Discussion Papers

What Counts?

Determining Medicaid and CHIP Eligibility for Children

Leighton Ku, Frank Ullman and Ruth Almeida

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Assessing the New Federalism

An Urban Institute Program to Assess Changing Social Policies

Assessing the New Federalism

Assessing the New Federalism is a multi-year Urban Institute project designed to analyze the devolution of responsibility for social programs from the federal government to the states, focusing primarily on health care, income security, employment and training programs, and social services. Alan Weil is the project director. Researchers monitor program changes and fiscal developments. In collaboration with Child Trends, the project studies changes in family well-being. The project aims to provide timely, nonpartisan information to inform public debate and to help state and local decisionmakers carry out their new responsibilities more effectively.

Key components of the project include a household survey, studies of policies in 13 states, and a database with information on all states and the District of Columbia, available at the Urban Institute' Web site. This paper is one in a series of discussion papers analyzing information from these and other sources.

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Abstract

Over the past decade, millions of children and pregnant women have gained health insurance under Medicaid because of poverty-related expansions, and the new Children's Health Insurance Program (CHIP) will expand coverage even more. A recent survey of Medicaid state agencies indicates that income eligibility is broader than typically believed. All but four state Medicaid programs disregard some portion of family income, such as earnings or child care expenses, in determining eligibility. Typically, the disregards are based on policies used in state welfare programs. On the other hand, 11 states restrict eligibility by imposing asset tests. In contrast, stand-alone CHIP programs rarely use income disregards or asset tests to establish eligibility. Federal law provides substantial flexibility to states in establishing income rules for Medicaid and CHIP eligibility. State policymakers may want to consider the simplicity and consistency of rules as they establish eligibility criteria.

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WHAT COUNTS? DETERMINING MEDICAID AND CHIP ELIGIBILITY FOR CHILDREN

by Leighton Ku, Frank Ullman, and Ruth Almeida

For over a decade, states and the federal government have collaborated to expand Medicaid coverage for low-income uninsured children, most recently including the State Children's Health Insurance Program (CHIP). The cumulative effect of these policies has brought Medicaid coverage to millions of children beyond Medicaid's traditional clientele of welfare families. In general, these expansions are "poverty related" and depend on children's family incomes falling below some percentage (such as 100 or 185 percent) of the federal poverty level. The recent reductions of welfare caseloads and initiation of CHIP have made poverty-related expansions more important than ever.

Basing eligibility on a percentage of poverty is easy to understand, applies to children in two- or one-parent families, and adjusts automatically for inflation each year. However, the actual poverty-related eligibility criteria are usually more complicated than they might seem. States have discretion in how to count income, particularly about what types or levels of income or expenses should be "disregarded" (subtracted from gross income to compute net income, which is then compared to the poverty standards). Moreover, some states also limit the amount of assets (e.g., savings or the value of cars) that participating families may have, although most do not. These seemingly minor differences mean that a child might be declared eligible in one state, but not another, even if both states use 100 percent of poverty as the maximum income level.

In this report, we try to peer inside the black box of Medicaid eligibility determination and describe some of the gears in the mechanism. We not only describe state policies about Medicaid and CHIP eligibility of poverty-related children and pregnant women, but also explore how states compute income, including disregard policies.[1] In addition to affecting who is actually eligible, disregard and asset policies are operationally important since they affect the complexity of the application process.

[1] To collect information about Medicaid income disregards and assets, the Urban Institute conducted a brief survey of Medicaid and CHIP agencies in all 50 states and the District of Columbia, using a combination of phone and fax communications. We asked about policies in effect in July 1996, October 1997, and October 1998. In this report, we only present data about October 1998. We asked states to include data that pertained to poverty-

First, we review key Medicaid eligibility rules for children. Then, we summarize the Medicaid poverty standards used by the states in 1998, the income disregards, and the asset tests. Next, we present information about CHIP programs that are separate from Medicaid. In the final sections, we discuss the policy options that are available to states.

What Are the Major Medicaid and CHIP Eligibility Groups?

