How Will the Proposed Expansion of Healthy Families Change Work and Marriage Incentives for California Parents?

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Prepared for the Medi-Cal Policy Institute by

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About the Project

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I. Introduction

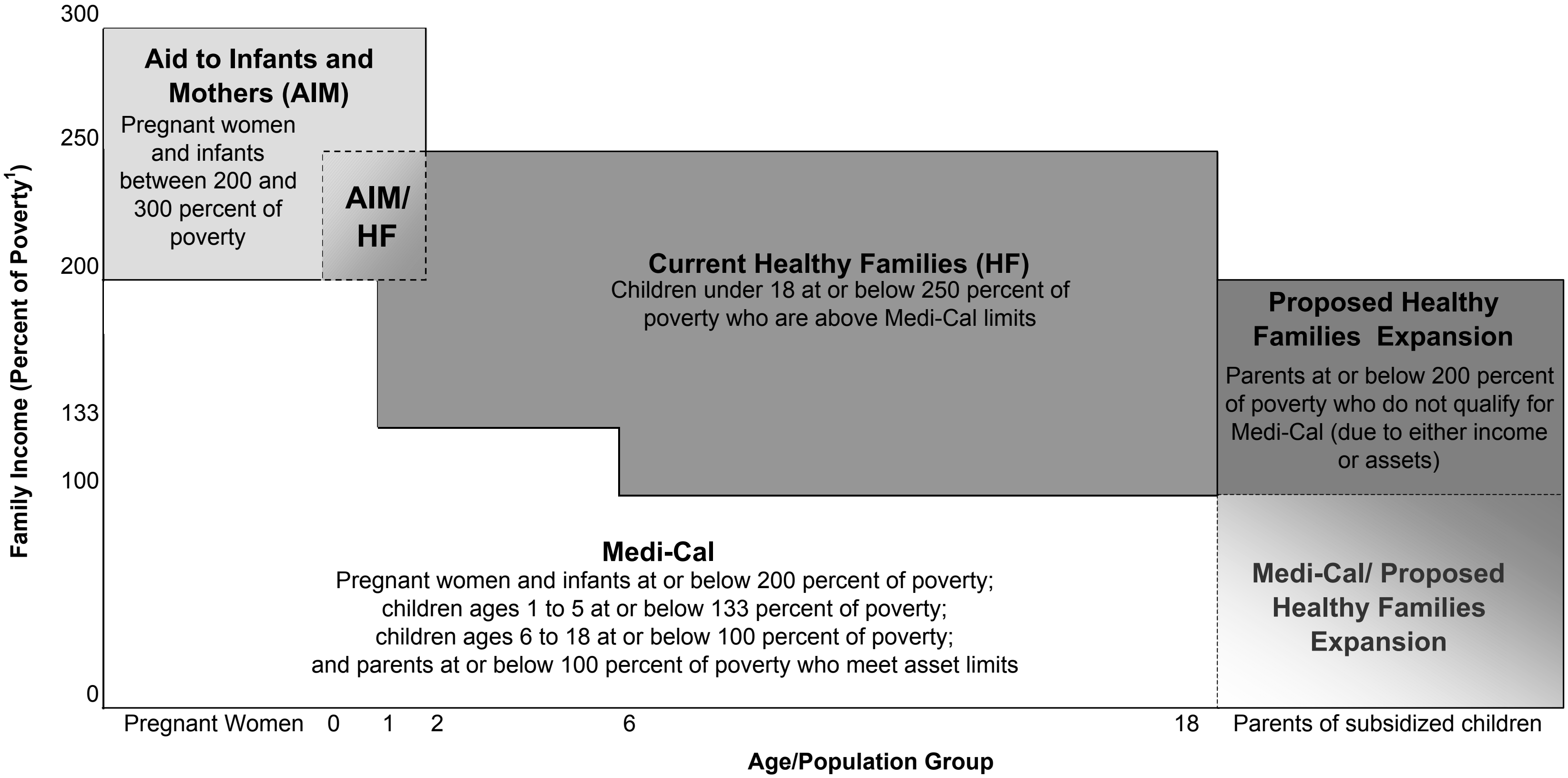
Government assistance programs involve the provision of benefits to families at some income levels but not at others. A family's earnings determine whether they are eligible for benefits and what, if anything, they must pay to receive them. Program eligibility rules can have important implications for the net value of additional household earnings. At some income levels, additional earnings or marriage result in the loss of valuable services or benefits, so that earning more or marrying can actually have a negative impact on family finances. Such disincentives contradict widely held values regarding the importance of work and marriage.

California recently applied for a waiver that would allow the state to expand its version of the federally funded State Children's Health Insurance Program (SCHIP), called Healthy Families, to include low-income parents as well as children.[1] Figure 1 illustrates how the proposed Healthy Families parental expansion fits with current eligibility rules for medical assistance programs in California. State officials hope that the proposed parental expansion will both increase enrollment among children and extend coverage to many of the state's uninsured parents. In the context of the proposed expansion of the Healthy Families program to parents, this analysis addresses the following questions:

- How would the currently proposed design affect the work and marriage incentives of eligible families?
- What alternative design options have the potential to mitigate work and marriage disincentives?

