10-1-2014

How Long before Recertifying Medicaid and CHIP Children?

Zhuan Pei
Brandeis University

Zhuan Pei

How Long before Recertifying Medicaid and CHIP Children?

Income-based eligibility recertification is an essential component in virtually all means-tested social programs in the United States. It exists to ensure that the benefit is targeted at the neediest individuals or families. In many studies that examine the effect of means-tested programs on labor supply, an implicit assumption is that program eligibility is constantly monitored. However, many of these programs do not operate this way, and the time between two consecutive eligibility certifications, or the "recertification period," can be as long as a year. Although this policy lever is recognized and its effect on program participation is explored in several studies of transfer programs (e.g., Currie and Grogger 2001; Kabbani and Wilde 2003; Prell 2008; and Ribar, Edelhoch, and Liu 2008), a formal theoretical and empirical investigation has not been carried out to address how program participants may respond to the incentives resulting from the lack of constant income monitoring. In my research, I attempt to fill this gap by examining families' behavioral responses to the continuous eligibility provision for children participating in Medicaid and the State Children's Health Insurance Program (SCHIP, or simply CHIP). The analysis of income and labor supply responses is key in answering the important policy question of how often eligibility monitoring should be conducted.

Uninterrupted eligibility monitoring ensures that an income-tested program is effectively targeting the needy. However, if monitoring is costly and incomes of program participants change little over time, it may be sensible for the government to decrease the frequency of eligibility checks and offer a period of "continuous eligibility." Granting continuous eligibility increases the value of a transfer program to its participants in two ways. First, less frequent monitoring reduces transaction costs associated with gathering eligibility materials and visiting caseworkers for program beneficiaries. Second, continuous eligibility provisions allow families to be less constrained in their labor supply decisions. That is, once households qualify for an income-tested program for a specified period, they will not be disqualified even if their incomes exceed the maximum income threshold, allowing them to work the desired amount while retaining their benefits. However, the provisions increase the possibility for less needy households to lower their incomes temporarily in

> **Continuous eligibility provisions allow families to be less constrained in their labor supply decisions.**

order to qualify for the program, and then revert to their usual incomes while enjoying the benefits.

Because the families that behave strategically are not the intended beneficiaries of the program, setting the continuous eligibility period involves the trade-off between minimizing the number of such families and reducing the economic loss associated with monitoring. As mentioned above, the loss includes the administrative costs to the government, pecuniary and time costs of families participating in the program, and the deprivation of program benefits for some of the families most in need when the transaction costs of eligibility recertifications become insurmountable. Olson, Tang, and Newacheck (2005) show that children who experience interruptions in health insurance coverage

are more likely to have unmet health care needs; therefore, imposing bureaucratic burden on otherwise eligible families may reduce targeting efficiency as well. Given these trade-offs, understanding the behavioral response to the lack of eligibility monitoring has important policy implications. The recertification period may be too long if we find evidence of families strategically and temporarily lowering their incomes in order to gain program eligibility. If no strategic behavior is found, however, it may be beneficial to lengthen the period of eligibility.
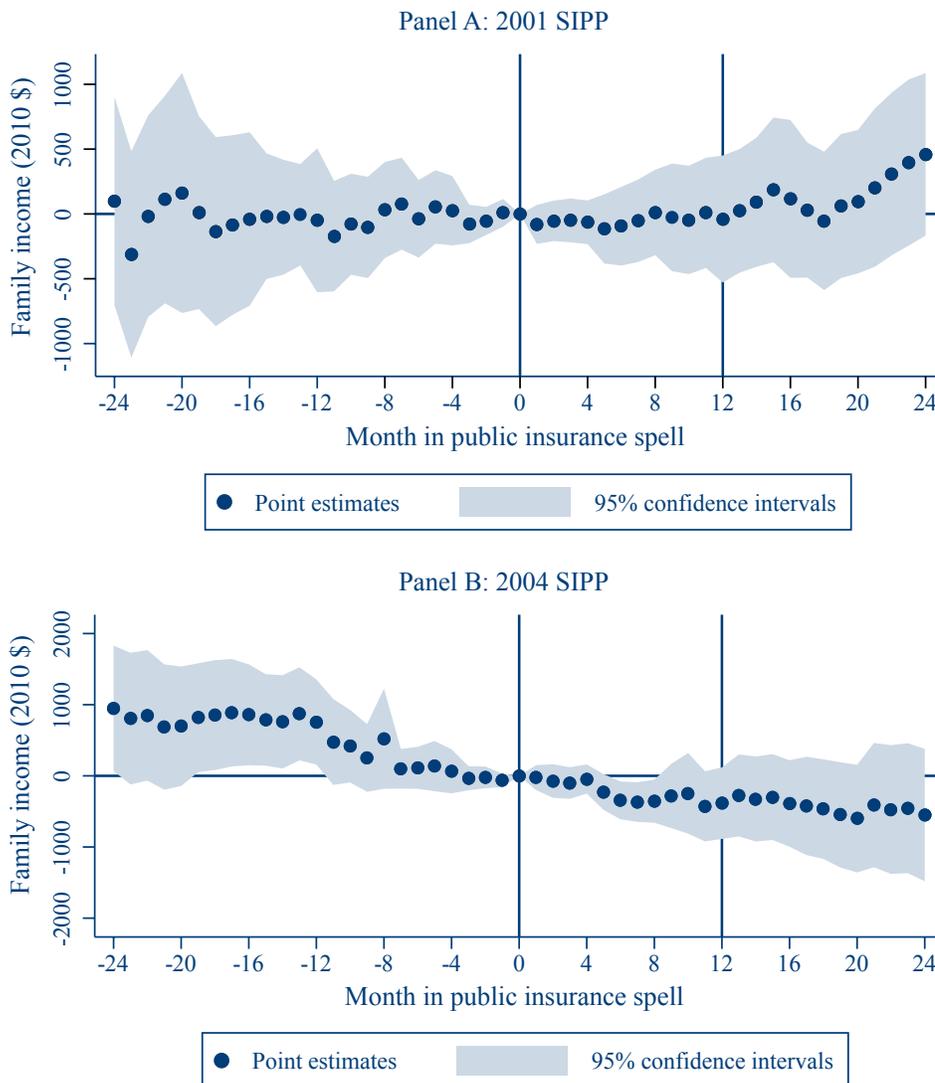
Income and Labor Supply Responses

