Nine in Ten: Using the Tax System to Enroll Eligible, Uninsured Children into Medicaid and SCHIP

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Abstract

In 2004, 89.4 percent of uninsured children who qualified for Medicaid or the State Children's Health Insurance Program lived in families who filed federal income tax forms. This substantially exceeds the proportion of uninsured but eligible children who can be reached through other outreach strategies. Federal lawmakers could cover uninsured children in these families by: (a) changing federal income tax forms so parents can identify their uninsured children and request coverage; (b) investing in information technology allowing data exchange between states and the Internal Revenue Service; and (b) letting states cover uninsured children if tax information shows they qualify.

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Introduction

As reauthorization of the State Children's Health Insurance Program (SCHIP) returns to the federal policy agenda, the country's leaders are confronted with one key fact suggesting a need for policy change: more than 6 in 10 uninsured children qualify for Medicaid or SCHIP but are not enrolled.[1] Most of these children are eligible for Medicaid.

Reaching these children may not be easy. States have made great progress simplifying application procedures and conducting extensive outreach.[2] As a result, 79 percent of eligible children already receive coverage.[3] Clearly, many of the "lowest-hanging fruit" have already been picked. Reaching the remaining 21 percent of eligible children is likely to require bold action.

Passed by Congress but vetoed by President Bush, the Children's Health Insurance Program Reauthorization Act of 2007 (CHIPRA)[4] contained important proposals to address this problem. It provided states with new resources and incentives to maximize the enrollment of eligible children, with a particular focus on the lowest-income children. It gave states important new tools to reach the eligible uninsured, including a new option for Express Lane Eligibility (ELE), through which children could qualify for health coverage based on eligibility determinations already made by other government programs.

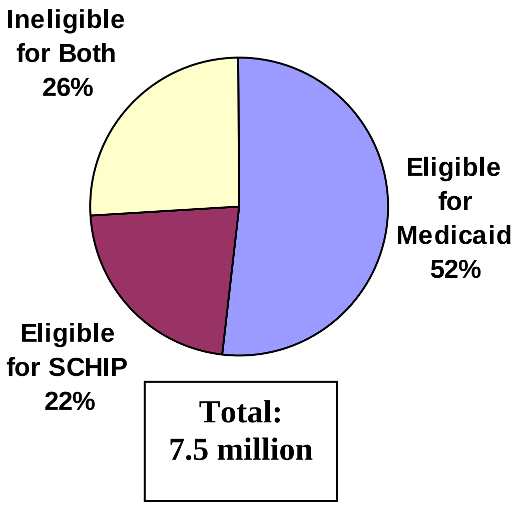
This Issue Brief examines the potential offered by the income tax system as another vehicle for finding and enrolling eligible children. We conclude that revising SCHIP reauthorization legislation to connect Medicaid and SCHIP eligibility with the federal income tax system could yield dramatic gains in enrolling uninsured children who qualify for health coverage.

9 in 10 eligible, uninsured children live in families who file federal income tax returns

No previous research documents the relationship between children's health coverage and federal income tax filing. To fill this gap, the authors combine data from multiple sources to develop an estimate of the extent to which uninsured children who qualify for Medicaid or SCHIP live in families who file federal income tax forms. Appendix A explains the methodological approach in more detail.

We begin with information about children's health coverage contained in the March 2005 Current Population Survey - Annual Social and Economic Supplement (CPS), which asks respondents about health coverage in calendar year 2004. We adjust the CPS data to compensate for discrepancies between CPS-reported health insurance status and administrative enrollment totals reported by state Medicaid and SCHIP programs. We then apply the Urban Institute Health Policy Center's (UI-HPC) model of each state's Medicaid and SCHIP eligibility rules to determine which uninsured children qualify for each program, based on their families' characteristics reported in CPS. Based on this analysis, we find that 7.5 million children age 18 and younger were uninsured in 2004, and that 74 percent qualified for Medicaid or SCHIP. (Figure 1).

Figure 1. Uninsured children, by eligibility for Medicaid and SCHIP: 2004



Source: Authors' analysis of the 2005 CPS, applying the Medicaid and SCHIP eligibility simulation model described in Dubay et al. 2007. [5] For more information, see Appendix A.

To analyze these children's relationship with the federal income tax system, we first identify the children whose families are legally required to file federal income tax forms. Such legal requirements apply to households with incomes above specified levels, which vary according to filing status and the age of adults in the household; they do not vary, however, based on household size, so a single dollar threshold will translate into various percentages of the federal poverty level (FPL), depending on the number of people in the household. Table 1 shows the applicable 2004 thresholds for various household types.

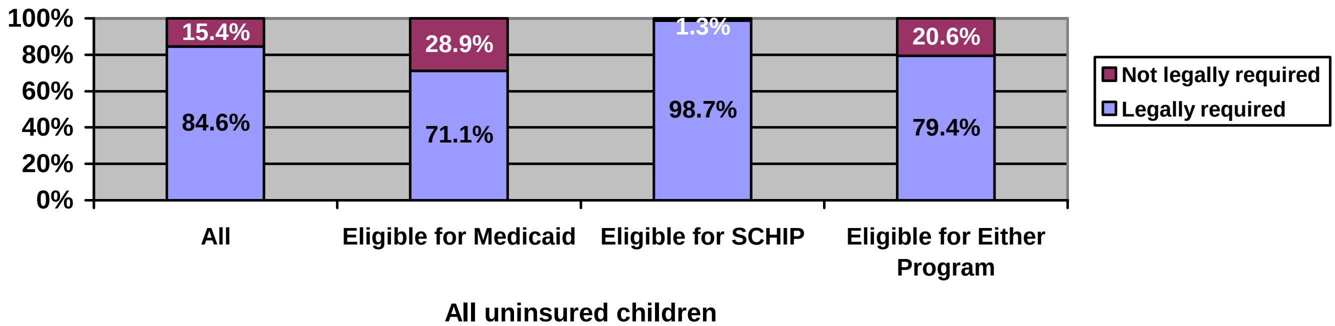
Table 1. Minimum income thresholds above which federal income tax returns were legally required: 2004

Filing Status	Income		
	Dollars	FPL for household of 3	FPL for household of 4
Single, adult under age 65	$7,950	51%	42%
Married, filing jointly, both spouses under age 65	15,900	101%	84%
Married, filing separately, spouses of any age	3,100	20%	16%
Head of household, under age 65	10,250	65%	54%

Source: Authors' calculations based on IRS 2004[6] and HHS 2004.[7]

By applying the federal income tax filing requirements for 2004 to CPS coverage data for 2004, we find that 84.6 percent of all uninsured children and 79.4 percent of uninsured children who qualified for Medicaid or SCHIP lived in households that were legally required to file federal income tax forms (Figure 2).

Figure 2. Among various groups of uninsured children, the percentage whose families were legally required to file federal income tax returns: 2004

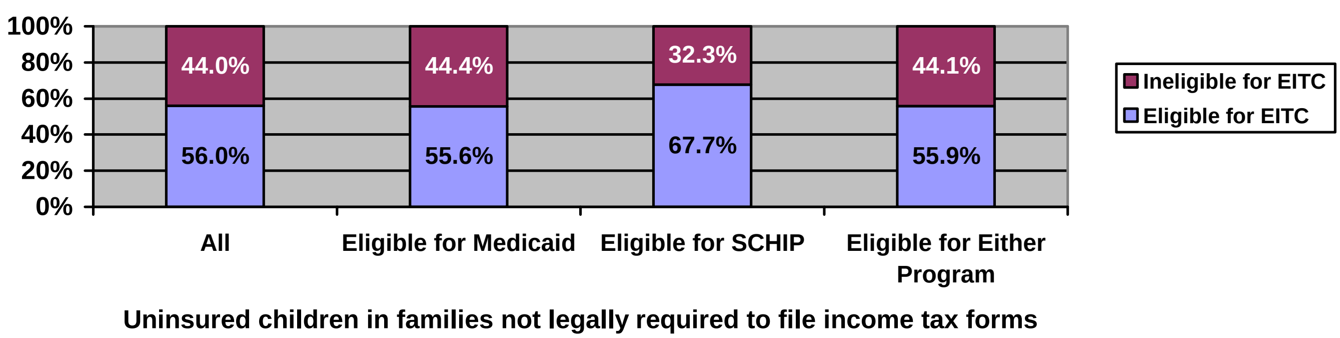


Source: Authors' analysis of the 2005 CPS, augmented with information from the IRS and other sources. For more information, see Appendix A. Notes: (1) This figure shows, among the estimated 7.5 million children who were uninsured in 2004, the proportion whose families were legally required to file federal income tax returns. (2) Not all families comply with legal requirements to file federal income tax returns. As explained below, Figure 4 adjusts the totals shown here to reflect Treasury Department estimates about the number of households who are legally required to file but fail to do so.

