by the applicant or when all other eligibility determination methods were unavailable.

Data matches with the Social Security Administration could verify citizenship and legal residence for some (but not all) uninsured

Under national health care reform, eligibility for subsidies is likely to be limited to U.S. citizens and legally resident immigrants. To increase participation levels while reducing administrative costs and avoiding errors, eligibility and enrollment systems under national health care reform need to establish these elements of eligibility based on data matches, rather than application forms, whenever possible.

Fortunately, income tax information can often be the basis for establishing citizenship and satisfactory immigration status through data matches with the Social Security Administration (SSA) since most tax forms list Social Security Numbers (SSNs) for all household

members. Before it issues someone an SSN, SSA requires the individual to prove American citizenship or legal authorization to work in the U.S. The documentation that SSA requires is remarkably similar to that traditionally used to establish citizenship and satisfactory immigration status under the Medicaid and CHIP programs.[47] SSA has thus already determined that many legally resident immigrants have been Lawfully Admitted for Permanent Residence (LAPR). A data match confirming that SSA has already found someone to be a U.S. citizen or LAPR could suffice to establish citizenship or satisfactory immigration status for purposes of eligibility for health coverage subsidies.

Whether this is feasible will depend, in large part, on the eligibility rules for subsidies. As with the pre-CHIPRA Medicaid and CHIP programs, policymakers could decide to limit immigrants' subsidies to people who have had satisfactory immigration status for at least 5 years. If this happens, SSA records will not show which immigrants qualify for help, since such records do not include the date on which LAPR status was first granted. If policymakers apply this 5-year waiting period but wish to retain the efficiency and enrollment gains from using data matches to determine immigrant eligibility, SSA will need to revise its data-collection rules to include, for all LAPR immigrants receiving SSNs, the date on which LAPR status was first approved by U.S. Citizenship and Immigration Services.

Regardless of the precise eligibilty standards, SSA data-matching will not work for all applicants. Some citizens and legal immigrants are not included in SSA records. For others, data matching may fail to turn up the correct records because of differences in how names are spelled, transposed SSN digits, etc. Accordingly, if SSA data matches fail to establish citizenship or legal immigrant status, households need the ability to submit other forms of documentation, as under current law for Medicaid and CHIP.

Subsidy eligibility could reflect income changes since the prior tax year

The approach discussed here bases subsidy eligibility on prior-year tax data. As with Medicare Part B, stimulus rebate payments, and student aid for college:

- If household income has fallen since the prior year, individuals can seek additional help, so they are not saddled with unaffordable costs.
- If household income has increased, subsidies are not affected until the following year.

Previous sections of this paper suggest that using prior-year data can increase participation rates, lower administrative costs, cut red tape, and prevent errors. However, some people receive higher subsidies than if eligibility were based on current income levels.

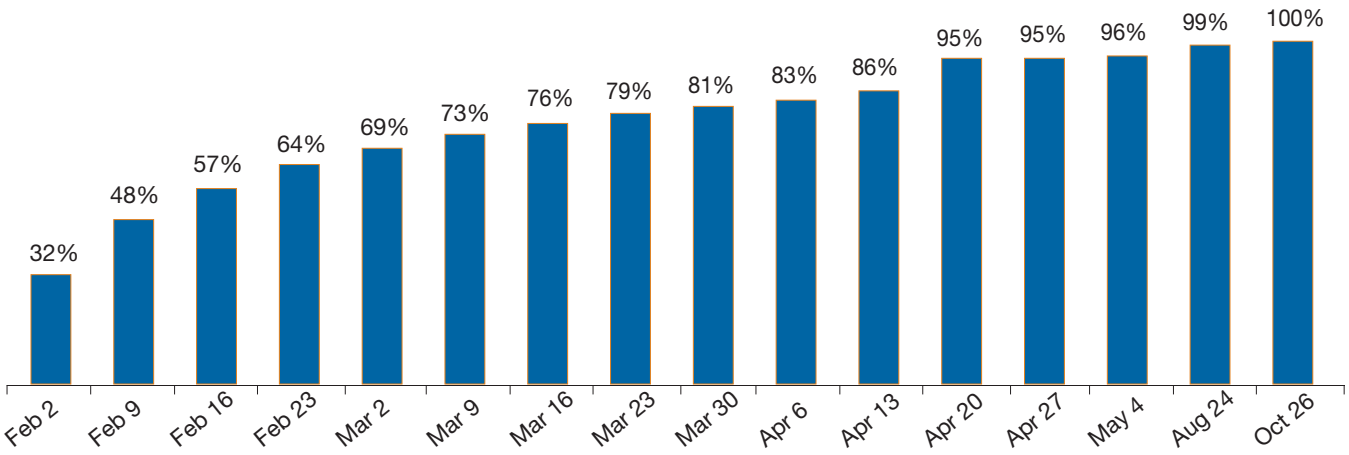
If policymakers wish to avoid the resulting increased subsidy cost, while still preserving many of the administrative advantages of basing eligibility entirely on prior-year tax data, they could take approaches like those described below.