I carry out an empirical investigation of the labor supply effect of the continuous eligibility provisions in the context of Medicaid/CHIP and provide a framework to compute the optimal eligibility recertification frequency. Along with creating the SCHIP program, the Balanced Budget Act of 1997 gives states the option to continuously insure children for up to 12 months in their public insurance programs regardless of changes in family income during that period. A third of the states implemented the continuous eligibility option in their public insurance program for children. These states present an opportunity to gauge the significance of the aforementioned strategic behavior, which then sheds light on the choice of the optimal continuous eligibility period.

Using the 2001 and 2004 panels of the Survey of Income and Program Participation, I follow an event-study framework and trace out families' incomes as their children enrolled in Medicaid/CHIP. Figure 1 plots the movement of average family incomes over the 48 months around the beginning of a public insurance spell.

Neither of the panels shows a pronounced dip-and-rebound in income in the six months before and after the spell start. For the 2001 panel, the income trend leading up to the beginning of the public insurance spell is practically flat; the average income increases gradually during the spell especially after 12 months, but the period immediately

Figure 1 Average Family Income by Month in Public Insurance Spell

Panel A: 2001 SIPP

Point estimates   95% confidence intervals

Panel B: 2004 SIPP

Point estimates   95% confidence intervals

following the spell start shows no rebound. In the 2004 panel, the income process shows a persistent downward trend throughout the four-year window without a visible rebound.

Even though the strategic behavior predicted by the labor supply model is not salient in Figure 1, certain subgroups may be expected to exhibit stronger responses than others. Examining these subgroups separately may help to isolate the effects that are otherwise masked in the full sample. Among others, I select several subsamples in which families may adjust their labor supply more easily (two-parent families), be more likely to understand program rules (at least one parent is college educated), or face a stronger incentive to behave strategically (families with more children). The subsample analyses reveal income trends similar to those in the full sample and are not indicative of strategic behavior.

Testing Model Predictions

Because of the relatively small sample size, I cannot strictly rule out a small income rebound in several of my samples. Therefore, I calibrate the expected income rebound magnitude based on a standard economic model and compare it to the actual rebound magnitude. In all subsamples, the actual rebound magnitude is smaller than the model-predicted magnitude, and

the model prediction is rejected with confidence.

Comparisons of income processes between counterfactual groups are also carried out to address the issues of unaccounted income trends over a Medicaid/CHIP spell, concentration of strategic behavior in only a subset of the families, as well as possible model misspecification in the calibration exercise. I compare the income processes between high- and low-income families and families in states that did and did not provide 12 months of continuous eligibility to simultaneously address all three of those issues. High-income families and those living in states providing 12-month continuous eligibility are expected to exhibit stronger strategic behavior than their counterparts, but the counterfactual analysis does not reveal the rebound magnitude to be statistically significant between the different groups. Again, the result provides no evidence indicative of the strategic behavior as predicted by a standard economic model.