Children and pregnant women can enter Medicaid through many eligibility routes (Schneider, Fennel, and Long 1998). The following are the most important eligibility criteria:

- *Welfare-related eligibility*. Historically, the majority of adult and child Medicaid beneficiaries were covered because they received Aid to Families with Dependent Children (AFDC). The 1996 federal welfare reform law severed the direct connection of Medicaid and welfare and created a new category, called "Section 1931," which is related to the AFDC standards in use before the law's passage. Under Section 1931, states may modify methods of counting income and assets. Even when TANF (Temporary Assistance for Needy Families, the replacement for AFDC) eligibility criteria changed, states often continued to provide automatic Medicaid eligibility to TANF recipients (Ellwood and Ku 1998). Nonetheless, states still must provide Medicaid to some people who lost TANF, such as those who exceeded their time limits. Section 1931 also provides states leeway in accounting of income or assets by AFDC-type families and offers states the ability to expand coverage of families, including parents.
- *Medically needy*. States have the option of establishing medically needy programs that serve people who are categorically eligible but have incomes or assets just above the AFDC limits. Further, people with high medical expenses may "spend down" into Medicaid eligibility, which is particularly important for aged and disabled people. But medically needy provisions are also important for families whose incomes are just over the AFDC levels, such as food stamp recipients. Another paper will address states' medically needy programs (Bruen et al., forthcoming).

related Medicaid or CHIP eligibility. Tables equivalent to tables 1, 2, and 4 for July 1996 and October 1997 are not in

- *OBRA poverty-related eligibility.* Based on a series of Omnibus Budget Reconciliation Act (OBRA) provisions, federal law requires that states must at least provide Medicaid eligibility to pregnant women and children 0 to 5 years old with family incomes up to 133 percent of poverty and to children 6 to 15 years old (born after September 1983) up to 100 percent of poverty. States may increase coverage for pregnant women and infants to 185 percent of poverty. The poverty-related criteria are much higher than welfare eligibility. Federal law provides complete discretion to states in how to count income and assets for this category.
- *Section 1902(r)(2).* This provision lets states use other methods of counting income or assets for poverty-related pregnant women and children. Using this, some states greatly increase Medicaid eligibility by deciding to not count large portions of income. For example, even though the federal limit for younger children is 133 percent of poverty, a state could effectively increase the limit to 200 percent by saying it does not count amounts equivalent to 67 percent of poverty.
- *Section 1115 waivers*. Several states have been allowed to expand Medicaid eligibility under special research and demonstration project waivers, such as Tennessee's TennCare. These expansions are often broader and increase eligibility for adults as well as children and pregnant women.
- *CHIP*. The newly created CHIP program (Title XXI) lets states expand coverage for children using Medicaid, a separate state program, or both. Although the legislation states that children up to 200 percent of poverty are eligible, states may use Section 1902(r)(2) policies to expand income limits to even higher levels.

In this paper, we consider any of the last four categories as poverty-related eligibility groups. We focus on them because they set the upper boundary for Medicaid eligibility. In general, children or pregnant women who do not meet a poverty-related standard cannot get Medicaid.[2]

this report but are available from the authors. There were small changes in policies over the three years.

[2] A few exceptions exist. For example, a child with high medical expenses could spend down into eligibility through the medically needy program. Or, in states that do not extend poverty-related eligibility to children born

What Are the Poverty-Related Standards for Pregnant Women and Children?

Table 1 shows the poverty-related income and age standards for pregnant women and children in Medicaid as of October 1998, as based on net income.[3] (Data about CHIP programs separate from Medicaid are shown later in the report.) Medicaid eligibility was usually more generous for pregnant women and infants than for school-age children: All states covered pregnant women and children through at least 133 percent of poverty, while half the states (25) capped eligibility for children over age 6 at 100 percent of poverty. Recent CHIP expansions have been particularly important in upgrading eligibility for older children; all but 9 states covered up to age 18 in their Medicaid expansions. Separate CHIP programs often further expand income or age eligibility for children. Others have also described state eligibility for children in Medicaid and CHIP (Ross and Jacobson 1998; National Governors Association 1999).

Using the flexibility permitted in Medicaid and CHIP, states can smooth out differences in income eligibility across the age span. Several states, including Arkansas, Connecticut, Indiana, Maryland, Massachusetts, Nebraska, Oklahoma, Rhode Island, and the District of Columbia, use the same poverty standards for pregnant women, infants, and children. In contrast, Georgia uses four different poverty thresholds for pregnant women, infants, and younger and older children, and many other states use three different levels. Making income eligibility consistent across the age spectrum ensures that all the children in a family are treated the same way.[4]

Medicaid Disregards: What Does Not Count?