Automatically updating tax return information with more recent data

Policymakers could automatically update a beneficiary's subsidy eligibility whenever new income data become available, as follows:

- Prior-year tax information could be supplemented with NDNH data showing quarterly earnings, described above. This would pick up many if not most income changes, since variation in hours and wages of employment is by far the most significant component of income volatility among low-income families.[48] However, such supplementation would miss some income changes, including those that involve self-employment earnings and very recent wage increases that have not yet reached NDNH.[49]
- Under federal law, employers must report every new hire to their state workforce agency within 20 days. Within eight business days after receiving notice of a new hire, the state agency must transmit the information to NDNH.[50] National health reform legislation could direct NDNH to provide this information to the entities that determine eligibility for health coverage subsidies. If the information shows that a subsidy beneficiary was recently hired, the eligibility-determining entity would send the beneficiary a request for information about earnings from the new job. The request would also need to be sent to the beneficiary's health plan, which would have an incentive to make sure that the beneficiary

Figure 1. Among federal income tax returns for 2006 that claimed the Earned Income Tax Credit, the proportion that were filed by various dates in 2007



Sources: Author's calculation, IRS, *Tax Year 2006 Taxpayer Usage Study*.

Notes: Calculation assumes that all applicable returns were filed by October 26.

provides the information and remains enrolled;[51] if consumers are left on their own, these forms are frequently not returned, even by people who in fact remain eligible for assistance.

- Annual W-2 and 1099 information from all sources of income is due to IRS by February and March for paper and electronic transmissions, respectively.[52] With additional resources to develop the necessary information technology infrastructure, IRS could promptly forward this information to entities determining subsidy eligibility, which would automatically revise subsidy levels accordingly.
- When a beneficiary files a new year's tax return, the return information could automatically be conveyed to the entity determining eligibility, which would adjust the beneficiary's subsidy (if necessary). Many low-income taxpayers file returns before their employers provide IRS with W-2 information; more than half of tax returns that claim the EITC are filed by mid-February (Figure 1).

If reform legislation revises eligibility automatically in response to data about income fluctuations, it would be important to provide beneficiaries with notice of each change in subsidy levels and an opportunity to correct and appeal errors. While data matches streamline eligibility determination considerably and cut down on errors, some mistakes will be inevitable, and eligibility systems need to be designed to detect and fix them.

One final comment about this approach is important. Automatically adjusting prior-year income based on new data that reaches government agencies is quite different from requiring beneficiaries to report changes in household circumstances. Such a reporting requirement could create serious problems. Because of busy lives, a large proportion of working, low-income households will almost certainly forget to make some of these reports, causing problems with program integrity.

This issue arose under the National School Lunch Program (NSLP), which determines eligibility based on the most recent month of family income at the start of the school year (usually August). Before 2004, parents were required to report subsequent changes in income of $50 or more. Few did so. When eligibility was audited (typically in December) by sampling a small proportion of NSLP enrollees, many were found ineligible because their incomes had changed since August. In the Child Nutrition and WIC Reauthorization Act of 2004, NSLP eligibility was reformed so that changes in household circumstances during the year no longer affected eligibility for free or reduced-price lunches. As characterized by USDA, "this change has eliminated errors related to income volatility."[53]

Policymakers could take a similar approach to subsidies under national health care reform, granting eligibility for 12-month periods following the date of eligibility determination, regardless of changes in household circumstances during those periods. Such 12-month continuous eligibility is one of the "best practices" that CHIPRA prioritizes for implementation by states that wish to claim performance bonuses.[54] However, if lawmakers are loath to incur the additional costs that result from delaying consideration of increased income until the end of that 12-month period, a reasonable middle-ground approach would adjust subsidies based on available data, as explained above, rather than imposing a requirement, sure to be widely violated, that subsidy recipients must inform government agencies of every potentially relevant change in household circumstances.

Year-end reconciliation

In addition to updating subsidy eligibility automatically in response to new information, as described above, policymakers could require year-end reconciliation to correct subsidy payments based on final totals for current-year income. But applying such reconciliation to low-income families[55] could substantially reduce enrollment since many households would fear that, if annual income turns out to exceed current expectations, they will owe money to IRS. Similar reconciliation mechanisms with the Earned Income Tax Credit have discouraged almost all low-wage earners from claiming the EITC advance payment, which provides the credit in the form of higher take-home pay throughout the year. Illustrating low-income workers' understandable preference for immediate rather than year-end income, 35 percent of EITC filers used their eventual tax refunds as collateral for Refund Anticipation Loans in 2003, even though such loans were often made on very unfavorable terms.[56] By contrast, no more than 3 percent of EITC recipients request advance payment,[57] primarily because year-end reconciliation can increase tax liability by unforeseen amounts; anticipated tax refunds may not materialize, or the family may unexpectedly owe money to the federal government. *Put differently, low-income households are more than 10 times as likely to seek potentially usurious Refund Anticipation Loans than to subject themselves to the risk of year-end reconciliation by claiming EITC in advance.*