We then use CPS data to ascertain, among uninsured children whose families were *not* legally required to file federal income tax forms, the percentage whose families qualified for Earned Income Tax Credits (EITC). Going to workers who have earnings below specified thresholds that vary based on filing status,[8] EITC is fully refundable. In other words, it goes to all eligible households who file federal income tax forms, including those who owe no federal income tax.

Even if a family is not legally required to file an individual income tax return, it has an incentive to do so if it can thereby claim the EITC. We find that, in families who were not legally required to file federal income tax forms, 56.0 percent of all uninsured children and 55.9 percent of uninsured children who qualified for Medicaid or SCHIP lived in families who were eligible for EITC and so had a financial incentive to file tax returns (Figure 3).

Figure 3. Among various groups of uninsured children whose families were not legally required to file federal income tax forms, the percentage whose families qualified for Earned Income Tax Credits (EITC): 2004



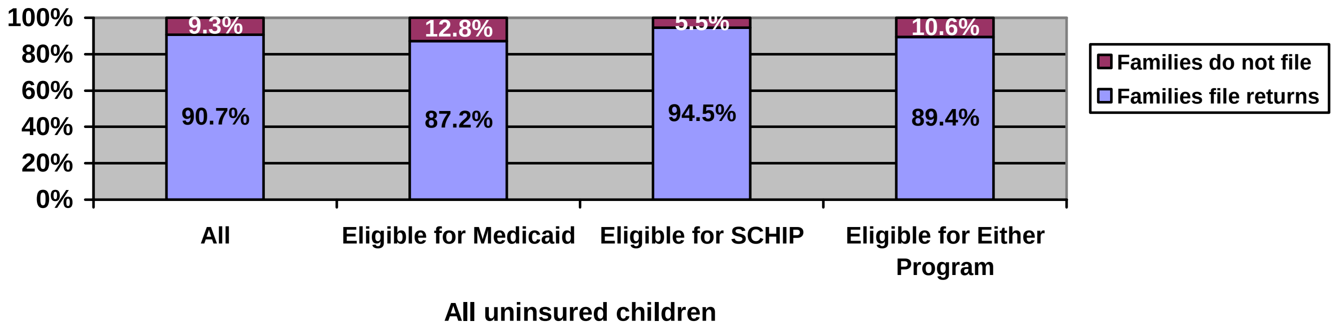
Source: Authors' analysis of the 2005 CPS, augmented with information from the IRS and other sources. For more information, see Appendix A. Notes: (1) This figure shows EITC eligibility among the estimated 1.1 million uninsured children whose families were not legally required to file income tax returns. (2) Not all EITC-eligible families in fact file tax returns to claim their credits. As explained below, Figure 4 adjusts the totals shown here to reflect GAO research estimating the take-up rate for EITC among eligible households of various types.

Of course, some families do not file income tax returns even though they either (a) are legally required to do so, as is the case with 79.4 percent of eligible, uninsured children; or (b) would gain financially by filing and claiming EITC, as is the case for 55.9 percent of the remaining eligible but uninsured children. Conversely, some families file income tax returns even though they are neither legally required to file nor eligible for EITC.

In order to estimate the percentage of uninsured children whose families *actually* file federal income tax returns, we apply prior research by the U.S. Treasury Department and the General Accounting Office indicating the proportion of tax filers among various household types.[9] We then use the IRS's counts of the total number of tax filers to determine the proportion of CPS respondents who filed tax returns without either a legal requirement to do so or EITC eligibility.

As explained in Appendix A, this lets us estimate the proportion of uninsured children whose families file federal income tax returns. *We find that, in 2004, families filing tax forms included 90.7 percent of all uninsured children, including 89.4 percent of uninsured children who qualified for Medicaid or SCHIP* (Figure 4).

Figure 4. Among various groups of uninsured children, the estimated percentage whose families filed federal income tax returns: 2004



Source: Authors' analysis of the 2005 CPS data augmented with information from the IRS and other sources. For more information, see Appendix A.

Earlier research helps place this result in context. The country's three largest need-based nutrition programs – namely, Food Stamps, the National School Lunch Program, and the Special Supplemental Program for Women, Infants, and Children (WIC) – collectively reach the families of 71 percent of uninsured children below 200 percent of FPL and 64 percent of those below 300 percent of FPL.[10] While strategies based on developing interfaces between other need-based programs and health coverage thus offer great potential for reaching eligible but uninsured children, the income tax system apparently has even more potential for expanding enrollment.[11]

There are some limitations in how we reach our findings. Because the CPS does not record whether families file income tax returns,[12] we rely on IRS rules and other information to impute whether CPS respondents file taxes. CPS respondent error (such as misreporting of the components of gross income) could lead to incorrect characterization of some families as being required to file. Our method for imputing filing status among various groups (those legally required to file; those who qualify for EITC with 1 child, 2 children, or 3 or more children; those who neither are legally required to file nor qualify for EITC) is based on random assignment within specified CPS households to hit known filing rate targets for the applicable group; therefore, within each group, we will almost certainly mis-assign filing status to some individual households. To assess the resulting impact on our findings and ensure the findings are not driven by one unusual set of random numbers, we conducted 50 different randomizations. Figure 4 shows the results based on the imputation that comes closest to the average over all 50 randomizations. Among all randomizations, the percentage of tax filers among uninsured children in general and uninsured children eligible for public coverage varies by no more than 1.0 and 1.3 percentage points, respectively, from the values in Figure 4.

We performed sensitivity testing using an alternate method of assigning filers within each EITC eligibility group by assigning filing status to those families with the greatest EITC credit until the target percentage for the group was reached, on the assumption that those who qualify for larger credits have more incentive to file tax returns. This method produced virtually identical results to those displayed in Figure 4. We also found a close correspondence between the income distribution of tax filers as estimated by our method and as shown by IRS administrative data.[13] For more information on our methodology, see Appendix A.

Federal policy change could let states use federal income tax information to enroll eligible, uninsured children into health coverage, at their parents' request

Our research suggests that the federal income tax system may be the single most promising potential avenue for enrolling eligible but uninsured children. Not only do tax-filing families contain the vast majority of such children, federal income tax data represent an obvious source of information for determining eligibility.

This section of the paper describes an approach through which, by modestly adjusting SCHIP reauthorization legislation and making information technology (IT) investments as part of pending economic recovery legislation, policymakers could connect the federal income tax system with Medicaid and SCHIP for purposes of identifying uninsured children, determining their eligibility, and enrolling eligible children into coverage.

We begin by exploring how such a data-driven approach to eligibility determination could reduce ongoing administrative costs, lessen eligibility errors, and make application procedures less burdensome for families. We then describe how Medicare already uses third-party data to provide seniors with income-based subsidies without asking them to complete traditional application forms. Finally, we explore how carefully targeted federal policy changes could let states enroll the many uninsured but eligible children whose parents file federal income tax returns.

Data-driven eligibility-determination and enrollment can lower administrative costs, reduce eligibility errors, and cut red tape for families

The previous section of this paper shows the large proportion of eligible children who could be reached if federal income tax forms became a vehicle through which parents could request help for their uninsured children. Letting states grant eligibility for health coverage based on data matches with federal income tax records, rather than traditional application forms, could yield other important advantages as well. Similar data-driven eligibility techniques used with other benefit programs have reduced ongoing administrative costs[14] as well as eligibility errors;[15] automated data matches can be both less costly and more accurate than traditional application procedures, which require families to estimate income and, in most cases, present documentation that must be analyzed and verified by state and local eligibility workers. Data-driven approaches can also reduce red tape for families, since parents are spared the need to present largely redundant information they have already provided on other governmental forms (in this case, federal income tax returns). On the other hand, achieving these gains requires "up-front" investments in information technology, which offset the operational savings of data-driven eligibility methods.

Medicare uses federal income tax information and other external data to qualify seniors for need-based subsidies, without requiring traditional application forms

Under the Medicare Modernization Act of 2003 (MMA), seniors' income, for purposes of establishing the applicable Part B premium subsidy, is determined based on federal income tax data two years in the past. For example, if a beneficiary's 2006 income, shown in federal tax records, was sufficiently low to qualify for full Part B subsidies, the beneficiary receives such subsidies throughout 2008, even if household income rose during the intervening two years. If household income fell after the base year, a beneficiary can seek larger subsidies by applying to the Social Security Administration (SSA). However, without filing any application forms, every Part B beneficiary receives an annual income determination and a corresponding interim subsidy level based purely on income tax data.

Along similar lines, Medicare Part D provides automatic, annual low-income subsidies (LIS) for prescription drug coverage whenever data matches show that a beneficiary received Medicaid or Supplemental Security income (SSI) during the previous calendar year. This applies even in states where Medicaid covers some seniors who are otherwise ineligible for LIS. Application forms are needed only when data matches between state Medicaid agencies and SSA fail to demonstrate LIS eligibility. As a result, before Part D was six months old, nearly three-fourths (74 percent) of eligible seniors already received low-income subsidies[16]—a considerably higher take-up rate than was achieved by much more longstanding programs without comparable data-driven enrollment mechanisms.[17] A full 81 percent of LIS participants were enrolled automatically, based on data, without filing an application form.