In this analysis, we measure work incentives in terms of marginal tax rates and marriage incentives in terms of marriage penalties or bonuses. Marginal tax rates represent the percentage of an additional dollar earned that the family does *not* take home (see Table 1). Marginal tax rates are typically created by income and payroll taxes, but can also be created by the loss of social assistance benefits as income increases. Marriage penalties (or bonuses) represent the loss (or gain) of resources due to changes in taxes and benefit payments when unmarried couples marry.

Figure 1
Eligible Populations for California Medical Assistance Programs



[1] Percent of poverty refers to income calculations based on *Federal Poverty Guidelines*, published annually by the U.S. Department of Health and Human Services.
Source: *S-CHIP 1115 Demonstration Project: Expansion of Health Coverage to Parents*, 2000, at http://www.mrmib.ca.gov/MRMIB/HFP/HFPParentProposal.html

Table 1: Meanings of Some Marginal Tax Rates

A marginal tax rate of:	Means that the yield from an additional $1.00 of earnings is effectively:	And might occur because:
–50%	+$1.50	Earned Income Tax Credit increases as the family earns more
0%	+$1.00	Income is untaxed and family is not in any social assistance programs
50%	+$0.50	Taxes and reductions in social assistance benefits reduce income
100%	+$0.00	Loss of social assistance benefits cancels out gain from additional income
150%	–$0.50	Loss of social assistance benefits exceeds gain from additional income

Marginal tax rates and marriage penalties are important because social assistance programs such as Healthy Families have potentially significant impacts on individuals' decisions about work and marriage. Low-income parents may not think explicitly about marginal tax rates and marriage penalties, but they are likely to have a general sense of how much they can earn without losing eligibility for major programs and how a change in marital status might affect the public benefits they receive. Policies that penalize low-income parents for working longer hours, earning higher wages, or getting married are inconsistent with welfare reform rhetoric about the value of work and marriage.

There are two ways that the design of a single program, such as Healthy Families, can reduce the marginal tax rates that families face. First, the program can be designed with relatively few sharp reductions in benefits or sharp increases in cost-sharing. Second, the program can be designed to take into account the marginal tax rates imposed by all other programs. That is, a program can be designed so that its benefits phase out across a different portion of the income range than other programs do. Our analysis and options consider both of these design approaches.

Marginal tax rates are only one lens through which to view social assistance policy. Marginal tax rates can be reduced through universal programs that reach everyone regardless of income, total elimination of programs so the benefits are not taken away at a certain point on the income scale, or adoption of sliding scales for the phase-out of benefits. Each of these alternatives affects how carefully benefits are targeted to a needy population, changes overall program costs, and alters the resources required to administer the program. Targeting, cost, and administrative ease may be more important to policymakers than marginal tax rates, work incentives, and marriage penalties. Nevertheless marginal tax rate analysis, as presented here, can help policymakers make trade-offs among incentives, cost, coverage, and complexity.

II. Methodology

To analyze the incentive effects of the proposed Healthy Families expansion, we constructed a spreadsheet model of California marginal tax rates and marriage penalties and applied it to several prototypical families.[2] This approach allows us to see how incentive effects might vary by family type, county, assets, hours worked, and childcare needs. Our model simulates federal and state taxes, childcare costs, work expenses, and benefits from most major social assistance programs.[3]

After identifying work and marriage disincentives over some income ranges for prototype families, we constructed and analyzed possible design options that could mitigate those disincentives. These options illustrate important trade-offs among incentive effects, coverage, cost, and complexity.