The Bush Administration proposed tax credits to subsidize health coverage for uninsured, low-wage families as part of its FY 2003 budget, basing credit amounts on prior-year income, without any year-end reconciliation with current-year income totals. The Council of Economic Advisers explained the rationale as follows:

> *"[W]hen the advance credit is awarded, eligible individuals need not worry about retroactively losing benefits at the end of the year, for example if their income turns out to be higher than expected… Because the previous year's income is already known, no eligible individual would be afraid to use the credit for fear of turning out to be ineligible because of too-high income at the end of the year."*[58]

Some policymakers have suggested creating a "safe harbor" that would cap the amount of money that low-income households could be asked to repay through year-end reconciliation. If such a safe harbor limited tax liability to an amount that would not deter low-income households from seeking subsidies, this approach may be promising. This is particularly true if policymakers also take the above-described steps to update subsidy amounts as soon as new income data become available, thereby reducing both the number and magnitude of differences that require correction.

Policymakers could base eligibility on income rather than assets

The approach described here bases eligibility for need-based assistance on income, rather than assets like a car, a bank account, real property, etc. One rationale is that much more comprehensive data are available for income than for assets, notwithstanding data-matching initiatives that address certain discrete types of assets.[59] If subsidies are instead limited to households with assets below a specified level, subsidy applicants will need to obtain estimates of the value of their property. Asset tests thus comprise some of the most burdensome aspects of traditional application procedures for public benefits; they deter many eligible households from completing the application process; and when households do complete the process, asset requirements drive up state administrative costs for verification and application processing.[60]

Once income requirements are in place, adding asset limits may not accomplish very much in further targeting assistance to the households with the greatest need, since most low-income households are asset-poor. One analysis of childless adults with incomes below 200 percent of FPL, for example, found that, in 2002, 83 percent had assets below the maximum amount allowed for their state Medicaid programs.[61] Broader research has likewise found that households in the lowest quintile of income tend to have assets of very little value.[62]

While asset tests would probably yield only modest gains in targeting subsidies based on need, the more significant result is likely to be that fully eligible individuals, whose income and assets are both very low, will be deterred from completing the application process because of the procedural hurdles erected by an asset test.

Aside from these procedural concerns, it is not clear, as a policy matter, that possession of assets should be used to disqualify people from health coverage subsidies. Health insurance needs to be bought every month. If households must liquidate their assets to buy insurance before they qualify for assistance, the proceeds eventually run out, but premiums still need to be paid. Forcing low-income families to divest themselves of resources, including potential retirement savings and autos needed for employment, in order to obtain health insurance can thus reduce their ability to become economically self-sufficient, undermining the achievement of broader social goals while providing only temporary respite from the need for publicly funded subsidies for health insurance.[63]

Some uninsured would need enrollment pathways outside federal income tax forms

While most uninsured people file federal income tax returns, roughly one in seven do not, as explained above. The bulk of non-filing uninsured are poor (70 percent) or near-poor (14 percent). (For more detailed information about uninsured non-filers, see Appendix Table 1.)

Several strategies can help reach this remaining group:

- **Traditional public education** and application procedures would be available, as noted above. One particularly promising strategy uses community-based organizations to provide intensive application assistance.[64]
- **Key transition points** could provide opportunities for the uninsured to identify themselves, seek help with coverage, and authorize disclosure of otherwise confidential information to the agencies that establish eligibility for subsidies. Such transitions include:
    - *Job changes*. Questions giving workers an opportunity to identify themselves as uninsured and to authorize the use of otherwise confidential information to determine subsidy eligibility could be added to several documents—namely, W-4 forms that new employees complete when they start work for a company that does not offer employer-sponsored insurance (ESI); and notices that employers offering ESI must provide to laid-off workers under the Consolidated Omnibus Budget Reconciliation Act of 1986

(COBRA) or comparable, state "mini-COBRA" laws.[65]

- *When an uninsured child starts the school year*, parents completing health forms could indicate whether their children are uninsured and, if so, whether the parents authorize the use of their tax returns, eligibility information from the National School Lunch Program, and other relevant data to determine their children's eligibility for coverage.
- *When the uninsured seek care*. Hospitals and community health centers could be required (a) to ask all uninsured patients (including those with small bills) whether they want to have their tax records and other confidential income information used to qualify for health coverage; and (b) when patients authorize such disclosure, to use a secure method of data conveyance to send pertinent identifying information to the entity that determines eligibility for subsidies. In this context, applications and enrollment into coverage probably need to be voluntary, even if health reform legislation includes an individual mandate. For example, some immigrants may fear that deportation could result if they come to the attention of government agencies. Other uninsured simply will not want to pay premiums. If applications for subsidies and enrollment into coverage automatically result whenever an uninsured person seeks care, many people will delay seeking care until health problems grow severe, with potentially grim results.