At first glance, one might believe that poverty-related standards are compared to a family's gross (or

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before September 30, 1983, medically needy or Section 1931 criteria may be the upper limits for older teenagers. In a few states, disabled children could have higher income eligibility levels.

[3] This includes regular Medicaid expansions and CHIP expansions, which are part of Medicaid. Table 5 presents information on separate CHIP programs.

[4] Under Section 1931, states may also expand eligibility for parents, which could be used to offer coverage to the whole family in a consistent fashion (Guyer and Mann 1998).

Table 1 **Poverty-Related Income Eligibility Limits for Pregnant Women and Children in Medicaid (Not Including Separate CHIP Programs), October 1998**

State	Pregnant Women	Infants	Children 1 to 5	Children 6 or More	Upper Age Limit Through[a]
	(based on net income as percentage of federal poverty level)				(in years)
Alabama	133	133	133	100	18
Alaska	133	133	133	100	15
Arizona	140	140	133	100	15
Arkansas	200	200	200	200	18
California	200 [b]	200 [b]	133	100	18
Colorado	133	133	133	100	15
Connecticut	185	185	185	185	18
Delaware	185	185	133	100	18
District of Columbia	200	200	200	200	18
Florida	185	185	133	100	19
Georgia	200	185	133	100	18
Hawaii	185	185	133	100	19
Idaho	133	150	150	150	18
Illinois	200	200	133	133	18
Indiana	150	150	150	150	18
Iowa	185	185	133	133	18
Kansas	150	150	133	100	18
Kentucky	185	185	133	100	18
Louisiana	133	133	133	133	18
Maine	185	185	150	150	18
Maryland	200	200	200	200	18
Massachusetts	200	200	200	200	18
Michigan	185	185	150	150	18
Minnesota	275	280	275 [c]	275 [c]	18
Mississippi	185	185	133	100	18
Missouri	185	300	300	300	18
Montana	133	133	133	100	15
Nebraska	185	185	185	185	18
Nevada	133	133	133	100	15
New Hampshire	185	300	185	185	18
New Jersey	185	185	133	133	18
New Mexico	185	185	185	185	18
New York	185	185	133	100	15
North Carolina	185	185	133	100	18
North Dakota	133	133	133	100	18
Ohio	133	150	150	150	18
Oklahoma	185	185	185	185	17
Oregon	133	133	133	100	18
Pennsylvania	185	185	133	100	16
Rhode Island	250	250	250	250	18

Table 1 **Continued**

State	Pregnant Women	Infants	Children 1 to 5	Children 6 or More	Upper Age Limit through[a]
South Carolina	185	185	150	150	18
South Dakota	133	133	133	133	18
Tennessee	400	400	400	400	18
Texas	185	185	133	100	18
Utah	133	133	133	100	18
Vermont	200	300	300	300	17
Virginia	133	133	133	100	18
Washington	185	200	200	200	18
West Virginia	150	150	150	100	19
Wisconsin	185	185	185	100	15
Wyoming	133	133	133	100	15

a. When the upper age limit is noted as 15, it refers to children born after September 30, 1983.

b. California's Access for Infants and Mothers also serves pregnant women and children to age 2 up to 300 percent of poverty.

c. These are limits for MinnesotaCare, the state program that also gets Medicaid federal matching assistance under a Section 1115 waiver. For regular Medicaid, the income limits for children are 133 percent of poverty for children ages 1 to 5 and 100 percent of poverty for children 6 to 15.

Note: This table includes eligibility based on regular poverty-related expansions, Section 1902(r)(2) amendments, Section 1115 waivers, or CHIP expansions that are conducted as part of Medicaid programs. It does not include information about CHIP programs separate from Medicaid, which are shown in Table 5.
In some cases, states have expanded eligibility since October 1998, which are not reflected in this table.

Sources: Ross and Jacobson 1998; National Governors Association 1999; Title XXI State Plans.

total) income. Our survey revealed that this is usually not the case and that there is wide variation in states' approaches.[5] We group the states into four basic categories (table 2), based on the Medicaid policies in effect in October 1998:[6]

(a) *No disregards* (N = 4). These states compare a family's gross income to the poverty standards.

