Expansion of Healthy Families: Design Issues and Marginal Tax Rates

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Prepared for the Medi-Cal Policy Institute by

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About the Project

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Introduction

According to data from the National Survey of America's Families, 25 percent of the children—and 40 percent of the parents—in low-income California families were uninsured in 1999.[1] To reduce these numbers, the state has expanded eligibility for its Medicaid program, known as Medi-Cal, and created Healthy Families, its version of the federally funded State Children's Health Insurance Program (SCHIP). Most recently, California has applied for a waiver of SCHIP requirements that would allow it to expand Health Families to include parents as well as children.

This paper explores one important aspect of the proposed expansion of Healthy Families: its effects on work and marriage incentives. Healthy Families, like other government assistance policies, provides benefits to families at some income levels but not at others. A family's earnings determine whether they are eligible for benefits and what 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.

In the next section, we briefly discuss the current Healthy Families program and its proposed expansion. We then explain how we use marginal tax rates to measure work incentives and marriage penalties to measure marriage incentives. We go on to analyze the effects of Healthy Families on work and marriage incentives for Californians of different income levels, family structures, and counties. We subsequently discuss the elements of Healthy Families program design that affect its marginal tax rates and marriage penalties and suggest alternatives for consideration by policymakers concerned about incentives.

Throughout our analysis, we assume that families do not have access to employer-sponsored insurance. We therefore do not explore the possible impact of Healthy Families expansion on employer coverage.[2]

Healthy Families: Current Program and Proposed Expansion

California has implemented several programs in recent years to increase health insurance coverage among low-income children and their families. In 1998, the state expanded Medi-Cal to include all

children under age 19 whose family incomes were at or below 100 percent of poverty, as measured by the annual Federal Poverty Guidelines. The state subsequently expanded Medi-Cal coverage to include the parents of these children, with the exception of parents whose assets exceed Medi-Cal limits.

In July 1998, California began implementation of its SCHIP program, Healthy Families. During its first phase, Healthy Families provided health care coverage to uninsured children under age 19 with family incomes above Medi-Cal eligibility levels and at or below 200 percent of poverty. Eligibility for the program was expanded in November 1999 to include children with family incomes at or below 250 percent of poverty. To be eligible for Healthy Families, children must also be California residents; U.S. citizens, nationals, or eligible qualified immigrants; and without employer-sponsored health insurance for at least the three months prior to enrollment.

Healthy Families covers most of the costs of enrolled children's health, dental, and vision services. Families pay monthly premiums and small co-payments. As of June 4, 2001, 431,929 children were enrolled in Healthy Families.[3]

Nationally, public coverage of parents has dropped in recent years under welfare reform.[4] Expansion of SCHIP programs to parents offers states an opportunity to reverse this trend. In July 2000, the federal Health Care Financing Administration (HCFA) listed parental expansions among the demonstration projects for which states could seek SCHIP waivers under Section 1115 of the Social Security Act. HCFA indicated that parental expansion waivers would meet the standard of budget neutrality as long as the costs of children and parents did not exceed the state's SCHIP allotment. This represented a significant relaxation of the earlier standard that programs including both parents and children would have to cost less than the existing child-only programs. New Jersey, Rhode Island, and Wisconsin were the first states to request waivers for SCHIP parental expansions under the new rules. Secretary of Health and Human Services Donna Shalala approved waivers for all three states on January 18, 2001.

California became the fourth state to apply for an SCHIP parental expansion waiver on December 19, 2000[5] (see Table 1 for a summary of the Healthy Families expansion proposal and Appendix A for an overview of all four states' program designs). By expanding Healthy Families to parents, state officials hope both to increase enrollment among children and to extend coverage to almost 300,000 currently uninsured low-income parents. The proposed expansion specifically targets parents in families with incomes between 100 and 200 percent of poverty, and parents with incomes below 100 percent of poverty whose assets make them ineligible for Medi-Cal.

Marginal Tax Rates, Work Incentives, and Marriage Penalties

Marginal tax rates measure the proportion of additional earnings, from higher wages or increased hours, that are *not* retained by the worker. The most obvious, and most familiar, application of the concept is to actual taxes, but the concept of marginal tax rates can also be extended to cash benefits from transfer programs such as California's Temporary Assistance to Needy Families (TANF) program, known as CalWORKs, and to in-kind benefits from programs such as Healthy Families, Medi-Cal, or food

Table 1. Key Elements of the Healthy Families Waiver Expansion Proposal

New Eligibility[1]	▪ Parents/caretakers between 100-200% of poverty. ▪ Parents/caretakers below 100% of poverty who do not qualify for Medi-Cal because of assets.
Benefits	▪ Healthy Families coverage is the same as that provided to state employees under the state's benchmark plan, the California Public Employees Retirement System, plus comprehensive vision and dental services. ▪ Benefits include coverage for inpatient and outpatient mental health services, dental benefits, and substance abuse treatment services.
Cost-Sharing	▪ Parents at or below 150% of poverty pay a $10 per parent per month premium. ▪ Parents above 150% of poverty pay a $20 per parent per month premium. ▪ Parents that enroll in Community Provider Plans will receive a $3 per month discount on premiums. ▪ $5 co-payment for non-preventive, non-institutional services (maximum of $250 per year for all adults in family and a separate $250 maximum for all children in family).

[1] Restrictions based on prior coverage also apply. See Appendix A for more detailed eligibility rules.
Source: State of California Health and Human Services Agency. (2000).
Demonstration Project. Title XXI Waiver Request. Sacramento, CA.

stamps. Negative marginal tax rates occur when a supplementary form of income—such as the federal Earned Income Tax Credit (EITC)—increases as earnings rise, providing strong work incentives (see Table 2). A marginal tax rate of zero indicates that all gains accrue to the worker's family, with government tax and transfer programs neither adding to nor subtracting from the total. Marginal tax rates between 50 percent and 100 percent, in contrast, leave a family with less than half the gains from additional earnings. At marginal tax rates above 100 percent, earning more leaves a family with fewer resources. If this situation extends over a sustained income range, family members have little incentive to work longer hours, look for a higher-paying job, or go back to school to increase skills and earning power.

The marriage penalties or bonuses associated with various taxes and transfers cannot be expressed in percentage terms, but these concepts are otherwise closely related to marginal tax rates. Marriage penalties, calculated in monthly dollar amounts, represent the loss of resources due to changes in taxes and benefit payments when unmarried couples get married. Marriage bonuses, also calculated in monthly dollar amounts, indicate that when unmarried couples wed, they gain resources from changes in taxes and benefit payments. Marriage penalties thus discourage marriage, whereas marriage bonuses encourage it.

Unfortunately, redesigning policies to reduce high marginal tax rates or marriage penalties may generate or exacerbate other problems. As the charts in Figure 1 suggest, tradeoffs among a program's incentive effects and its cost, coverage, and complexity may be unavoidable.

Table 2. 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

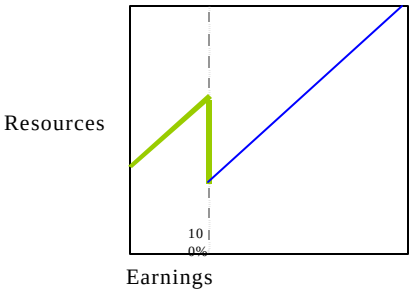
Policymakers will be better equipped to make such tradeoffs if researchers can trace marginal tax rate effects to specific elements in the design of current or proposed public policies.

Chart A in Figure 1 plots the marginal tax rates created by a simplified version of the Medi-Cal program. Although the program helps poor families, it creates a "cliff"—a marginal tax rate greater than 100 percent—at the poverty level. Families who earn a few dollars above the poverty line will be worse off in terms of actual resources than if they were right below the poverty line. One way to solve the marginal tax rate cliff, as shown in Chart B of Figure 1, is to completely eliminate Medi-Cal. In this case the assistance program has no impact on marginal tax rates, but the program also fails to help any uninsured children. Another way to eliminate the marginal tax rate cliff is to give benefits to everyone, as illustrated in Chart C of Figure 1. This strategy also creates a constant marginal tax rate at every income level, but it would be very expensive and would discourage employer-sponsored insurance.

How can Healthy Families expand upon Medi-Cal without creating large marginal tax rate cliffs? Simply extending Medi-Cal benefits to all families below 200 percent of poverty, as shown in Chart D of Figure 1, shifts the marginal tax rate cliff to the higher income level but does not eliminate the cliff. This shift may nonetheless increase workforce participation if losses of the same dollar value have less impact on individuals at higher income levels.

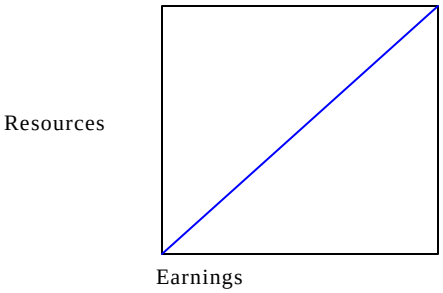
Alternative strategies are shown in Charts E and F of Figure 1. The "gradual assistance program" in Chart E slowly phases out benefits on a percentage basis as earnings increase. This reduces the problem of marginal tax rate cliffs, but would require calculating different premiums for every recipient based on income. The gradual assistance program would also be administratively burdensome. The "stepped assistance program" shown in Chart F is much easier to administer: as income increases, benefits decrease by increments. Marginal tax rate cliffs still remain, but now instead of one large cliff, there are several small cliffs.

Figure 1. Illustration of Marginal Tax Rates (MTR)



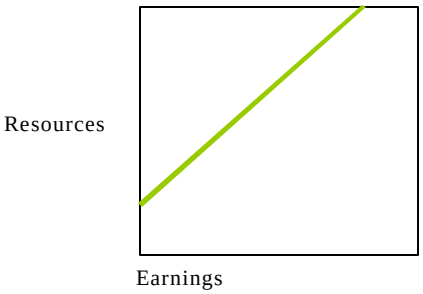
A. Medi-Cal Assistance Program

Medi-Cal gives health insurance to children in families under 100% of poverty (although income disregards often increase this eligibility limit). Creates a large "cliff" when program ends, where families are initially worse off when they earn more income.



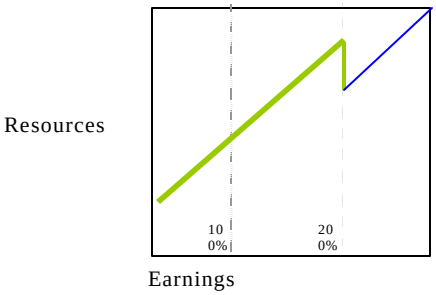
B. No Assistance Programs

Without any taxes or assistance programs, family resources would equal earnings at all income levels. The complete lack of programs solves the MTR "cliff " problem in chart A but leaves many poor families uninsured.



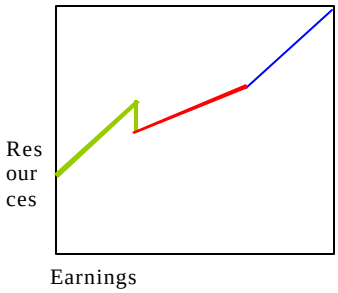
C. Universal Medi-Cal Program

If Medi-Calwas available to everyone regardless of income, then the program would not create any MTR "cliffs." Program cost would be prohibitively expensive, however.



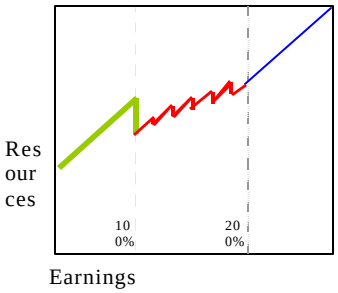
D. Extending Medi-Cal to 200% of Poverty

Program targets a larger income bracket than before but still create a large MTR cliff when it ends.



E. Gradual Assistance Program

Benefits phase out gradually to avoid MTR cliffs when the program ends. One cliff exists between Medi-Cal (green) and Healthy Families (red) because benefit levels in Medi-Cal are higher.



F. Stepped Assistance Program

Similar to E, but creates several small MTR cliffs rather than one large cliff. Less administratively complex to administer than E because it does not require percentage calculation for every recipient, rather several increments of assistance.

The notion of incentive effects assumes that the families affected have knowledge of relevant program parameters. 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. Still, knowledge of incentives is likely to vary by program and family. In some situations, such as small marriage penalties or bonuses, significant behavioral changes seem unlikely whether families are aware of incentives or not.

Policymakers might, however, be concerned about incentive effects even when affected families do not understand these incentives, or when significant behavioral impacts cannot be demonstrated. Work and marriage represent important American values, and have been central themes in the welfare reforms of the past decade. It follows that public policies toward low-income families should not make them worse off when they work or marry.

Methodological Issues

To analyze the incentive effects of the proposed Healthy Families expansion, we constructed a spreadsheet model of California marginal tax rates and applied it to several prototypical families. This approach allows us to see how incentive effects might vary by family type. It also allows us to analyze incentive effects before the expanded program starts. The first parent has not yet been enrolled in Healthy Families, and data to directly estimate the effects of expansion on labor supply or marital decisions will not be available for some time after that.

The marginal tax rate effects of transfer programs and taxes are additive. To understand the effects of Healthy Families on work and marriage incentives, therefore, it is necessary to take into account the marginal tax rate effects of other policies. Our model simulates the following transfer programs and taxes:

- Healthy Families
- Medi-Cal
- AIM (Access for Infants and Mothers)
- CalWORKs
- EITC
- food stamps
- WIC (Special Supplemental Nutrition Program for Women, Infants and Children)
- housing assistance
- child support
- federal payroll taxes
- federal income taxes (including the Child and Dependent Care Credit, the Child Tax Credit, and the Additional Child Tax Credit)

- California income taxes (including the state Child and Dependent Care Expenses credit and the Nonrefundable Renter's Credit)
- child care expenses and subsidies
- other work expenses

Appendix B provides additional details on the transfer programs and taxes we simulated, the assumptions we made, and the sources of program information upon which we drew.

Because the analyses of prototypical families that we present in the following sections include changes in transfer program eligibility and benefits as well as changes in taxes per se, the marginal tax rates that we discuss might be considered "effective" or "implicit" marginal tax rates. We assume that changes in cash resources have similar incentive effects whether they take the form of changes in taxes paid or in benefits received. We further translate the value of in-kind programs such as food stamps, housing subsidies, Medi-Cal, and Healthy Families into monetary terms. Food stamps (and their electronic equivalents) are denominated in dollars, and the value of housing subsidies can be derived from the fair market rents used in calculating eligibility and rents under these programs. Because these benefits can only be used to purchase food or housing, recipients may discount them; that is, value them less than their cash equivalents. One consequence of this potential discounting is that calculations of marginal tax rates may overstate incentive effects. For this project, we assume that the values of food stamps and housing benefits are equivalent to their face value.

Additional issues arise when we attempt to place a value on medical assistance benefits, such as benefits from Medi-Cal or Healthy Families. Unlike food stamps and housing assistance, these benefits do not come with dollar equivalents attached. Our valuations of Medi-Cal and Healthy Families are based on the per member per month capitation payments that the state pays HMOs in these programs. For Healthy Families, we deducted applicable premiums from benefit values. (Appendix B provides more detailed discussion of the HMO capitation payment method, Method A, and our reasons for choosing it as the standard for the paper over two alternative approaches: Method B, based on average expenditures per enrollee in Medi-Cal, and Method C, based on rates for comparable coverage by a private HMO.) Our methodology may overstate incentive effects if, for example, individuals discount the value of medical benefits because they can receive limited health care services for the uninsured from other sources such as community clinics and emergency rooms. Conversely, this methodology may understate incentive effects if, for example, individuals who sign up for these programs are sicker than the average individual and therefore place a higher value on medical benefits.

A final extension of the marginal tax rate concept is to marriage penalties and bonuses. These are not really marginal tax rates because they do not involve a change in gross earnings; in mathematical terms, we cannot calculate the proportion of additional earnings that is not retained because there is no denominator. Instead, we can calculate the total resources available to the family, from net earnings, cash transfers, and in-kind benefits, when parents are single, married, or cohabiting. The analyses of prototypical families presented next include examples of these comparisons.

Analyses of Prototypical Families

A Poor Single Mother with No Assets

A single, non-working mother who has no assets and does not receive child support is eligible for benefits from a wide range of state and national programs. As this mother's hours and wages increase, these programs interact with each other and with tax provisions to produce a complicated pattern of marginal tax rates that varies by county. The current Healthy Families program and its proposed expansion have limited effects on such families because recent provisions related to welfare reform make them eligible for Medi-Cal over much of the Healthy Families income range.

Table 3 shows earnings, taxes, child care costs, and work expenses for a single mother in Los Angeles County with no assets, no child support, and two children, aged 7 and 4. Healthy Families benefits are simulated as under the proposed parental expansion. When not working, the mother earns no income, incurs no work expenses, and pays no taxes. She is home to take care of the children, and so does not require child care. When the mother works part-time, her earnings (at the 2000 minimum wage of $5.75 per hour) are partially offset by work expenses, estimated at $46 per month. The children have to spend part of the day in a child care center, but its costs are completely covered by the state subsidy. State and federal income taxes remain at zero. As she shifts from part-time to full-time work, earnings and payroll taxes go up in tandem, and work expenses rise to an estimated $69 per month. Progressively higher wages bring further increases in earnings and payroll taxes. At $11 per hour, she begins to pay federal income tax and to make child care co-payments. At $17 per hour, she loses eligibility for the child care subsidy and becomes responsible for the entire cost of child care, resulting in a substantial decline in total resources. Exemptions and credits reduce her state tax liability to zero throughout the income range shown.

Two recent changes in Medi-Cal, both related to welfare reform, extend eligibility for that program into the income region in which the family would otherwise be in Healthy Families. These changes also make the relationship between resources and earnings under Medi-Cal more complex than under the simplified assistance program depicted in Figure 1's Chart A. California now applies income disregards so that families qualify for no-cost health coverage from Medi-Cal Section 1931(b) up to 100 percent

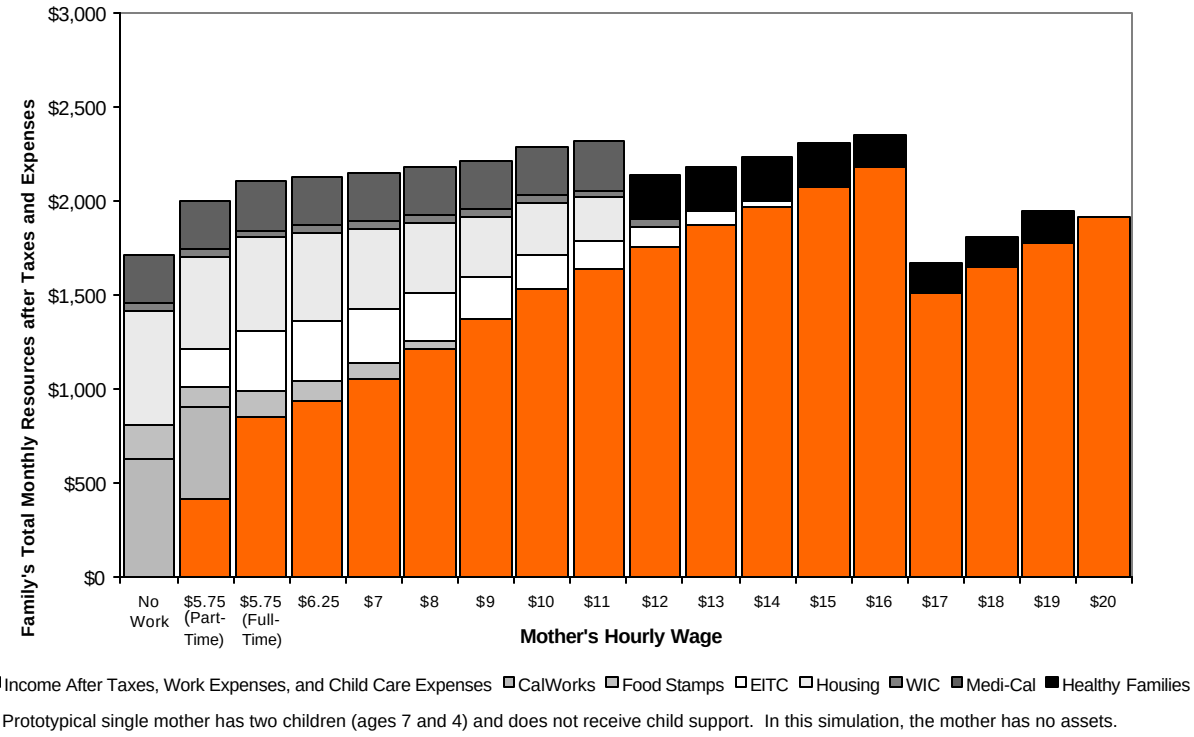
of poverty, so long as they meet asset tests and other requirements. Once on the program, recipients are subject to different eligibility standards than new applicants; in particular, over half of earned income is disregarded. “Recipients,” moreover, is defined quite broadly, including anyone who received either Section 1931(b) Medi-Cal or CalWORKs during the previous month or were eligible for either program during the previous four months. The effect of “recipient” status on the family depicted in Figure 2 is that they remain eligible for Medi-Cal until the mother’s wages are between $11 and $12, equivalent to between 162 and 176 percent of poverty.