Children could likewise receive health coverage based on federal income tax data

In SCHIP reauthorization and economic recovery legislation, policymakers could use the federal income tax system to take major strides reaching and enrolling eligible, uninsured children. One such approach, which Appendix B describes in more detail, includes three main elements.

First, policymakers would direct the Internal Revenue Service (IRS) to modify federal income tax forms so parents could check a single check box that does two things: identifies a dependent child as uninsured; and requests IRS transmittal of tax return information to the taxpayer's state to help determine the child's eligibility for free or low-cost health coverage.

Without either taxpayer consent or statutory authorization, IRS could not share such tax return information. The Internal Revenue Code strictly limits the disclosure of tax return data,[18] and for good reason. The income tax system depends on voluntary reporting. People's willingness to include all relevant information on their tax forms hinges on their confidence that such information will remain confidential, unless they consent to disclosure.

Second, federal policymakers would need to invest in improving Information Technology (IT) for both IRS and state Medicaid and SCHIP programs. Such funding would be needed for IRS to provide relevant information in timely fashion. And without modernizing outmoded Medicaid and SCHIP eligibility systems, many states would be unable to incorporate IRS data unless state or local employees entered the information by hand.

Currently, state public benefit programs, including Medicaid, have automated connections to income tax data, which are used to verify statements about income on application forms.[19] Such connections may reduce the cost of necessary IT investment. More important, as explained above, such IT investments would be counterbalanced by significant operational savings when eligibility is determined based on data matches, rather than the manual inspection of paper forms.[20]

In important ways, this investment fits into the paradigm for economic recovery. Short-term investments generate ongoing operational savings, with a favorable effect on the federal budget deficit. Further, this IT infrastructure lays the groundwork for national health reform, since the income tax system is likely to prove efficient and effective in providing need-based subsidies to uninsured, low-income adults as well as children.[21]

Third, states need a menu of options for responding when parents identify their children as uninsured on federal income tax forms. At a minimum, states would send such parents application forms for Medicaid and SCHIP. But states that seek to maximize enrollment of eligible children need the flexibility to grant eligibility based on federal income tax data, without requiring parents to submit largely redundant, traditional application forms.

This includes the option to disregard technical methodological differences between tax law and Medicaid and SCHIP statutes. For example, income tax records may not show whether a particular family qualifies for “income disregards” that are usually subtracted from gross income in determining Medicaid eligibility. Along similar lines, tax information does not identify step-parents, whose income, under normal Medicaid rules, must be excluded in determining eligibility. Because of these mismatches, family income, as determined by Medicaid, will often differ from the gross income shown on a federal income tax form.

To address this problem, policymakers could add income tax systems to the list of “Express Lane” programs already contained in SCHIP reauthorization legislation, which permits eligibility to be granted based on determinations of other public agencies, notwithstanding technical differences in income methodologies. A state providing Express Lane Eligibility based on tax data could, for example, find children income-eligible for health coverage so long as the tax-filing unit’s gross income or adjusted gross income was at or below a specified level. Under SCHIP reauthorization legislation, if a child does not qualify based on Express Lane Eligibility, he or she must be evaluated for eligibility using traditional methods.

In addition to income, the requirement of U.S. citizenship or satisfactory immigration status could also be addressed with income tax data. In most cases, tax forms list the Social Security Number (SSN) for each household member. Later versions of SCHIP reauthorization legislation gave states the flexibility to verify citizenship through electronic confirmation of a valid SSN. The same option could help establish satisfactory immigration status, since SSA will not issue SSNs to immigrants unless they have documented their official permission to reside in the

United States.

These policy adjustments would transform the process through which many children enroll in health coverage. A state wishing to maximize enrollment of eligible children could use income tax data to establish eligibility for a large proportion of uninsured children identified on federal income tax returns. Only when income tax data and SSN verification failed to establish eligibility would traditional applications be needed. In such a state, low-income children's enrollment into subsidized health coverage would begin to resemble the comparatively efficient and effective methods now used for America's low-income seniors.

Instead of providing states with a menu of options, federal law could automatically find uninsured children eligible based on information on their families' tax forms. In effect, this would convert "Express Lane Eligibility" from a state option to a national requirement. Using such an approach, federal policymakers could assure all parents of uninsured children that, by checking the appropriate box on their income tax forms, their children would receive free or low-cost health insurance if the tax form showed they qualified. However, to avoid imposing an unfunded mandate on states, this requirement would need to be accompanied by a federal commitment to pay all of the resulting costs. This alternative would cover more eligible children, but federal costs would rise.

Some may be concerned about adding an additional item to already-crowded federal income tax forms. In analyzing this issue, New Jersey's experience is instructive. That state's income tax form for 2008, the first page of which is excerpted as Appendix C, asks taxpayers to check a box, next the name of each child dependent, indicating whether the child is insured. A similar approach could apply at the federal level.

More broadly, questions may be raised about using the tax system to pursue goals other than revenue collection. Of course, such uses are not unknown today. Health Coverage Tax Credits, for example, subsidize the purchase of health insurance for certain workers displaced by international trade; the EITC lifts low-wage, working families out of poverty; and tax records are used to determine income-eligibility for Medicare Part B subsidies as well as to verify claims about income made on public benefit application forms.

The federal income tax system is the nation's most comprehensive source of information about potential eligibility for need-based benefits. Further, it is used by the vast majority of Americans, including most low-income families. These features will frequently make the tax system an appealing potential partner for policymakers who seek to improve the administration of public benefit programs. This creates a potential "slippery slope" that requires careful decisions about when and when not to assign the IRS responsibilities that go beyond revenue collection. In this case, the question facing policymakers is whether maximizing health coverage among eligible, uninsured children is important enough to join the other non-revenue functions that already apply to the federal income tax system.

Conclusion

Federal policymakers across the political spectrum strongly endorse the goal of ensuring that eligible, uninsured children receive Medicaid and SCHIP. Encompassing nine in ten eligible, uninsured children, the federal income tax system is by far the single most promising avenue for reaching uninsured children who qualify for coverage, and it also provides data about their potential eligibility. A reauthorized SCHIP program could empower parents and states to provide eligible, uninsured children with health coverage through the income tax system. This could increase enrollment dramatically, lower ongoing administrative costs, reduce eligibility errors, and eliminate procedural obstacles parents must now surmount before their eligible children receive health coverage.

Appendix A. Methodology

Data. We use the March 2005 CPS Annual Social and Economic Supplement (CPS) as the core microdata file which defines the population base for this study. The March survey, when weighted, is representative of the civilian non-institutionalized population of the United States and is the source of individual-level demographic information, income, and insurance coverage. Income and insurance coverage pertain to calendar year 2004.

Medicaid/SCHIP "Undercount" Adjustment. We modify CPS survey weights to compensate for a shortfall in the number of Medicaid and State Children's Health Insurance Program (SCHIP) enrollees reported in the March CPS as compared to the number of enrollees reported by states in administrative data.[22] Since there is evidence that administrative data overstate the number of people with Medicaid or SCHIP, we follow an established methodology (see Dubay et al. 2007) that adjusts the number of Medicaid enrollees in the CPS by half of the difference between the CPS survey and the administrative data.[23] The methodology assumes that health insurance coverage reported in the March CPS represents a point-in-time. We use "average monthly" enrollment from state's administrative data as the administrative counts. We increase the estimate of Medicaid/SCHIP enrollees in the CPS data by 2.5 million, and we reduce the number of uninsured by 1.1 million and privately insured children by 1.5 million. Thus, for every 2.5 children by which this procedure increases the number of Medicaid/SCHIP enrollees, it reduces the number of uninsured by one and privately insured by 1.5. As a result, our estimates show 5.6 million eligible but uninsured children, compared to the estimate of 6.3 million eligible but uninsured children if we had not implemented an undercount adjustment.

Simulation of Medicaid/SCHIP Eligibility. To measure Medicaid and SCHIP eligibility, we used the Urban Institute Health Policy Center eligibility simulation model.[24] The model compares information on family composition, adult work status, age, earned and unearned income, assets, childcare expenses, work expenses, and citizenship status to the Medicaid and SCHIP eligibility requirements of the state in which each person in the CPS resides to determine person-level eligibility status. Because information about assets and childcare expenses is not collected on the CPS, these values are imputed.[25] In evaluating the citizenship and immigration status of parents and children, the model considers whether their state of residence provides Medicaid or SCHIP coverage to those who have been in the country since 1996; for less than five years; or for more than five years. The model does not account for documentation status of non-citizens because this information is not available on the CPS. Thus estimates of eligibility may contain some non-citizens who would not quality for Medicaid or SCHIP despite being income- and resource-eligible. If undocumented individuals (whose children are less likely to be Medicaid or SCHIP eligible, given income) are less likely to file income taxes, this would exert a downward bias on our estimates and imply that the estimates we report of the percentage of Medicaid/SCHIP eligible children in families who file taxes are understated. This effect may be significant, given the finding of prior research that taking immigration status into account reduces the estimated percentage of eligible children among the uninsured from 74.1 percent to 67.0 per cent.[26]

Creating Tax Filing Units. Tax filing units in the CPS are defined using methods developed by the Urban Institute/Brookings Tax Policy Center.[27] Adults are identified as being married or single. Dependents are then identified among other household members and are linked to their parents' records.[28] This method assumes that all married couples file taxes jointly if they file, and that if nondependent single adults file taxes, they will file as heads of household if their income was more than a quarter of the total household income and they had at least one qualifying dependent.