III. Key Findings

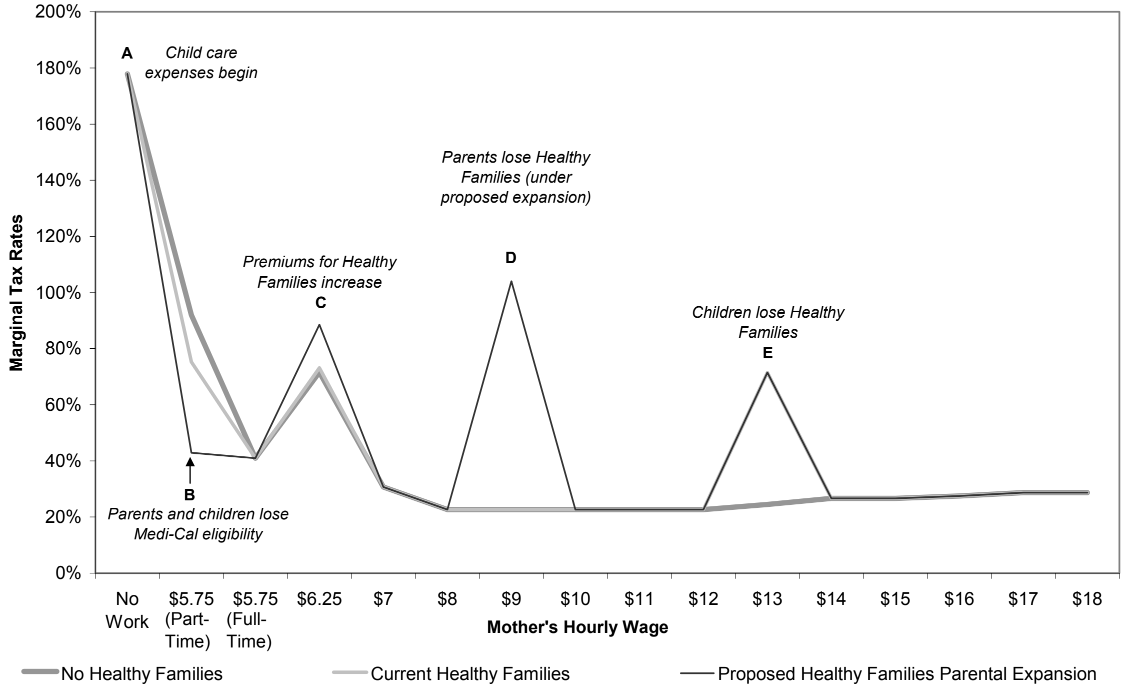
We illustrate our key findings below primarily through analysis of a prototypical family living in Alameda County. The parents are married and each works full-time at minimum wage.[4] They have one four-year-old daughter, who is in childcare while her parents work. The family does not receive housing assistance but does receive the other benefits for which it is eligible.

1. As currently designed, the combination of Healthy Families, Medi-Cal, and other social programs creates marginal tax rates sufficiently high that more work can actually yield fewer resources for some families.

Healthy Families and other state and national policies, including Medi-Cal, childcare subsidies, housing assistance, and CalWORKs (California's Temporary Assistance for Needy Families program), have noticeable effects on work and marriage incentives. Most of the prototypical low-income families we analyzed had the potential at some income levels to become worse off financially—once taxes, transfer programs, childcare, and other work expenses are taken into account—due to added earnings from longer hours or higher wages.[5]

Figure 2, for example, shows marginal tax rates for our prototypical Alameda County family under three scenarios: with no Healthy Families program, with the current Healthy Families program, and with the proposed Healthy Families parental expansion. Point A has a marginal tax rate above 100 percent for all three Healthy Families scenarios. This indicates that if the mother goes to work part-time for minimum wage, the family will actually *lose* resources due to increased work and childcare expenses and reductions in food stamps and the Earned Income Tax Credit (EITC).

Figure 2
Marginal Tax Rates at Various Wage Levels for the Mother in the Prototypical One-Child Family[1] under Three Healthy Families Scenarios



1 Prototypical one-child family has married parents and a four-year-old child; the father works 40 hours per week at minimum wage.

2. The proposed Healthy Families expansion shifts the marginal tax rate "spike" that now occurs as parents lose Medi-Cal eligibility to a point further up the income scale.

Under current Healthy Families eligibility rules, a marginal tax rate "spike," or a high peak over a short interval, is created at 100 percent of poverty when parents lose eligibility for Medi-Cal. The proposed Healthy Families parental expansion will decrease marginal tax rates and increase work incentives at 100 percent of poverty. At the same time, high marginal tax rates that result from the loss of medical benefits will occur at points further up the wage scale.[6]

Comparing marginal tax rates under an expanded Healthy Families program with marginal tax rates under the current child-only program illustrates these effects. When the mother moves from part-time to full-time minimum-wage work, as shown by Point B in Figure 2, the family loses Medi-Cal eligibility in all three scenarios. The proposed parental expansion has the lowest marginal tax rates at this point because instead of losing health coverage, the parents become eligible for Healthy Families benefits of nearly equal value. However, the proposed expansion creates two "spikes" later on the wage scale. At 150 percent of poverty (Point C), the marginal tax rate for the Healthy Families expansion is greater than it is under the other two scenarios because the premiums paid by parents increase at that point. At 200 percent of poverty (Point D), the marginal tax rate for the Healthy Families expansion is high because parental benefits are lost entirely.

One exception to the shift of marginal tax rates under the proposed Healthy Families expansion is parents who have income below 100 percent of poverty but assets over the Medi-Cal limits.[7] These parents are not eligible for Medi-Cal benefits at any income level, so the proposed Healthy Families expansion covers them even at zero percent of poverty. Parents with assets over the Medi-Cal limits could choose not to work and still be eligible for public insurance. Therefore, the proposed expansion will affect marginal tax rates for parents with assets over Medi-Cal limits only at 150 percent of poverty, when premiums increase, and at 200 percent of poverty, when parental eligibility ends.