Table 3. Net Monthly Income for a Prototypical Single Mother[1] in Los Angeles County under the Proposed Healthy Families Expansion

Hours Per Week	**0**	**20**								**40**								
Wage (in dollars)	--	5.75	5.75	6.25	7.00	8.00	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	17.00	18.00	19.00	20.00
Earned Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unearned Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Child Support	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Income	0	498	997	1,083	1,213	1,387	1,560	1,733	1,907	2,080	2,253	2,427	2,600	2,773	2,947	3,120	3,293	3,467
Tax Before Credits	0	0	0	0	0	-22	-38	-74	-100	-126	-152	-178	-204	-230	-256	-282	-308	-334
CCTC	0	0	0	0	0	0	0	0	12	16	20	28	35	41	80	80	80	80
CTC	0	0	0	0	0	22	48	74	83	83	83	83	83	83	83	83	83	83
ACTC	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Federal Income Tax	0	0	0	0	0	0	0	0	-5	-27	-49	-67	-86	-106	-93	-119	-145	-171
Federal Payroll Taxes	0	-38	-76	-83	-93	-106	-119	-133	-146	-159	-172	-186	-199	-212	-225	-239	-252	-265
Tax Before Exemptions	0	0	-5	-6	-7	-9	-13	-16	-20	-23	-27	-30	-34	-40	-47	-54	-62	-72
Exemptions Credit	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45
Nonrefundable Renter's Credit	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Child and Dependent Care Expenses Credit	0	0	0	0	0	0	0	0	8	10	13	18	22	26	50	50	50	42
Total State Income Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Child Care Copay	0	0	0	0	0	0	0	0	-53	-74	-95	-142	-173	-205	-1,050	-1,050	-1,050	-1,050
Work Expenses	0	-46	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69	-69
After Tax/Expenses Income	0	414	851	931	1,052	1,212	1,372	1,532	1,634	1,752	1,868	1,964	2,072	2,181	1,509	1,643	1,777	1,911

[1] Prototypical single mother has two children (ages 7 and 4) and does not receive child support. In this simulation, the mother has no assets.

Figure 2. Resources of a Prototypical Single Mother[1] in Los Angeles County under the Proposed Healthy Families Expansion



[1] Prototypical single mother has two children (ages 7 and 4) and does not receive child support. In this simulation, the mother has no assets.

The impact of Healthy Families on this population is further reduced by the availability of Transitional Medi-Cal, which is not shown in the charts because of its temporary nature. Transitional Medi-Cal covers families who received Section 1931(b) over three of the previous six months but lose eligibility for these programs due to increased earnings. For the first six months, families are covered without regard to income. After six months, family income, net of child care costs, may not exceed 185 percent of poverty. Children lose eligibility for Transitional Medi-Cal after one year, at which time they go on either the Medi-Cal Percent Programs or Healthy Families. Parents, except for pregnant women, are not eligible for the Medi-Cal Percent Programs, but can keep Transitional Medi-Cal for up to two years subject to the 185 percent net income limit.[6]

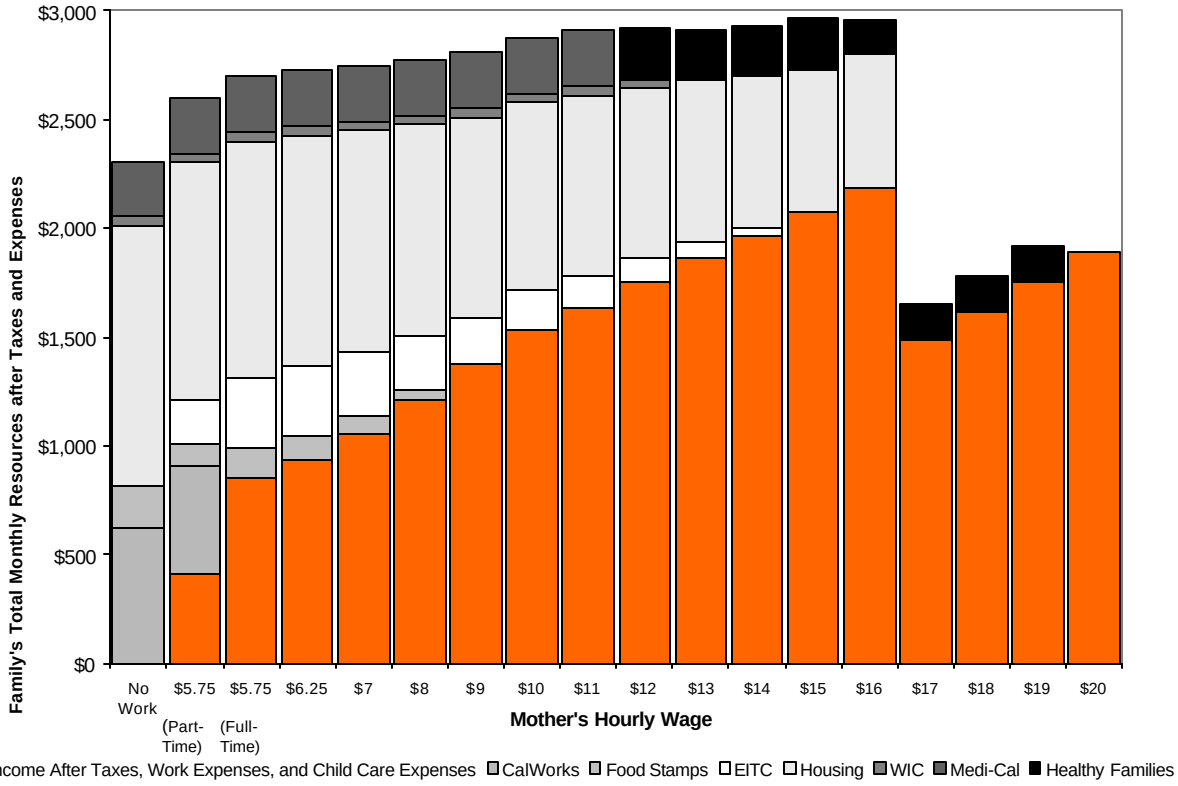
Figure 2 shows the family after everyone has used up his or her Transitional Medi-Cal eligibility and enrolled in Healthy Families. We estimate that the value of Healthy Families coverage for this family is slightly higher than the value of Medi-Cal coverage, but this difference is more than offset by the cost of Healthy Families premiums. The switch, moreover, occurs at an earnings level that puts the family on the more expensive part of the two-step Healthy Families premium schedule. The result is a $23 difference in the monthly value of health care benefits. Between $15 and $16, net income exceeds the proposed Healthy Families parental limit of 200 percent of poverty, and the mother loses eligibility for Healthy

Families. The children, subject to a 250 percent income limit, lose their Healthy Families coverage when the mother's hourly wages increase from $19 to $20.

As shown in Figure 2, California's policies do provide incentives to work, up to a point. Total resources go up as the mother's hours of work increase, and higher wages bring further gains up to $11 per hour, equivalent to 162 percent of poverty. The loss of housing assistance between $11 and $12 combines with the transition from no-cost Medi-Cal to Healthy Families premiums and the onset of child care co-payments in the same range to create a benefit cliff. Wages increase, but total resources go down, and do not match the $11 level until wages reach $16 per hour. The loss of child care subsidies between $16 and $17, and the loss of the children's Healthy Families coverage between $19 and $20, create additional benefit cliffs.

Comparisons with similar families in two other counties demonstrate the extent and sources of regional variation in total resources and marginal tax rate effects. The biggest differences between the Marin County family depicted in Figure 3 and the Los Angeles County family in Figure 2 are related to housing: eligibility for housing subsidies extends further along the income scale, and the subsidies are worth more. For a family of three, the maximum annual income level for housing assistance, based on 50 percent of county median income, is $23,450 in Los Angeles and $33,700 in Marin. The value of the subsidy is greater in Marin because housing is more expensive: the monthly fair market rent for a two-bedroom apartment is $1,362, compared to $766 in Los Angeles. The costs of unsubsidized full-time child care are slightly higher in Marin ($51.15 per day for one pre-school child and one school-age child), than in Los Angeles ($50.01 per day). Overall, the higher income maximum for housing assistance in Marin extends the range over which higher wages produce increased resources, but the coincidence of the loss of eligibility for both housing and child care subsidies creates a very steep cliff between $16 and $17 per hour.

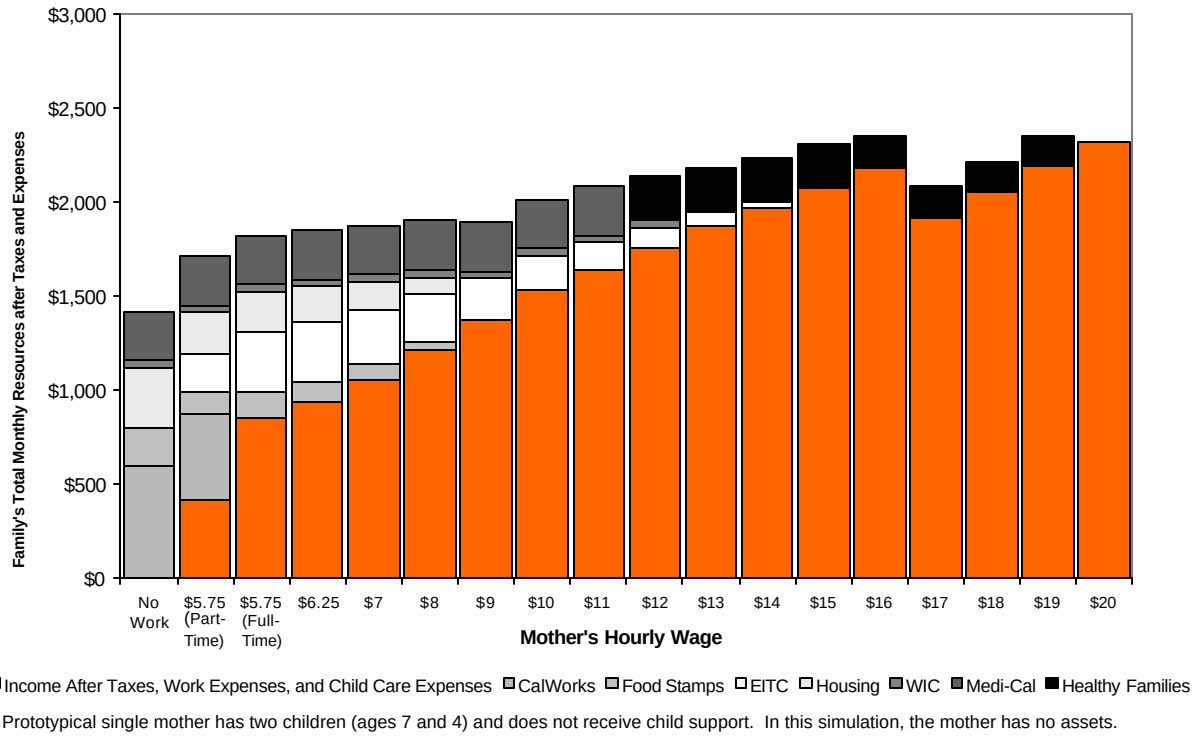
Figure 3. Resources of a Prototypical Single Mother[1] in Marin County under the Proposed Healthy Families Expansion



[1] Prototypical single mother has two children (ages 7 and 4) and does not receive child support. In this simulation, the mother has no assets.

The maximum income for housing subsidies ($16,650), monthly fair market rent for a two-bedroom apartment ($483), and the cost of child care for the two children ($30.67 per day) are all lower in Siskiyou County (Figure 4) than in either Marin or Los Angeles. Siskiyou County is also part of CalWORKs Region 2. CalWORKs need standards and maximum payments are slightly lower in Region 2 than in Region 1, which includes Los Angeles and Marin. For the family shown here, Siskiyou monthly CalWORKs benefits are $596 when the mother doesn't work, and $459 when she works part-time; Region 1 benefits in either situation are $30 more. A bigger difference, not shown in these charts, is that a Los Angeles or Marin mother whose net monthly earnings are between $808 and $883 is eligible for a CalWORKs benefit of $297 to $335, whereas a Siskiyou mother with the same earnings is ineligible for CalWORKs. Total resources are lower than in Los Angeles or Marin, but the marginal tax rate effects are smaller as well. The drop from the loss of housing assistance between $8 and $9 is barely noticeable, and the impact of the loss of child care subsidies between $16 and $17 is smaller because the unsubsidized costs are less.

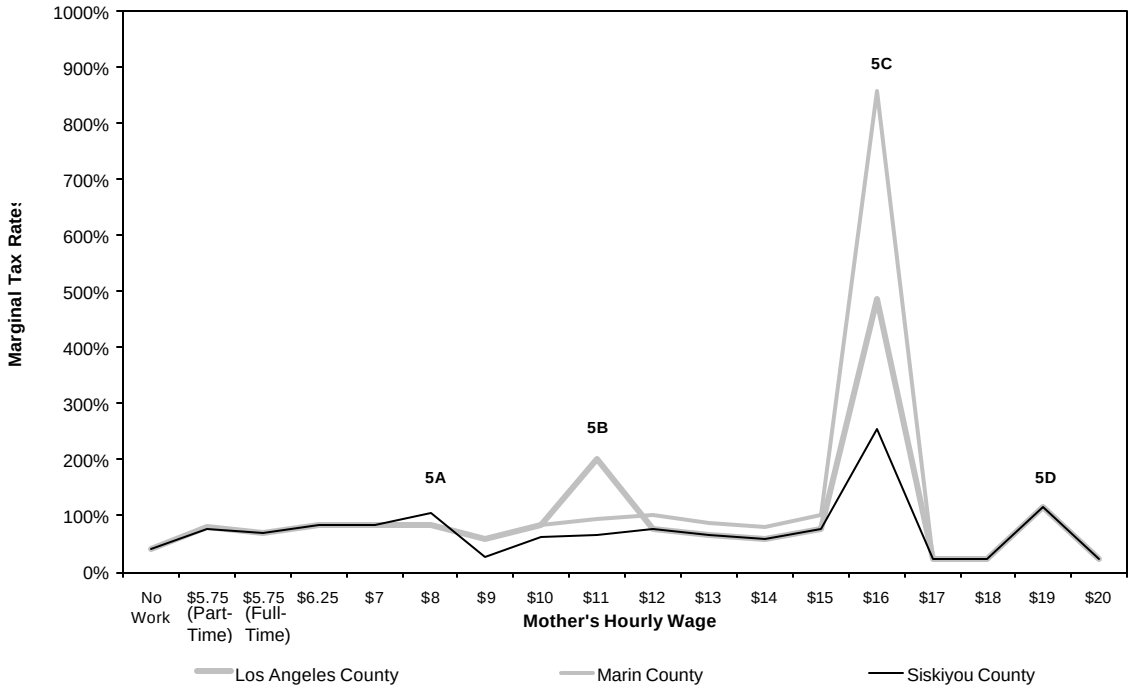
Figure 4. Resources of a Prototypical Single Mother[1] in Siskiyou County under the Proposed Healthy Families Expansion



[1] Prototypical single mother has two children (ages 7 and 4) and does not receive child support. In this simulation, the mother has no assets.

Figure 5 compares marginal tax rates, including all taxes and benefits, in these three counties. At the low end of the income range, marginal tax rates are about the same for the three counties. The marginal tax rate in Siskiyou County jumps at $8 (labeled 5A in the chart), showing the loss of housing assistance. The Siskiyou marginal tax rate then falls below the rates for Los Angeles and Marin because Siskiyou families are no longer paying 30 percent of additional income as extra rent, as the housing programs require. Similar effects at a higher income level bring the Los Angeles marginal tax rate to 202 percent at $11 per hour (5B), then cause it to fall below Marin's. All three counties show the strongest marginal tax rate effects from the loss of child care subsidies between $16 and $17 per hour (5C). Loss of child eligibility for Healthy Families above $19 per hour (5D) has the same effects in all three counties.[7]

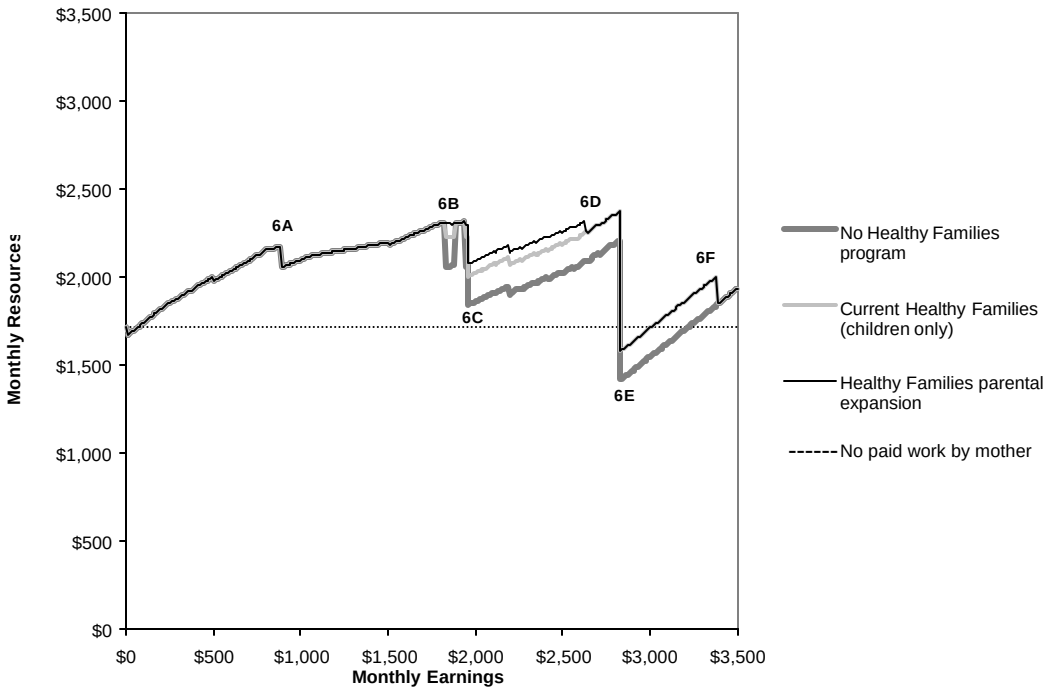
Figure 5. Marginal Tax Rates for a Prototypical Single Mother[1] under the Proposed Healthy Families Expansion: Comparison of Three Counties



[1] Prototypical single mother has two children (ages 7 and 4) and does not receive child support. In this simulation, the mother has no assets.

Another way to show the incentive effects of changing marginal tax rates is to trace the change in total family resources with ten-dollar increments in monthly earnings. This approach allows us to distinguish the incentive effects of different programs and to compare incentive effects under alternative policy scenarios. Figure 6 shows monthly resources and earnings for the Los Angeles single mother and her family under three policy scenarios: no Healthy Families program, the current child-only program, and the proposed parental expansion. The dotted line shows that if the mother did not work for pay, family resources (from CalWORKS, food stamps, housing assistance, Medi-Cal, and WIC) would total $1,713. Figure 6 suggests that this prototypical family is better off when the mother does work full-time for pay, at least until the loss of eligibility for child care subsidies (6E). The loss of eligibility for CalWORKs (6A) and housing assistance (6C) create additional notches in all the Healthy Families scenarios. The loss of parental eligibility creates a notch at 200 percent of poverty (6D) for the line showing monthly resources under the proposed Healthy Families expansion. The loss of children's eligibility at 250 percent of poverty (6F) creates notches in the lines for the current Healthy Families program and the proposed expansion.

Figure 6. Resources and Earnings of a Prototypical Single Mother[1] under the Proposed Healthy Families Expansion: Comparison of Three Healthy Families Scenarios



[1] Prototypical single mother has two children (ages 7 and 4) and does not receive child support. In this simulation, the mother lives in Los Angeles

The lines for no Healthy Families, the current program, and the proposed parental expansion are identical for monthly earnings up to $1,820. In this range, the family is eligible for Medi-Cal Section 1931(b), and so is unaffected by Healthy Families. At $1,830 (6B) the entire family loses Medi-Cal eligibility; depending on the scenario, the children and their mother either become uninsured or switch to Healthy Families.