(b) *AFDC Standard* (N = 33). These states use policies originally designed for AFDC recipients. A family's net income is computed by deducting from monthly gross income: (1) a standard \$90 work expense deduction, (2) a child care disregard (actual child care expenses up to \$175 per child for children 2 or older and up to \$200 per child for children under 2), and (3) a child support payment disregard (actual payment up to \$50). Some states made small adjustments to these formulae.

(c) *\$30-and-a-third* (N = 3). These states use disregards designed for temporary use by AFDC families that provide much higher earnings disregards.[7] In addition to disregards in the AFDC Standard package, \$30-and-a-third of the remaining earned income are disregarded each month.[8] Under federal AFDC rules, \$30-and-a-third applied for up to four consecutive months. After that, the one-third disregard was dropped, and, after another eight months, the \$30 was no longer applicable. Then the standard disregards (see item b) applied.

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[5] In addition to differences in how to count income, states differ in determining family unit size. For example, if a family of five (two parents, three children) applies for Medicaid for one child, one state might use a five-person standard in determining eligibility, while another might feel that only the income of the two parents and that child are relevant and thus use a three-person family. The U.S. Supreme Court recently ordered further review of one case, which may eventually lead to a Supreme Court decision *(Secretary of the Wisconsin Department of Health and Family Services et al. v. Patrick Addis et al.).*

[6] In addition to the disregards shown, miscellaneous types of income are often excluded because of federal or state legislation. These are generally small sources, such as special grants for Native Americans, and do not affect most applicants. Some states exclude cash assistance grants, such as TANF or SSI payments, but since these apply to people at lower income levels, they typically do not affect the maximum income levels. Noncash benefits, such as food stamps, are not counted as income.

[7] In many cases, states use \$30-and-a-third or similar earnings disregards in computing the net income of TANF eligibles who may also get Medicaid. However, in most states, the TANF need or payment standards, computed using \$30-and-a-third, are still well below the poverty-related income standards. Further, in most cases TANF recipients are automatically entitled to Medicaid. The three states cited in (c) are states that said they applied \$30-and-a-third disregards to the poverty-related income standards.

[8] The sum of the \$90 and \$30 disregards means that a \$120 disregard is available for 12 months.

(d) *Other* (N = 11). These states used other disregard policies, often based on their TANF or welfare reform waiver programs.

In most states, Medicaid eligibility levels are broader than commonly believed. An example shows how these different policies might affect income eligibility. Table 3 illustrates the maximum permissible income levels that might occur under the first three policies, each using a poverty-related eligibility standard of 133 percent for children 1 to 5 years old. In this hypothetical family, the highest wage that a full-time working mother could earn that still lets her two children participate in Medicaid is $9.08 per hour if the state has no disregards, $12.17 if there is an AFDC Standard disregard policy, and $15.37 if there is a $30-and-a-third package of disregards.[9] Using $30-and-a-third disregards permits participation by people whose incomes are more than two-thirds higher than using gross income alone. Even using an AFDC Standard disregard policy elevates maximum income levels by about one-third more than gross income.

Table 2 shows that only four states do not use any income disregards for poverty-related categories: Hawaii, Massachusetts, Oregon, and Tennessee. All four states have major Medicaid expansions covering both adults and children, using Section 1115 waivers.

Most states use some disregards in ascertaining Medicaid eligibility for poverty-related pregnant women and children and typically link these policies to their welfare programs, particularly the standard federal policies used for AFDC in the early 1990s. However, more recently many states made major revisions to their TANF earnings disregard policies (Gallagher et al. 1998). In some cases, the Medicaid Section 1931 and/or poverty-related disregards were changed to correspond to TANF (Ellwood and Ku 1998; General Accounting Office 1998). In others, they have diverged.

Specific Disregards Used

[9] This illustrative example assumes that each disregard is used to the maximum, so it does not represent "typical" use of the disregards. For example, families with older children would probably use disregards less since they typically need less paid child care.

Table 2 **Income Disregards Used in Determining Poverty-Related Eligibility for Pregnant Women and Children in Medicaid, October 1998**

Definitions of Policy Types

None	No income disregards, use gross income
AFDC Standard	On a monthly basis, deduct a standard $90 work disregard, up to $175 per child of child care expenses (up to $200 for those under age 2), and up to $50 in child support payments received.
$30 + 1/3	On a monthly basis, deduct a standard $90 work disregard, $30 and one-third of earnings for up to four months of participation, up to $175 per child of child care expenses (up to $200 for those under age 2), and up to $50 in child support payments received.
Other	See comments.