3. In wealthier counties, where housing assistance is worth more and extends further up the income scale, a Healthy Families expansion could add to the already-high marginal tax rates that families face at 150 and 200 percent of poverty.

A family's county of residence determines eligibility for housing assistance and the value of housing benefits. Marginal tax rates for parents on housing assistance programs therefore vary by county. Housing subsidies are directly tied to the county's median rent and median income. The higher the median rent, the greater the housing assistance. The higher the median income, the further eligibility for housing subsidies extends up the wage scale.

To study the incentives of the proposed Healthy Families program when combined with housing subsidies, we compared marginal tax rates for the mother of the prototypical one-child family in Alameda County to marginal tax rates for identical families in two other counties: Sierra, a poorer county with lower housing costs, and San Francisco, a wealthier county with higher housing costs. The results are shown in Figure 3; the families depicted in this chart receive housing assistance. In Sierra County, income eligibility levels for housing subsidies are so low that the prototypical one-child family loses assistance when the mother works 20 hours per week at minimum wage (Point A). By contrast, the San Francisco mother can work full-time for $10 per hour before the family becomes ineligible for housing assistance.

When premiums for Healthy Families increase (Point B) the marginal tax rate is 30 percentage points lower in Sierra County than in Alameda or San Francisco County. The difference in marginal tax rates occurs because housing assistance recipients are expected to pay 30 percent of their income as rent. In other words, when a family receives housing assistance, 30 cents of each additional dollar goes to higher rent, adding 30 percentage points to their marginal tax rates. Whenever housing assistance overlaps with the receipt of benefits under the Healthy Families expansion, as it does for Alameda and San Francisco counties at Point B, it will add 30 percentage points to the marginal tax rate. These 30 additional percentage points put the family's marginal tax rate above 100 percent, meaning that in these two counties, the family is losing resources when the mother's wages increase. In Alameda County, housing assistance for the prototypical family ends at Point C. At Point D, when parents lose eligibility for Healthy Families, the marginal tax rate is 30 percentage points higher in San Francisco County than in the other two counties due to housing assistance.

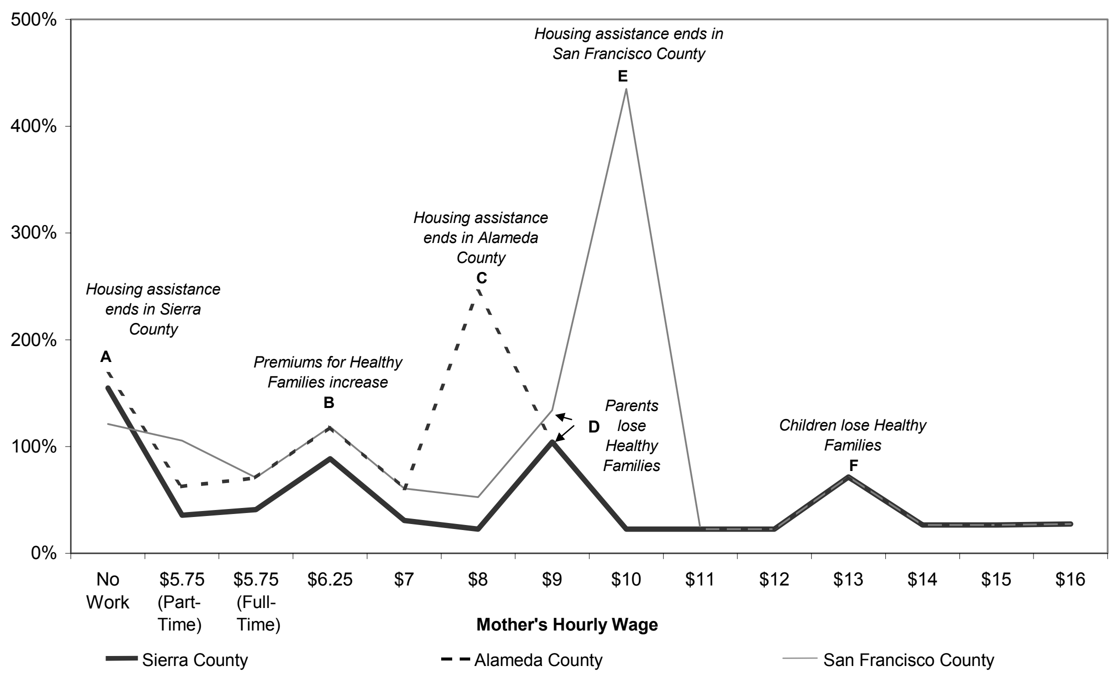
The increased amount of housing assistance in higher-income counties means that marginal tax rates are also higher when such programs end. In Figure 3, Point E (San Francisco) is higher than Point C (Alameda), which in turn is higher than Point A (Sierra) because the value of housing assistance is greater in high-rent counties. Furthermore, because eligibility for housing assistance extends further along the wage scale in wealthier counties, the higher marginal tax rates are more likely to add to the work disincentives created by Healthy Families at 150 and 200 percent of poverty.