Figure 6 suggests that the absence of the Healthy Families program would produce a striking trough pattern at this income level. Total resources are about the same for families on either side of the trough, but sharply lower for those who earn wages from $1,830 to $1,880 per month. Above $1,880 per month, the mother is responsible for child care co-payments. Since these child care costs are deductible from Medi-Cal net income up to $175 per child ($200 if the child is younger than two), the mother's net income falls below the Section 1931(b) eligibility maximum and the family becomes eligible for Medi-Cal again. At $1,940 they become ineligible again even with the child care deduction. Under the current Healthy Families program, the trough occurs in the same income range, but has less impact since only the mother loses health coverage entirely. The effects of the trough on labor supply, and thus the implications of Healthy Families expansion for work incentives, are ambiguous, as families can avoid falling into it by either decreasing earnings or increasing earnings. Concerns about fairness, however,

suggest that a benefit as important as health insurance coverage should not be denied on such an arbitrary basis.

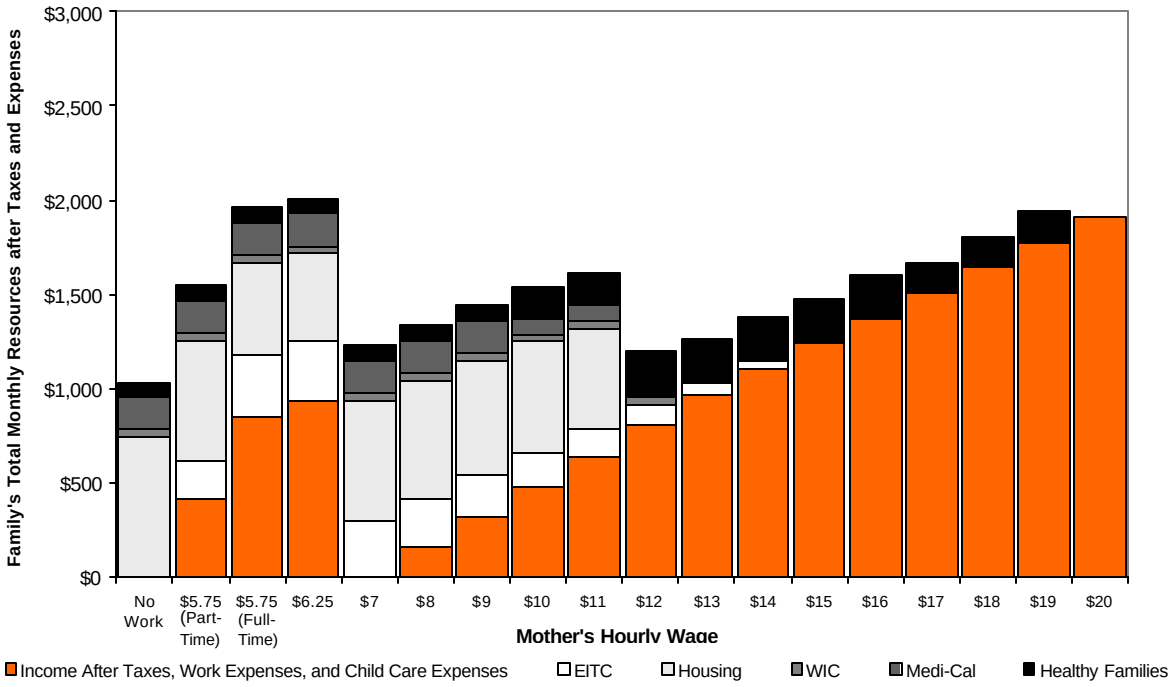
A Poor Single Mother with Some Assets

Healthy Families has a bigger impact on families whose assets exceed the Medi-Cal limits. Figure 7 shows total resources for a Los Angeles County family identical to that in Figure 2, except that it has $3,500 in assets. The two children qualify for Medi-Cal coverage under the "Percent Programs," which have no asset limits; these cover pregnant women and children under 1 up to 200 percent of poverty, children under 6 up to 133 percent of poverty, and children 6 through 18 up to 100 percent of poverty. Because the children's Medi-Cal coverage is from the Percent Programs, the generous recipient disregards of Section 1931(b), discussed above, do not apply. The older child switches from the Medi-Cal 100 Percent Program when the mother earns $10 per hour; the younger child switches from the 133 Percent Program when the mother earns $12, in the range where the family also loses housing assistance. The children lose eligibility for Healthy Families, under either the current program or the expansion, when their mother makes $20 per hour.

Unless the mother is pregnant, her assets make her ineligible for Medi-Cal. She does qualify for Healthy Families, which has no asset test. Under the proposed expansion, the mother loses eligibility for Healthy Families when her income reaches $17 per hour. This wage is slightly higher than the $16 shown for the no-asset family in Figures 2, 3, and 4. The difference is that the mother in Figure 7, who in this income range does not receive child care subsidies, can deduct some of her larger child care expenses from her net income.

The same modest amount of assets makes the family ineligible, at any income level, for food stamps or CalWORKs. Ineligibility for CalWORKs even when she has no earnings also affects her access to child care subsidies. Current CalWORKs recipients, former recipients, and families who have never been on CalWORKs are nominally eligible for child care subsidies until their earnings reach 75 percent of state median income (SMI), with no co-payments up to 50 percent of SMI and the same schedule of co-payments above that level. In practice, however, California child care subsidies do not receive sufficient funding to cover all eligible families up to 75 percent of SMI. Current and former CalWORKs families are given priority and receive subsidies up to the 75 percent level, but non-CalWORKs families face a de facto income ceiling of 30 percent of SMI.[8] The family shown in Figure 7 exceeds this level when the mother's wages reach $7 an hour. At this wage level, equivalent to 103 percent of poverty, child care costs, work expenses, and payroll taxes reduce net earnings to $1. Only the combined effects of the EITC, housing assistance, Medi-Cal (for the children), and Healthy Families (for the mother) bring the family to a level of total resources higher than when the mother does not work at all, and she has to earn $21 an hour (not shown) before the family is better off than when she made $6.25 an hour.

Figure 7. Resources of a Prototypical Single Mother[1] with $3,500 of Assets under the Proposed Healthy Families Expansion



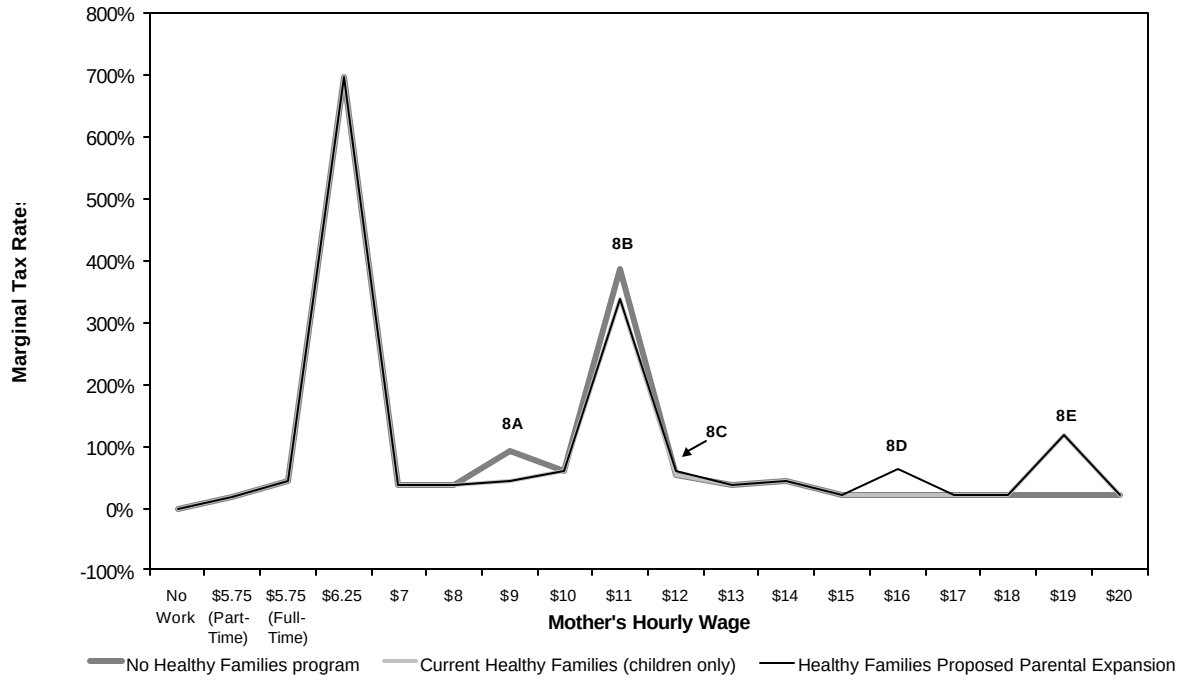
[1] Prototypical single mother has two children (ages 7 and 4). In this simulation, the mother lives in Los Angeles County and does not receive child support.

As Figure 8 shows, Healthy Families coverage for the children, under the current or the proposed program, reduces the size of the notch or cliff at the income levels where the seven-year-old (8A) and the four-year-old (8B) lose Medi-Cal. Increased income that, in the absence of Healthy Families, would move family members from Medi-Cal to uninsured status now has the milder effect of moving them from no-cost Medi-Cal to Healthy Families, which gives them roughly comparable benefits but with some cost sharing required. Healthy Families thus reduces marginal tax rates from 93 percent to 44 percent at 8A, and from 386 to 337 percent at 8B. The current Healthy Families program increases marginal tax rates at two higher income levels: from 52 percent to 55 percent, due to the increase in premiums when income exceeds 150 percent of poverty at 8C, and from 23 percent to 117 percent when the children lose coverage at 8E. Healthy Families benefits for children thus increase work incentives by reducing marginal tax rates at lower income levels and decrease work incentives by raising marginal tax rates at higher incomes.

Expansion of Healthy Families to include parents, however, only decreases work incentives for the family depicted in Figure 8. Expansion of the current program to include the mother increases marginal tax rates from 55 percent to 60 percent between $12 and $13 (8C), reflecting her higher premiums at this point, and from 23 percent to 63 percent between $16 and $17 (8D), the range in which she loses eligibility. Because the mother, with her $3,500 in assets, would not be eligible for Medi-Cal at any

income level, extending Healthy Families eligibility to her does not reduce her marginal tax rates at any income level.

Figure 8. Marginal Tax Rates for a Prototypical Single Mother[1] with $3,500 of Assets: Comparison of Three Healthy Families Scenarios



[1] Prototypical single mother has two children (ages 7 and 4) and does not receive child support. In this simulation, the mother lives in Los Angeles County.

The effects of Healthy Families expansion on the family depicted in Figures 7 and 8 illustrate the tradeoff between program coverage and work incentives. Expansion of Healthy Families will give her the medical insurance coverage that she cannot get from Medi-Cal and cannot afford to purchase privately. Healthy Families expansion, however, will reduce her incentive to work by raising her marginal tax rates. These effects occur at wage levels that are much higher than what she is presently earning. The effects of Healthy Families expansion on this mother's work incentives, moreover, are small compared with the effects of losing child care subsidies when she earns wages that are only slightly above her current level.

A Married, Low-Income, Working Family

The proposed expansion of Healthy Families will have larger effects on a married, low-income working couple than on the single-parent families discussed above. Expansion of Healthy Families will effectively shift the marginal tax rate "spike" that now occurs at 100 percent of poverty, the point at which the two parents lose eligibility for Medi-Cal, to higher income levels. The impact of either the current or expanded Healthy Families program on these families is larger than for single-parent families because the

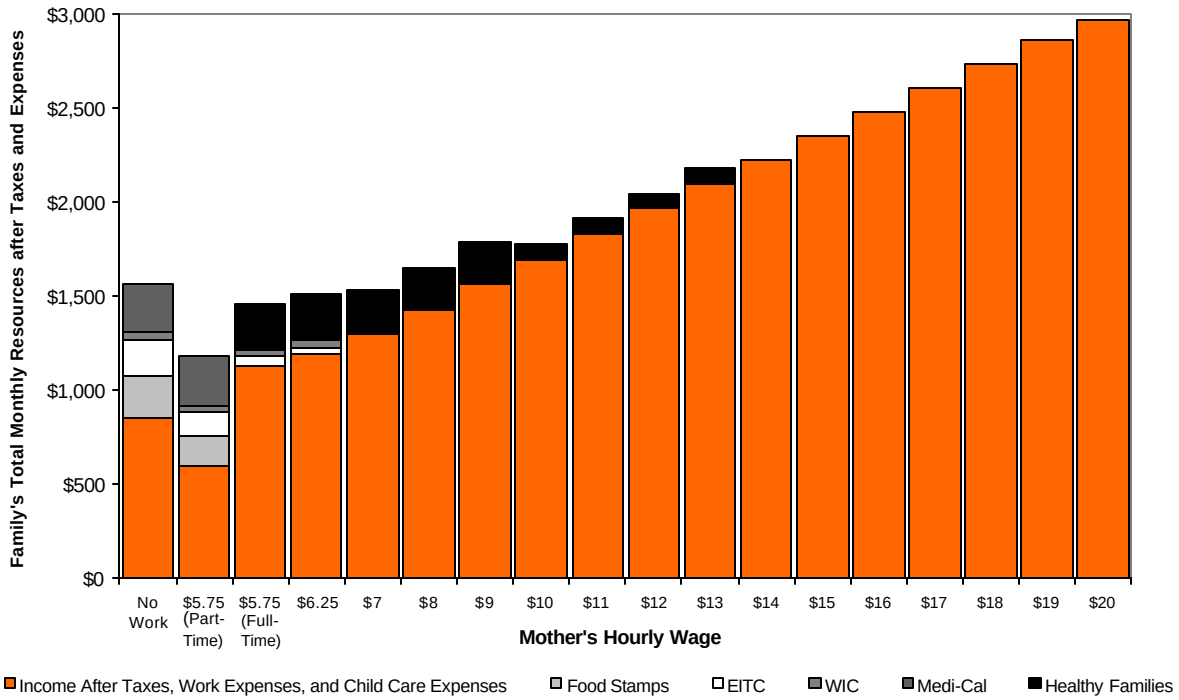
father's income makes the family ineligible for most other means-tested programs, including Medi-Cal, over most of the Healthy Families income range. Benefits from expansion of Healthy Families to parents, and therefore the incentive effects that these benefits create, are greater because two parents are affected instead of one.

California policies create clear work disincentives for the second earner in these families: a married, low-income family may be better off if the second earner stays home with the children than if he or she works at low wages. The current Healthy Families program reduces these disincentives somewhat, and the proposed parental expansion reduces disincentives further. Policymakers, however, should weigh these desirable incentive effects against the undesirable incentive effects created at higher income levels. The loss of child coverage at 250 percent of poverty, and the proposed loss of parental coverage at 200 percent of poverty, lead to high marginal tax rates at each of these points. (Covering parents as well as children up to 250 percent of poverty, as suggested by the Legislative Analyst's Office [2001] and by Brown, Kincheloe, and Yu [2001], would create a single large notch instead.)

Figure 9 shows income and benefits for a married Alameda County couple with one four-year-old child in child care. Like most of California's low-income families, this family meets eligibility standards for housing assistance but does not actually receive these benefits.[9] Both parents work full-time at minimum wage. At this wage level, the family is ineligible for CalWORKs or food stamps, and is unlikely to have access to employer-based health insurance (Neuschler and Curtis 2000:15). The parents are nominally eligible for child care subsidies, but since they have never been on CalWORKs they are subject to the de facto limit of 30 percent of SMI, which they exceed. They do receive $47 per month from EITC and a WIC benefit for the child that we value at $41 per month. In the expansion scenario depicted here, the child and the parents receive Healthy Families.

As shown in Figure 9, the family's total resources would be higher if the mother stops working than if she continues to work full-time at minimum wage. When the mother works, the family suffers a double hit: child care becomes necessary, but her added earnings make the family ineligible for child care subsidies at the de facto 30 percent limit. If the mother stops working, the family would also receive no-cost Medi-Cal instead of paying Healthy Families premiums, become eligible for $218 per month in food stamps, and receive a larger EITC. They would still not be eligible for CalWORKs. Alameda, like Los Angeles and Marin Counties, is in the higher-benefits CalWORKs Region 1, but even with no earnings from the mother, family income from the father's full-time, minimum wage job exceeds the need standard. Working part-time is no solution: work expenses are lower than if the mother works full-time, but family income is still above 30 percent of SMI, and the unsubsidized cost of part-time child care for an Alameda preschooler is $4.99 a day higher than the full-time rate.

Figure 9. Resources of a Prototypical One-Child Family[1] in Alameda County under the Proposed Healthy Families Expansion

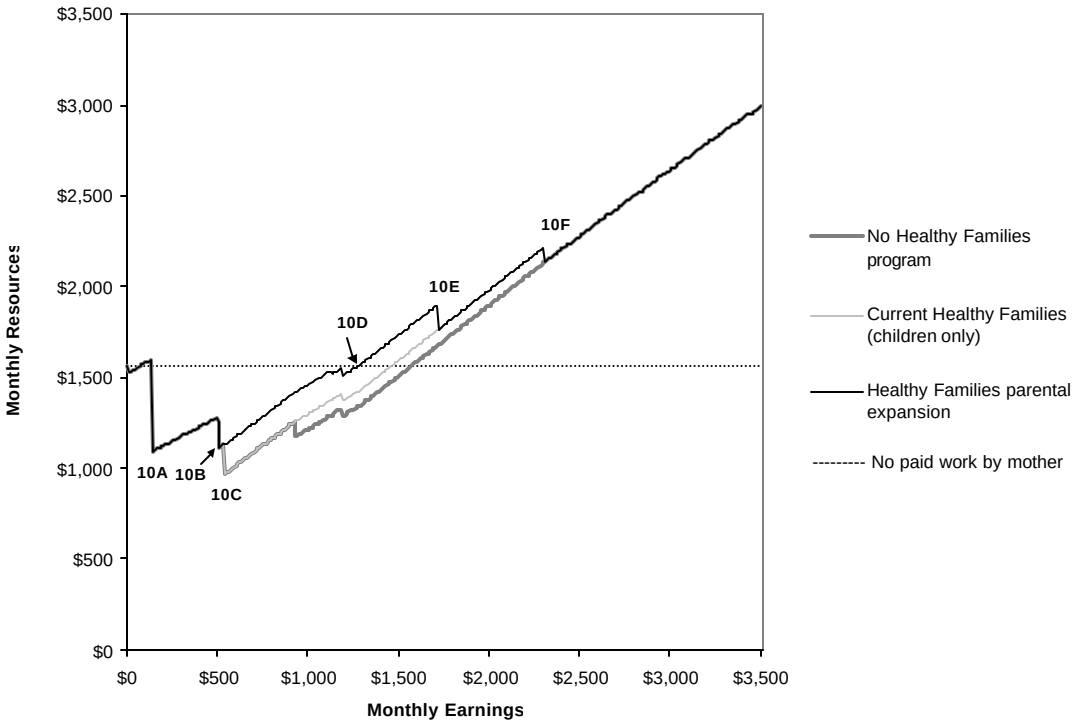


[1] Prototypical one-child family has married parents and a 4-year-old child. The father works 40 hours per week at minimum wage.

The same work disincentives, and the extent to which Healthy Families reduces them, can be seen in Figure 10. With no Healthy Families, the current program, or the proposed expansion, the family's total resources are higher when the mother does not work than when she works full-time at minimum wage. These losses, however, are largest in the no Healthy Families scenario, because the mother's earnings from work move the whole family from Medi-Cal to uninsured status. Losses are smaller under the current Healthy Families program, in which the child goes from Medi-Cal to Healthy Families, and smaller still under the proposed expansion, which has the same effect on the parents.

Looking at Figure 10 another way, Healthy Families lowers the break-even point, the lowest wage level at which the family's resources are greater if the mother works full-time than if she does not work. In Figure 10, the break-even points can be seen where the line for each Healthy Families scenario crosses the line for monthly resources with no paid work by the mother. With no Healthy Families, the break-even point is $1,570 per month. The current Healthy Families program lowers the break-even point to $1,470. The break-even point for the proposed parental expansion is $1,280 (10D).