Conclusion

Unless policymakers pay careful attention to eligibility determination and enrollment mechanisms in national health care reform, large numbers of eligible, uninsured Americans could remain without coverage for years after legislation becomes effective. Fortunately, enrollment mechanisms are available that can avoid such a result by bringing to bear 21st-century information technology, granting coverage based on federal income tax information and other data relevant to eligibility. Applying these mechanisms in the context of national health care reform will require careful tailoring of eligibility rules to fit available data. Such tailoring can increase participation levels, lower administrative costs, reduce red tape, and lower error rates. On the other hand, it can also reduce the precision with which subsidies are targeted to need. While no perfect solution is available, the federal income tax system can provide the starting point for an enrollment system that achieves significant administrative efficiencies, safeguards program integrity, and ensures that health reform legislation rapidly achieves one of its most basic goals—namely, providing health coverage to millions of uninsured Americans.

Appendix

For a full explanation of the methodology underlying Table 1 in the body of the report as well as Appendix Table 1 below, see Appendix A in Stan Dorn, Bowen Garrett, Cynthia Perry, Lisa Clemans-Cope, and Aaron Lucas, Nine in Ten: Using the Tax System to Enroll Eligible, Uninsured Children into Medicaid and SCHIP, prepared by the Urban Institute for First Focus, February 2009.

In understanding the current paper's estimates, the following notes may be helpful: (1) Current Population Survey-Annual Social and Economic Supplement (CPS-ASEC) estimates of the number of uninsured were adjusted to compensate for an undercount of enrollment in Medicaid and CHIP, relative to administrative data. (2) The estimates in Table 1, in the body of the report, and Appendix Table 1 were derived by identifying, among uninsured individuals represented in CPS-ASEC data, the proportion who were legally required to file federal income tax returns, based on applicable filing thresholds in 2004, and the proportion who had an incentive to file tax returns because of eligibility for EITC. Researchers then estimated the percentage of filers within each of these groups by applying the findings of the Treasury Department and GAO identifying the proportion of filers among (a) people who are legally required to file tax returns and (b) people who qualify for EITC. By comparing the resulting estimated number of filers with IRS administrative data, researchers were able to approximate the number of individuals represented in CPS-ASEC who filed tax returns even though they were neither legally required to do so nor qualified for EITC. The results proved robust after many rounds of randomization and sensitivity testing. (3) In terms of the percentage of uninsured parents who filed federal income tax returns in 2004, the 95 percent confidence interval for Table 1 ranged between 90.4 and 92.0 percent. For non-parents, that interval was between 82.0 and 83.7 percent. For children, see Dorn, et al., op cit. (4) Across 50 random imputations, the range of point estimates for the proportion of tax filers among the uninsured as reported in Table 1 was between 90.6 and 91.8 percent for parents and between 82.4 and 83.4 percent for non-parents. For children, see Dorn, et al., op cit.

Appendix Table 1. Uninsured individuals for whom federal income tax returns were not filed, by income, age, and parenting status: 2004

		Children	Parents	Non-parents	**All**
	Total	700,000	900,000	4,200,000	**5,800,000**
Among uninsured non-filers, the proportion with incomes at various levels	Below Poverty	67%	56%	74%	**70%**
	100%-199% of FPL	16%	22%	12%	**14%**
	200%-299% of FPL	8%	12%	6%	**7%**
	300%-399% of FPL	3%	5%	3%	**3%**
	400% + of FPL	6%	4%	4%	**5%**
	All income levels	100%	100%	100%	**100%**

Sources: Urban Institute analysis of March 2005 CPS-ASEC and IRS income tax data for tax year 2004.

Notes: (1) See above methodological comments. (2) Totals may not add because of rounding.

Endnotes

[1] At the time, the eligibility categories were known as Qualified Medicare Beneficiaries (QMBs) or Specified Low-Income Medicare Beneficiaries (SLMBs).

[2] Letty Carpenter, "Evolution of Medicaid Coverage of Medicare Cost Sharing," *Health Care Financing Review*, Winter 1998, 20(2): 11-18.

[3] Alex D. Federman, Bruce C. Vladeck, and Albert L. Siu, "Avoidance of Health Care Services Because of Cost: Impact of The Medicare Savings Program," *Health Affairs*, January/February 2005, 24(1): 263-270.

[4] Thomas M. Selden, Julie L. Hudson and Jessica S. Banthin. "Tracking Changes in Eligibility And Coverage Among Children, 1996-2002," *Health Affairs*, September/October 2004, 23(5): 39-50.

[5] Stan Dorn, *Health Coverage Tax Credits: A Small Program Offering Large Policy Lessons*, prepared by the Urban Institute for the Robert Wood Johnson Foundation, February 2008.

[6] Stan Dorn, *Take-Up of Health Coverage Tax Credits: Examples of Success in a Program with Low Enrollment*, prepared by the Urban Institute for The Commonwealth Fund, December 2006.