4. Healthy Families, both in its current form and as proposed for expansion, generally imposes lower marginal tax rates as its benefits are phased out than do childcare or housing assistance.

Because childcare subsidies and housing assistance are generally worth more than Healthy Families benefits, the marginal tax rates created when these programs end are typically much higher than the marginal tax rates created when Healthy Families ends. Point A in Figure 2 shows the impact on our prototypical Alameda County family when eligibility for childcare subsidies is lost.[8] Points A, C, and E in Figure 3 illustrate the impact of losing housing assistance compared to losing Healthy Families. Marginal tax rates at all three points are higher than at Points B, D, and F, where Healthy Families premiums increase or benefits are lost.

Programmatic overlap is an important consideration when expanding Healthy Families. Some pre-existing programs already cause large marginal tax rates and marriage penalties. Changes in Healthy Families can do little to alter the large work and marriage disincentives already faced by families receiving childcare or housing subsidies.

Figure 3
Marginal Tax Rates at Various Wage Levels for the Mother in the Prototypical One-Child Family[1] in Three Counties under Proposed Healthy Families Parental Expansion



[1] Prototypical one-child family has married parents and a four-year-old child; the father works 40 hours per week at minimum wage.

5. The marginal tax rates and marriage penalty effects of Healthy Families can vary substantially depending on factors such as family size, presence of a chronically ill parent, and recent welfare receipt.

The proposed expansion of Healthy Families will have different effects on some types of families than on the prototypical two-parent family discussed so far. Sources of variation include number of children, number of parents, presence of a chronically ill family member, and recent receipt of CalWORKs and Medi-Cal.[9]

Number of children. The more children the family has, the less important the incentive effects of the Healthy Families parental expansion become. First, the economic benefits of coverage for parents represent a smaller share of family resources when coverage is being provided for several children. Second, in large families, childcare is much more expensive than in small families and is therefore more likely to determine work incentives than the Healthy Families program. Nonetheless, over income ranges of 100 to 200 percent of poverty, the availability of Healthy Families benefits under the expanded program to parents in large families will provide a small incremental work incentive when compared to the current Healthy Families program.

Number of parents. Two-parent families experience greater incentives from either the current or expanded Healthy Families program than one-parent families do. Other things equal, the presence of two adults means that family income will generally be higher if both parents work for pay. The family's higher income, in turn, makes it more likely that they will be above the limits for most other means-tested programs, including Medi-Cal. In fact, Healthy Families is the only social assistance program available to many two-parent families above 100 percent of poverty. Benefits from the proposed expansion of Healthy Families are also higher for two-parent families because two parents would receive subsidized medical insurance instead of one. The higher value of Healthy Families benefits to two-parent families, in turn, can increase incentives for both parents to seek employment. The marginal tax rates when premiums increase and when the program ends, however, will be higher for a two-parent family.

Presence of a chronically ill parent. Because parents with chronic conditions are likely to place a higher value on health care coverage than the average person, the loss of eligibility for Medi-Cal at low income levels under current law is a major work disincentive. Extending Healthy Families to parents with family incomes up to 200 percent of poverty increases work incentives for families with a chronically ill parent. The trade-off is that work disincentives at 200 percent of poverty are also increased; private insurance limitations on coverage for pre-existing conditions can exacerbate disincentives at whatever income level families lose public coverage.

Recent welfare recipients. Healthy Families expansion will have less impact on work incentives for current or recent recipients of Medi-Cal and CalWORKs than on work incentives for other low-income California families. Recent changes in Medi-Cal related to welfare reform extend eligibility for that program into the income region in which the family would otherwise be in Healthy Families. The proposed Healthy Families expansion will thus have little incremental effect on these families.

6. Marriage penalties and bonuses created from the proposed Healthy Families expansion affect only cohabiting couples who live with one partner's children from a previous relationship and vary depending on the income of each partner.

Marriage will affect neither the child's nor the adults' Healthy Families benefits when the couple is unmarried with common children. Under either the current program or the proposed expansion, only a parent's income is considered in determining the children's Healthy Families status, so the children's benefits and premiums do not change when the income of the parent's partner goes up or down, or when the parent and the partner get married. The proposed expansion will also have no marriage penalty for adult benefits in unmarried couples with common children. Parents living with their own children are defined as "child-linked adults" who will be eligible for the expanded program without regard to marital status.

The Healthy Families expansion will, however, have an impact on the marriage incentives for cohabiting couples who live with one partner's children from a previous relationship. The effects of the proposed expansion depend on each partner's income. The proposed regulations do not allow unmarried partners (unless they are parents) to be "child-linked adults" eligible for their own Healthy Families coverage. Marriage will make the ineligible partner a potentially eligible stepparent, but it also means that the income of both adults will be counted in determining their eligibility and premiums. If the couple's combined income remains within program limits, the parent will retain Healthy Families eligibility and the new spouse will be eligible as well. If the couple's combined income is above 200 percent of poverty, neither adult will be eligible.