Figure 10. Resources and Earnings of a Prototypical One-Child Family[1] in Alameda County with Earnings by Mother under the Proposed Healthy Families Expansion

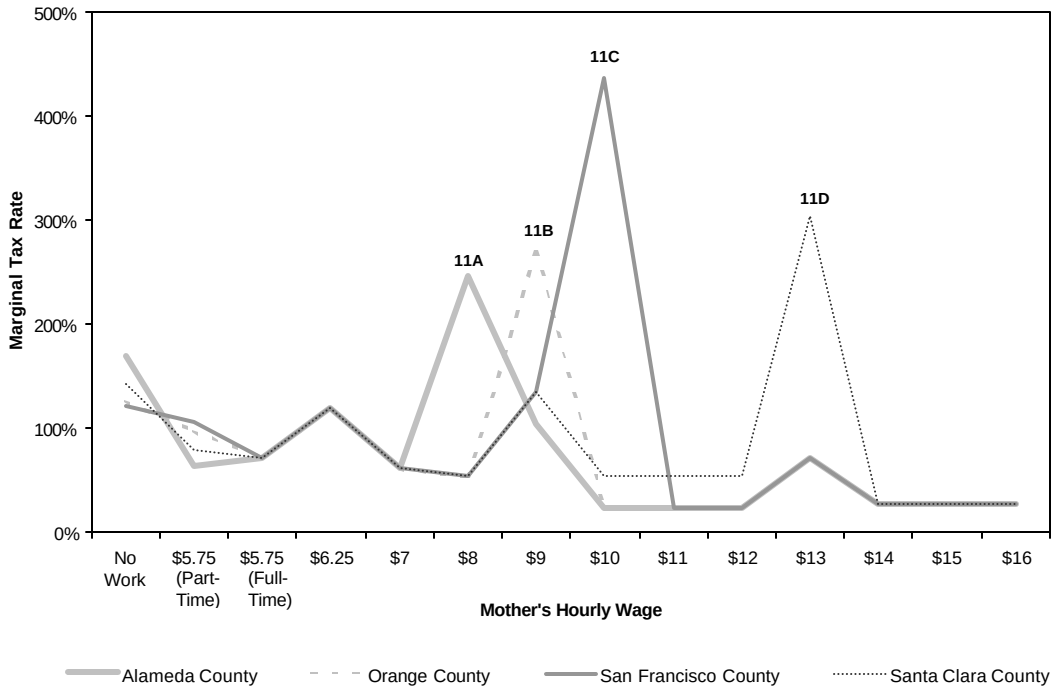


[1] Prototypical one-child family has married parents and a 4-year old child. The father works 40 hours per week at minimum wage.

The lines in Figure 10 are smoother than those in Figure 6 because the Alameda family is eligible for fewer benefits than the Los Angeles County single mother depicted in the earlier figure. Several notches are evident, however, in Figure 10, including those showing loss of Medi-Cal eligibility for the parents with no Healthy Families or the current program (10C); loss of Healthy Families eligibility for the parents under the proposed expansion (10E); and loss of Healthy Families eligibility for the child under either the current or the expanded program (10F). Loss of eligibility for child care subsidies (10A) and food stamps (10B) creates large notches under all three Healthy Families scenarios.

With no housing assistance, as assumed above, the family faces marginal tax rates above 100 percent on the mother's earnings from part-time work and on earnings between $9 and $10, the range in which the parents lose Healthy Families eligibility. Figure 11 shows effective marginal tax rates with housing assistance under the proposed Healthy Families expansion. The marginal tax rate on part-time work is slightly lower when the family receives housing assistance due to the interaction between child care costs and housing benefits. Marginal tax rates for families with housing assistance then run higher than those for families without it, and increase sharply in the range where eligibility for housing assistance ends.

Figure 11. Marginal Tax Rates for the Mother in the Prototypical One-Child Family[1] with Housing Assistance in Four Counties under the Proposed Healthy Families Expansion



[1] Prototypical one-child family has married parents and a 4-year old child. The father works 40 hours per week at minimum wage.

In Alameda (11A), and in most other counties, this housing spike occurs at a lower wage than that at which the parents lose Healthy Families. In Orange (11B) and Ventura Counties, however, median incomes, on which eligibility for housing assistance is based, are higher than in Alameda. The result is that families in these two counties lose housing assistance in the same $9-$10 range in which they lose parental Healthy Families. In San Francisco (11C), San Mateo, and Marin, housing eligibility ends between $10 and $11, so higher rents add 30 percentage points to the marginal tax rates associated with the loss of parental Healthy Families. In Santa Clara (11D), the county with the highest median income in California, eligibility for housing assistance ends in the same $13-$14 income range as the child's Healthy Families eligibility. The loss of these benefits combine with the marginal tax rate effects of federal income taxes, state income taxes, and payroll taxes to produce a 303 percent marginal tax rate.

A Large Family

Compared to other prototypical families, the large working family is more affected by changes in Healthy Families because it qualifies for few other benefits. The proposed expansion of Healthy Families helps reduce a sizeable disincentive for the mother to go to work at all. This disincentive is much greater if any of the children are young enough to require child care. However, the expansion of Healthy Families also creates a major disincentive for the family to earn net income above 200 percent of

poverty, as the loss of parental insurance benefits would outweigh the potential increase in earned income.

Our prototypical large family has two married parents and six school-aged children, ranging in ages from 8 to 18 years old. They live in Fresno County and have $500 in assets. The father and mother both work full-time outside the household. There are no child care expenses because the older children baby-sit the younger children after school. The father earns $12 per hour and the mother earns $9 per hour, for a combined gross annual income of $43,680. Their net annual income is just below 150 percent of poverty for their family size.

If the mother does not work at all, the family qualifies for Medi-Cal, food stamps, and the EITC. If she works part-time at minimum wage, the family loses the EITC, Medi-Cal, and most of its food stamps. As Figure 12 illustrates, this means that, with no Healthy Families program, the mother would face a 174 percent marginal tax rate when going from no work to part-time work for minimum wage (12A). Continued health insurance for the children under the current Healthy Families program lowers this to 70 percent. By covering the parents as well, the proposed Healthy Families expansion lowers the marginal tax rate to 38 percent.

When the mother works full-time, the family's income is too high to qualify them for any social assistance other than Healthy Families. Under the proposed parental extension, the family pays $22 per month in premiums and receives coverage worth $700, for a net value of $678. If either parent earns an additional $1 per hour, the family's net income exceeds 150 percent of poverty; premiums increase to $52 per month and the net value of Healthy Families coverage drops to $648 per month. This contributes to a 40 percent marginal tax rate (12B). As Figure 12 indicates, this marginal tax rate is higher than that under the current program because there are premium increases for parents, not just for children.

Marginal tax rates remain below 30 percent until net income goes above 200 percent of poverty (12C), equivalent to $57,300 per year. At this point, the parents lose Healthy Families benefits and the marginal tax rate is 110 percent.

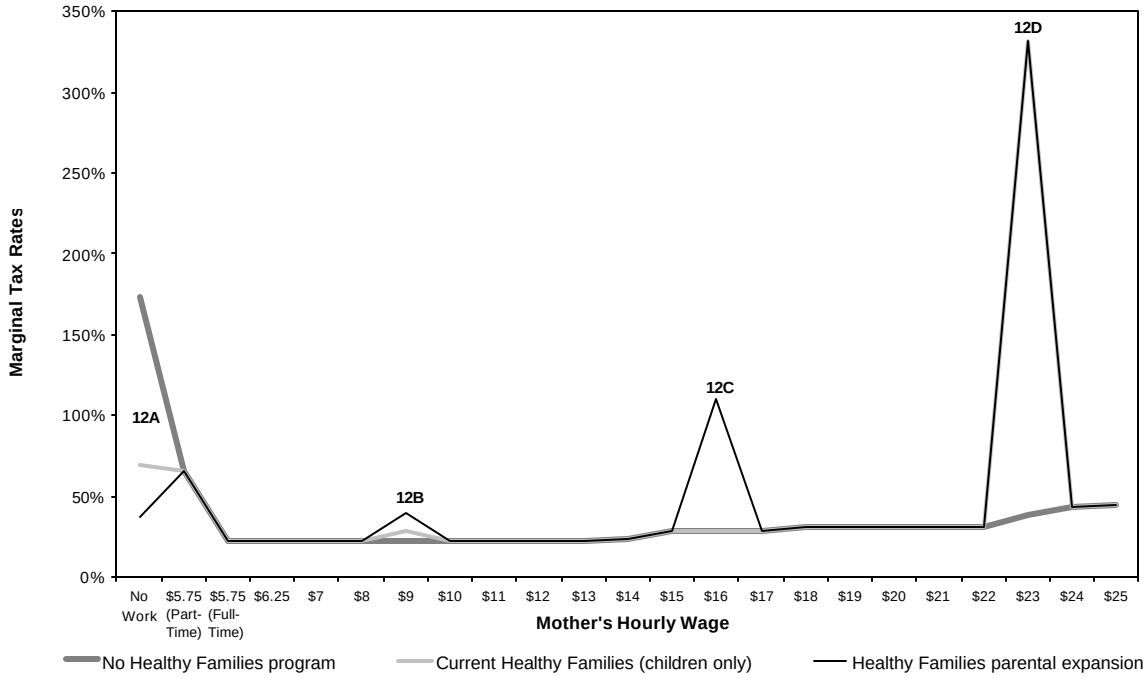
The family's final (and largest) marginal tax rate occurs at 12D, when net family income exceeds 250 percent of poverty and the children lose their Healthy Families benefits. Because the benefits lost are worth over $500, the family actually loses total resources from its increased earnings. The marginal tax rate at this point under the proposed expansion and the current program is 331 percent.

A Family with a Chronically Ill Parent

The proposed Healthy Families expansion would reduce work disincentives for a family with a chronically ill parent by extending eligibility for publicly sponsored health care to higher income levels. This analysis assumes that a chronically ill parent is more likely to report poor or fair health status than the typical parent. Four percent of low-income parents in California report that their health status is poor, and another 26 percent report that they are in fair health.[10] Many of these people are either eligible for the existing Medi-Cal program or are uninsured. Sixty-two percent of California low-income

parents that report poor health status have public insurance or are insured, while 72 percent of those with fair health status have public insurance or are uninsured.[11]

Figure 12. Marginal Tax Rates for the Mother in the Prototypical Large Family[1]: Comparison of Three Healthy Families Scenarios



[1] Prototypical large family has married parents, six children (ages 8 to 18), and $500 in assets. The father works 40 hours per week at $12 per hour. In this scenario, the family lives in Fresno County.

Individuals reporting poor or fair health status are likely to place a higher value on health care coverage than the average person. The analyses of prototypical families in this paper generally assume that individuals place values on Medi-Cal or Healthy Families that are lower than $100 per person per month. Recent studies suggest that average expenditures for medical care coverage are three to four times higher for a non-elderly adult in poor health than for the typical non-elderly adult (Cohen et al., 2000; Holahan, 2001). Similarly, this analysis assumes that a chronically ill parent places a value on health coverage that is roughly 3.5 times the value assumed for other adults.[12]

The prototypical family in this scenario is a married couple with two children, ages 8 and 5. The family lives in Riverside County and owns their residence. The father works 40 hours per week, but the mother does not work for pay due to a chronic illness—for example, she may be suffering from severe back problems, lupus, multiple sclerosis, or chronic fatigue syndrome. It is also assumed that she does not meet the categorical or income requirements to be considered disabled under SSI criteria.

The loss of Medi-Cal eligibility is a major disincentive for low-income families with a chronically ill member because they place a higher value on medical coverage. Figure 13 shows the marginal tax rates at various wage levels for the father in the prototypical family described above, both under current programs and with the proposed Healthy Families expansion. Under current law, the family is eligible for Medi-Cal as long as the father earns $8 per hour or less, but if he earns $9 per hour or more both he and his wife lose Medi-Cal coverage. The point where the parents lose coverage under the existing Medi-Cal program is labeled as point 13A.[13] Although the children retain medical benefits through Medi-Cal and/or Healthy Families up to much higher income levels, under current law the marginal tax rate where the parents lose Medi-Cal is 276 percent.

The proposed expansion of Healthy Families for parents significantly decreases the work disincentives for the prototypical family because the mother and father are now eligible for health coverage up to 200 percent of poverty. In this scenario, the male could earn $16 per hour if the mother did not work and both parents would still be eligible for coverage. The point where the parents lose Healthy Families coverage is labeled as point 13C. The downside is that there is now a significant marginal tax rate—230 percent—at 200 percent of poverty where the parents lose Healthy Families. The Healthy Families expansion also creates a slightly higher marginal tax rate of 56 percent at 150 percent of poverty—shown as point 13B—where premiums increase for Healthy Families participants.

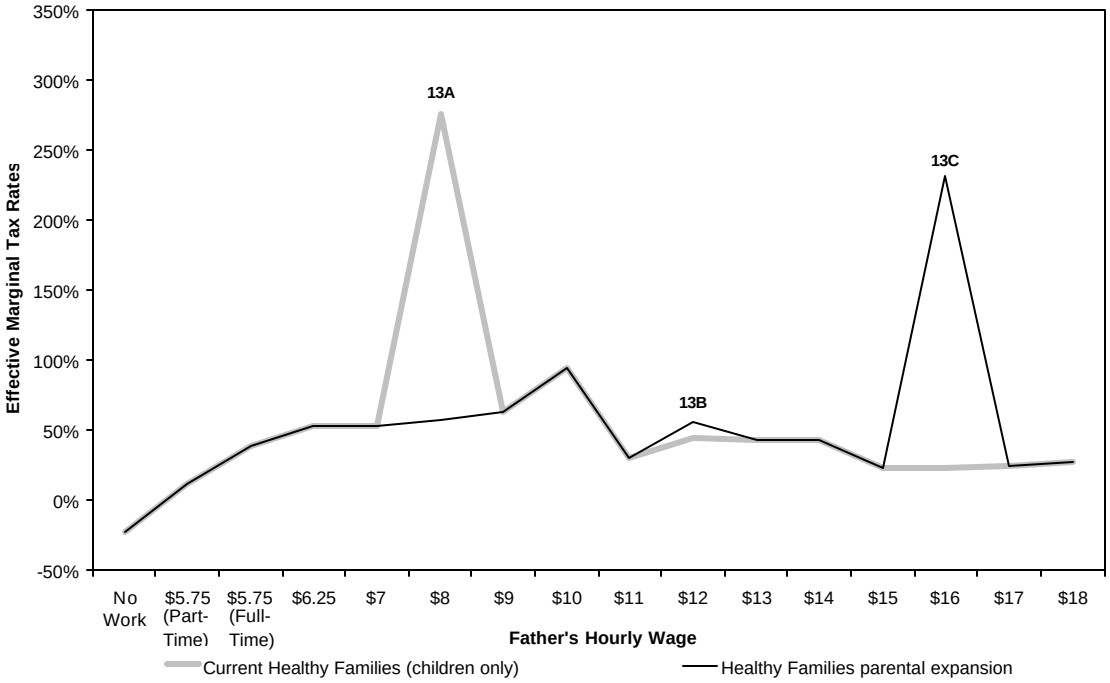
The marginal tax rate at the point where the chronically ill parent loses coverage from Healthy Families clearly is a work disincentive. A family with a chronically ill member faces a higher marginal tax rate than the average family when they lose public coverage because they place a higher value on health care coverage. For example, if the mother in the family discussed here was not chronically ill—or simply considered Medi-Cal to be no more valuable than the average person—the marginal tax rate at 13A would be 152 percent (compared to 276 percent) and the marginal tax rate at 13C would be 104 percent (compared to 230 percent).

Regardless of the level of income at which it occurs, any wage increase, job change, or increased hours that would make the chronically ill parent ineligible for public medical coverage creates a disincentive unless the change allows the family to gain private health insurance. Even if private insurance is available to the family after such a change, the family may still face a disincentive—private insurance plans typically include limitations on or exclusions of coverage for pre-existing conditions. The private insurance that the family receives may not only cost more but also be less valuable to the family if it does not provide the same level of coverage for the chronically ill parent.

A Family Receiving Child Support

How does the receipt of child support affect marginal tax rates associated with Healthy Families? The impact of Healthy Families on parents with and without child support is very similar, with two exceptions. First, parents who receive child support experience the marginal tax rate effects sooner than parents who don't, other things equal. At any given hourly wage, a parent who receives child support will have a higher total income and will therefore be further along the eligibility range for Healthy Family benefits than the same parent without child support. Second, since child support phases out gradually as income increases, it raises the marginal tax rate slightly along the entire wage scale. Child support

Figure 13. Marginal Tax Rates at Various Wage Levels for the Father in the Prototypical Chronically Ill Family[1] under the Proposed Healthy Families Expansion



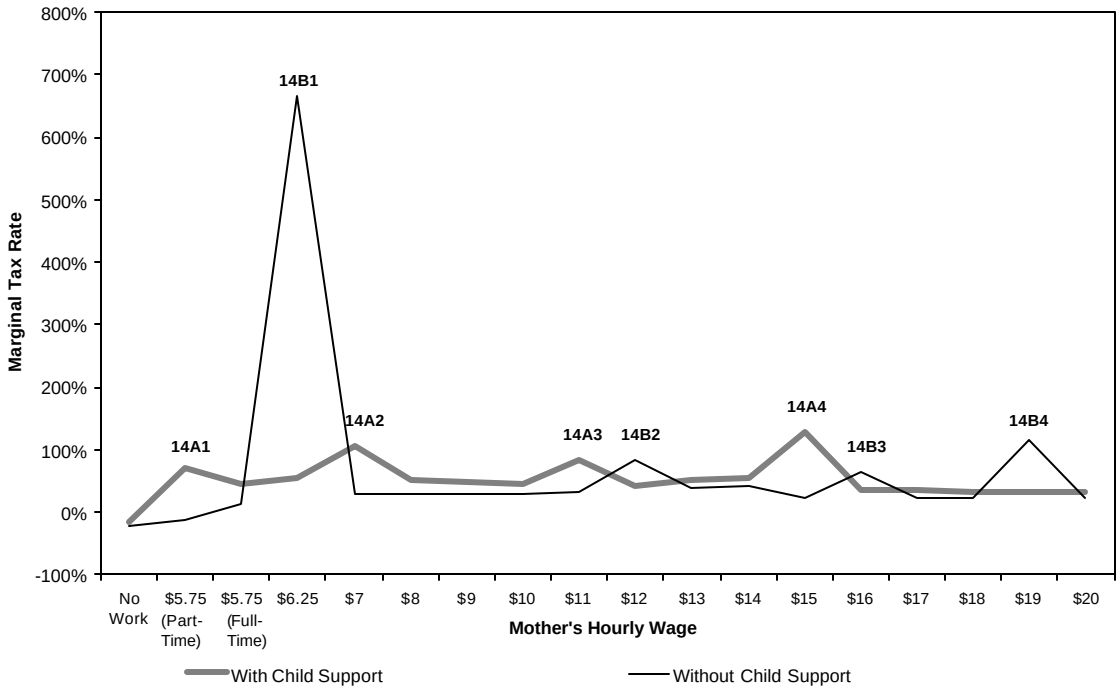
[1] Prototypical chronically ill family includes a chronically ill mother, her husband, and two children (ages 5 and 8). In this scenario, the family lives in Riverside County.

therefore generates few noticeable marginal tax rate peaks but causes an overall elevation of marginal tax rates that slightly increases the marginal tax rate effects of Healthy Families.

These findings are demonstrated by our simulation of benefits for a prototypical divorced mother with two children (ages 2 and 4) with and without child support.[14] We assume that the mother is the custodial parent 80 percent of the time. We also assume that the court adheres to the presumptive guidelines; that all child support obligations are paid fully and on time; and that child support amounts are adjusted in response to changes in the resources of the mother. The father's income is held constant throughout the simulation. The mother receives all programs for which she is eligible except for housing assistance.

Figure 14 illustrates marginal tax rates for the prototypical divorced mother with and without child support. Points 14A1 and 14B1 are where the mother loses government child care subsidies. Points 14A2 and 14B2 are where Healthy Families premiums increase for both families. Points 14A3 and 14B3 are where the mother loses her Healthy Families benefits, and points 14A4 and 14B4 are where the children lose their Healthy Families benefits.

Figure 14. Marginal Tax Rates for a Prototypical Divorced Mother[1] under the Proposed Healthy Families Expansion, with and without Child Support



[1] Prototypical divorced mother lives in Riverside County, has 80% custody of the two children, ages 2 and 4, and has not remarried. The non-custodial father earns the median salary for California non-custodial fathers and makes full monthly child support payments as mandated by court order.

Figure 14 demonstrates that the mother with child support (line A) experiences marginal tax rate effects earlier along the wage scale than the mother without child support (line B). Point A1 occurs before point B1, point A2 before B2, etc. Moreover, the base child support amount decreases as the custodial mother's income increases. Note how line A in figure 14 is usually slightly higher than line B. The mother in line A is losing some child support for every additional dollar of (reported) earnings and, other things equal, faces a slightly higher marginal tax rate than she would without child support.

Child care can play an important role in the marginal tax rate effects of child support if the father has to contribute to child care costs.[15] In the absence of child support, the impact of losing eligibility for child care subsidies (point 14B1) is greater than the marginal tax rate impacts associated with Healthy Families. The prototypical divorced mother loses her government child care subsidy and experiences no increases in any other benefits. At the corresponding point 14A1, the prototypical divorced mother with child support loses all of her government child care benefits, but the child care expense is partially offset by a large increase in her child support. Point 14A1, therefore, remains in the same range as the Healthy Families marginal tax rate peaks.