[7] Government Accountability Office (GAO), *Medicare Part D Low-Income Subsidy: Progress Made in Approving Applications, but Ability to Identify Remaining Individuals is Limited*. May 8, 2007. GAO-07-858T.

[8] Karen E. Cunnyngham, Laura A. Castner, and Allen L. Schirm, *Reaching Those in Need: State Food Stamp Participation Rates in 2006*, prepared by Mathematica, Inc., for USDA Food and Nutrition Service, November 2008; Center on Budget and Policy Priorities, *Policy Basics: Introduction to the Food Stamp Program*, Updated April 3, 2009.

[9] Leonard E. Burman and Deborah Kobes, *EITC Reaches More Eligible Families Than TANF, Food Stamps*, Urban Institute, March 17, 2003; Sheila R. Zedlewski, Gina Adams, Lisa Dubay, and Genevieve M. Kenney, *Is There a System Supporting Low-Income Families?* Urban Institute, February 24, 2006.

[10] That estimate, from 1999 data, is available from GAO, *Means-Tested Programs: Information on Program Access Can Be an Important Management Tool*, GAO-05-221, March 2005.

[11] Sherry A. Glied, Jacob Hartz, and Genessa Giorgi, "Consider It Done? The Likely Efficacy of Mandates for Health Insurance," *Health Affairs*, November/December 2007, 26(6): 1612–1621.

[12] Kaiser Family Foundation and the Urban Institute (KFF/UI), *The Uninsured: A Primer,* "Supplemental Data Tables," October 2008, accessed on June 23, 2009, at http://www.kff.org/uninsured/upload/7451_04_Data_Tables.pdf.

[13] In 2007, 52.9 percent of the uninsured were adults with incomes below 200 percent of FPL. Adults below 300 percent of FPL made up 71.6 percent of the uninsured. Author's calculations, KFF/UI, op cit.

[14] Massachusetts Division of Health Care Finance and Policy, *Health Care in Massachusetts: Key Indicators*, February 2009, accessed on June 19, 2009 at http://www.mass.gov/Eeohhs2/docs/dhcfp/r/pubs/09/key_indicators_02-09.pdf.

[15] High enrollment into the state's new Commonwealth Care program has been linked to "the automatic conversion into Commonwealth Care of thousands of eligible individuals who previously had been using the hospital uncompensated care program" and "a massive outreach and education campaign about the program and the soon-to-be implemented individual health insurance mandate and its enforcement penalties." Stephanie Anthony, Robert W. Seifert, Jean C. Sullivan, *The MassHealth Waiver: 2009-2011…and Beyond*, prepared by the Center for Health Law and Economics, University of Massachusetts Medical School, for the Massachusetts Medicaid Policy Institute and the Massachusetts Health Policy Forum, February 2009. Anthony and colleagues noted that the previous round of Massachusetts waivers had extended Medicaid eligibility to new groups and "simplified the Medicaid application process and financial eligibility rules." For another description of the state's policies that resulted in very high enrollment, see The Massachusetts Health Insurance Connector Authority, *Report to the Massachusetts Legislature: Implementation of the Health Care Reform Law, Chapter 58, 2006-2008,* October 2008, accessed on June 19, 2009, at http://www.mahealthconnector.org/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/About%2520Us/News%2520and%2520Updates/Current/Week%2520Beginning%2520September%252028%252C%25202008/Connector%2520and%2520Health%2520Reform%2520Evaluation.pdf. See also Jon Kingsdale, "Implementing Health Care Reform In Massachusetts: Strategic Lessons Learned," *Health Affairs* 28(4):

w588–w594, Web Exclusive, May 28, 2009; John E. McDonough, Brian Rosman, Mehreen Butt, Lindsey Tucker, and Lisa Kaplan Howe, "Massachusetts Health Reform Implementation: Major Progress And Future Challenges," *Health Affairs* 27(4): w285–w297, Web Exclusive, June 3, 2008.

[16] See, for example, Office of the Legislative Auditor, State of Minnesota, *Follow-up Review: MinnesotaCare Eligibility Determination*, April 2007, describing the factors responsible for erroneous eligibility decisions and calling for increased data matching as a way to reduce errors.

[17] With Medicare Part B, increased income does not affect subsidy eligibility until two years later.

[18] If 2008 income was lower than in 2007, taxpayers could qualify for additional rebates when filing their 2008 income tax returns. If income rose during 2008, rebate amounts were unaffected.

[19] If income exceeds $50,000, the family must document the current value of any *assets* (bank accounts, real and personal property, etc.). But even for these families, *income* changes since the year covered by the tax return do not affect eligibility for assistance until the following year. For more information, see U.S. Department of Education, *2008-2009 Federal Student Aid Handbook*, accessed on February 20, 2009, at http://www.ifap.ed.gov/fsahandbook/0809FSAIndexedHBook.html.