Imputing Which Tax Units File a Tax Return. A tax unit is required to file a return with the IRS if its gross income exceeds a particular threshold that depends on its filing status and the age of individuals within the tax unit.[29] To calculate gross income for each tax unit, we sum the gross income (total income less social security income) of all members of each tax filing unit. We then apply IRS guidelines for the 2004 tax year to identify tax units that are required to file, i.e. those who would face penalties if they did not file.[30] Despite the threat of legal penalties for this group, however, the Treasury Department found that in 2003, 7.4 million people who were legally required to do so did not file. We calculate that 118 million tax units are required to file; following the empirical percent of non-filing among this group, we assume that 94%[31] of these units do file, and we assign tax units to be filers randomly among those legally required to do so. We apply this same percentage of filing to one other group that would face a financial penalty if they do not file – namely, tax units with negative gross income, who will be assessed taxes unless they document losses that exceed their income.[32] Some tax filers may be more likely to file than others, making compliance somewhat nonrandom. Because we lack information on factors associated with compliance, we are not able to perform a more specific imputation in this regard.

At this stage, builders of detailed tax microsimulation models impute filing status to tax units not required to file using tax unit-specific probabilities derived from a set of 9 probit equations of filing status estimated from an exact match of the March 1991 CPS and 1990 federal tax returns.[33] For the purposes of this study, we used a simpler method that reflects subsequent changes in the Earned Income Tax Credit.[34] The EITC provides an added incentive to file taxes among eligible tax units with earned income, and there is substantial overlap in eligibility for the EITC and Medicaid/SCHIP. We randomly impute filing status among those who are eligible for the EITC but not legally required to file taxes such that, together with those who have already been imputed to file due to legal requirements, the percentage matches EITC claiming rates reported by the General Accounting Office that vary by the number of children in the tax unit (96% with one qualifying child, 93% with 2 qualifying children, and 67% for 3 or more qualifying children).[35] As a sensitivity analysis, we tried assigning EITC-eligible tax units to be filers based on the amount of the EITC for which they qualified under the assumption that those expecting larger EITC payments would be more likely to file. Under this alternative procedure, we imputed filing status by starting with those with the highest EITC credits, moving to progressively lower credit amounts until the target was reached. This alternative assumption produced estimates that were almost identical to those stated in the text, with an overall percentage of filers that was the same among uninsured children as a whole and among SCHIP-eligible children. The only differences involved were very small and pertained to Medicaid-eligible children (under the alternative method, the statistic was lowered to 87.0 percent from 87.2 percent, in Figure 4). This resulted in a one-tenth of one percentage point drop among both Medicaid and SCHIP-eligible children in tax filing units.

Finally, among the remaining 24.9 million tax units, who were not legally required to file and who did not qualify for EITC, we randomly assign 15.7 million tax units to be filers so that the total number of filers in all categories matches the 132 million who filed in 2004, according to the IRS.[36] For example, according to the IRS, in 2004, there were 19.65 million tax units filing as head of household. After the first set of imputations, we have 17.75 million tax units filing as head of household. Therefore, we randomly assign 1.9 million head of household tax units to be filers to target the 19.65 million tax units listed by the IRS. We also hit IRS targets for the other filing groups (Married filing jointly/Surviving spouses, Singles, and Married filing separately).[37] Again, random assignment has limitations. Self-employed individuals may be less likely to file, for example, if the IRS does not receive third party information about their income, which is not reflected in this method. Because only 6.1 percent of uninsured children require assignment at this stage, we do not believe a more detailed imputation method would substantially alter the findings. We greatly reduce the probability that our results are driven by an unusual set of random numbers by repeating the random aspects of the imputation process 50 times. For reporting purposes, we select the imputation that yields results most closely matching the average of results obtained across the 50 randomizations.

Tabulating results. Given our population sample from the CPS, insurance coverage measures, Medicaid and SCHIP eligibility indicators, and imputed measure of whether tax units filed a tax return, we tabulated the weighted percentages of uninsured children in tax units that file, overall and by Medicaid/SCHIP eligibility, as reported in Figure 4. To help illustrate how we arrived at our main results in Figure 4, we also reported the number of children in households who (a) are legally required to file federal income taxes in Figure 2; and (b) are not legally required to file federal income taxes but who qualify for EITC in Figure 3.

Sources of error in the estimates. Some limitations of this analysis we have already discussed above, including possible data errors. The income measures in the CPS may overstate or understate the amount of income reported to the IRS. To a large degree, these errors will offset each other. However, wages reported in the CPS tend to be somewhat higher on average than those that appear in administrative data from the Social Security Administration. Using an exact match of the 1997 CPS and administrative data from 1996, Romer (2002) finds that among those with wages less than $300,000, CPS wages exceed wages in administrative data by 3.3 percent and suggests that the excess wages in the CPS may represent underground wages paid by employers or contractors reporting their pay as wages rather than self-employment income.[38] If income is actually lower than is represented in the CPS at the lower end of the income distribution, there would be more Medicaid/SCHIP eligible uninsured children than we have reported here. The additional Medicaid/SCHIP eligibles would tend to have a higher filing rate than the average eligible child based on CPS income because they are drawn from higher up the income distribution. Therefore the filing rate among children determined to be eligible for Medicaid/SCHIP using tax data would likely be higher than we have reported.

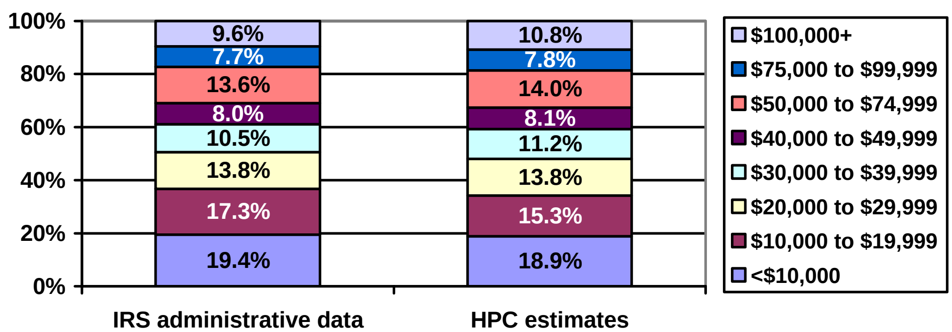
Also, our estimates are subject to the sampling variability of the CPS. We computed 95 percent confidence intervals for our main findings from Figure 4, which we report in Table A-1. The confidence intervals are relatively narrow. They do not reflect the additional sampling variability introduced by the random assignment we employed for some observations in the imputation of tax filing. We controlled that source of variability by repeating the imputation process 50 times, each with a different randomization. Figure 4 reports the result closest to the average result from these randomizations. Table A-1 shows the range of point estimates obtained across the 50 randomizations. For uninsured children, the maximum and minimum of the set of estimates differed by only 2.0 percentage points. For children eligible for SCHIP, the maximum and minimum differed by 5.5 percentage points. If we took even the lowest value in the range of estimates, it would not substantially alter our conclusions.

Table A-1. Among various groups of uninsured children, the estimated percentage whose families filed federal tax returns, 95% confidence intervals, and range of values across multiple imputations: 2004

	All	Eligible for Medicaid	Eligible for SCHIP	Eligible for Either Program
Point estimate	90.7%	87.2%	94.5%	89.4%
95% confidence interval	[89.4%, 92.0%]	[84.9%, 89.4%]	[92.8%, 96.1%]	[87.7%, 91.0%]
Range of point estimates across 50 imputations	[89.7%, 91.7%]	[85.4%, 88.6%]	[91.3%, 96.8%]	[88.1%, 90.5%]

As one final check on the accuracy of imputations, we analyzed the number of tax-filing households in terms of AGI, comparing IRS administrative reports with the results of our imputations. As Figure A-1 shows, the differences were modest. For purposes of this paper's analysis, what stands out is that, relative to IRS data, we slightly underestimated the proportion of tax filers with low AGI. For example, 18.9% and 15.3% of imputed tax filers had AGI below $10,000 and between $10,000 and $19,999, respectively, compared to 19.4% and 17.3% for the IRS data. This again suggests that our results may understate the proportion of tax filers among uninsured children who have sufficiently low incomes to qualify for Medicaid and SCHIP.