An Unmarried Couple with Children from a Previous Relationship

California's current health assistance programs create marriage penalties for some couples and marriage bonuses for some couples. A subset of the couples who currently face marriage penalties will instead receive marriage bonuses when Healthy Families is expanded to parents. Other couples whose marriage incentives ae not affected by the current health assistant programs will be affected by an expanded Healthy Families program. Whether the effect of Healthy Families is to encourage or discourage marriage will depend on the income of each partner.

Under the state's complex Sneede-Kizer rules,[16] only a parent's income is considered in determining children's Medi-Cal eligibility. Children's Medi-Cal status therefore does not change when the income of the parent's partner goes up or down, or when the parent and the partner get married. Medi-Cal also has no effect on the marriage incentives of unmarried couples with common children because parents are eligible without regard to their marital status. An unmarried couple that has had children together is eligible for the program if it meets Medi-Cal's income and asset tests, and their eligibility will not change if they do decide to marry.

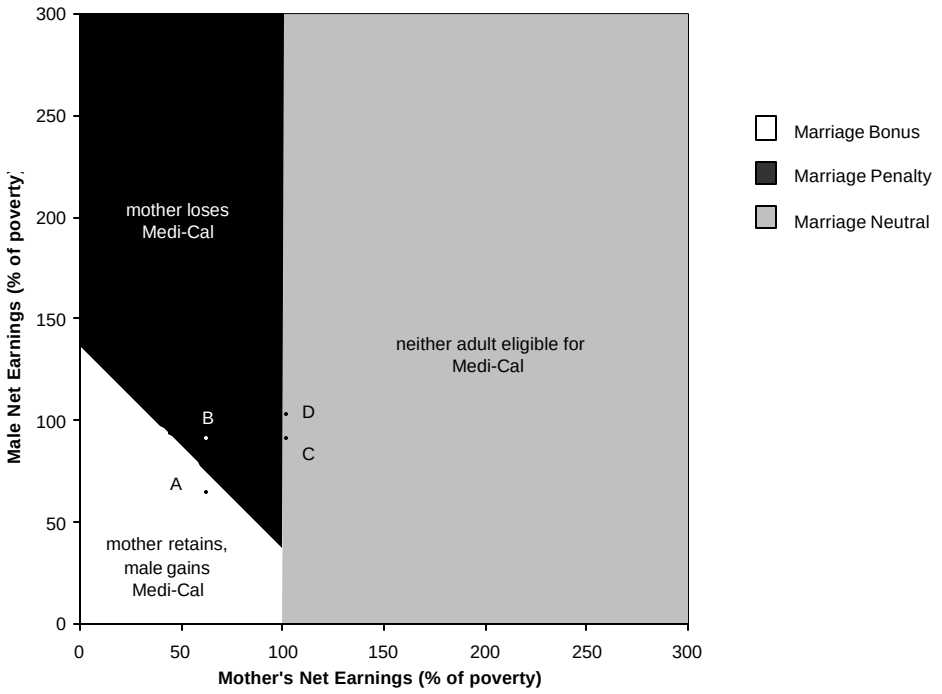
Medi-Cal does, however, create marriage penalties and bonuses for cohabiting couples who live with one partner's children from a previous relationship. These effects can be seen in Figure 15, which shows a San Diego County family in which the mother has two teenage sons, a live-in boyfriend, and an ex-husband who is not paying child support. If the mother works full-time for minimum wage, she will be eligible for Medi-Cal under Section 1931(b), but her boyfriend will not be eligible. If the boyfriend also works full-time at minimum wage (A), their combined income when they marry is below the Section 1931(b) income limits for current recipients. The mother will remain eligible for Medi-Cal and her new husband will also be eligible as a stepparent. Our estimates suggest that Medi-Cal is worth about $86 per month per person, so this couple is subject to a marriage bonus of $86 per month. The couple also receives a marriage bonus of $60 per month in federal income taxes, but a marriage penalty of $197 in EITC benefits results in a net marriage penalty of $52 per month.

If the mother earns minimum wage and the boyfriend earns $8 an hour (B), their combined income will exceed the Section 1931(b) limits, and the mother will lose her Medi-Cal eligibility. The loss of Medi-Cal and a $279 EITC marriage penalty more than offset marriage bonuses of $76 in federal income taxes and $9 in state income taxes, resulting in a net marriage penalty of $280 per month. If the mother earns $9 an hour and the boyfriend earns $8 (C) or $9 (D) an hour, neither partner will be eligible for Medi-Cal whether they are cohabiting or married.

Healthy Families, like Medi-Cal, considers only a parent's income in determining the children's program status. 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 current program, and the children's component of an expanded program, therefore has no marriage penalties or bonuses. An expanded Healthy Families will also be like Medi-Cal in that the proposed expansion will not alter the marriage incentives of unmarried couples with common children. Parents living with their children are defined as "child-linked adults" who will be eligible for the expanded program without regard to marital status. An unmarried couple that has had children together will thus be eligible for the program, and their

eligibility or premiums will not change if they marry. The Healthy Families expansion will have an impact on the marriage incentives for cohabiting couples who live with one partner's children from a previous relationship.

Figure 15. Marriage Penalties and Bonuses[1] under the Current Healthy Families Program

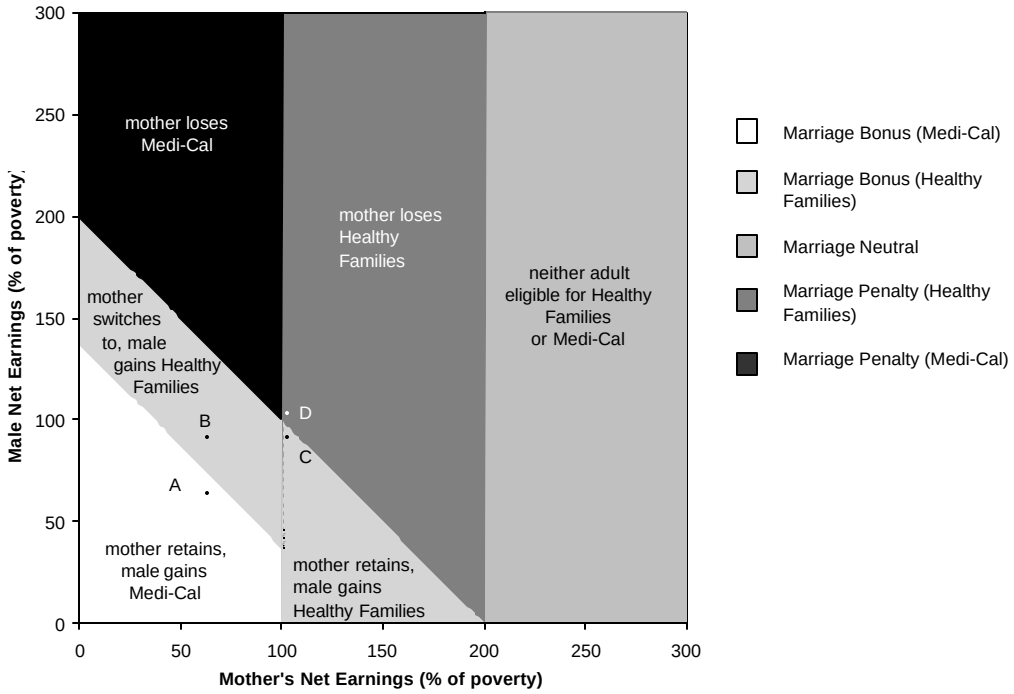


[1] Mother is cohabiting with her boyfriend, who is not the biological father of her children. The chart shows the effects of marriage on the Medi-Cal status of the adults. Other programs may counteract the effects from Medi-Cal.

The effects of the proposed expansion depend on each partner's income. The proposed regulations define parents and stepparents, but not unmarried partners, as child-linked adults eligible for their own Healthy Families coverage. Marriage will make the ineligible partner into 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, but if their combined income is above 200 percent of poverty, neither adult will be eligible.

Figure 16 shows the San Diego County couple discussed above in the context of the expanded Healthy Families program. If each partner works full-time at minimum wage (A), the newlyweds will both be eligible for Medi-Cal, as under the current programs. When the mother earns minimum wage and her partner earns $8 an hour (B), however, marriage will not cause her to lose health benefits entirely. The couple's combined income makes her ineligible for Medi-Cal, but she can switch to Healthy Families, for which her new husband will also be eligible. We estimate the value of Healthy Families as $81 per

Figure 16. Marriage Penalties and Bonuses[1] under the Proposed Healthy Families Expansion



[1] Mother is cohabiting with her boyfriend, who is not the biological father of her children. The chart shows the effects of marriage on the Healthy Families and Medi-Cal and status of the adults. Other programs may counteract the effects from Medi-Cal.

month, minus premiums, which for this couple will be a combined $14 per month if they enroll in a Community Provider Plan. Healthy Families expansion reduces the couple's marriage penalty from $280 per month to $139 per month.

If the mother earns $9 an hour, her earnings are too high for Medi-Cal, but she and her children will be eligible for the expanded Healthy Families program. If her boyfriend makes $8 an hour (C), marriage will make him eligible too, though some of the value of his benefit will be offset by a $10 increase in her Healthy Families monthly premium. Marriage costs the mother $218 per month in EITC benefits. A $9 increase in combined federal income tax is cancelled out by a $9 decrease in combined state income tax. The net marriage penalty is $218 under the current Healthy Families program and $158 under the expansion.

If, however, the mother and her boyfriend both earn $9 an hour (D), marriage will put them above 200 percent of poverty, making her ineligible for Healthy Families; by gaining a husband, she will have lost her health insurance coverage. The couple also loses $218 in EITC, pays $9 more in combined federal income tax, and pays $16 less in combined state income tax. The net marriage penalty is $211 per month under the current Healthy Families program and $292 per month under the expansion.

Incentive Effects and Program Design

The analyses of prototypical families presented above suggest that the proposed expansion of Healthy Families will have important effects on the incentives of some low-income Californians. In this section, we show how these effects reflect specific details of the program's design. Several provisions of the current program and the proposed expansion—annual eligibility review, full eligibility for immigrant parents, and low co-payments subject to annual caps—have desirable incentive effects.

Alternative provisions regarding premiums and income limits, however, might produce more desirable work and marriage incentives than what the state has proposed. We therefore suggest three alternative program designs for Healthy Families expansion and compare their incentive effects with those of California's waiver proposal. Each alternative draws on elements from SCHIP programs in New Jersey, Rhode Island, and Wisconsin, the three states that have already received federal approval for expansion of their programs to include parents. (See Appendix A for more information on these other state programs.)

Annual Eligibility Review

Families enrolled in Healthy Families are required to undergo redetermination for eligibility only once every 12 months. This ensures continuous coverage and guarantees that increased income will not cause the family to lose Healthy Families coverage until the next annual eligibility review.

Healthy Families expansion to parents, therefore, will have no effect on marginal tax rates in the short run. Annual eligibility review also limits the paperwork required from recipient families. On January 1, 2001, Medi-Cal, which formerly required quarterly recertification, adopted the annual certification period already in effect for Healthy Families (Medi-Cal Policy Institute, 2001).

Immigrant Eligibility

Provision of public benefits such as Healthy Families to foreign-born non-citizens who are legally resident in the United States has been an important topic of debate in California, the state with the

largest number and percentage of immigrants (Tumlin, Zimmerman, and Ost, 1999). The state's expansion proposal makes benefits for some immigrant parents contingent upon annual budget decisions. Full funding for Healthy Families coverage of documented non-citizen immigrant parents is included in Governor Davis's current budget, but recent increases in electricity costs and signs of a national economic downturn make the status of these parents in the expanded Healthy Families program less secure than that of immigrant children or citizen parents. Our analyses suggest that any restrictions on the Healthy Families status of immigrant parents would have important incentive effects that policymakers should consider along with issues such as cost, fairness, and administrative complexity.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the key measure in federal welfare reform, made many legal immigrants ineligible for some means-tested benefit programs. All but a few types of legal immigrants lost eligibility for federally financed food stamps, and states were given the option of restricting TANF and Medicaid benefits on the basis of immigrant status.[17] Some of these provisions were modified by subsequent legislation, but federal law continues to distinguish between two major categories of legal immigrants: those who arrived prior to passage of PRWORA on August 22, 1996 (pre-enactment immigrants) and those who arrived after this date (post-enactment immigrants). According to data from the Urban Institute's National Survey of America's Families (NSAF), in 1999 there were approximately 3.3 million low-income pre-enactment immigrant parents and 0.2 million low-income post-enactment immigrant parents in the United States, compared to 17.7 million low-income citizen parents.[18]

California has been among the most generous states in its policies toward immigrants affected by the PRWORA enactment restrictions.[19] It is one of only two states to use state funding to provide food stamps to all immigrants who lost eligibility under PRWORA. CalWORKs and Medi-Cal benefits are also available to both pre- and post-enactment immigrants. Since the beginning of Healthy Families, pre-enactment immigrant children have been eligible for the program on the same terms as citizen children. Post-enactment immigrant children were originally limited to one year of coverage, but legislation enacted in September 2000 eliminated this time limit, contingent on annual budget decisions.[20] Similar language regarding post-enactment immigrant parents is included in the Healthy Families expansion proposal, and any future restrictions in Healthy Families eligibility seem most likely to affect post-enactment immigrant parents.

Excluding immigrant parents from Healthy Families benefits (either at the start of the expanded program or in future years) would reduce work incentives for these families to the current level. The incentive effects of restrictions on immigrant eligibility therefore follow from our analysis of the incentive effects of Healthy Families expansion. In general, the Healthy Families expansion will have desirable effects at the low end of the eligible income range because increased earnings do not cause Medi-Cal recipients to become uninsured, but to switch onto Healthy Families. At higher income levels, the Healthy Families expansion will have undesirable incentive effects from the increase in the premiums at 150 percent of poverty and the loss of parental eligibility at 200 percent of poverty.

Our discussions of prototypical families suggest that these effects play out somewhat differently for different families, depending on such characteristics as their family structure and size, income and asset levels, receipt of child care and housing subsidies, and county of residence. To the extent that pre- and/

or post-enactment immigrant families differ from other low-income Californians in some of these respects, the overall impact of the Healthy Families expansion on their work and marriage incentives will differ as well.

The NSAF data indicate that in 1999, low-income immigrant parents in the United States were more likely to have incomes below the Healthy Families eligibility range than low-income citizen parents.[21] Therefore, it seems likely that the impact of the Healthy Families expansion to encourage work at lower income levels will be greater, and the impacts at higher income levels to discourage work will be fewer, for low-income immigrant parents than for other low-income parents in California. Further, NSAF data suggest that 65 percent of low-income immigrant parents are uninsured, compared to 36 percent of low-income citizen parents.[22] This suggests that expanding Healthy Families will affect a larger proportion of immigrant parents than of non-immigrant parents.

Cost Sharing

Cost sharing provisions affect the value that enrollees place on a medical assistance program, and thus the marginal tax rates associated with it. With the exception of American Indian and Alaska Native families, who are exempt from SCHIP cost sharing requirements in all states, all families participating in Healthy Families are responsible for at least some premiums and co-payments. These premiums and co-payments reduce the value of Healthy Families coverage, which in turn increases marginal tax rates at the transition from Medi-Cal to Healthy Families and lowers marginal tax rates at the end of Healthy Families eligibility. The increase in premiums for children and for parents when net income exceeds 150 percent of poverty also raises marginal tax rates at that point.

In response to public comment and communications with HCFA, California reduced co-payments and premiums from those in the state's original waiver proposal. Total co-payments are capped at $250 per year for all adults in the family and $250 per year for all children in the family. Such a cap is particularly valuable to families that face high medical expenses, such as the family with a chronically ill parent depicted in Figure 13. Monthly premiums, in addition to the current $4 to $9 per child, will be $10 per parent for families up to 150 percent of poverty and $20 per parent for eligible families with higher incomes. Parent premiums can be reduced to $7 and $17, respectively, if the family selects a designated Community Provider Plan as its health plan.

Under the current Healthy Families program and the proposed expansion, families become responsible for cost sharing when they move from no-cost Medi-Cal to Healthy Families, adding to the marginal tax rates at this transition. Unlike California, the three states that have implemented expansions to cover parents do not require cost sharing for enrollees as soon as their income is high enough to qualify for the expanded programs. There are no premiums or co-payments for parents with family incomes less than 150 percent of poverty in New Jersey or Wisconsin, and Rhode Island provides free coverage to parents with incomes up to 185 percent of poverty. If California were to adopt a similar policy and eliminate cost sharing requirements for parents in Healthy Families with family incomes under 150 percent of poverty, the state would reduce the marginal tax rate effect when an increase in a family's income moved the family from no-cost Medi-Cal into Healthy Families. It would, however, increase the

marginal tax rate effect at 150 percent of poverty (or at whatever point the state chose to institute cost sharing).

Healthy Families also limits the premium requirements for families with multiple children. Families with incomes at or below 150 percent of poverty pay premiums for a maximum of two children, while families with incomes above 150 percent of poverty pay premiums for a maximum of three children. For families with three children, this policy increases the marginal tax rate at 150 percent of poverty because they must pay additional premiums. The value of Healthy Families coverage to families with four or more children, such as the family depicted in Figure 12, is greater because benefits are not reduced by additional premiums. This, in turn, increases the marginal tax rate effects when increases in net family income would make the children ineligible.

Federal law limits maximum out-of-pocket costs, including premiums and co-payments, for SCHIP families to 5 percent of family income. The parental expansion programs in New Jersey and Rhode Island directly apply the 5 percent standard, and Wisconsin sets the limit at 3 percent. California does not directly apply a percentage limit, but premiums and co-payments are set low enough that most families will fall well below the 5 percent standard. This cost sharing schedule, therefore, is better for most California families than a 5 percent cap would be. Very poor families with assets that exceed Medi-Cal limits, however, might pay more under the California proposal than under a 5 percent cap.[23]

Income Limits

The state's proposal for expansion of Healthy Families covers parents with family incomes up to 200 percent of poverty, while children will continue to be eligible up to 250 percent of poverty. (See Figure 17.) A single income limit of 250 percent of poverty for children and parents would extend eligibility to more parents and simplify the program. The marginal tax rate effects of this alternative income limit depend upon the provisions for cost sharing by parents with incomes between 200 and 250 percent of poverty.

Figure 18 shows that for our prototypical one-child Alameda County family, the state's expansion proposal will produce relatively high marginal tax rates at two different points along the wage progression scale. Under this program design, the parents lose eligibility at point 18B, where the family's marginal tax rate is 104 percent. Under either the proposed expansion or the current program, the child loses eligibility at point 18D, producing a marginal tax rate of 71 percent. The Legislative Analyst's Office (2001) and Brown, Kincheloe, and Yu (2001) have suggested that eligibility for parents as well as for children extend to 250 percent of poverty. Different eligibility limits for children and their parents, they argue, will make the eligibility determination process more complex and therefore more confusing to both administrators and applicants. This may have a detrimental effect on enrollment, for example, when parents think their children are not eligible for benefits if they themselves are not eligible.

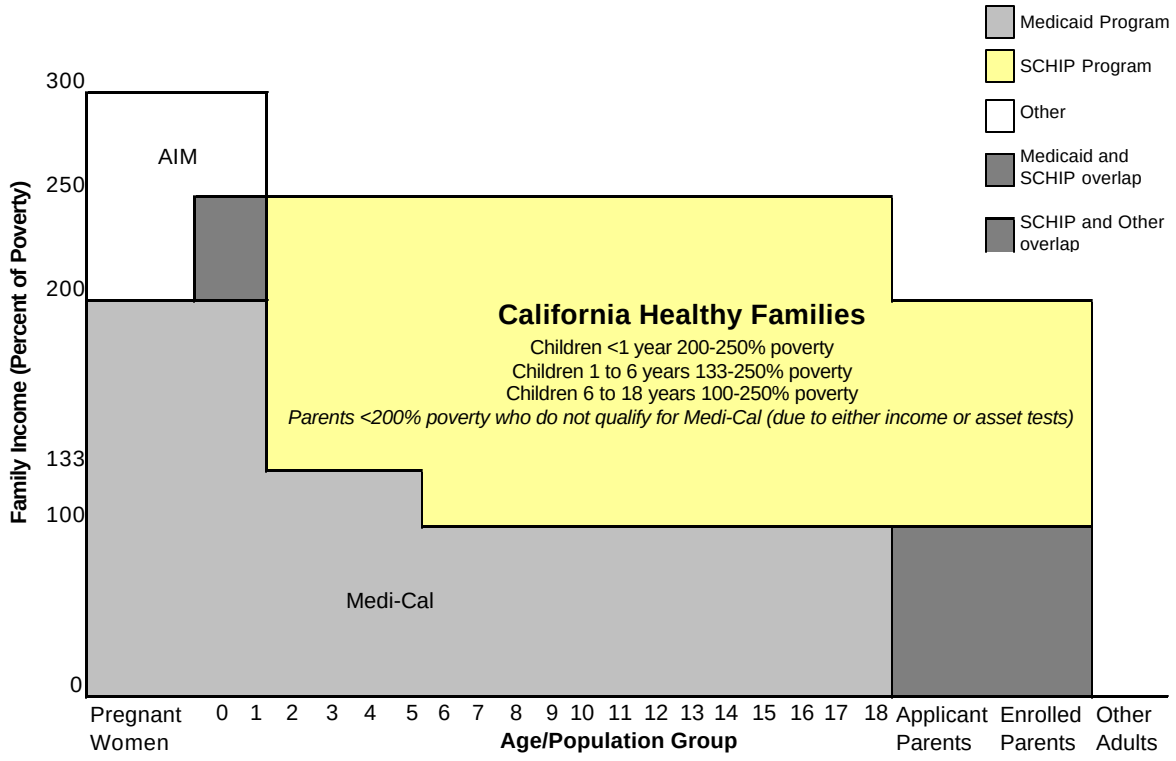
A further expansion of parental eligibility for Healthy Families would reduce confusion about eligibility and allow the state to provide insurance to more families. Program costs, however, would increase. The Managed Risk Medical Insurance Board (MRMIB) estimates that expanding coverage to parents with

incomes up to 250 percent of poverty would result in covering an additional 87,000 parents at an increased state cost of $66 million annually (Legislative Analyst's Office, 2001).