State	Policy Type	Comments/ Modifications
Alabama	AFDC Standard	
Alaska	AFDC Standard	
Arizona	AFDC Standard	Part-time earned income deduction of $100 for child under 2 and $88 for other dependents.
Arkansas	AFDC Standard	
California	Other	$90 of earnings per worker, up to $175/$200 of child care expenses per child and 1/3 of child support.
Colorado	AFDC Standard	
Connecticut	Other	$90 work disregard, no child care disregard, up to $100 child support disregard.
Delaware	AFDC Standard	For pregnant teens, also disregard 1/2 of parents' income.
District of Columbia	$30 + 1/3	No cap on child care expense disregard.
Florida	Other	Generally, use AFDC Standard package of disregards. If eligible for TANF in 1 of last 4 months, can use additional disregard of $110 and 1/2 of earnings.
Georgia	AFDC Standard	
Hawaii	None	
Idaho	AFDC Standard	Generally, AFDC Standard. $30 and 1/3 could be used by child, single parent, or pregnant woman with income below the AFDC need standard, but this would be uncommon. $75 disregard of TANF payments for one and two person families.
Illinois	AFDC Standard	
Indiana	AFDC Standard	
Iowa	Other	Disregard 20 percent of earned income; $50 child support per household; $175/$200 (child/infant under 2) per month child care if full-time (129 hours per month or more); $174/$199 child care if part-time (under 129 hours per month).
Kansas	AFDC Standard	
Kentucky	AFDC Standard	
Louisiana	AFDC Standard	
Maine	AFDC Standard	

Table 2 **Continued**

State	Policy Type	Comments/ Modifications
Maryland	AFDC Standard	Disregard all child support paid and up to $50 child support received. If works less than 100 hours, only $100 in child care disregards.
Massachusetts	None	
Michigan	AFDC Standard	
Minnesota	Other	For Medicaid (children 2 or older, maximum income 133/100 percent of FPL), use $30 + 1/3. For MNCare (maximum income = 275 percent of FPL), use gross income. For Medicaid (pregnant women and children under 2 maximum income = 275/280 percent of FPL), use standard disregards: for family size = 1, $136, size = 2, $140, size = 3, $145, add $4 to $7 in disregards per additional member.
Mississippi	AFDC Standard	
Missouri	$30 + 1/3	No child support disregard.
Montana	Other	$200 and 20 percent earnings disregard, $200 child care expense disregard per child, full child support disregard.
Nebraska	Other	20 percent of earned income, all child care, and health insurance.
Nevada	Other	Disregard the greater of $90 or 20 percent of earnings. Disregard all child care and $75 of child support.
New Hampshire	AFDC Standard	
New Jersey	AFDC Standard	Also disregard educational expenses for full-time students, alimony, child support, or taxes (no caps).
New Mexico	AFDC Standard	
New York	AFDC Standard	
North Carolina	AFDC Standard	For a pregnant minor, do not count parents' income.
North Dakota	AFDC Standard	No cap on child care disregard.
Ohio	$30 + 1/3	
Oklahoma	AFDC Standard	Use $120 earnings disregard, but no child support disregard.
Oregon	None	
Pennsylvania	AFDC Standard	If family was on TANF, General Assistance (GA) or had TANF/GA Medicaid in 1 of past 4 months, use 50 percent earnings disregard, plus child care and child support disregards. Otherwise, use AFDC Standard disregards.
Rhode Island	AFDC Standard	
South Carolina	Other	Disregard 50 percent of earned income for first 4 months of eligibility, then flat $100. Child care disregard up to $200.
South Dakota	AFDC Standard	
Tennessee	None	
Texas	AFDC Standard	
Utah	AFDC Standard	
Vermont	AFDC Standard	
Virginia	AFDC Standard	
Washington	Other	No cap on child care disregard, child support considered the child's income . Establish separate medical assistance households.
West Virginia	AFDC Standard	
Wisconsin	AFDC Standard	
Wyoming	Other	Disregard $200 earned income for individual or $400 earned income for married couple (even if only one is working).

Source: The Urban Institute.