Figure A-1. Distribution of tax filing households by AGI, Health Policy Center (HPC) estimates vs. IRS administrative data: 2004



Sources: IRS, *Statistics of Income, Individual Complete Report 2004*, Publication 1304, September 2006; Authors' analysis of the 2005 CPS data augmented with information from the IRS.

Appendix B. A More Detailed Explanation of Options for Federal Policy Change

This Appendix provides more information about the policy approach described in the body of the paper. As noted there, the approach includes three elements:

1) Modifying the federal income tax return;
2) Investing in information technology (IT); and
3) Enrolling children into coverage by either
   a) Establishing a menu of state options for using the information provided by the federal income tax system; or
   b) Enrolling uninsured children into Medicaid and SCHIP whenever tax return information shows they qualify, using federal funds to finance the resulting cost increase.

Modifying the federal income tax form

For children to benefit from the same kind of data-driven eligibility systems that now help low-income seniors, Congress could direct the IRS to add a check-box to the federal income tax form through which a parent:

- Identifies a particular dependent child as uninsured; and
- Requests IRS transmittal of tax return information to the taxpayer's state to help determine the child's eligibility for free or low-cost health coverage.

In 2008, two states (Maryland and New Jersey) passed legislation requiring parents to identify their uninsured children on state income tax forms.[39] Massachusetts now requires its adult residents to describe their health coverage on state income tax forms. New Jersey and Massachusetts are implementing individual coverage mandates, but Maryland is not, and it seeks children's coverage information on tax forms solely to increase voluntary enrollment.

While building on prior state-level efforts, the approach described here provides additional options for parents, in two ways. First, parents are permitted, not required, to identify their uninsured children. Second, parents could go beyond simply identifying their uninsured children to seek coverage by authorizing the use of tax data to establish eligibility.

It would be important for the check-box to be on the 1040 or the 1040A forms and their electronic equivalents, rather than relegated to supplemental forms. Much behavioral economics research suggests that requiring the completion of additional paperwork can substantially reduce participation.[40]

Investing in information technology (IT) infrastructure

For income tax data to be used effectively, states may need new resources to develop their IT infrastructure. Existing eligibility systems are antiquated in many states. In New Jersey, for example, the Treasury Department has made state income tax data available to the state's health officials, but the agencies that determine Medicaid eligibility have outmoded and decentralized IT systems that cannot import the income tax information automatically. Instead, such information must be entered by hand. This has prevented the state from using tax data to establish Medicaid and SCHIP eligibility.[41] To address this problem, economic recovery legislation could provide federal grants to help states reconfigure their eligibility systems to incorporate income tax data automatically rather than manually. Such grants could also help states incorporate data from other public benefit programs, thus facilitating the implementation of Express Lane Eligibility options already included in CHIPRA.

The IRS likewise will need new IT resources for this strategy to succeed. Among other investments, funds may be needed to make tax data available to states relatively soon after parents request coverage for their children, and in a form that state eligibility systems can easily absorb.

As suggested above, automated eligibility determination using information available from income tax systems is likely to achieve operational savings for Medicaid and SCHIP. Depending on the number of eligibility determinations involved, the initial investment in IT infrastructure may pay for itself after several years of less costly eligibility determinations and renewals.

Enrollment alternative A: Giving states a menu of options for using federal income tax information to provide uninsured children with health coverage

Federal policymakers face a tension between two competing interests. On the one hand, once parents use federal income tax forms to request coverage of their uninsured children, such parents have a reasonable expectation that their request will not be ignored. On the other hand, enrolling eligible children raises state costs, and some officials may oppose federal policy changes that impose costs on states without their consent. To reconcile these competing interests, CHIPRA could give states a menu of options for how they process parents' requests for help on income tax forms, perhaps along the following lines:

Menu option 1: Basing Express Lane Eligibility on income tax data

For states that wish to go as far as they can to enroll eligible, uninsured children, CHIPRA could offer the flexibility to use federal and state income tax information in providing children with Express Lane Eligibility (ELE), disregarding technical differences in methodologies that the tax system and health coverage programs use to analyze income. For example, income tax forms may not show whether a particular family qualifies for "income disregards" that are usually subtracted from gross income in determining Medicaid eligibility. Along similar lines, tax information does not identify step-parents, whose income and needs, under normal Medicaid rules, must be excluded in determining eligibility. Because of these mismatches, family income, as determined by Medicaid, will often differ from the gross income shown on a federal income tax form.

ELE would permit a state to disregard these methodological differences in determining income-eligibility for health coverage. If ELE applied to income tax systems, CHIPRA's existing provisions would permit a state to establish an income threshold higher than the income-eligibility standard for Medicaid by an amount equal to 30 percentage points of income, stated in terms of the Federal Poverty Level (FPL).[42] Children whose income, as shown by gross income or adjusted gross income on income tax forms, is below that threshold could receive Medicaid, and SCHIP would cover those with incomes above the threshold but below the maximum income eligibility level for SCHIP. Families would not need to provide additional income documentation, and government officials would not need to further analyze family income.[43]

For example, consider a state that, today, grants Medicaid to school-age children whenever family income is at or below 100 percent FPL, or $1,467 a month for a family of three in 2008. SCHIP for such children extends to 200 percent FPL, or $2,934 a month. If gross income shown on a family's tax return, counting the income of every adult in the household, is no higher than 130 percent of FPL, or $1,517 a month, uninsured, school-age children in such a family would be automatically income-eligible for Medicaid. With gross income between that income threshold and the SCHIP eligibility limit, children would be found income-eligible for SCHIP.

When this data-based procedure does not establish income-eligibility for health coverage, children's eligibility would need to be determined using standard procedures. Only if they were ineligible using both income tax methods and standard methods could children be denied health coverage. Likewise, when children receive SCHIP rather than Medicaid, their parents would need to receive notice that the children might receive Medicaid coverage, which may offer more benefits at lower cost, if the parents chose to have the children's eligibility reevaluated using traditional methodologies. Under CHIPRA, these safeguards would automatically apply if income tax systems received ELE status.

One challenge with this approach involves timeliness of data on income tax forms. Family income may have changed between the year covered by tax data and the time the parents file their return. Of course, similar problems affect Medicare, which uses tax return information from two years in the past to determine eligibility for Part B subsidies. However, income fluctuations are more common with working families than with seniors, who are more likely to live on fixed incomes.

States already have the option to provide children with 12 months of continuous eligibility, ignoring changed household circumstances following the time of application. Along similar lines, President Bush's tax credit proposal to subsidize health insurance for low-income people without access to public or employer-based coverage likewise used each individual's prior-year tax form to establish eligibility for the means-tested credit.[44] In this case, giving states the additional option of using federal income tax information to establish income-eligibility would let states decide whether the increased take-up, reduced administrative costs, and improved objectivity of income determinations that would result from tax-based eligibility outweigh the reduced precision of means-testing when income is determined based entirely on automated sources of data.

That said, Federal policymakers may wish to give states the ability to limit mismatches between household income shown in prior-year tax data and current circumstances. If so, states could be given two options for adjusting their use of income tax data to grant eligibility. One would place a limit on the period of time for children's eligibility. For example, eligibility could be reevaluated automatically when annual third-party income data become available. Employers and others provide IRS with such data on W-2 and 1099 forms, by February or March, depending on whether the information is furnished in electronic or paper form. With enough funding for IRS development of information technology, such information could be made available to states based on a match with enrolled children's Social Security Numbers; states could then automatically re-determine income-eligibility for the next 12 months based on this updated tax information.

Another approach would have a state supplement federal income tax information with more recent quarterly wage data and new hires information included in the New Hires Data Base (NHDB); such supplementation would capture much of income variation since the year shown in the tax return, since by far the most important cause of income fluctuation among low-income families is changed hours and wages of employment.[45] While such supplementation would lessen possible mismatches between prior-year tax data and the current circumstances of low-income families, it would have some disadvantages. It would increase administrative complexity, since it would require states to interface with two income databases rather than one. Also, it takes several months for quarterly wage data to become accessible via NHDB; and NHDB includes neither self-employment income nor unearned income.

Another modest but critically important change to CHIPRA would permit states to streamline eligibility determination for requirements other than income – in particular, citizenship and satisfactory immigration status. In most cases, tax forms list the Social Security Number (SSN) for each household member. Under the final version of CHIPRA that was sent to President Bush, states can verify citizenship through electronic confirmation of a valid SSN. Whether or not this option remains in SCHIP reauthorization legislation, valid SSNs could be used to confirm status as a qualified immigrant, since SSA will not issue SSNs to immigrants unless they have documented their official permission to reside in the United States.[46]

Two limitations are important to note with this new option for verifying immigration status. First, possession of a valid SSN would supplement, rather than replace, current methods of documenting satisfactory immigration status. Some immigrants have other forms of documentation but lack electronically confirmable SSNs.[47] CHIPRA's existing provisions trigger a request for other forms of citizenship documentation when SSN validity cannot be confirmed electronically; similar safeguards apply to current methods of documenting satisfactory immigration status; and those same safeguards would need to apply if SSNs could provide a streamlined alternative means of documenting immigration status.[48]

Second, electronic confirmation of a valid SSN would not establish that a child meets the five-year residency requirement of current federal law. As of 2004, 22 states used their own funds to provide Medicaid and SCHIP to non-citizen children living in the U.S. with the permission of federal authorities even when such children were ineligible for federal matching funds because they arrived in the U.S. within the past five years.[49] In such states, a valid SSN would be enough to establish satisfactory immigration status for purposes of eligibility. It could also establish qualification for federal matching funds if CHIPRA is modified to provide such funds when states elect to cover recently arrived, documented immigrant children. But states that deny coverage during immigrants' first five years in the U.S. would need to go beyond confirmation of valid SSNs and find other documentation showing immigrant children's length of authorized residence in the United States.