If the same premiums the state has proposed for parents with incomes from 150 to 200 percent of poverty are applied to parents from 200 to 250 percent, the high marginal tax rates at 200 percent and 250 percent would be combined to produce one very high marginal tax rate at 250 percent. This is shown by the dotted line in Figure 18: marginal tax rates are 23 percent at point 18B, and 153 percent at point 18D. Work disincentives would thus be shifted from 200 percent to 250 percent of poverty. The shift might be considered preferable to the extent that families at the slightly higher income level are better able to afford a drop in total resources or less likely to respond to the disincentives by reducing their labor supply.

If, however, cost sharing requirements for parents above 200 percent of poverty are greater than for parents between 150 and 200 percent, the marginal tax rate effects of the loss of parental coverage can be phased in over a wider income range. Three alternative program designs along these lines are suggested below.

Figure 17. Eligible Populations for All State Children's Health Insurance Program (SCHIP) Parental Expansion Waivers



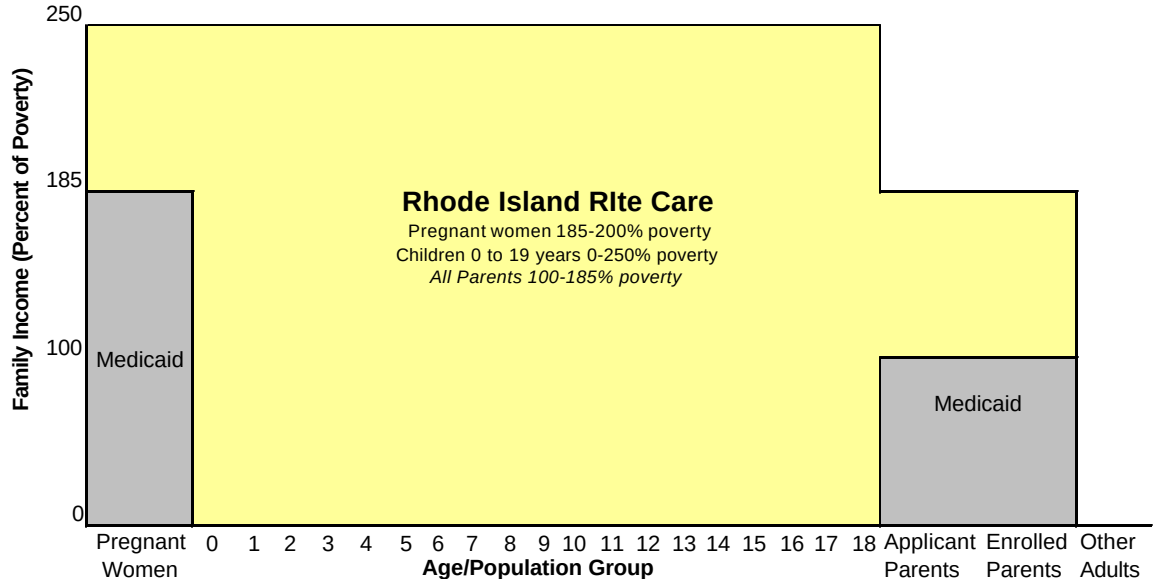
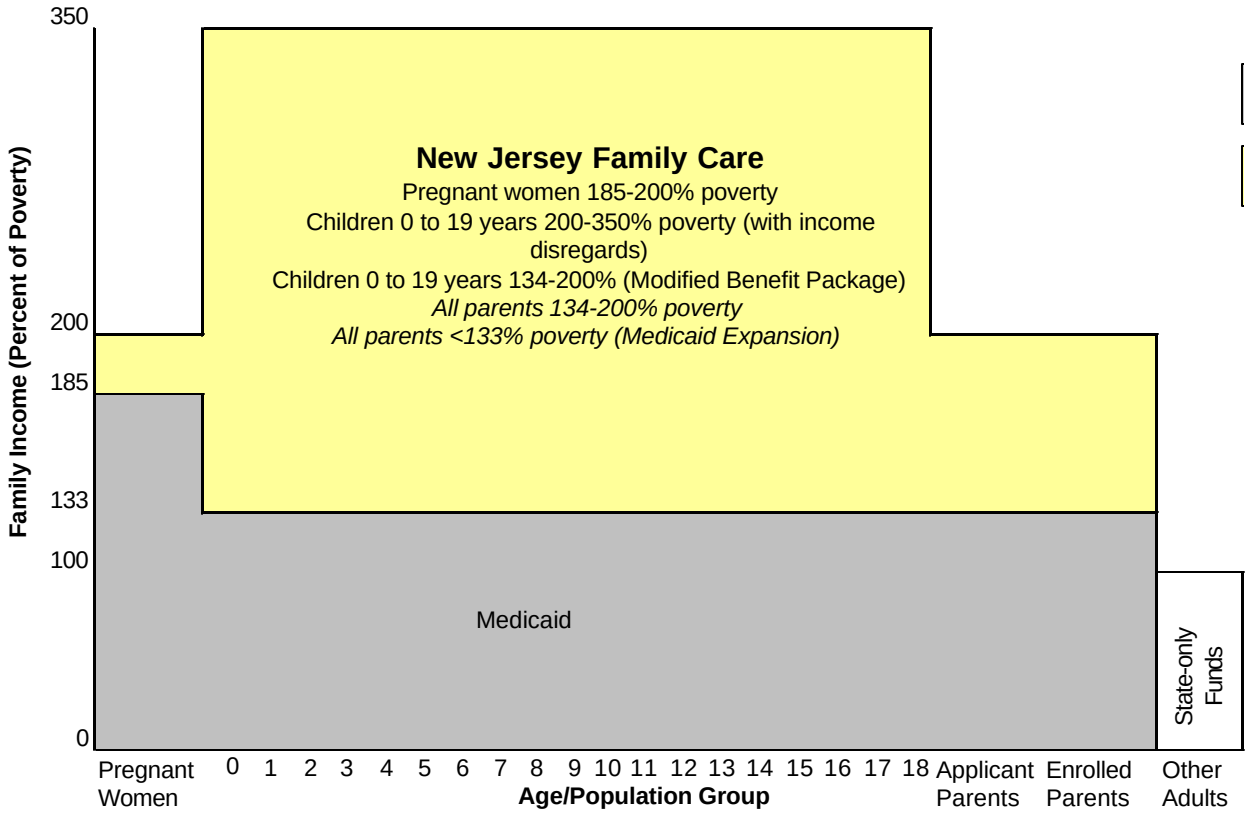


Figure 17. (cont'd.) **Eligible Populations for All State Children's Health Insurance Program (SCHIP) Parental Expansion Waivers**



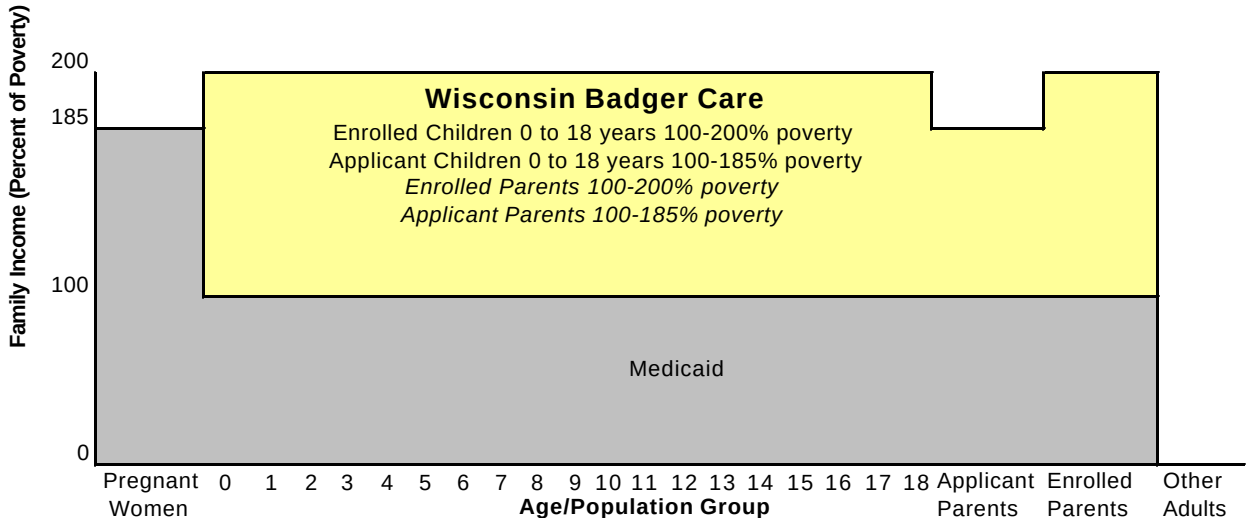
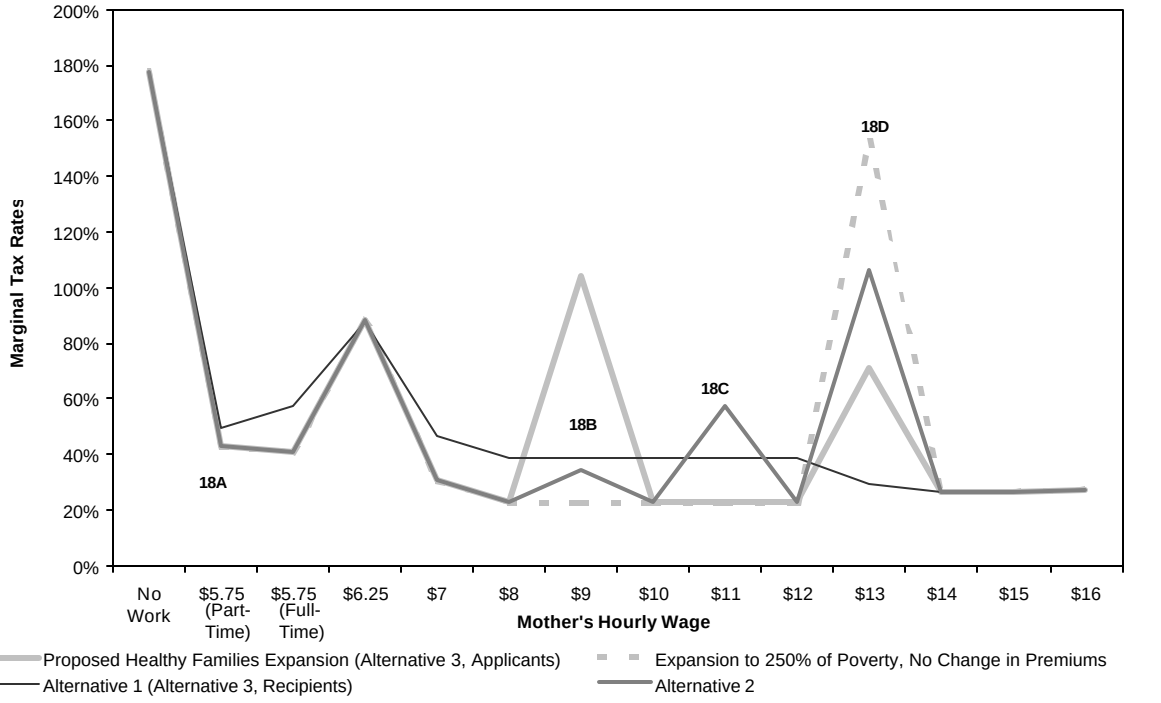


Figure 18. Marginal Tax Rates at Various Wage Levels for the Mother in the Prototypical One-Child Family1 under Proposed and Alternative Healthy Families Parental Expansions



[1] Prototypical one-child family has married parents and a 4-year old child. The father works 40 hours per week at minimum wage. In this scenario, the family lives in Alameda County.

Alternative 1: A Gradual Assistance Program

Alternative 1 covers parents with incomes up to 250 percent of poverty and incorporates a sliding scale of premiums for both children and parents. This design corresponds to the "gradual assistance program" depicted in Chart E of Figure 1. The scale is set so that premiums equal zero at the point where each family member loses eligibility for free Medi-Cal (point 18A); equal the full estimated value of Healthy Families coverage at the point where eligibility ends (point 18D); and increase gradually in between. Provisions for annual eligibility review, full immigrant eligibility, and co-payments are the same as in the state's expansion proposal.

Alternative 1 might be the optimal policy design if work incentives were the only concern. As Figure 18 shows, Alternative 1 avoids the high marginal tax rates of the state expansion proposal. When other criteria are considered, 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: A 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 tradeoffs with coverage, cost, and complexity are considered. Alternative 2 in Figure 18 corresponds to the "stepped assistance program" depicted in Chart F of Figure 1. Alternative 2, like Alternative 1, extends Healthy Families eligibility to parents with incomes up to 250 percent of poverty. Provisions for annual eligibility review, full immigrant eligibility, and co-payments are again the same as in the state's expansion proposal.

Children's premiums under Alternative 2 are the same as under the current Healthy Families program, and Alternative 2 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 18B) to 225 (point 18C) 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 18D) 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 from the loss of Healthy Families eligibility. The additional steps also reduce state expenditures through increased participant cost sharing.

Alternative 3: A Program with Different Income Limits for Recipients and Applicants

If Alternatives 1 and 2 prove to be prohibitively costly, there is a compromise available that would be less expensive but would still retain several advantages of Alternatives 1 and 2. The compromise would be to 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 18 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. The increased work incentives are targeted to the kind of families about whom policymakers are likely to be most concerned: those previously earning less who are moving up the wage scale. Alternative 3 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.

Conclusions

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 complicated ways. To understand the impact of the current child-only program and the proposed expansion on marginal tax rates and marriage penalties or bonuses for low-income Californians, we developed a model of the state's tax and transfer policies and applied it to some prototypical families with different characteristics.

Four general points apply to all the prototypical families we analyzed:

1. State and national policies produce noticeable incentive effects in California. For many of these families, there is some range in which added earnings, from longer hours or higher wages, actually make the family worse off financially, once taxes, transfer programs, child care, and other work expenses are taken into account. Marriage penalties and bonuses can also be substantial. For example, in some cases a mother living with a man who is not the father of her children might lose CalWORKs, child care subsidies, and the proposed Healthy Families parental coverage if she marries him. In other cases, the mother retains her eligibility and her new husband can enroll in Healthy Families too.

2. Healthy Families, in either its current form or as expanded to parents, contributes to the incentive effects of California policies for low-income families. This contribution encourages work and marriage in some situations and discourages both in others. The incentive effects of Healthy Families are generally smaller than those associated with child care or housing assistance, but our analysis suggests that they are real, and that they can be traced to specific elements in the design of the current child-only program and the parental expansion proposal.

3. Interaction among the various tax and transfer programs is extensive. Below 100 percent of poverty, for example, parents will only be on Healthy Families if their assets exceed Medi-Cal limits. Healthy Families also interacts with state child care subsidies: a portion of child care costs, which are much higher for unsubsidized families, can be deducted from gross income for calculations of Healthy Families eligibility and premiums. Taxes and other transfer programs, such as housing assistance, do not

affect Healthy Families benefits in the same ways, but they do determine whether the incentive effects of Healthy Families are felt in income ranges that are already subject to high marginal tax rates or marriage penalties.

4. Marginal tax rates and marriage incentives vary considerably by county. The most important sources of variation are housing, child care, and CalWORKs. Monthly housing costs in the San Francisco Bay Area are nearly three times as high as in some rural counties. The counties with higher housing costs generally also have higher median incomes, which determine eligibility for housing subsidies. Eligibility for child care subsidies is based on state, rather than county, median incomes, but child care costs, and thus the value of the subsidies, vary across the state. CalWORKs eligibility extends slightly higher in the income scale, and maximum benefits are slightly larger, in the more urban counties designated as Region 1 than in those designated as Region 2. The interactions described above mean that regional variations in other programs affect Healthy Families incentives as well.

California lawmakers designed Healthy Families to reduce the number of uninsured children. Effects on work and marriage incentives, along with cost and complexity, are likely to be secondary concerns. Moreover, the incentive effects of Healthy Families, in either its current or expanded form, appear smaller than those of California's child care and housing policies. Our analysis suggests nonetheless that Healthy Families does have important incentive effects. Many of these effects are desirable ones, but some of them are not.

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, the use of the same 250 percent income limit for children and parents would help to ensure continued enrollment of children because it would cause less confusion for families than having two separate eligibility levels. An alternative policy design that 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. More modest alternatives would create two new premium levels for parents at 200 and 225 percent of poverty or implement higher income eligibility limits for current recipients than for new applicants. Either of these two approaches might help California insure more of its low-income children and parents, encourage work and marriage, and avoid making Healthy Families too complicated or too expensive.

Appendix A: Overview of SCHIP Parental Expansion Waiver Programs

	Healthy Families (California)	FamilyCare (New Jersey)	Rite Care (Rhode Island)	BadgerCare (Wisconsin)
Type of Program	*Combination Medicaid expansion and state-designed program*	*Combination Medicaid expansion and state-designed program*	*Medicaid expansion*	*Medicaid expansion*
Eligibility	Medi-Cal will cover infants in families with incomes between 100-200% of poverty and children 1 to 6 in families with incomes between 100-133% of poverty. Healthy Families will cover: ▪ Infants in families with incomes between 200-250% of poverty. ▪ Children 1 through 5 years in families with incomes between 133-250% of poverty. ▪ Children 6 up to age 19 in families with incomes between 100-250% of poverty. ▪ Parents/caretakers between 100-200% of poverty.	▪ Children up to age 19 in families with incomes up to 133% of poverty (coverage through Medicaid program). ▪ Children up to age 19 in families with incomes between 134-200% of poverty (modified benefits are available). ▪ Children up to age 19 in families with incomes between 200-350% of poverty (income disregards are applied so that income falls below 200%). ▪ Uninsured parents/ guardians up to 133% of poverty are covered under the Medicaid program. ▪ Uninsured parents/ guardians between	▪ Children up to age 19 in families with incomes up to 250% of poverty. ▪ 12 month continuous eligibility. ▪ A child who is receiving SSI is not eligible for Rite Care. ▪ Children with family incomes between 185-250% of poverty must be uninsured and must not have dropped insurance coverage costing less than $50 per month in the four months prior to application. ▪ Parents with incomes between 100-185% of poverty. ▪ Pregnant women with incomes between 185-250% of poverty.	▪ All children up to 18 in families with incomes between 100-185% of poverty. ▪ Parents of eligible children. ▪ Once enrolled, eligibility is maintained until the family income exceeds 200% of poverty. ▪ Families with access to employer-sponsored insurance (ESI) that is subsidized by the employer between 60-80% and that have a family income up to 185% of poverty. ▪ Applicants who currently have health insurance are not eligible.
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Appendix A (cont'd.): Overview of SCHIP Parental Expansion Waiver Programs.