[20] Tamar Lewin, "The Big Test Before College? The Financial Aid Form," *New York Times*, February 21, 2009.

[21] U.S. Department of Education, *Report to Congress on Efforts to Simplify the Free Application for Federal Student Aid (FAFSA)*, January 16, 2009.

[22] Secretary of Education, *Report on Simplification of the Federal Student Aid Process and the Free Application for Federal Student Aid (FAFSA) - Transmittal Letter*, January 16, 2009.

[23] U.S. Department of Education, "Making College More Affordable by Simplifying the Student Financial Aid Application," *Fact Sheet*, June 24, 2009, accessed on June 25, 2009, at http://www.ed.gov/finaid/info/apply/simplification.html.

[24] Stan Dorn, *Automatic Enrollment Strategies: Helping State Coverage Expansion Achieve Its Goals*, prepared by the Urban Institute for the State Coverage Initiatives Program of AcademyHealth, supported by the Robert Wood Johnson Foundation, August 2007.

[25] Urban Institute tabulations of 2006 data from the Health Retirement Study.

[26] Author's calculations, Center for Medicare and Medicaid Services, *LIS-Eligible Medicare Beneficiaries with Drug Coverage, As of February 1, 2009*, February 20, 2009.

[27] Sharon Long, "On the Road to Universal Coverage: Impacts of Reform in Massachusetts at One Year," *Health Affairs*, July/August 2008, 27(4): w270-w284.

[28] The Long study, cited above, found that uninsurance in this group fell by more than two-thirds, suggesting that the state had originally underestimated the number of uninsured.

[29] Dorn August 2007, op cit.

[30] Massachusetts Division of Health Care Finance and Policy, op cit. Subsequent automatic enrollment procedures applied to other populations. Accordingly, 70 percent of CommCare enrollees are in eligibility categories to which automatic enrollment applied at some point in time.

[31] Food stamps was recently renamed the Supplemental Nutrition Assistance Program, or SNAP. Because readers are likely to be more familiar with the program's former name, this paper continues to use it.

[32] P. Gleason, et al., *Direct Certification in the National School Lunch Program—Impacts on Program Access and Integrity*, prepared by Mathematica Policy Research, Inc., for the U.S. Department of Agriculture (USDA), 2003, Report E-FAN-03-009; N. Cole, *Data Matching in the National School Lunch Program: 2005*, "Volume 1: Final Report," prepared by Abt Associates, Inc., for USDA, 2007, Report CN-06-DM; Food and Nutrition Service of the Minnesota Department of Children, Families and Learning, *Free and Reduced Price Meal Eligibility Cost Study*, March 2002; M. Ponza, P. Gleason, L. Hulsey, and Q. Moore, *NSLP/SBP Access, Participation, Eligibility, and Certification Study: Erroneous Payments in the NSLP and SB*, "Volume I: Findings, Final Report," prepared by Mathematica Policy Research, Inc., for USDA. October 2007.

[33] These cash assistance programs are TANF, supplemental security income (SSI), and general assistance (GA). States have the option to grant categorical eligibility based on other benefits, such as non-cash TANF assistance.

[34] GAO, *Means-Tested Programs: Information on Program Access Can Be an Important Management Tool*, GAO-05-221, March 2005.

[35] Lutz Berkner, Christina Chang Wei, Shirley He, Stephen Lew, Melissa Cominole, Peter Siegel, and James Griffith, *2003–04 National Postsecondary Student Aid Study (NPSAS:04)*, "Undergraduate Financial Aid Estimates for 2003–04 by Type of Institution," prepared for the U.S. Department of Education by MPR Associates, Inc., RTI International, and the National Center for Education Statistics, NCES 2005–163, June 2005.

[36] A similar analysis applies to Medicare Part B. Suppose Medicare Part B, which defines eligibility for premium subsidies based on available data—namely, income tax records from two years in the past—was restructured to determine eligibility using the same approach that applies to traditional public benefit programs. In 2008, all 42 million Part B beneficiaries (CMS, *Medicare Aged and Disabled Enrollees by Type of Coverage, All Areas, as of July 1, 1966 – 2008*, "Supplementary Medical Insurance") would have been asked to complete application and renewal forms, attaching proof of recent income several times during the year. Each time, Federal employees would have examined and attempted to verify such documentation for every individual who complied with these documentation requirements. Administrative costs would have been much higher than under current law, seniors would have experienced substantially more red tape, and many beneficiaries who failed to meet all applicable procedural requirements would have been denied subsidies for which they qualified. Benefits would have been better targeted based on current need, but the trade-offs for such precision would have been quite significant.

[37] Treasury Inspector General for Tax Administration, *The Internal Revenue Service Needs a Coordinated National Strategy to Better Address an Estimated $30 Billion Tax Gap Due to Non-filers*, November 2005, Reference Number 2006-30-006.

[38] General Accounting Office, *Earned Income Tax Credit Participation*, GAO-02-290R, December 14, 2001.