Consider, for example, a mother who works full-time for $9 per hour and has two teenage sons, a live-in boyfriend making $8 per hour, and an ex-husband who is not paying child support. At this income level, the mother and her children will be eligible for Healthy Families. If she marries her boyfriend, he will be eligible too, though some of the value of his benefit will be offset by a $10 increase in her Healthy Families monthly premium. If, however, the boyfriend earns $9 per hour, marriage will put both of them above 200 percent of poverty. By gaining a husband, she will have lost her health insurance coverage.[10]

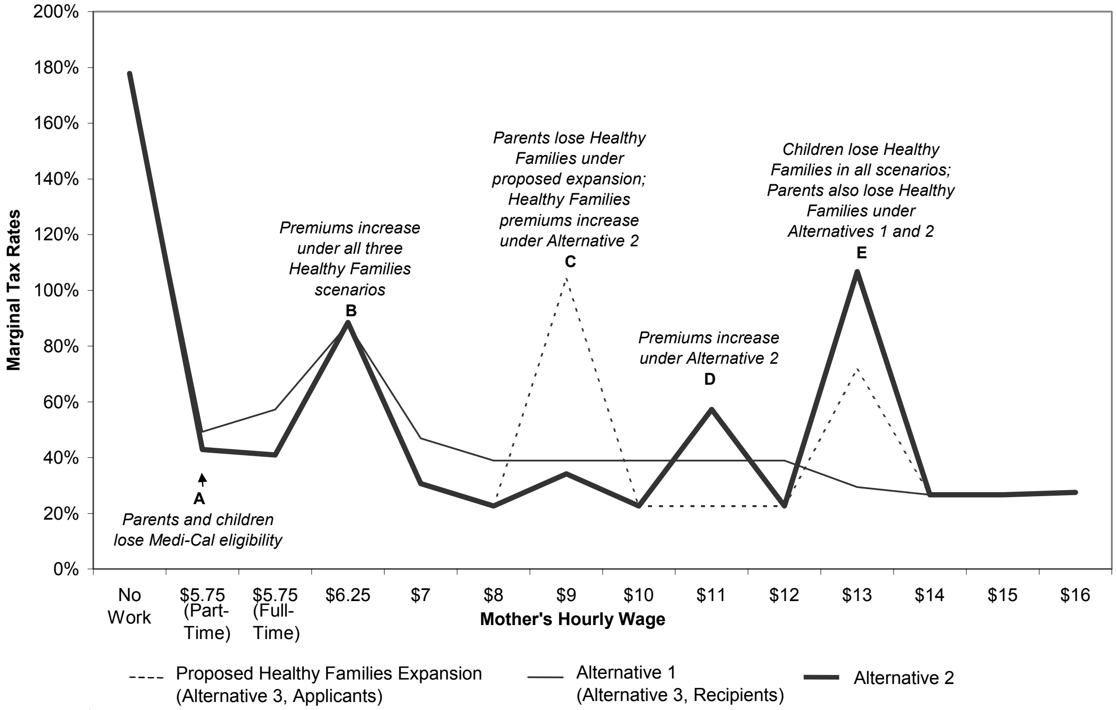
IV. Design Options to Increase Work and Marriage Incentives

The findings presented here suggest that the proposed expansion of Healthy Families will have important effects on the incentives of some low-income California families. Alternative designs for the Healthy Families expansion could reduce marginal tax rates within the program and increase the extent to which the program encourages marriage, but these designs have cost and administrative implications.

In the state's Healthy Families expansion proposal, there are several provisions that have desirable incentive effects. Annual eligibility redetermination, for example, ensures continuous coverage and guarantees that increased income will not cause the family to lose Healthy Families coverage until the next annual eligibility review. Full eligibility for documented immigrants means that the Healthy Families expansion will improve work incentives without regard to citizenship status or date of entry into the United States. Low copayments subject to annual caps keep out-of-pocket costs down, thus reducing the marginal tax rate effects of the transition to Healthy Families from no-cost Medi-Cal.

Alternative provisions regarding income limits and premiums, however, might produce more desirable work and marriage incentives than those associated with the state's expansion proposal. Figure 4 compares marginal tax rates for our prototypical one-child family in Alameda County under the state's expansion proposal with marginal tax rates under two alternative program designs. The state's proposal covers parents with incomes under 200 percent of poverty. Monthly premiums will be $10 per parent for families up to 150 percent of poverty and $20 per parent for eligible families with higher incomes. These premiums can be reduced to $7 and $17, respectively, if the family selects a designated Community Provider Plan as its health plan. Figure 4 shows that the state's proposal creates moderate marginal tax rates at the transition point from Medi-Cal to Healthy Families (Point A), and high marginal tax rates when parental premiums increase (Point B) and when parental eligibility ends (Point C).