	Healthy Families (California)	FamilyCare (New Jersey)	Rite Care (Rhode Island)	BadgerCare (Wisconsin)
Type of Program	*Combination Medicaid expansion and state-designed program*	*Combination Medicaid expansion and state-designed program*	*Medicaid expansion*	*Medicaid expansion*
Eligibility (cont'd.)	▪ Parents/caretakers below 100% of poverty who do not qualify for Medi-Cal because of assets. ▪ Applicants must be uninsured for at least 3 months prior to becoming eligible. ▪ Must be US citizen, non-citizen national, or eligible qualified immigrant. ▪ Income deductions (same as Medi-Cal) include $90 in work-related expenses, $50 in child support received (or the full amount of child support paid), up to $175-$200 in child care expenses depending on age (if both parents work), up to $175 per disabled dependent. ▪ 12 month continuous eligibility ▪ Parents who are found ineligible at annual redetermination will be able to remain on program for 2 months (until eligible for Medi-Cal).	134-200% of poverty are covered under the separate child health program. ▪ Pregnant women up to 200% of poverty (and including 60 days after delivery). ▪ Single adults and couples without dependent children with an income up to 100% of poverty. ▪ Eligibility is based on family size and monthly income (there are no asset tests). ▪ 12 month continuous eligibility. ▪ Most children/adults are only eligible if they have been uninsured for a period of six months or more (exceptions include if applicant's place of work goes out of business or applicant's company has a reduction in its work force). ▪ Legal immigrants who are lawfully admitted for permanent residence, including parents, their children, and single adults can apply, even if they have lived in the US less than five years. ▪ Time limited presumptive eligibility which		▪ Applicants who have ESI subsidized at 80% or more of the premium cost are not eligible. ▪ Applicants must be uninsured for at least 3 months prior to becoming eligible. ▪ No asset test. ▪ The same income availability and exemption policies are used for BadgerCare that are used for AFDC-related Medicaid.

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Appendix A (cont'd.): Overview of SCHIP Parental Expansion Waiver Programs.

	Healthy Families (California)	FamilyCare (New Jersey)	Rite Care (Rhode Island)	BadgerCare (Wisconsin)
Type of Program	*Combination Medicaid expansion and state-designed program*	*Combination Medicaid expansion and state-designed program*	*Medicaid expansion*	*Medicaid expansion*
Eligibility (cont'd.)		allows hospitals and federally qualified health centers to immediately bill the NJ FamilyCare program for services provided to people identified as eligible, even before they are officially enrolled.		
Benefits	The Medi-Cal expansion uses the same benefits as Medicaid. Healthy Families coverage is the same as that provided to state employees under the state's benchmark plan, the California Public Employees Retirement System, plus comprehensive vision and dental services. Benefits include coverage for inpatient and outpatient mental health services, dental benefits, and substance abuse treatment services.	▪ The standard Blue Cross/Blue Shield PPO option of the Federal Employees Health Benefit Program is the benchmark. ▪ Families with incomes below 133% of poverty and pregnant women up to 200% of poverty get the same benefits as under Medicaid. ▪ Children in families with incomes between 134-200% of poverty purchase a subset of the Medicaid package from the Title XIX program. Coverage consists of Title XIX program and fee-for-service payments to existing Medicaid participating network providers for benefits not included in the managed care contracts. ▪ Families with incomes between 134-200% of poverty get a benefit package	▪ Same as Medicaid.	▪ Same as Medicaid. ▪ Families enrolled in SSI receive a Medicaid wrap-around for services not covered by ESI (fee-for-service basis).

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Appendix A (cont'd.): Overview of SCHIP Parental Expansion Waiver Programs.

	Healthy Families (California)	FamilyCare (New Jersey)	Rite Care (Rhode Island)	BadgerCare (Wisconsin)
Type of Program	*Combination Medicaid expansion and state-designed program*	*Combination Medicaid expansion and state-designed program*	*Medicaid expansion*	*Medicaid expansion*
Benefits (cont'd.)		equivalent to the most widely sold HMO plan in the state. ▪ For children with incomes above 200% of poverty, the benefits package consists of a subset of services from the Medicaid package structured to mirror the commercial benchmark plan, which is the HMO plan with the largest non-Medicaid enrollment in the state.		
Service Delivery	Managed care program purchasing pool administered by the Managed Risk Medical Insurance Board.	▪ Based on mandatory managed care using licensed HMOs, with certain services carved out of the managed care contracts and provided on a fee-for-service basis. ▪ Families with incomes above 200% of poverty, use a managed care system with some services not covered by the managed care con-tracts provided on a fee-for-service basis.	▪ Provided through the Medicaid managed care delivery system.	▪ The Medicaid HMO managed care delivery system. ▪ Fee-for-service for wrap-around services of employer-sponsored insurance recipients.
Cost-Sharing	▪ Premiums vary de-pending on family income level and whether the family chooses to enroll in the discounted Community Provider Plan (CPP).	▪ No premium or co-payment for childless adults. Parents with incomes above 150% of poverty pay $15 monthly premium for each child, $25 for	▪ Children and adults below 185% of poverty have no cost sharing. Children and pregnant women with family incomes between 185 and 300 percent of the FPL	▪ No cost sharing of any kind for families at or below 150% of poverty. ▪ Families with incomes above 150% of poverty are assessed a premium of 3% of
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Appendix A (cont'd.): Overview of SCHIP Parental Expansion Waiver Programs.

	Healthy Families (California)	FamilyCare (New Jersey)	Rite Care (Rhode Island)	BadgerCare (Wisconsin)
Type of Program	*Combination Medicaid expansion and state-designed program*	*Combination Medicaid expansion and state-designed program*	*Medicaid expansion*	*Medicaid expansion*
Cost-Sharing (cont'd.)	▪ Under the CPP: cost is $4 per child (for families between 100-150% of poverty up to a max of $8 per family); $6 per child (for families between 150-200% of poverty up to a max of $18 per family) ▪ Under family value packages (a combination of health, dental, and vision plans that offer the best prices in a geographic area: cost is $7 per child (for families between 100-150% of poverty up to a max of $14 per family); $9 per child (for families between 150-200% of poverty up to a max of $27 per family). ▪ Families at or below 150% of poverty pay premiums for a maximum of 2 children. ▪ Families with incomes above 150% pay premiums for a max of 3 children. ▪ Parents at or below 150% of poverty pay $10 per parent per month. ▪ Parents above 150% of poverty pay $20 per parent per month. ▪ Parents that enroll in Community Provider Plans will receive a $3 per month discount	the first adult, $10 for the second adult, and various co- payments for different services. ▪ Pregnant women between 185-200% pay co-payments. ▪ Children with family incomes between 200-250% pay $30/month premium and various co-payments for different services. ▪ Children with family incomes between 251-300% pay $60/month premium and various co-payments for different services. ▪ Children with family incomes between 301-350% pay $100/month premium and various co-payments for different services. The co-payment schedule is as follows: Outpatient Hospital *$5* ER Service *$35* Lab & x-ray $5 Physician *$5* Podiatry *$5* Vision *$5* Drugs *$5 per Rx* Mental Health-outpatient *$25 per day* Psychological Services *$25 per day* Outpatient Detox $5 per day Nurse Midwife *$5 ($10 ho*	have the option of joining with either premiums (on a sliding scale) or co-payments. There is a 5% limit on cost sharing. If the family reaches the 5% threshold, they notify the State and the State directs the health plans to cease the collection of cost-sharing amounts. ▪ Children with family incomes between 185-250% of poverty have the following cost-sharing provisions: Option 1: No premium Office visits *$5* Hospital *$25* Outpatient Surgery *$15* Prescriptions *$2* Non-emergency use of emergency transport *$35* No co-payment for prenatal or well child visits. Option 2: Percentage of the total premium which results in actuarial equivalency between Option 1 and Option 2. The premium percentage will be 3 percent. No other cost sharing applies except that non-emergency use	their monthly family income. ▪ BadgerCare will use $500 "income bands" to determine the monthly premium so that premiums don't change every time a family has a small monthly income change. ▪ Failure to pay premiums for two consecutive months results in the family being dropped from the program and becoming ineligible for 6 months. ▪ No co-payments or deductibles.
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Appendix A (cont'd.): Overview of SCHIP Parental Expansion Waiver Programs.

	Healthy Families (California)	FamilyCare (New Jersey)	Rite Care (Rhode Island)	BadgerCare (Wisconsin)
Type of Program	*Combination Medicaid expansion and state-designed program*	*Combination Medicaid expansion and state-designed program*	*Medicaid expansion*	*Medicaid expansion*
Cost-Sharing (cont'd.)	per family member. ▪ $5 co-payment for non-preventive and non-institutional services at a max of $250 per year for all children in the family and a separate $250 per year for adults in the family. ▪ Families who pre-pay 3 months will get a 4th month free. The co-payment schedule is as follows: Physician Services *$5* Drugs *$5 per Rx* Inpatient *No charge* Emergency *$5 (No charge if admitted)* Prenatal *No charge* Medical Transport *No charge* X-ray & lab *No charge* DME *No charge* Mental Health/ Alcohol/Drug/ PT/OT/Speech Therapy *No charge for inpatient, $5 for out-patient* Acupuncture/ Chiropractic/ Biofeedback *$5* Vision *$5* Dental *Various*	▪ No co-pay for prenatal preventive services. ▪ Cost sharing does not exceed 5 percent of family income. At the time of approval, families are informed of the dollar amount of their cap for that calendar year. Families are told to contact the State when cost sharing payments reach 80 percent of the informed amount (also calculated for them at time of approval). When the 5 percent limit is reached, a letter of notification will be sent to the family with a copy going to the appropriate HMO. If in a fee-for-service arrangement, the families would present the letter of notification to their provider when accessing services.	of emergency transport is $35.	
Enrollment and Eligible Population	In December 2000, CA estimated that Health Families covered 360,000 children and was growing at a rate of 10,000-20,000 children per month. Under the SCHIP	70,812 children enrolled in 2000 (versus an estimated 154,000 eligibles) 81,000 estimated parents and pregnant women eligibles	Estimated Parent Enrollment: FY01: 12,500 FY02: 13,000 FY03: 13,500 FY04: 13,900 FY05: 14,300	July 1999 – February 2000: 19,294 children. BadgerCare has reduced the number of uninsured children under 200% FPL from 54,000 to 26,453 (51% of uninsured). The
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Appendix A (cont'd.): Overview of SCHIP Parental Expansion Waiver Programs.

	Healthy Families (California)	FamilyCare (New Jersey)	Rite Care (Rhode Island)	BadgerCare (Wisconsin)
Type of Program	*Combination Medicaid expansion and state-designed program*	*Combination Medicaid expansion and state-designed program*	*Medicaid expansion*	*Medicaid expansion*
Enrollment and Eligible Population (cont'd.)	waiver, CA expects to extend coverage to approxi-mately 290,000 parents.	Estimated Year End Adult Enrollment FY01: 54,000 FY02: 80,998 FY03: 80,998		state estimates enrolling a total of 79,025 children and adults in FY01.
Estimated Cost of Expansion	Cost projections for the Health Families ex-pansion are as follows (in millions of $): FY02: $160 parent; $387 child FY03: $302 parent; $426 child FY04: $376 parent; $446 child FY05: $396 parent; $467 child FY06: $309 parent; $489 child	For 2001: $50,153,909 federal costs $27,005,951 state costs	**Without Waiver** FY01: $10,947,420 FY02: $11,631,634 FY03: $11,980,583 FY04: $12,340,000 FY05: $12,710,200 **With Waiver** FY01: $12,535,507 FY02: $26,107,200 FY03: $28,847,933 FY04: $29,713,371 FY05: $30,604,772	On an ongoing basis beginning FFY2002, annual SCHIP allocation for children of $29.6 million is less than projected expendi-tures of $34.8 million for children in BadgerCare. By the end of FFY2002, WI needs an additional $49.7 million in state funding to maintain BadgerCare enrollment even with Title XXI waiver amendment.

Note: For all states, American Indian/Alaska Native families are exempt from cost-sharing requirements.

Sources: State of California Health and Human Services Agency. (2000). *California's Healthy Families SCHIP 1115 Demonstration Project.* Title XXI Waiver Request. Sacramento, CA; State of Rhode Island Department of Human Services. (2000). *Rhode Island Child Health Insurance Program Plan.* Title XXI Waiver Request. Cranston, RI; New Jersey Department of Human Services. (2000). *Request for an 1115 Waiver to provide Family Coverage under CHIP for Families and Pregnant Women with Gross Incomes below 200 Percent of Poverty.* Title XXI Waiver Request. Trenton, NJ; State of Wisconsin Department of Health and Family Services. (2000). *Badgercare Waiver Amendment Request.* Madison, WI.

Appendix B: Simulation Model Background and Methods

To analyze the marginal tax rate and incentive effects of the proposed expansion of Healthy Families, we constructed a spreadsheet-based model of California transfer programs and tax policies. The model, based on earlier work by Hepner and Reed (2001), allows simulation of incentives in each of the state's 58 counties, for many different kinds of families. The model covers families with incomes up to 300 percent of poverty, as measured by the 2000 Federal Poverty Guidelines. This figure represents an income of $33,750 for a family of two, $51,150 for a family of four, or $85,950 for the largest family size we simulated, a family of eight (two parents and six children).

We assume throughout that all earned and unearned income and all members of the household, including unmarried partners, are accurately reported, and that all members of the household are citizens or legally documented immigrants. We use the 2000 state minimum wage of $5.75 per hour as the lowest possible wage level and assume that work beyond 40 hours per week was for a second employer and therefore did not qualify for time-and-a-half overtime pay. We also assume that part-time workers (up to and including 20 hours per week) incur work expenses of $46 per person per month, and full-time workers (more than 20 hours per week) incur work expenses of $69 per person per month. These work expenses include increased transportation and clothing costs, but do not include child care costs, which we estimate separately.

Policies simulated, data sources, and assumptions are summarized below. Our simulation of the proposed Healthy Families parental expansion is based on the state's original waiver request, subsequent modifications reported to HCFA, and the most recent draft regulations for the expanded program.[24] Unless specifically noted, 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, and all taxes and tax credits are simulated according to the statutes and regulations in effect for the 2000 tax year.

Medi-Cal

Medi-Cal is California's Medicaid (Title XIX) program that pays for medical services for low-income individuals. It is a complex program—there are over 100 aid codes identifying different ways that people qualify for coverage, although they can be lumped into several major categories. We simulated eligibility for Section 1931(b) Medi-Cal and the Percent Programs. These programs account for the vast majority of families that would meet the categorical requirements to qualify for Healthy Families if their family incomes or resources were too high for Medi-Cal. We assume that none of the parents or children in the household qualified for Medi-Cal on the basis of disability or were institutionalized.

Section 1931(b) is the highest-priority Medi-Cal program for families. It covers parents and children up to age 19 with net incomes (after disregards) up to 100 percent of poverty who meet resource limits and categorical requirements. People who received or were eligible to receive 1931(b) Medi-Cal or CalWORKs in one of the four months prior to application for Medi-Cal are eligible at higher income levels due to more favorable income disregards.

If the entire family did not qualify for 1931(b) Medi-Cal, we screened the children (and pregnant mothers) for eligibility for the Percent Programs. These programs cover the following groups:

- pregnant women and infants with family incomes up to 200 percent of poverty
- children ages 1 to 6 with family incomes up to 133 percent of poverty
- children ages 6 to 19 with family incomes at or below 100 percent of poverty

There are no family resource limitations for children in the Percent Programs.

We experimented with the following three approaches for valuing benefits under Medi-Cal and Healthy Families.

Valuation method A for Medi-Cal uses the average premium paid to health plans in counties using California's two-plan managed care model. Premiums were weighted to reflect participation in the various plans, as well as lower premiums paid in certain counties for enrollees in the Percent Programs. The premiums and plan participation data used for the estimate were from July 1998. The average premium was inflated to 2000 dollars using the CPI for medical services for urban consumers in the West Region. We applied the average rate statewide; the two-plan model is not offered in all counties, but it covers the most populous counties and a large share of Medi-Cal's total enrollment.

Valuation method B uses the average monthly expenditures per enrollee for non-disabled adults and children in several age categories, calculated using Urban Institute estimates of annual Medi-Cal expenditures and average monthly enrollment. These estimates are based on data from the Health Care Financing Administration for federal fiscal year 1998, inflated to 2000 dollars using the CPI for medical services for urban consumers in the West Region. We applied the same average rate statewide.

Valuation method C is based on premiums for private HMO coverage (health and dental) under the Kaiser Permanente Personal Advantage plan. We used the health care premiums for January 2000 and

applied a cost-of-living adjustment to the dental care premiums for January 2001. These values, unlike those in Methods A and B, are for the entire family. Values are based on the number of adults in the program, the number of children in the program, the age of the younger adult on the program, the age of the youngest child on the program, and the service area. We assumed counties that are not covered by Personal Advantage plan would have the same premiums as the covered counties in their part of the state.

Healthy Families

Healthy Families is California's SCHIP (Title XXI) program that pays for medical assistance to children in low-income, working families. Children under age 19 in families with incomes at or below 250 percent of poverty are eligible, unless they are eligible to receive Medi-Cal. We screen all families and children for eligibility for 1931(b) Medi-Cal and the Percent Programs before checking eligibility for Healthy Families. We assume that all families meet the requirement of no private health insurance in the previous 3 months. We also assume that families were not American Indians or Alaska Natives, who are exempt from SCHIP cost sharing requirements in all states.

We estimate the value of Healthy Families coverage with three methods that parallel the methods described above for Medi-Cal:

Valuation method A for Healthy Families uses the statewide average monthly premium for children in the current Healthy Families program in July 2000, as calculated by California's Managed Risk Medical Insurance Board (MRMIB). The average monthly provider payment for administrative costs is also included. Premiums paid by the participants are subtracted from the total. We assume that all participants pay the lower premiums for "Community Provider Plans" and we do not take into account the bonus for early payment (people who pay 3 months of premiums in advance receive the 4th month free). We apply the same premium to all children in all counties. Healthy Families valuations for parents are based on the same average monthly data used for children, minus the higher premiums charged to parents in the proposed expansion.

Valuation method B uses the average monthly expenditures per enrollee, calculated using expenditure data from the state's official evaluation of its Title XXI program for HCFA and monthly enrollment data from MRMIB. The average expenditures per enrollee were calculated using data for federal fiscal year 1999 and inflated to 2000 dollars using CPI for medical services for urban consumers in the West Region. Premiums paid by the participants are subtracted from the total. We assume that all participants pay the lower premiums for "Community Provider Plans" and we do not take into account the bonus for early payment (people who pay three months of premiums in advance receive the fourth month free). We apply the same premium to all children in all counties. Healthy Families valuations for parents are based on the estimated value for children, multiplied by the ratio of spending per adult enrollee to spending per child enrollee in Medi-Cal. Parental premiums, including the Community Provider Plan discounts, were subtracted from this figure.

Valuation method C, for both children and parents, is similar to valuation method C for Medi-Cal. Again, valuations are based on the Kaiser Permanente Personal Advantage January 2000 rates. We

subtracted child and parent premiums at the slightly higher levels charged by non-Community Provider Plans because Kaiser Permanente, in counties where it offers Healthy Families services, does not qualify as a Community Provider.

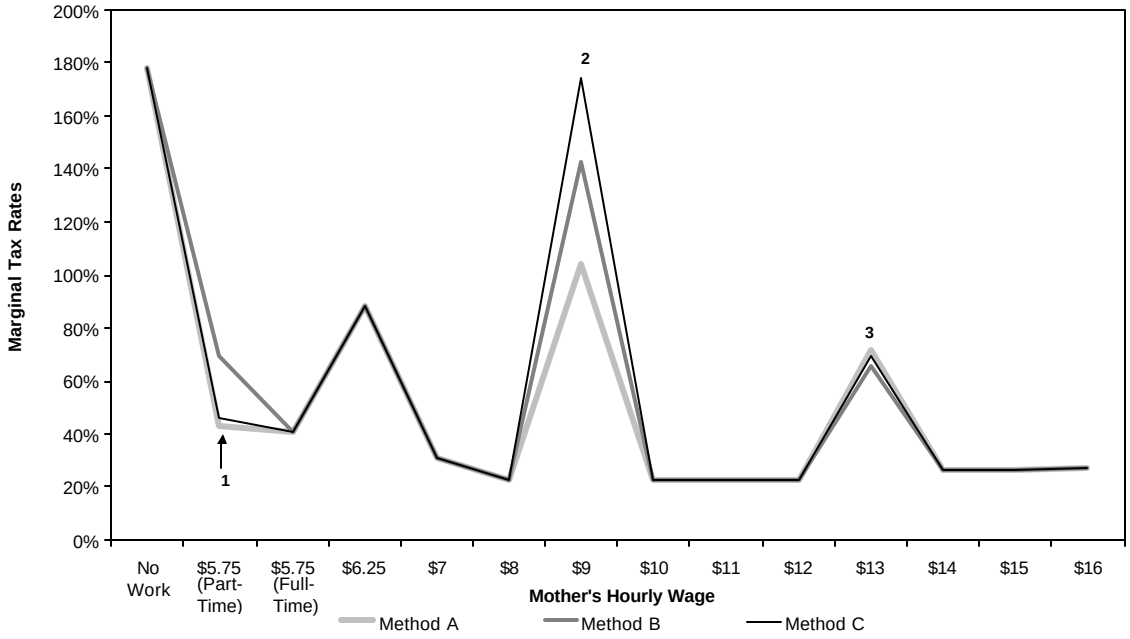
Comparison of Alternative Valuation Methods for Medi-Cal and Healthy Families

The alternative valuation methods described in the preceding sections illustrate several ways to estimate the value that individuals place on medical benefits from Medi-Cal and Healthy Families. There is very little variation in the values of health care for children under any of the three methods. For adults, the differences are more noticeable. In general, valuation method C results in the highest values of health care for adults, while valuation method A results in the lowest values. We chose to use method A as the valuation method throughout this paper for three reasons. First, it is more consistent than methods B or C with our approach to valuation of other in-kind benefits. Second, the likelihood that potential recipients discount the value of health care coverage suggests that we should use the method that overstates the value of adult benefits by the smallest amount. Third, it results in relatively conservative estimates of the effects of Healthy Families expansion on work or marriage incentives.