More broadly, one final comment is important. The essence of this option is permitting states to adjust eligibility criteria to fit smoothly with available data. For Medicare, such adjustments have proven essential to data-driven eligibility determination and enrollment. Part B ignores changes in household income over the two-year period since the time covered by federal income tax data, and Part D disregards differences between Medicaid and Medicare eligibility rules. Without those adjustments, millions of seniors who, today, receive subsidies based on data would instead be required to complete traditional application forms. The likely results would include many fewer seniors receiving help, many more government dollars paying for administrative costs, and many more Medicare beneficiaries subjected to largely redundant paperwork requirements. For income tax data to cover the maximum possible number of eligible, uninsured, low-income children, states need the flexibility to make adjustments in eligibility criteria like those employed by Medicare.

Menu option 2: Facilitating enrollment without changing existing eligibility methodologies

Without granting ELE or otherwise changing current eligibility criteria for Medicaid and SCHIP, a state could use income tax data to identify potentially eligible children and facilitate their enrollment. Following are examples of such facilitation:

- The parents of such children could be sent an application form “pre-populated” with information from the family’s income tax files. The state would ask the parents to make necessary changes. If the pre-populated form is accurate and complete, a state could determine eligibility based on the form. Before making such a determination, some states may wish to request parental confirmation,[50] while others could simply give parents a deadline by which to make changes. States in the latter category would consider the pre-populated information accurate if parents make no corrections by the deadline.[51]
- The parents of such children could be sent notice of their children’s potential eligibility for coverage, along with information about how to make an expedited application. For example, parents could be informed of a toll-free number they could call to provide any additional information needed to determine eligibility.[52]

Menu option 3: Sending application forms

This final option represents the minimum that states could reasonably be expected to do. When parents use federal income tax forms to request coverage for their uninsured children, states could send the parents application forms and information about how to submit applications (including on-line, telephone, mail, and in-person options).

Enrollment alternative B: Enrolling all uninsured children into Medicaid and SCHIP when income tax data show they qualify

Under this approach, children would automatically receive Medicaid or SCHIP if their tax data show two things: gross income or adjusted gross income sufficiently low that, using the ELE methodology described above, the children are income-eligible for coverage; and an SSN that is electronically confirmed as valid. (Of course, using a valid SSN as proof of citizenship or satisfactory immigration status would have the effect of enrolling legal immigrant children who have valid SSNs without regard to their duration of residence in the United States.)

As noted above, children who are found ineligible based on this approach would have their eligibility evaluated using standard procedures, and those who receive SCHIP would be sent a notice that their children might receive additional benefits by applying for Medicaid using standard procedures.

Such a federal policy would substantially increase enrollment. To prevent this from imposing an unfunded mandate on states, the federal government would need to pay the resulting increase in costs.

It is not obvious how to structure such payments. Policymakers cannot simply provide full federal funding for all children who enroll based on federal income tax forms, since under the status quo, some of those children may have enrolled using standard procedures. Accordingly, in determining the number of children who qualify for full federal funding, one would need to take into account any reduction in the number who enroll using other methods since a baseline year before implementation of tax-based enrollment.

One would further need to take into account changes in economic conditions since the baseline year. According to recent research, each one percentage point increase in a state's unemployment rate increases children's Medicaid and SCHIP enrollment by 0.79 percentage points.[53]

For example, consider a state that has 400,000 children. During its baseline year, when unemployment in the state averages 5.0 percent, the state enrolls and retains 100,000 children, or 25 percent of all its children, in Medicaid and SCHIP. In a subsequent year, after implementation of tax-based enrollment, 50,000 children enroll or are retained based on income tax forms; 90,000 children enroll or are retained through traditional methods; and the unemployment rate is 5.5 percent. With a 0.5 percentage point increase in unemployment over the base year, one would have predicted an increased enrollment of 0.395 percent of the state's children, or 1,580 children. Instead, enrollment using non-tax methods fell by 10,000. Accordingly, in determining the number of children qualifying for full federal payment, one would subtract 11,580 children from the 50,000 who enroll or retain coverage using federal income tax records, resulting in full federal payment for 38,420 children.

Appendix C. Excerpt: The New Jersey State Income Tax Form for 2008, page 1

For Privacy Act Notification, See Instructions

Your Social Security Number

Last Name, First Name and Initial (Joint filers enter first name and initial of each - Enter spouse/CU partner last name ONLY if different)

Spouse's/CU Partner's Social Security Number

Home Address (Number and Street, including apartment number or rural route)

County/Municipality Code (See Table p. 51)

City, Town, Post Office | State | Zip Code

Place label on form if all preprinted information is correct. Otherwise, print or type your name and address.

NJ RESIDENCY STATUS If you were a New Jersey resident for ONLY part of the taxable year, give the period of New Jersey residency: From MM/DD/YY To MM/DD/YY

FILING STATUS

(Fill in only one)

1. Single
2. Married/CU Couple, filing joint return
3. Married/CU Partner, filing separate return. Enter Spouse's/ CU Partner's Social Security Number in the boxes above
4. Head of household
5. Qualifying widow(er)/ Surviving CU Partner

EXEMPTIONS

6. Regular — Yourself — Spouse/ CU Partner — Domestic Partner
7. Age 65 or Over — Yourself — Spouse/CU Partner
8. Blind or Disabled — Yourself — Spouse/CU Partner
9. Number of your qualified dependent children ....
10. Number of other dependents ....
11. Dependents attending colleges ....
12. Totals (For Line 12a - Add Lines 6, 7, 8, and 11) (For Line 12b - Add Lines 9 and 10) ....

ENTER NUMBERS HERE: 6, 7, 8, 9, 10, 11, 12a, 12b

DEPENDENTS

13. Dependent's Last Name, First Name, Middle Initial	Dependent's Social Security Number	Birth Year	Does dependent have health insurance? (see instr.) Yes	No
a				
b				
c				
d				

GUBERNATORIAL ELECTIONS FUND

Do you wish to designate $1 of your taxes for this fund? Yes No

If joint return, does your spouse/CU partner wish to designate $1? Yes No

Note: If you fill in the Yes oval(s), it will not increase your tax or reduce your refund.

Under the penalties of perjury, I declare that I have examined this income tax return and rebate application, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete and that I occupied the rental property for which I am applying for the tenant homestead rebate as my principal residence on October 1, 2008. If prepared by a person other than taxpayer, this declaration is based on all information of which the preparer has any knowledge.

Your Signature — Date

Spouse's/CU Partner's Signature (if filing jointly, BOTH must sign) — Date

If you do not need forms mailed to you next year, fill in (See instruction page 15) ....

I authorize the Division of Taxation to discuss my return and enclosures with my preparer (below) ....

Paid Preparer's Signature — Federal Identification Number

Firm's Name — Federal Employer Identification Number

Pay amount on Line 54 in full. Write Social Security number(s) on check or money order and make payable to:

STATE OF NEW JERSEY - TGI

Mail your check or money order with your NJ-1040-V payment voucher and your return to:

NJ Division of Taxation
Revenue Processing Center
PO Box 111
Trenton, NJ 08645-0111

IF REFUND:

NJ Division of Taxation
Revenue Processing Center
PO Box 555
Trenton, NJ 08647-0555

You may also pay by e-check or credit card. For more information go to: www.state.nj.us/treasury/taxation

Division Use 1 2 3 4 5 6 7

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About the Urban Institute

The Urban Institute is a nonprofit, nonpartisan policy research and educational organization that examines the social, economic, and governance problems facing the nation. The Urban Institute gathers data, conducts research, evaluates programs, offers technical assistance overseas, and educates Americans on social and economic issues — to foster sound public policy and effective government.

About First Focus

First Focus is a bipartisan advocacy organization that is committed to making children and families a priority in federal policy and budget decisions. First Focus brings both traditional and non-traditional leaders together to advocate for federal policies that will improve the lives of America's children.