Optimal Length of the Continuous Eligibility Period

With strategic behavior practically ruled out, I explore the following policy question: What is the right recertification frequency for families participating in Medicaid/CHIP? The two key factors in answering the question are 1) the volatility of the income process, and 2) the costs associated with recertification. Intuitively, if income does not change at all over time, then the government only needs to check income once to identify the needy population. But if there is a lot of movement across the public insurance eligibility cutoff, more frequent recertifications may be called for, which will remove families from the program when they no longer need the benefits. The need to monitor income must then be weighed against the cost of eligibility recertification, which should be conducted less frequently if the cost of the verification process is high for the government or for the program participants.

Using a simple economic framework, I compute the optimal

monitoring frequency under various assumptions regarding social welfare and recertification costs. The calculation suggests that 12 months may serve as a lower bound on the length of the optimal continuous eligibility period. That said, with technological advancement and improved data sharing among government agencies, recertification costs may decrease significantly in the future, in which case the continuous eligibility period can be shortened to improve targeting efficiency.

References

Currie, Janet, and Jefferey Grogger. 2001. "Explaining Recent Declines in Food Stamp Program Participation." *Brookings-Wharton Papers on Urban Affairs*. Washington, DC: Brookings Institution, pp. 203–244.

Kabbani, Nader S., and Parke E.Wilde. 2003. "Short Recertification Periods in the U.S. Food Stamp Program." *Journal of Human Resources* 38(4): 1112–1138.

Olson, Lynn M., Suk-fong S. Tang, and Paul W. Newacheck. 2005. "Children in the United States with Discontinuous Health Insurance Coverage." *New England Journal of Medicine* 353(4): 382–391.

Prell, Mark A. 2008. "Income Volatility and Certification Duration for WIC Children." In *Income Volatility and Food Assistance in the United States*, Dean Jolliffe and James Patrick Ziliak, eds. Kalamazoo, MI: W. E. Upjohn Institute for Employment Research, pp. 259–294.

Ribar, David C., Marilyn Edelhoch, and Qiduan Liu. 2008. "Watching the Clocks: The Role of Food Stamp Recertification and TANF Time Limits in Caseload Dynamics." *Journal of Human Resources* 43(1): 208–239.

*Zhuan Pei is an assistant professor of economics at Brandeis University.*

The WE*focus* Book Series

The Upjohn Press has begun a new series of "short books" called the "WE*focus* series." Books in this series will be authored by noted experts in the subjects and will provide a concise discussion of a range of important labor market issues along with the programs and policy recommendations that address those issues. The most recent book in the series is *From Preschool to Prosperity: The Economic Payoff to Early Childhood Education*, by Timothy J. Bartik. Other entries currently scheduled to appear in the series will address workers' compensation, the railroad retirement system, apprenticeships, employer resource networks, and natural disasters and the labor market. Books in this series will be available as paperbacks and as *free* PDF downloads from http://www.upjohn.org.

Investing in Childhood Education

Free PDF
From Preschool to Prosperity
The Economic Payoff to Early Childhood Education

Timothy J. Bartik
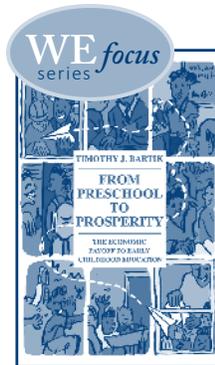
"The economic benefits of investing in high-quality early childhood education are clear and backed by an impressive amount of research, as laid out in Tim Bartik's book. With businesses concerned about securing a future skilled workforce, with our military leaders concerned about the future supply of qualified recruits, and with our society concerned about the troubling increase in income inequality, we should be looking at proven investments in children and youth that strengthen our human capital and the future of our economy." —*Arthur J. Rolnick*
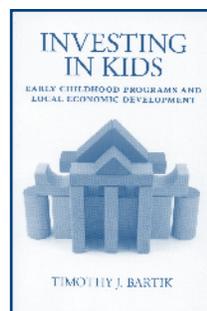
114 pp. 2014 $14.99 paper 978-0-88099-482-8
➡PDF free at http://www.upjohn.org/sites/default/files/WEfocus/FromPreschoolto Prosperity.pdf

Investing in Kids
Early Childhood Programs and Local Economic Development

Timothy J. Bartik

"Tim Bartik has written a thoughtful book on the value of a local approach to financing and creating early interventions to foster child development. The economic case for supplementing the early environments of disadvantaged children is compelling. Annual rates of return of 7–10 percent per annum have been estimated—higher than return on stocks over the period 1945–2008 . . . In an era of stringent federal budgets, Bartik offers a plan for raising the support needed to put effective programs in place." —*James Heckman*, Nobel Prize–winning economist, University of Chicago

417 pp. 2011 $45 cloth 978-0-88099-373-9 $20 paper 978-0-88099-372-2
➡Read the first chapter at: research.upjohn.org/up_press/207/.