[39] Tax forms could serve other functions as well. For example, if someone has not paid all premiums due for coverage during the prior year, tax returns could be used to select a method of making the remaining premium payments. The default arrangement could be through increasing the amount of income tax owed. Similarly, if policymakers enact an individual mandate, the income tax return could facilitate enforcement. Massachusetts uses state income tax forms for such purposes.

[40] Alternatively, policymakers could require taxpayers to affirmatively consent before their tax return information is shared with the entity that determines subsidy eligibility.

[41] It would be important to verify that people who self-report uninsurance in fact lack coverage. Particularly with Medicaid and CHIP, enrollees may not characterize such coverage as insurance. Accordingly, the entity determining eligibility for subsidies under national health care reform may need to match the identity of individuals identified as uninsured against information contained in Medicaid and CHIP files as well as private insurance enrollment records. The latter records, including for self-insured plans, are already required, for purposes of Medicaid third-party-liability enforcement, to be provided to state Medicaid agencies under Section 6035 of the Deficit Reduction Act of 2005. See also CHIPRA Section 203(d)(3), giving states access to such data for purposes of identifying uninsured children who qualify for Medicaid and CHIP.

[42] In 2009, the FPL is $10,830 for a person living alone, $22,050 for a family of four, etc.

[43] U.S. Department of Education, *Report to Congress on Efforts to Simplify the Free Application for Federal Student Aid (FAFSA)*, January 16, 2009.

[44] As noted above, a similar approach is used with Medicare Part D low-income subsidies, college student aid, the National School Lunch Program, Food Stamps, WIC, and other programs. Using such "deemed" or "categorical" eligibility increases take-up while reducing inconvenience to households and administrative costs to government.

[45] For a state to qualify for a performance bonus, it must implement at least five of the eight specified practices.

[46] These changes will be implemented administratively, without any need for statutory change. Other, more far-reaching reforms will require Congressional action to change eligibility criteria to fit available third-party data (in this case, from IRS).

[47] Compare, e.g., SSA, *POMS Manual*, Sections RM 00203.410, "Evidence of Alien Status for an SSN Card for an Alien Lawfully Admitted for Permanent Residence," RM 00202.230, "Form SS-5 - Evidence Blocks (PBC, EVI, EVA, EVC, and PRA)," and RM 00203.600, "List of Documents Establishing Lawful Alien Status for an SSN Card," with CMS *State Medicaid Manual*, Section 3212.4 A.

[48] Constance Newman, "Income Volatility Complicates Food Assistance," *Amber Waves*, ERS/USDA, September 2006, 4(4):16-21.

[49] Self-employment earnings, earnings received as a contractor rather than an employee, and unearned income are not reported to NDNH; prior-year tax returns remain the most recent information about these forms of income. Moreover, quarterly income data can be several months old, since employers first report them to state workforce agencies (SWA), which then convey the data to NDNH. Some of these delays would be avoided by first matching to SWA data, and then turning to NDNH data. Unlike SWA databases, NDNH has the advantage of including information for workers in all states and federal employees as well as multi-state employers, who report all of their wages and new hires to just one state.

[50] U.S. Department of Health and Human Services, Administration for Children & Families, Office of Child Support Enforcement, Action Transmittal 99-05, March 24, 1999.

[51] To further increase the effectiveness of this measure, the new hires reporting requirement could apply to independent contractors in all states. Today, 10 states supplement federal requirements and mandate reports when independent contractors are newly engaged if, for example, a company expects to pay a contractor more than a threshold amount. U.S. Department of Health and Human Services, Administration for Children & Families, Office of Child Support Enforcement, *State New Hire Reporting Information*, last updated February 26, 2009, accessed July 10, 2009, at http://www.acf.hhs.gov/programs/cse/newhire/employer/contacts/nh_matrix.htm. Expanding such requirements to all states could create savings both for new subsidies under reform legislation and for the many programs that currently use the new hires data base for income verification, including Medicaid, food stamps, and Temporary Assistance for Needy Families.

[52] Internal Revenue Service (IRS), *Employer's Tax Guide for Use in 2008, (Circular E)*, Publication 15, Department of the Treasury, 2008.

[53] Katherine Ralston, Constance Newman, Annette Clauson, Joanne Guthrie, and Jean Buzby, *The National School Lunch Program: Background, Trends, and Issues*, Economic Research Report Number 61, July 2008.

[54] As noted above, a state cannot qualify for a performance bonus under CHIPRA unless it implements at least 5 of 8 specified practices, one of which is 12 months of continuous eligibility.

[55] Higher-income families, on the other hand, might be subject to reconciliation without encountering this problem. The COBRA subsidies in the American Recovery and Reinvestment Act of 2009 were limited to households with incomes below $145,000 for an individual and $290,000 for a couple. If tax returns at the end of the year show income too high to qualify, the COBRA subsidies must be repaid. Evidence is not yet available showing the impact of such reconciliation provisions on higher-income households' willingness to seek subsidies.