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Notes

[1] Lisa Dubay, John Holahan, and Allison Cook, "The Uninsured and the Affordability of Health Insurance Coverage." *Health Affairs* 26(1): w22–w30, January/February 2007; Julie L. Hudson and Thomas M. Selden, "Children's Eligibility and Coverage: Recent Trends and a Look Ahead." *Health Affairs,* Web Exclusive, August 16, 2007.
[2] Donna Cohen Ross, Aleya Horn, and Caryn Marks, *Health Coverage for Children and Families in Medicaid and SCHIP: State Efforts Face New Hurdles*, Center on Budget and Policy Priorities and Kaiser Commission on Medicaid and the Uninsured, January 2008.
[3] Hudson and Selden 2007, op cit., calculations by Dorn, 2007. Participation rates are calculated as a percentage of eligible children who are not enrolled in private coverage. They are higher for Medicaid than for SCHIP.
[4] H.R.3963, 110th Congress. An earlier SCHIP reauthorization bill was also vetoed by President Bush. H.R. 976, 110th Congress.
[5] Dubay, Holahan, and Cook, op cit.
[6] IRS, Chart A in *2004 1040 Instructions,* Cat. No. 11325E.
[7] *Federal Register*, Vol. 69, No. 30, February 13, 2004, pp. 7336-7338, cited in the U.S. Department of Health and Human Services, *THE 2004 HHS POVERTY GUIDELINES*, Last Revised: January 23, 2006.
[8] For tax year 2004, the maximum amount of earned income and adjusted gross income consistent with EITC eligibility was $30,338 for households with one qualifying child, except for married couples filing jointly, for whom the income threshold was $31,338; and $34,458 for households with more than one such child, except for married couples filing jointly, for whom the income threshold was $35,458. Even in households meeting those income thresholds, however, EITC was unavailable if investment earnings exceeded $2,650. In addition, children had to meet various technical requirements that were included in the definition of "qualifying child;" the taxpayer, the taxpayer's spouse, and the qualifying child needed valid SSNs; neither the taxpayer nor the spouse could be eligible to be a "qualifying child" of another person; the taxpayer's filing status needed to be either married filed jointly, head of household, qualifying widow(er), or single; and the taxpayer needed to report total earned income of at least $1. Certain requirements related to citizenship and immigration status also applied. IRS, *EITC Eligibility Checklist for Tax Year 2004*, Publication 3524, Catalog Number 73196H, Revised June 2004.
[9] The applicable household categories include those who are legally required to file; EITC-eligible households with 1 dependent child; EITC-eligible households with 2 dependent children; and EITC-eligible households with 3 or more dependent children.
[10] Dorn and G. Kenney, *Automatically Enrolling Eligible Children and Families Into Medicaid and SCHIP: Opportunities, Obstacles, and Options For Federal Policymakers*, prepared by the Economic and Social Research Institute and the Urban Institute for the Commonwealth Fund, June 2006.
[11] Among those need-based programs, the National School Lunch Program (NSLP) reached by far the largest number of families with uninsured children, including 59 percent of uninsured children who have incomes below 200 percent of the federal poverty level and 55 percent of those below 300 percent of FPL. Not only does the tax system reach more children than NSLP, it avoids some problems that state officials have experienced trying to develop automated enrollment strategies based on NSLP data. Some states and districts lack NSLP eligibility files in digital form; even when eligibility information is digitized, it may lack elements needed for data matching, such as a Social Security Number (SSN); school districts may be loath to divert scarce administrative resources from other priorities into helping children receive health coverage; and it can be cumbersome to work district-by-district to obtain access to necessary data. None of these problems are present with the income tax system, which offers centralized data, accessible from a single source, and SSNs for household members.
12 Though the CPS does impute tax filing status, we opted not to use this variable for two main reasons. First, their imputation assumes that anyone who is required to file taxes does file taxes; based on 2003 data from the IRS, approximately 7.4 million households did not file taxes despite the fact that they were legally required to do so. Second, their imputation assumes that anyone who is eligible for the EITC will file taxes in order to claim it; we know from a 2001 GAO study that many people who are eligible for the EITC do not claim it.
[13] To the extent there were discrepancies, they suggest that we may have underestimated the proportion of tax filers among uninsured children who qualify for Medicaid and SCHIP, as Appendix A makes clear.

[14] J. Ruth Kennedy, "LaCHIP Outreach, Enrollment, & Retention," paper prepared for the *Winter Medicaid Administrative Management Conference* (New Orleans, LA) January 17, 2007; 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.

[15] 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. See also the discussion of WIC adjunctive eligibility and program integrity in Government Accountability Office, *Means-Tested Programs: Information on Program Access Can Be an Important Management Tool*, GAO-05-221, March 2005.

[16] Stan Dorn, *Automatic Enrollment Strategies: Helping State Coverage Expansions Achieve Their Goals*, prepared by the Urban Institute for the State Coverage Initiatives Program of Academy Health, August 2007.

[17] For example, Food Stamps reached 31 percent of eligible families after two years of program operation; and without access to automated enrollment mechanisms, SCHIP covered 60 percent of eligible children after five years, despite dramatic program simplification and intensive outreach initiatives to find and enroll eligible children. 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; Julie L. Hudson and Thomas M. Selden, "Children's Eligibility And Coverage: Recent Trends And A Look Ahead," *Health Affairs,* Web Exclusive, August 16, 2007.

[18] 26 U.S.C. § 6103(a) bars disclosure of tax return data unless it falls within an enumerated exception. One exception lets the taxpayer ask the Internal Revenue Service (IRS) to furnish data to a third party. Id., § 6103 (c). Under the policy approach described in the text, federal tax authorities would thus honor a taxpayer's request to disclose his or her tax data to a state health agency for the purpose of helping the taxpayer's children receive health coverage.

[19] 26 U.S. Code §6103 (l)(7).

[20] Unfortunately, no good national data are publicly available from which one can estimate even the amount currently spent on determining children's eligibility for Medicaid and SCHIP, much less the amount that would be saved by moving to a more data-driven approach. Nevertheless, very rough, "back of the envelope" calculations suggest that the amount involved could be significant. For an estimate of the number of children who received Medicaid and SCHIP in 2007, see Kaiser Commission on Medicaid and the Uninsured, *Health Coverage in America: 2007 Data Update,* For an analysis of eligibility processing costs in one state (California), see Lisa Chemento, et al., *Simplifying Medi-Cal Enrollment: Technical Report on the Assets and Income Tests,* prepared by the Lewin Group for The California Health Care Foundation, June 2003. For estimates of annual turnover rates in Rhode Island and New York, see Laura Summer and Cindy Mann, *Instability of Public Health Insurance Coverage for Children and Their Families: Causes, Consequences, and Remedies*, June 2006, prepared by the Georgetown University Health Policy Institute for the Commonwealth Fund; and Mindy Dutton, Kerry Griffin, Andrea Cohen, *Automated Renewal: Strategies to Maintain Coverage of Eligible Children in Medicaid and Child Health Plus,* prepared by Manatt, Phelps & Phillips, LLP, for the Medicaid Institute at United Hospital Fund, December 2008. For an estimate of administrative savings that result from shifting from paper-based renewals to data-driven renewals in Louisiana's Medicare Savings Program (MSP), see L aura Summer, *Administrative Costs Associated with Enrollment and Renewal for the Medicare Savings Programs: A Case Study of Practices in Louisiana*, prepared by the Georgetown University Health Policy Institute for the Rutgers Center for State Health Policy, February 2005. For estimates of the relationship between administrative costs for renewals and initial applications In MSP programs operated by Louisiana and New Hampshire, see Summer, op cit.; Laura Summer, *Administrative Costs Associated with Enrollment and Renewal for the Medicare Savings Programs: A Case Study of Practices in New Hampshire,* prepared by the Georgetown University Health Policy Institute for the Rutgers Center for State Health Policy, November 2005. For an estimate of the proportion of Medicare Part D beneficiaries receiving low-income subsidies based on data matches with Medicaid and Supplemental Security Income (SSI) program files rather than through

filing application forms with the Social Security Administration, see Center for Medicare and Medicaid Services, *LIS-Eligible Medicare Beneficiaries with Drug Coverage as of January 2008*.

[21] If lawmakers include a legal requirement that children or adults have health coverage, the federal income tax system may also be used to assess compliance. New Jersey and Massachusetts have both passed legislation making similar use of their state income tax systems. Stan Dorn, *Using 21st-Century Information Technology to Help Eligible People Receive Health Coverage: State and Local Case Studies*, prepared by the Urban Institute for the State Coverage Initiatives Program of AcademyHealth, October 2008

[22] See for example, Kathleen Thiede Call, Gestur Davidson, Michael Davern, and Rebecca Nyman, "Medicaid undercount and bias to estimates of uninsurance: new estimates and existing evidence," *Health Services Research* (43:3), June 2008.

[23] For more information, see for example, Lisa Dubay, *Making Sense of Recent Estimates of Eligible but Uninsured Children*, Kaiser Commission on Medicaid and the Uninsured, August 2007. Available at http://www.kff.org/medicaid/upload/7685.pdf.