Table 3 **Hypothetical Example of Maximum Income Levels Permitted, Using Different Income Disregards**

Example: The family consists of a mother, a 1-year-old, and a 4-year-old. All income, except a $50 child support payment, is from the mother's earnings. The family has child care expenses of $200 per month for the 1-year-old and $175 for the 4-year-old.

Suppose the maximum income standard is 133 percent of poverty for children 1 to 5 years old, but there are three different disregard policies.

	None	AFDC Standard*	$30 + 1/3*
Maximum gross annual income	$18,155	$24,335	$30,746
Equivalent full-time hourly wage	$9.08	$12.17	$15.37
Equivalent percentage of poverty, computed using gross income	133%	178%	225%

* See table 2 for definitions.

Source: The Urban Institute.

All but four states use earnings disregards for poverty-related eligibility. States generally use a $90 monthly disregard, but the level is higher in a few states. Most states also use child care or child support disregards, although the details vary. Washington, Nebraska, South Dakota, North Dakota, and the District of Columbia disregard all child care expenses (without a cap), while Connecticut and Wyoming have no child care disregards at all. Several states have no child support disregard for Medicaid eligibility (South Carolina, Idaho, Oklahoma, Nebraska, and Wyoming), while others have higher caps on child support disregards (New Hampshire, Connecticut, California, Washington, and Nevada).

Some states also exclude other types of income. For example, Nebraska disregards health insurance premiums, while New Jersey excludes educational expenses for full-time students, alimony, and taxes. Minnesota uses a blend of approaches because it operates both Medicaid and the state's MinnesotaCare program (in which children are still eligible for federal matching under Medicaid). At the upper ranges of income used in MinnesotaCare (275 percent of poverty), the state uses gross income, but at the lower ranges (133 percent of poverty for children 2 to 5 and 100 percent for children 6 to 15) it uses $30-and-a-third disregards.

Asset Tests in Medicaid

Like welfare, Medicaid traditionally included asset (or resource) tests, which bar eligibility for those whose assets (e.g., savings accounts, investments, automobiles) have values above the limit. During the late 1980s, most states eliminated the Medicaid asset test in poverty-related expansions for pregnant women and children. Eliminating asset tests also shortened Medicaid applications and made them easier to process. Collecting and verifying information about assets is particularly difficult for both applicants and caseworkers.[10]

As can be seen in table 4, by October 1998, only 11 states still used asset tests in poverty-related Medicaid (nine for pregnant women, eight for children). When applied, the asset tests were usually relatively

[10] Our survey did not ask about how assets are valued, e.g., how a family's car(s) is valued.

high; only Colorado used the standard AFDC/TANF limit of $1,000, while the other states used much higher limits, from $2,000 to $10,000. It is interesting that a few states reimposed asset tests in 1997. South Dakota and Wyoming did not have asset limits for pregnant women in 1996 but added them in 1997. Minnesota imposed an asset test for women and children in 1997 but eliminated it by 1998.[11] One state official said that the legislature added the asset test after news stories reported that families with high assets (e.g., relatively new vehicles) were getting Medicaid, which led to the belief that the program was not well targeted.

The elimination of asset tests (or the use of high limits), like income disregards, directly affects who is eligible, but it may also affect the extent to which low-income families can accumulate savings. Since families with high assets may be ineligible for Medicaid, it is plausible that asset tests discourage savings by Medicaid families or lead some to spend their savings to get into Medicaid. Gruber and Yelowitz (1997) found that Medicaid asset tests were associated with families accumulating less savings, while elimination of asset tests was associated with higher savings by families.

What About CHIP?

Many states established separate CHIP programs in conjunction with or in lieu of Medicaid expansions. These typically have higher income eligibility levels than those states' Medicaid programs but charge modest premiums. Table 5 presents data about poverty standards and disregards for states that had separate CHIP programs, as of October 1998.[12]

Of the 18 separate CHIP programs, 11 had no income disregards and 3 had very focused (and generally small) disregards.[13] The other 4 used the AFDC Standard disregard policy, adopting the same policies as their state Medicaid programs. In general, the separate CHIP programs had their own systems for

[11] The state eliminated the asset test because of maintenance-of-effort requirements under the CHIP program.

[12] Other states have implemented CHIP programs since then or have modified their rules since October 1998.

[13] In April 1999, Pennsylvania announced plans to use earnings and child care disregards in CHIP, as it does in its Medicaid program (Bureau of National Affairs 1999).