[56] Author's calculation from footnotes 9 and 10, *National Taxpayer Advocate's 2007 Objectives Report to Congress*, "Volume II: The Role of the IRS in the Refund Anticipation Loan Industry," June 30, 2006.

[57] Joanna Stamatiades and James Cook, GAO, Eric Larson, Internal Revenue Service, *Demographic and Noncompliance Study of the Advance EITC (AEITC)*, Presented at the 2008 IRS Research Conference, June 11, 2008.

[58] *Annual Report of the Council of Economic Advisers*, February 2002.

[59] For example, the SSI program has achieved good results piloting data matching strategies to compile information about bank accounts. SSA Office of Quality Performance report, *Evaluation of the New York Bank Account Study and Access to Financial Institutions*, November 2006.

[60] Laura Summer and Lee Thomas, *How Asset Tests Block Low-Income Medicare Beneficiaries from Needed Benefits*, May 2004, prepared by the Center on an Aging Society, Georgetown University, for The Commonwealth Fund; The Lewin Group, *Simplifying Medi-Cal Enrollment: Options for the Assets Test, June 2003*, prepared for the California HealthCare Foundation; Karl Kronebusch and Brian Elbel, "Simplifying Children's Medicaid And SCHIP: What helps? What hurts? What's next for the states?" *Health Affairs*, May/June 2004, 23(3): 233-246; Karl Kronebusch and Brian Elbel, "Enrolling Children in Public Insurance: SCHIP, Medicaid and State Implementation," *Journal of Health Politics, Policy and Law*, June 2004, 29(3): 451-490.

[61] Stan Dorn, *Millions of Low-Income Americans Can't Get Medicaid: What Can Be Done?* Prepared by the Urban Institute for AARP, September 2008.

[62] According to Adam Carasso and Signe-Mary Mckernan, *The Balance Sheets of Low-Income Households: What We Know About Their Assets and Liabilities*, prepared by the Urban Institute for U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (DHHS/ASPE), November 2007, households in the lowest income quintile had the following characteristics in 2004:

- Median assets of all kinds equaled $17,000 in value, compared to $78,300 in the second-lowest income quintile.
- The median balance of checking and savings accounts was $600. Roughly 5 percent of households in the lowest income quintile had any stocks, bonds, certificates of deposit, or mutual funds, and just 10 percent had retirement savings accounts.
- The median value of automobiles was only $4,500, compared to $7,900 in the second-lowest quintile.
- Only 40.3 percent of bottom-quintile families owned a home. Such homes' median value was $70,000, compared to $100,000 in the second-lowest quintile. Fewer than 5 percent of lowest-quintile families owned any real property outside the home or any business equity.

[63] If policymakers insist on applying asset requirements to health coverage subsidies, two examples from other programs suggest how such requirements could be structured in national health reform legislation to reduce the resulting administrative burden. The first approach involves income-based proxies for significant assets. To qualify for the EITC for 2008, a taxpayer may not have investment income, interest, dividends, and capital gains that, in total, exceed $2,950. If a taxpayer had substantial income in these categories, that would indicate the likely presence of significant assets. Of course, this approach is far from foolproof. Some assets leave no trace on a federal income tax return. Nevertheless, this strategy flags the presence of some common forms of potentially disqualifying assets, without imposing a heavy procedural burden on applicants or government.

A second approach applies asset restrictions only when income exceeds a threshold amount. With college student aid, for example, assets are relevant to eligibility only if AGI shown on the prior-year tax return exceeds $50,000, as explained above. In such cases, families must document the current value of their assets. This reflects the judgment that, because relatively few indigent households have significant assets, it makes little sense to impose on them the procedural requirements of asset documentation. Only at higher income levels do enough households have major assets that such requirements made sense, according to the policymakers establishing current policy.

However, this very example serves as a warning. Both the Bush and Obama Administrations have proposed eliminating the asset test from the college student aid eligibility process, as noted above. It would be odd if policymakers failed to learn from this experience and instead added to national health care reform the kind of asset limitations that have been rejected on a bipartisan basis in the context of college student aid.

[64] See, e.g., G. Flores, M.A. Abreu, C.E. Chaisson, A. Meyers, R. C. Sachdeva, H. Fernandez, P. Francisco, B. Diaz, A. Milena Diaz, and I. Santos-Guerrero, "Randomized, Controlled Trial of the Effectiveness of Community-Based Case Management in Insuring Uninsured Latino Children," *Pediatrics*, December 2005, Vol. 116, No. 6, pp. 1433–41; Jacobson and Buchmueller 2007, op cit.; A. Aizer, "Public Health Insurance, Program Take-Up, And Child Health," *The Review of Economics and Statistics*, August 2007, 89(3):400–415.

[65] COBRA applies to employers with 20 or more workers. Many states have passed similar statutes that apply to smaller companies.


Urban
Institute