Figure 4
Marginal Tax Rates at Various Wage Levels for the Mother in the Prototypical One-Child Family[1] in Alameda County under Proposed and Alternative Healthy Families Parental Expansions



[1] Prototypical one-child family has married parents and a four-year-old child; the father works 40 hours per week at minimum wage.

The two alternative program designs shown in Figure 4 extend parental eligibility to 250 percent of poverty. This higher limit reduces the marginal tax rate effects of Healthy Families expansion because costs can be phased in over a wider income range. Use of the same 250 percent income limit for children and parents would also be less confusing than the state's proposal to apply different income limits to children than to their parents.

Alternative 1: Gradual assistance program

Alternative 1 incorporates a sliding scale of premiums for both children and parents. The scale is set so that premiums equal zero at the point where each family member loses eligibility for free Medi-Cal (Point A); equal the full estimated value of Healthy Families coverage at the point where eligibility ends (Point E); and increase gradually in between. Alternative 1 might be the optimal policy design if work incentives were the only concern: as Figure 4 shows, Alternative 1 avoids the high marginal tax rates of the state expansion proposal. When other criteria are considered, however, Alternative 1 is less attractive. Large premiums at the high end of the income range would likely discourage participation by many families, and the complex premium scale would be difficult to administer. Alternative 1 is probably also politically unrealistic because many families would have to pay higher premiums than under the state's expansion proposal.

Alternative 2: Stepped assistance program

An alternative program design based on modest changes to the state's expansion proposal may represent the best approach to work and marriage incentives when trade-offs among coverage, cost, and complexity are considered. In Alternative 2, children's premiums are the same as under the current Healthy Families program, and premiums for parents with incomes up to 200 percent of poverty are the same as in the state proposal. Parents with incomes from 200 (Point C) to 225 (Point D) percent of poverty pay monthly premiums of $30, or $27 if enrolled in a Community Provider Plan. Parents with incomes from 225 to 250 (Point E) percent of poverty pay premiums of $60, or $57 for the Community Provider Plans. These two additional steps in the premium scale reduce the marginal tax rate effects that occur when Healthy Families eligibility is lost. The additional steps also reduce state expenditures through increased participant cost-sharing.

Alternative 3: Stepped program with different income limits for recipients and applicants

If Alternatives 1 and 2 prove to be prohibitively costly, a less expensive compromise that retains several advantages of Alternatives 1 and 2 is available. The compromise, Alternative 3, would have higher eligibility standards for current recipients than for new applicants. Current recipients could remain eligible up to 250 percent of poverty, with premiums as in Alternative 2, whereas new applicants would only be eligible up to 200 percent of poverty, as in the state's expansion proposal. The line for Alternative 2 in Figure 4 thus shows marginal tax rates for recipients under this approach, whereas the line for the state's expansion proposal shows what marginal tax rates for applicants would be.

Alternative 3 would cost less than extending eligibility to 250 percent of poverty for all parents, yet it would result in better work incentives than the state's expansion proposal. It would also avoid the possibility inherent in the state's proposal that some children on Healthy Families will be disenrolled because of confusion about their continued eligibility when family income increases into the 200 to 250 percent range. An applicant-recipient distinction, moreover, would mean that recipients whose family income rises from below 200 percent to the 200 to 250 percent range as a result of marriage would get a marriage bonus rather than a marriage penalty, as in the state's proposal.

Use of different rules for applicants and recipients would make the Healthy Families program more complex, but does have precedent. Wisconsin's BadgerCare program ends eligibility for applicant parents at 185 percent of poverty but allows enrolled parents to maintain their eligibility until family income exceeds 200 percent of poverty. California, moreover, already uses different rules for applicants and recipients in its Section 1931(b) Medi-Cal program. Different eligibility standards for applicants and recipients would, however, mean that families with the same current income would be treated differently on the basis of their previous earnings and Healthy Families participation. This distinction might be considered unfair.

V. Conclusion

Healthy Families, like other means-tested social programs, has effects on the work and marriage incentives of potential recipients. The proposed expansion of Healthy Families to include parents as well as children alters these effects in many different ways. The marginal tax rate effects from the proposed Healthy Families expansion are smaller than those from California's childcare and housing policies, but our analysis suggests that Healthy Families does have important incentive effects. In general, the Healthy Families expansion will increase work incentives at the low end of the eligible income range because Medi-Cal recipients do not become uninsured due to increased earnings; rather, they switch to Healthy Families. The proposed Healthy Families expansion will reduce work incentives at higher income levels due to increased premiums at 150 percent of poverty and the loss of parental eligibility at 200 percent of poverty. Our analysis of prototypical families suggests that these effects play out somewhat differently depending on such characteristics as family structure and size, asset levels, county of residence, presence of a chronically ill family member, and receipt of childcare, housing assistance, CalWORKs, and Medi-Cal.