Table 4 Asset Tests for Poverty-Related Pregnant Women and Children in Medicaid, October 1998

State	Pregnant Women	Children
Colorado	none	1,000
Idaho	5,000	5,000
Iowa	10,000	10,000
Montana	3,000	3,000
Nevada	3,000	3,000
North Dakota	3,000	3,000
Oregon	5,000	5,000
South Dakota	7,500	none
Texas	none	2,000
Utah	5,000	none
Wyoming	2,500	none

Source: The Urban Institute.

application and enrollment, and it is not surprising that the income accounting policies often differed from Medicaid. Since most states' CHIP programs used fewer disregards than their Medicaid programs, the actual differences between Medicaid and CHIP income standards were less than they appear. Only one state, Oregon, had an asset test for CHIP.

In some cases, the differences in accounting methods may lead to paradoxes. For example, though both Arizona and Maine set higher poverty standards for CHIP than for Medicaid, the fact that Medicaid uses disregards but CHIP does not means that some children are eligible for Medicaid but ineligible for CHIP. For example, in Arizona Medicaid, a child 1 to 5 years old has a maximum net income level of 133 percent of poverty. When we include maximum disregards for the hypothetical family of three shown in table 3, this equals a maximum annual income of $24,330. By contrast, Arizona's CHIP program uses a standard of 150 percent of poverty but no disregards and thus has a maximum income of $20,500, well below the Medicaid level.[14]

What Are States' Options in Establishing Disregard Policies?

In the majority of states, Medicaid disregard policies for poverty-related categories derive from AFDC and subsequent TANF policies. While this had a good policy rationale a decade ago, it is less clear that it is relevant today, as Medicaid and welfare eligibility diverge. Federal legislation provides enormous flexibility to states in the structuring of income eligibility rules for Medicaid and CHIP children. As states continue to review their eligibility policies, they have at least three main policy options:

(1) *Use AFDC/TANF-based methods of counting income.* This increases eligibility for people with certain types of income or expenses. Using the same disregards for welfare and Medicaid can be convenient for caseworkers, since similar computational methods are used to determine both programs' eligibility, even though the actual income standards differ. However, disregards may confuse the public. Some income-eligible families, who are not aware of or do not understand the

[14] Arizona plans to expand CHIP eligibility, so this problem may soon be moot.

use of disregards, probably do not apply because they think their incomes are over the limits. In a few states, it appears that TANF disregard policies have changed, while Medicaid policies are still linked to old AFDC policies. The use of substantially different disregards in Medicaid and TANF could create needless administrative confusion.

However, the policy rationales for disregards in welfare do not apply as well in Medicaid or CHIP. Welfare policy uses disregards to create behavioral incentives. In welfare, disregards affect the net income and benefit level of all recipient families and, thus, provide direct incentives for work or child care use. In contrast, Medicaid benefits are not affected by net income levels, so they cannot affect behavior as much. Furthermore, the poverty-related expansions are covering families with incomes and earnings beyond the welfare range, and it is not clear that earnings disregards stimulate work effort in this moderately low-income group.

(2) *Count gross income with no disregards*. This makes Medicaid or CHIP eligibility easier to understand and still simple to administer. One risk of eliminating disregards, however, is that some people now eligible only because disregards are applied (e.g., those with gross incomes above the poverty standard but net income below it) could lose coverage. To compensate for the loss of disregards, states could *increase the poverty-related income standards*. For example, New York's CHIP program eliminated disregards but lifted its poverty standard from 200 to 222 percent of poverty to offset this policy change.

States that are interested in eliminating disregards from Medicaid should be aware that CHIP legislation prohibits states from making Medicaid eligibility for children more restrictive if they want to use federal CHIP funds. Thus, states cannot lower effective eligibility standards for regular Medicaid programs, although they can broaden them.