24 Dubay, Holahan, and Cook, op cit.

[25] Asset values are calculated by assuming a 6 percent rate of return on total asset value, defined as a person's reported rental, dividend and interest income. Childcare expenses are imputed on the basis of the mother's demographic and work characteristics, ages of children in the household, earnings and region. Work expense and earnings deductions are calculated for each working parent based on earned income.

[26] John Holahan, Allison Cook, and Lisa Dubay, *Characteristics of the Uninsured: Who is Eligible for Public Coverage and Who Needs Help Affording Coverage?* Prepared by the Urban Institute for the Kaiser Commission on Medicaid and the Uninsured, February 2007.

[27] For details on the creation of tax units, see: http://www.taxpolicycenter.org/UploadedPDF/411136_documentation.pdf.

[28] To qualify as a dependent, a child must be under age 18 or a full time student ages 19-23, be unmarried, and meet a support test, which requires that the parent provides more than half of the child's financial support.

[29] See Filing Guidelines on page 12 of http://www.irs.gov/pub/irs-prior/i1040--2004.pdf for more information.

[30] For simplification, we use only Chart A in the IRS 1040 guidelines, since it defines filing requirements for most people.

[31] This is the percent of total tax filers who filed voluntarily according to an IRS study that used 2003 data. 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. Available at http://www.treasury.gov/tigta/auditreports/2006reports/200630006fr.html.

[32] This usually implies a business loss, implying that these individuals would also face a legal penalty for unpaid taxes if they do not file.

[33] Jim Cilke. *A Profile of Non-Filers*. U.S. Department of the Treasury. OTA Paper 78. July 1998.

[34] Expansions of the EITC in legislation dating to 1990, 1993, and 2001 – including increases in the maximum benefit and phase-out ranges and separate rates for families with two or more children – may have increased the filing rate among those newly eligible for tax credits and those eligible for larger tax credits.

[35] General Accounting Office, *Earned Income Tax Credit Participation*, GAO-02-290R, December 14, 2001, http://www.gao.gov/new.items/d02290r.pdf.

[36] For the number of tax returns filed, see Table 1.2 in Statistics of Income for 2004, http://www.irs.gov/pub/irs-soi/04in12ms.xls. We group "Surviving spouses" with "Married filing separately" to accommodate the small sample size of the former filing group.

[37] In 2004, the IRS estimates that there were 52.06 million tax units filing as Married jointly/Surviving spouses, 58.07 million tax units filing as Singles, and 2.5 million tax units filing as Married filing separately. Before our final random assignment, our imputation yielded 46.2 million tax units filing as Married jointly/Surviving spouses, 50.5 million tax units filing as Singles, and 2.2 million tax units filing as Married filing separately. We then use the same procedure as performed on head of household tax units to target the aforementioned IRS numbers.

[38] Mark Romer, *Using Administrative Earnings Records to Assess Wage Data Quality in the March Current Population Survey and the Survey of Income and Program Participation*. U.S. Bureau of the Census. November 19, 2002. Available at http://www.census.gov/hhes/www/income/asa2002.pdf. Overall, the difference in wages

between the CPS and administrative data appear to be concentrated in the $15,000 to $35,000 range according to Figure

[39] Dorn 2008, op cit.

[40] See, e.g., D. Laibson, "Impatience and Savings," *National Bureau of Economic Research Reporter*, Fall 2005, pp. 6-8; J.J. Choi, D. Laibson, B.C. Madrian, *$100 Bills on the Sidewalk: Suboptimal Saving in 401(k) Plans,* National Bureau of Economic Research Working Paper 11554, August 2005; Janet Holzblatt, "The Challenges of Implementing Health Reform Through the Tax System," in *Using Taxes to Reform Health Insusrance: Pitfalls and Promises,* Henry J. Aaron and Leonard E. Burman, eds. (Brookings Inst. Press, Washington, DC: 2008).

[41] Dorn 2008, op cit.

[42] That precise differential of 30 FPL percentage points has been used for many years to define Food Stamp eligibility. Families qualify for Food Stamps if their *gross* incomes are no higher than 130 percent of FPL and their *net* incomes, after subtracting various disregards, are no higher than 100 percent of FPL.

[43] It would be important for legislative history to discuss states' ability to claim enhanced federal matching funds for children who receive Medicaid under the methodology described in the text but who qualify for SCHIP matching rates since they would have been ineligible for Medicaid under their states' eligibility rules that applied in March 1997. According to the longstanding legal conclusions of the HHS Departmental Appeals Board, a state should be able to claim enhanced federal matching funds for such children based on a statistically valid sample showing, among all children who receive Medicaid because of income tax data, the percentage who would have been ineligible for Medicaid under 1997 rules. *New York State Dept. of Social Services*, DAB No. 1134 (1990), cited with approval in *Connecticut Department of Social Services*, DAB No. 1982 (2005), *Illinois Department of Public Aid*, DAB No. 1320 (1992), and *New York State Department of Social Services*, DAB No. 1216 (1991). See also *Ohio Department of Human Services*, DAB No. 900 (1987). If states could not use such sampling to claim enhanced match and instead were required to demand, from each family, all information needed to see whether their child would have qualified for Medicaid in 1997, the strategy described in the text would be blocked in achieving its goals. Children would remain uninsured if parents failed to take these steps, states would not achieve administrative savings, and parents would be forced to file largely redundant paperwork.

[44] *Statement of the Hon. Mark Weinberger, Assistant Secretary for Tax Policy, U.S. Department of the Treasury, And Hon. Mark B. McClellan, Member, Council of Economic Advisers* , Testimony Before the House Committee on Ways and Means, Hearing on Health Care Tax Credits to Decrease the Number of Uninsured, February 13, 2002.

[45] C. Newman, "Income Volatility Complicates Food Assistance," *Amber Waves*, USDA Economic Research Service, September 2006, Volume 4, No. 4, pp. 16-21. CHIPRA would permit state Medicaid and SCHIP programs to access the NHDB.

[46] SSA, "Documents you Need for a Social Security Card," *Evidence Requirements,* Last reviewed or modified Tuesday Nov 18, 2008, downloaded on 11/28/2008 from http://www.socialsecurity.gov/ss5doc/ss5doctext.htm#Childori.

[47] Some immigrants who have permission to live in the U.S. are not issued SSNs. Others have valid SSNs, but because of problems with the SSA data base, electronic matches do not confirm the validity of their SSNs. See discussion in Dorn August 2007, op cit.

[48] An important issue to confirm would be that children who meet all other eligibility requirements receive coverage during two periods: while electronic verification of satisfactory immigration status is pending; and in cases when such verification does not succeed, during a reasonable period in which families can compile and present paper documentation of satisfactory immigration status. Similar safeguards are included in the current approach to verifying immigration status, codified in Social Security Act Section 1137(d)(4)(A)(ii). They appear to be contemplated in CHIPRA, which both references Section 1137(d)(4)(A)(ii) and provides that, if citizenship is not confirmed electronically, the family has 90 days in which to compile and present documentary evidence of citizenship or to otherwise address the failure of electronic verification; and if such efforts fail to demonstrate eligibility, coverage terminates 30 days after the end of that 90 day period, suggesting that coverage has been provided pending completion of the full verification process. See proposed new Social Security Act Sections 1902(ee)(1)(B)(ii)(III) and (2)(C), added by CHIPRA Section 211, in H.R. 3963.

[49] Shawn Fremstad and Laura Cox, *Covering New Americans: A Review of Federal and State Policies Related to Immigrants' Eligibility and Access to Publicly Funded Health Insurance*, prepared by the Center on Budget and Policy Priorities for the Kaiser Commission on Medicaid and the Uninsured, November 2004.

[50] Such confirmation could be given on paper, on-line, or by calling a toll-free number and entering a numeric identifier (e.g., the final digits of a parental SSN).

[51] Some states already take this approach in renewing health coverage. A. Cohen, M. Dutton, K. Griffin, and G. Woods. *Streamlining Renewal in Medicaid and SCHIP: Strategies from Other States and Lessons for New York*, prepared by Manatt Health Solutions for the United Hospital Fund, 2008. California offers a similar option of a "pre-populated" form to millions of state taxpayers with simple income tax returns. W. Gale and B. Harris, "Return-Free Filing: What is it and how would it work?" in *The Tax Policy Briefing Book* (Urban Institute and Brookings Institution Tax Policy Center, Washington, DC) (Last Updated: December 14, 2007). In applying this approach to the initial establishment of eligibility for health coverage, a state would give parents an incentive to make necessary corrections by providing a clear and prominent notice that failure to do so could result in financial sanctions.

[52] Maryland is pursuing this approach, taking to statewide scale an approach piloted successfully by one county. Dorn 2008, op cit.

[53] Stan Dorn, Bowen Garrett, John Holahan, and Aimee Williams, *SCHIP and Economic Downturn: Policy Challenges and Policy Responses,* prepared by the Urban Institute for the Kaiser Commission on Medicaid and the Uninsured, April 2008.