Figure B-1 compares marginal tax rates for a married Alameda County couple with one four-year-old child under the proposed expanded Healthy Families program using each of the three valuations—methods A, B, and C—for both Medi-Cal and Healthy Families. This family loses eligibility for Medi-Cal when the mother switches from working part-time to a full-time job a minimum wage, shown as point 1 in figure B-1. The marginal tax rate is relatively low under all three scenarios at this point because the family is eligible for Healthy Families. The marginal tax rate under method B is highest because this method results in relatively high value of benefits for Medi-Cal compared to Healthy Families.

At point 2, the parents lose eligibility for Healthy Families. The marginal tax rate is highest under valuation C because this method places a higher value on medical care for adults compared to the other two methods. At point 3, the child loses eligibility for Healthy Families. The marginal tax rates at point 3 are all about the same because there is little variation in the value of coverage for children under the three methods.

Figure B-1. Comparison of Marginal Tax Rates for Prototypical One-Child Family under the Proposed Healthy Families Expansion by Method of Valuation[2]



[1] Prototypical one-child family has married parents and a 4-year old child. The father works 40 hours per week at minimum wage. In this scenario, the family lives in Alameda County.

[2] Method A uses the average premium paid to health plans; Method B uses average monthly expenditures per enrollee; and Method C uses premiums for private HMO coverage

As with other in-kind benefits, our methodology may overstate incentive effects if individuals discount their value to a point below the HMO payment rates. For example, individuals may put a lesser value on health care coverage if they know that they can get limited health care services for the uninsured from other sources such as community clinics and emergency rooms. Some individuals may also discount the value of these benefits if they perceive a level of stigmatization associated with these benefits. Conversely, this methodology may understate incentive effects if, for example, individuals who sign up for these programs are sicker than the average individual and therefore place a higher value on medical benefits. Individuals may also place a greater value on medical benefits if coverage reduces their out-of-pocket expenditures for health care.

Access for Infants and Mothers

Access for Infants and Mothers (AIM) is a state program for pregnant women and their newborn children up to age 2. AIM covers pregnancy-related care and services up to 60 days postpartum for the mother, and comprehensive care for infants up to age 2. We set the value of AIM coverage as equal to the value of Healthy Families coverage under alternative valuation method A. We then adjusted this value to reflect the higher premiums of the AIM program.

CalWORKs

We simulated eligibility and benefits for CalWORKs cash assistance. We did not attempt to estimate the value of diversion payments or of supportive services such as personal counseling. CalWORKs program parameters were based on information from state sources, from the Western Center on Law and Poverty, and from the Urban Institute's Welfare Rules Database.[25] We assume that all CalWORKs participants were not exempt from work-related activities and were not currently sanctioned. We also assume that none of the children in the household were subject to the CalWORKs family cap.

The CalWORKs 100 Hours Rule applies to two-parent applicants only; it does not apply to single-parent applicants, single-parent current recipients, or two-parent current recipients. The 100 Hours Rule defines the Principal Wage Earner (PWE) as the parent who earned more income over the previous two years. If the PWE worked a total of 100 hours or more during the previous four weeks, the family is not eligible for CalWORKs benefits. In simulating this rule, we counted two-parent families whose present income levels make them eligible for CalWORKs and who are willing to accept CalWORKs benefits as current recipients. We assume that the parent who earned more income over the previous four weeks is also the parent who earned more income over the previous two years, and thus the parent identified as the PWE in the application of the 100 Hour Rule.

Under California law, an adult male must be counted as part of the household, and his earnings counted as income, if he is married to the mother and/or the father of children in the household for whom benefits are collected. The existence and income of a live-in boyfriend who is not the father of the children in household, however, are counted only if doing so benefits the mother. We assume that a potential CalWORKs recipient chooses to count a live-in boyfriend only when doing so increases the benefit for which she is eligible. In making the necessary comparisons, we assume that the family's unearned income accrues solely to the mother, and that any assets are evenly divided between the mother and the boyfriend.

Food Stamps

The federal Food Stamp Program is administered through the states to help low-income families obtain nutritious food. We simulated eligibility based on national guidelines, which include financial, employment/training-related, and categorical tests for eligibility (Committee on Ways and Means, 2000, pp. 865-889). We supplemented these with California-specific rules where available.[26] Calculations of net income, used to determine financial eligibility for food stamps, include partial deductions for the family's housing and child care costs. We assume that housing costs for non-subsidized households equal HUD fair market rents, and that child care costs for non-subsidized households equal the mean rates in county-level surveys. For more information about these deducted expenses, see the housing and child care sections of Appendix B.

Because California provides state-funded food stamps for individuals who would not qualify for federal benefits due to immigrant restrictions, we simulated food stamp eligibility without regard to citizenship or immigration status. We assume that families are complying with work requirements to receive food

stamps (i.e. are either employed or have registered for work and accept a suitable job if one is offered). Able-bodied adults with dependent children (ABAWDs) are limited to three months of food stamps in any 36-month period unless they are working at least half-time, but we assume that no one in the household is currently denied benefits because of this rule.

Although the food stamp recipient unit can include unrelated persons or extended relatives who live with the family and share meals, we assume that members of a single family constitute a single food stamp unit. We assume that the family is categorically eligible for food stamps if every member receives CalWORKs. We also assume that the family does not qualify for the more generous eligibility and benefit standards applied to units with at least one disabled member.

WIC

We simulate receipt of benefits from the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) program in California. WIC is a federally-funded program that provides nutritious food, counseling, and referrals for low-income pregnant women and children under five. We relied on Federal eligibility guidelines to simulate WIC participation (Committee on Ways and Means 2000:959-960). In reality, WIC is not an entitlement, so many women and children who qualify and apply will not receive benefits. Further, the program requires that recipients be "nutritionally at risk," which means that they have detectable abnormal nutritional conditions, documented nutritionally-related medical conditions, health-impairing dietary deficiencies, or conditions that predispose people to inadequate nutrition or nutritionally-related medical problems (Committee on Ways and Means 2000:959-960). We assume that families who meet the other eligibility guidelines and want to receive WIC meet the nutritional standards and actually receive program benefits.

WIC benefits depend on the age of the child and the pregnancy status of the mother. We assume that recipients receive the average monthly benefits reported by California's WIC office.[27] Benefits are the cash equivalent of food or food vouchers received. Participants may also receive manufacturer's rebate coupons distributed through the WIC problem, but we did not include the amounts of these rebates in monthly benefit totals because they rely on the purchase of certain products.

Child Care Subsidies

We model eligibility and receipt of subsidized child care for families with a working mother. These child care subsidies take the form of vouchers to parents or contracted slots, and they are funded by the Child Care Development Fund (CCDF) block grant and TANF funds. We ignore a handful of other child care initiatives, such as the State Preschool and small programs targeted at specific populations.

Child care needs are determined by the mother's work hours: we assume that children require no child care if the mother does not work, part-time care if the mother works 5-20 hours per week, and full-time care if the mother works more than 20 hours per week. We do not model the child care needs of mothers who are in school. The value of the subsidy to the family is the difference between the mean cost of child care in the county in which the family resides and the co-payment they are required to pay based on their monthly income. Children are assumed to be in center-based child care, and the mean cost of care varies by the child's age and whether the child is in full or part time care. Income thresholds,

co-payment levels, and other program parameters were obtained from the 2000-2001 CCDF State Plan and confirmed by program administrators.[28] County-level mean child care costs were calculated by the California Child Care Resource and Referral Network (King, 2001).

Although the statutory income eligibility limit is the same for CalWORKs and non-CalWORKs families, the priority rules governing the limited available funds make non-CalWORKs families much less likely to receive subsidies than CalWORKs families with similar incomes. On the basis of consultations with sources familiar with the implementation of the child care subsidies, we assume that current and former CalWORKs recipients are eligible up to 75 percent of SMI (the statutory limit), while families who have never entered the CalWORKs system are only eligible up to 30 percent of SMI (the income at which they no longer have high enough priority to receive subsidies) (Institute for Research on Women and Families, 1999; Montgomery et al., forthcoming). We assume that none of the children receiving child care subsidies are in the "grandfathered" group of children in the program as of January 1, 1998, to whom higher income limits apply.

Housing Subsidies

We use information about the Section 8 rental voucher program and rental certificate program to model California housing subsidies. These programs account for a majority of assisted households in the state.[29] We did not model two other forms of federal housing assistance, public housing projects and publicly assisted housing.

We assume that minimum rents, which local public housing authorities have discretion to set between $0 and $50, are $25 in all counties. Simulated benefits do not include utility allowances. Program rules are based on federal and state information and on data and analysis in Kingsley (1997).[30]

Child Support

California child support is based on the Presumptive Guidelines contained in Family Code Sections 4050-4076.[31] We assume that the mother is the custodial parent and the father is the non-custodial parent. We also assume that the court adheres to the presumptive guidelines; all child support obligations are paid fully and on time; child support amounts are adjusted in response to changes in the resources of either parent; tax deductions for the supported children are claimed by the mother; and the father is currently unmarried with no dependents and no unearned income.

Federal Income Tax

We only consider three tax filing statuses to be relevant: single, head-of-household, and married. We assume that married parents will file taxes jointly and that unmarried mothers will file as head-of-household, claiming all children as her dependents. We assume that all children were biological or adoptive children of the mother, were unmarried, and did not earn independent incomes, and thus qualified as the mother's dependents. We further assume that a resident unmarried boyfriend (regardless of paternity status) will file as single and therefore will not claim the children as dependents for tax or tax credits. We applied tax rules regardless of immigration status, assuming that members of the household were U.S. residents throughout the year (and were therefore subject to standard tax laws). Tax rules for

widowed persons, persons above 65, and persons with six-figure incomes differ greatly from standard tax rules. We do not model these rules because these populations are not the focus of Healthy Families expansion.

We calculate Federal taxes as if the family's monthly work situation lasted the entire 2000 calendar year, even though bouts of unemployment or a change in jobs during the year would have impacts on total taxes paid. The family is assumed not to have any capital gain income, farm income, social security, foreign income, taxable interests, or unemployment insurance income throughout the year. Further the family is assumed not to itemize their deductions, since most families who do are in the high income brackets.[32]

Although the Federal government did not require heads of households to file a tax return if their gross income was below $9,250 ($12,950 for married filers) in the 2000 tax year,[33] we assume that all families below these minimums would file in order to claim tax credits and/or a refund of their federal income taxes withheld.

In addition to Federal income taxes, the simulation also includes the option of claiming four federal credits relevant to our target families: the earned income tax credit (EITC), the child care tax credit (CCTC), the child tax credit (CTC), and the additional child tax credit (ACTC). The EITC is a refundable credit based on family income and size[34] and was computed from other Federal income tax information. The non-refundable CTC[35] and the refundable ACTC[36] are based on income guidelines and number of qualifying children. Amounts of the credits, if any, were computed directly from Federal tax information.

The CCTC allows a nonrefundable credit of some child care expenses the family paid while working or looking for work. We used county-level surveys to estimate the family's child care expenses (see the child care section of Appendix B for more detail), and counted only the unsubsidized part of expenses to determine whether the family qualified for the credit. For divorced parents, the parent with longer custody gets to claim the CCTC, so we assume that if custody of children was split, the prototypical family had longer custody of the child. Some parents use a child-care exclusion rather than the CCTC on their taxes, but less than two percent of total parents choose this option (and the bulk of those who do make above $50,000)[37], so we assume parents take the CCTC.

State Income Tax

Our source for information about California State Income taxes is the 2000 Personal Income Tax Booklet (California Franchise Tax Board, 2000). The same assumptions used in computing Federal income taxes (see above section) are generally used in computing state taxes. We assume prototypical families that rent and meet the eligibility requirements claim the nonrefundable renter's credit. California also offers a refundable child care expenses credit. The credit is simply a percentage of the Federal credit, so if families claim the CCTC on Federal taxes, we assume they also take the state CCTC.

Federal Payroll Taxes

We calculate the employee portion of payroll taxes at the 2000 rates: 6.2 percent of wages up to $76,200 for Social Security, and 1.45 percent of all wages for Medicare. Calculations do not include the employer portion of these payroll taxes.

Programs Not Covered

We did not simulate General Relief (GA), Supplemental Security Income (SSI), or Unemployment Compensation (UC). Most General Relief recipients are unemployable or childless; employable adults with children are typically only on the program for short periods, often as a stopgap until they become eligible for CalWORKs or other assistance (Gallagher et al, 1999). The disabilities that qualify SSI recipients for benefits also limit their capacity to work, and thus to respond to work incentives or disincentives. Employable individuals, including those with children, do receive UC, but many unemployed persons do not qualify for benefits, and Californians who did qualify in 2000 were limited to 26 weeks (Committee on Ways and Means, 2000, pp.283, 293).

Notes

1. Information on children's uninsurance rate from Kenney, Dubay, and Haley (2000). Information on parents' uninsurance rate from unpublished Urban Institute calculations based on the 1999 National Survey of America's Families. Throughout the paper, we use the term "low-income" to refer to families with incomes at or below 200 percent of the Federal Poverty Guidelines published annually by the U.S. Department of Health and Human Services, and "poor" to refer to families with incomes at or below 100 percent of the Federal Poverty Guidelines. In 2000, for example, a family of four would be considered low-income if it had an annual income less than or equal to $34,100, and poor if it had an annual income less than or equal to $17,050. These guidelines are available at: http://aspe.hss.gov/poverty/00poverty.htm.

2. Neuschler and Curtis (2001a, 2001b) suggest that many of the families who will be eligible for an expanded Healthy Families have access to employer-sponsored insurance, but do not purchase it, either because they cannot afford the required contribution or because they do not consider the coverage worth buying at that price. Families at the low end of the Healthy Families income eligibility range are less likely to have access to employer coverage than families at the high end of the Healthy Families income eligibility range.

3. Healthy Families Program Enrollment Summary, June 4, 2001. http://www.mrmib.ca.gov/MRMIB/HFP/HFPRptH.html.

4. Zuckerman, Haley, and Holahan (2000).

5. Minnesota subsequently amended its pending SCHIP waiver application to include coverage of parents with incomes from 100 to 275 percent of poverty in its MinnesotaCare program.

6. The second year of Transitional Medi-Cal is state-funded.

7. When marginal tax rates are shown as percentages, as in Figure 5, they are very sensitive to the choice of measurement intervals. The percentages in Figure 5 show the change in total resources for a change in earnings of one dollar per hour, which is equivalent to a change in monthly earnings of $173.33. Use of larger units would dampen the impact of sharp reductions in benefits. For example, the marginal tax rate for Marin, shown over the interval from $15 to $18 per hour, rather than from $16 to $17, would be 327 percent instead of 857 percent as shown. Smaller increments would increase the distortion, but more accurately pick up minor incentive effects such as the change in Healthy Families child premiums when the family earns more than 150 percent of poverty.

8. Institute for Research on Women and Families (1999); Montgomery et al. (forthcoming).

9. Kingsley (1997); http://www.huduser.org/publications/wpd/fahtable.wp5.

10. Unpublished tabulations from the Urban Institute's 1999 National Survey of America's Families (NSAF).

11. Ibid.

12. The exact multiplier used to estimate the value of coverage for the chronically ill parent is 3.493, which was calculated using predicted average per person health care expenditures by self-reported health status from the 1996 Medical Expenditure Panel Survey (MEPS), as calculated by the Urban Institute (Holahan, 2001). The multiplier was determined by dividing the predicted health care expenditures per person for non-elderly adults reporting poor health status ($7,544) by the predicted expenditures for all adults ($2,160).

13. Point 13A is the point where the family loses coverage under no share of cost, Section 1931 Medi-Cal. The family may still be eligible for Transitional Medi-Cal.

14. To calculate child support, we used the median 1998 annual income of California custodial mothers and non-custodial fathers with positive earnings in the Round 2 of the National Survey of America's Families (NSAF), multiplied by a cost of living adjustment to 2000. Therefore the mother's income is $8.13 per hour, while the non-custodial father's hourly wage is $13.21. Both work full-time and are assumed to have no additional income, earned or unearned. Neither of the parents have remarried. The mother has $3,500 in assets and thus does not qualify for Medi-Cal assistance herself.

15. The non-custodial parent can be required to pay a proportional share of child care costs as additional child support. We simulate the father's child support as if he was required to pay this additional amount.

16. See Health Consumer Alliance (2000). Like many other features of California social assistance programs, the Sneede-Kizer rules are named for the court decisions from which they arose.

17. Some immigrant populations, such as refugees, veterans, and non-citizens who have worked in the U.S. for ten or more years, are still eligible for food stamps. See http://www.urban.org/welfare/wrca96.htm for more information.

18. Since the NSAF records date of entry as a year only, these categories were simplified to immigrants who arrived before 1996 (pre-enactment) and those who arrived in 1996 or later (post-enactment) for purposes of calculation.

19. Zimmerman and Tumlin (1999); "California Food Assistance Program" at http://www.dss.cahwnet.gov/getser/foodsta.html; Western Center on Law & Poverty (July 2000).

20. Based on a conversation with a California State Official, April 2001.

21. This finding is statistically significant at the 95% confidence level.

22. This finding is statistically significant at the 95% confidence level.

23. The Medi-Cal program requires that adults meet an asset test in order to be eligible. In 2000, this limit was $3000 for one or two person families, with slightly higher limits for larger families. Healthy Families, in contrast, has no asset test. For a family that has no income, but has enough in assets to make the parents ineligible for Medi-Cal, *any* Healthy Families cost sharing would exceed the 5 percent standard. This problem does not arise under the current child-only Healthy Families program, since children in families with such low income would receive no-cost Medi-Cal under the Percent Programs.

24. The original waiver proposal (dated 12/20/00) is available at: http://www.mrmib.ca.gov/MRMIB/HFP/HFPParentProposal.html#A6. Modifications to HCFA dated 3/1/01 are available at: http://www.mrmib.ca.gov/MRMIB/HFP/Parent_HCFA_Waiver_Resp.html. The 3/8/01 regulations are available at: http://www.mrmib.ca.gov/MRMIB/HFP/010308Regs.pdf.

25. California Department of Social Services (1998), California Health and Human Services (October 1999), California Health and Human Services (January 2001); Western Center on Law and Poverty (Spring 2000), the Welfare and Institutions Code Sections 11450-11469.1. at http://www.leginfo.ca.gov/cgi-bin/displaycode?section=wic&group=11001-12000&file=11450-11469.1, and the Welfare Rules Database at http://anfdata.urban.org/WRD/WRDWelcome.cfm.

26. http://www.dss.cahwnet.gov/getser/foodsta.html.

27. California WIC office, personal communication, August 10, 2000.

28. California Department of Education, Child Care and Development Fund for California, FFY 2000-2001; California Department of Education, Confidential Application for Child Development

Services and Certification of Eligibility (available at http://www.cde.ca.gov/cyfsbranch/child_development/forms.htm); Arlyce Currie, Bananas (Research and Referral Agency in Oakland, CA).

29. Kingsley (1997) and http://www.huduser.org/publications/wpd/fahtable.wp5.

30. U.S. Department of Housing and Urban Development, various publications on public and assisted housing programs at www.hudclips.org; California Department of Housing and Community Development, "Income Limits for 2000," at http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html.

31. http://www.leginfo.ca.gov/cgi-bin/displaycode?section=fam&group=04001-05000&file=4050-4076.

32. IRS Statistics of Income File, http://www.irs.gov/tax_stats/soi/ind_hist.html 98INDTR.exe.

33. Internal Revenue Service. 2000 1040 Instructions Booklet: http://www.irs.gov.

34. Internal Revenue Service. 2000 Earned Income Credit Instructions Booklet. Publication 596: http://www.irs.gov.

35. Internal Revenue Service. 2000 Child Tax Credit. Publication 972: http://www.irs.gov.

36. Internal Revenue Service. 2000 Additional Child Tax Credit. Form 8812: http://www.irs.gov.

37. National Bureau of Economic Research. (unpublished). "The Distribution Effects of the Tax Treatment of Child Care Expenses." Cambridge, MA.

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