(3) *Develop Medicaid/CHIP-specific disregards*. A final possibility is for states to develop disregard policies that are designed just for the health programs. One possible example is disregarding the expense of private health insurance premiums. This could assist families where the adults have private health coverage but the children are applying for Medicaid or CHIP. This might reduce

Table 5 **Poverty Standards and Income Disregards Used for CHIP Programs That Were Separate from Medicaid and Operational in October 1998**

State	Poverty Standard (percentage)	Disregard Policy Type[a]	Comments/Modifications
Alabama	200	None	Do not count child income or SSI.
Arizona	150	None	
California	200 [b]	None	Do not count SSI, SSP, TANF, GA, foster care payments, child earnings, scholarships, or grants.
Colorado	185	Other	Exclude child support payments and alimony.
Connecticut	300	None	
Florida	200	None	CHIP program relies on household income, which may differ from family income calculated for the state's Medicaid program.
Maine	185	None	Infants under 1 year not enrolled in Cub Care, must go to Medicaid.
Massachusetts	200 [c]	Other	Exclude sheltered workshop earnings, roomer and boarder income, income from TANF and SSI.
Michigan	200	AFDC Standard	Disregard all child support payments.
Nevada	200	None	
New Jersey	200	None	
New York	222	None	
North Carolina	200	AFDC Standard	Pregnant minors must be served by Medicaid. CHIP does not cover prenatal care or delivery.
Oregon	170	None	Has $5,000 asset test.
Pennsylvania	235	None	
Utah	200	Other	Excludes educational income such as scholarships, first $1,620 of school children earnings.
Vermont	300	AFDC Standard	State approved in December 1998, but retroactive to October 1998.
Virginia	185	AFDC Standard	Began accepting applications October 26, 1998.

a. See table 2 for definitions of policy types. CHIP programs sometimes also require premiums.

b. California also serves children up to age 2 at higher incomes in the Access for Infants and Mothers program.

c. Children over 200 percent of poverty in Massachusetts are referred to the Children's Medical Security program, which subsidizes children with incomes up to 400 percent of poverty.

Note: Some states have further expanded eligibility or implemented separate CHIP programs after October 1998. These later expansions are not shown in this table.

Source: The Urban Institute; Ross and Jacobson 1998.

crowd-out, since it would help some families maintain private insurance for parents while on Medicaid or CHIP. If Medicaid or CHIP eligibility is jointly done with welfare applications, this would add another factor in eligibility determination but would be less of a problem if poverty-related eligibility under Medicaid or CHIP is separately administered.

Conclusions

A key finding is that most state Medicaid programs use disregards for poverty-related eligibility (including OBRA, Section 1115, Section 1902(r)(2), and CHIP expansions of Medicaid), so that the effective Medicaid eligibility levels for pregnant women and children are generally higher than commonly believed. However, since disregard policies differ somewhat from state to state, the state policy variations are also larger than generally thought. By contrast, stand-alone CHIP programs generally do not use disregards in establishing eligibility. A small number of states use asset tests for poverty-related Medicaid eligibility, but only one state does so for CHIP.

Heretofore, relatively little policy attention has been given to the use of income disregards in Medicaid or CHIP. This issue became more visible recently in debates over California's CHIP program. The state originally planned to use disregards in computing income eligibility. Then-Governor Wilson, however, objected to the use of disregards in addition to the relatively high income standard of 200 percent of poverty, and the state dropped the disregards. It was estimated that 50,000 fewer children were eligible because of this change (Marquis and Ellis 1998). Newly elected Governor Davis has proposed restoring the use of disregards in California's CHIP program as well as increasing the poverty levels. On the other hand, as noted earlier, New York eliminated disregards in its CHIP program but compensated by increasing the poverty standards.

As states continue to adjust the eligibility rules surrounding both Medicaid and CHIP, they should realize that there are tradeoffs in setting both poverty levels and disregards. There are reasons both for and against the use of policies like earnings or child care disregards. Policymakers should consider how to balance two key issues when setting eligibility standards: *simplicity* and *consistency*. If simplicity is more important, then they might avoid disregards and set gross income standards that are sufficiently high. Assessing consistency is more complex, since it may mean asking whether Medicaid/CHIP income measures are consistent with those in TANF programs, whether the same income rules apply to all the children in a given family, and, if a state's Medicaid and CHIP programs are separate, whether they use similar approaches to measuring income. At the heart of this issue is a broader question: How linked should Medicaid and CHIP eligibility be to welfare? While administrative convenience and tradition suggest that there should be joint administration of these two programs, many feel that further separation might enhance access to health insurance by reducing the stigma associated with welfare. As health and welfare policies diverge, states should review whether their Medicaid and CHIP eligibility policies are best suited for the needs of health insurance programs.

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