Redesigning policy in light of these findings is difficult because there are unavoidable trade-offs among program incentives, cost, complexity, and coverage. Our suggested alternative designs extend parental eligibility to 250 percent of poverty. The 250 percent limit for parents has two advantages over the current proposal. First, it reduces the marginal tax rate effects of Healthy Families expansion because costs can be phased in over a wider income range. Second, using the same 250 percent income limit for children and parents would help to ensure continued enrollment of children because it would be less confusing than having two separate eligibility levels. Alternative 1, which uses a sliding scale of premiums to gradually phase out Healthy Families benefits, might be ideal in terms of marginal tax rates and marriage penalties, but is administratively complex and politically unrealistic. Alternative 2 creates two new premium levels for parents at 200 and 225 percent of poverty. Alternative 3, which is less costly than Alternative 2, but which some might perceive as unfair, implements higher income eligibility limits for current recipients than for new applicants.

Notes

[1] Throughout the brief, we use the terms "low-income" to refer to families with incomes below 200 percent of poverty (as measured by the Federal Poverty Guidelines published annually by the U.S. Department of Health and Human Services) and "poor" to refer to families with incomes below 100 percent of poverty. In 2000, for example, the family of two parents and one child discussed extensively in this brief would be considered poor if it had an annual income of less than $14,150, and low-income if it had an annual income of less than $28,300. The Federal Poverty Guidelines are available online (http://aspe.hhs.gov/poverty/00poverty.htm).

[2] We initially chose several prototypical families to illustrate the spectrum of potential candidates for the Healthy Families program—for example, families with children in day care, one-parent families, two-parent families, legal immigrant families, poor families with high assets, etc. These and other prototypes are illustrated in the full report (Kenneth Finegold et al. *Expansion of Healthy Families: Design Issues and Marginal Tax Rates.* Oakland, CA: Medi-Cal Policy Institute, September 2001). For this brief, we focused on only one family and chose a prototype that seemed closest to the intended targets of Healthy Families expansion. This prototypical family is headed by two married parents, as is the case for the majority of low-income working families. See Gregory Acs et al., *On the Bottom Rung: A Profile of Americans in Low-Income Working Families.* Washington, D.C.: The Urban Institute, Assessing the New Federalism Policy Brief A-42, October 2000 (http://newfederalism.urban.org/html/anf_a42.html).

[3] The social assistance programs that our model simulates are Healthy Families, Medi-Cal, AIM, CalWORKs, food stamps, WIC (Women, Infants, and Children), housing assistance, childcare subsidies, EITC, and child support. Our simulation of the proposed Healthy Families parental expansion is based on the state's original waiver request, subsequent modifications reported to CMS (formerly HCFA), and the most recent draft regulations for the expanded program. Rules for all other transfer programs, including eligibility levels and benefit amounts, are simulated according to the statutes and regulations in effect on July 1, 2000. Taxes and tax credits are simulated according to the statutes and regulations in effect for the 2000 tax year. Valuation of Medi-Cal is based on the average capitation rates paid to Medi-Cal health plans. Valuation of

Healthy Families is based on average capitation rates paid to Healthy Families health plans, minus applicable premiums. Appendix B of the full report provides additional details about the taxes and transfer programs we simulated.

[4] We used the 2000 California minimum wage of $5.75 to maintain consistency with other 2000 program rules. The minimum wage increased to $6.25 at the beginning of 2001.

[5] We assumed that benefit values have a one-to-one correspondence rate with cash. However, because benefits can only be used for certain purposes (such as to purchase food or housing), recipients may discount them; that is, value them less than their cash equivalents. If recipients discount the value of benefits then the marginal tax rates would actually be smaller than what we estimate.

[6] The impact of lost health benefits occurs primarily further up the wage scale, when Healthy Families eligibility is lost, but also occurs modestly throughout the 100–200% FPL range due to Healthy Families cost-sharing requirements.

[7] The base asset limit is $3,000 for a two-person family, plus $150 for each additional family member.

[8] Figures 2, 3, and 4 show the eligibility cutoff points for our prototypical family at 30 percent of state median income (SMI) even though all California families with earnings up to 75 percent of SMI are nominally eligible for childcare subsidies. Because California childcare subsidies do not receive sufficient funding to cover all eligible families, current and former CalWORKs families are given priority and receive subsidies up to the full 75 percent level, while non-CalWORKs families face a de facto income ceiling of 30 percent of SMI.

[9] We assume that parents do not have access to employment-based insurance coverage. These effects may play out differently in families with access to employment-based insurance. See Ed Neuschler and Rick Curtis, *Expanding Healthy Families to Cover Parents: Issues and Analyses Related to Employer Coverage.* Oakland, CA: Medi-Cal Policy Institute, January 2001 (http://www.medi-cal.org/publications/viewpub.cfm?itemID=3677).

[10] Other tax and transfer programs, such as state and federal income tax and the EITC, result in substantial marriage penalties for the family described here. For example, whether the boyfriend earns $8 or $9 per hour, marrying him costs the mother $218 per month in EITC benefits.