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# Medicaid Buy-In Programs for Uninsured Children and Nonworking Adults

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## 5.3

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### Program for Uninsured Children

#### Characteristics of Uninsured Children

Children under age 19 without health insurance coverage comprise roughly 30 percent of the uninsured population (Short, Monheit, and Beauregard 1988). At least two-thirds of these children in Michigan live in families at less than 200 percent of poverty income and about half of these children live in households where no one has insurance coverage. Another quarter live in families where only the head has coverage. While noninfant children are fairly inexpensive to insure, their low family income levels make it unlikely that universal coverage can be achieved without substantial subsidies. Unfortunately, the existence of a Children's Medicaid Buy-In is likely to induce many small businesses now offering coverage for dependent children to drop that coverage. A few children have nongroup coverage, which their parents would almost certainly drop for the cheaper Buy-In-coverage. Even when a childrens' program is restricted to families where the parents are unemployed or employed in firms eligible for the small business insurance pool, the number of potentially eligible children could expand beyond those currently uninsured.

## Rationale for Medicaid Buy-In

Many small businesses that offer health benefits provide at least the option for dependent coverage (SBA 1987; Hogan 1989). As noted above, however, a large percentage of Michigan children are uninsured. Given the likely low participation rate in any small business health insurance pool (Perry 1989), it may be desirable to promote insurance coverage for all children by offering a special Medicaid Buy-In program, if their parents are unemployed, employed in a small business (<25 FTE), or not in the labor force.

## Benefit Options

A modest benefit package with some copays and deductibles should cost about \$50 per month (1988 dollars).<sup>1</sup> If infants (< 1 year) are excluded from the program, the monthly premium could be cut in half (Blue Cross-Blue Shield Association 1989a, 1989b).

Premium cost-sharing could be based on the family's ability to pay:<sup>2</sup>

$$\text{Premium share} = \frac{\text{Adjusted family income}^2}{\text{Poverty rate income}} - 1. \quad (1)$$

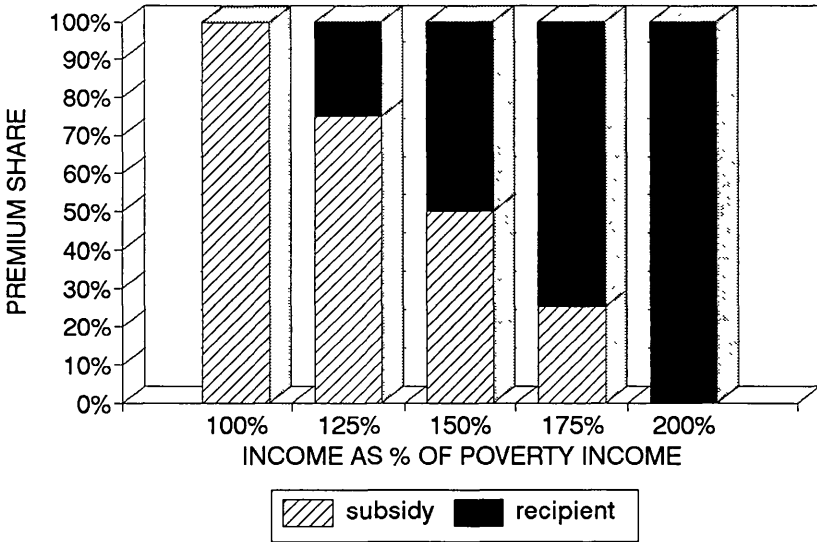
Families above 200 percent of poverty would pay the full premium, while those below 100 percent of poverty would pay no premium (see Figure 1). Substantial subsidies may be necessary to finance the program, since two-thirds of these children are from families with incomes below 200 percent of poverty.

## The Unemployed Uninsured Adults Medicaid Buy-In Program

### Characteristics of Uninsured Unemployed Adults

This group comprises about 10 percent of the uninsured. Fifty-three percent of this population live in families with less than 200 percent of poverty income. In households with at least one unemployed adult worker, approximately 70 percent of the adults and 95 percent of the children are uninsured.

**Figure 1**  
**Premium Shares: Medicaid Buy-In Program**  
**(Nonworking Adults and Children's Pool)**



**Rationale**

It seems unlikely that subsidizing employees to purchase COBRA continuation coverage can be less expensive than the Medicaid Buy-In, since Medicaid payments are so modest. Further, this would be of assistance only to those persons who actually had coverage in their previous employment.

For the unemployed uninsured to buy into the Medicaid program, two options are examined: a subsidized and an unsubsidized program. Eligibility would be determined by the state unemployment insurance agency. Individuals applying for health insurance coverage would need to be actively looking for work, but they need not be receiving unemployment insurance benefits. The health benefit would act as an incentive to continue the job search. However, if large numbers of employers fail to offer health benefits, the unemployed job searcher is likely to remain unemployed for a longer period, and this may increase the cost of unemployment insurance. This will also act as an incentive for employers to offer insurance, at least during times of relative labor shortage.

## **Benefit Options**

The costs of this program vary according to the type of coverage offered. If coverage is provided only to the job searcher, then costs would range from \$60 to \$100 per individual per month. A more difficult issue is the coverage of spouses and children of the unemployed uninsured. If health insurance coverage is not widely adopted by small businesses, uninsured employed spouses and uninsured children may try to receive coverage via their unemployed spouse/parent. This would create an even greater barrier to accepting a position without health benefits, prolonging unemployment and raising unemployment insurance costs.

Since not all unemployed persons are poor (about 47 percent live in families with incomes above 200 percent of poverty), we suggest for the subsidized option a cost-sharing arrangement in which the uninsured unemployed beneficiary pays a share of the total premium as specified in equation (1). Persons from families at or above 200 percent of poverty would pay the entire premium and persons from families at or below 100 percent of poverty would pay no premium. The majority of unemployed persons will need to have their premiums subsidized, unless the nonpoor unemployed uninsured are charged an actuarially unfair premium sufficient to subsidize the poor (as was attempted with the ill-fated Medicare catastrophic coverage).

## **Uninsured Not-In-the-Labor-Force (NILF) Adults**

### **Characteristics of Nonworking Adults**

Roughly 20 percent of uninsured persons are neither employed nor looking for work. This is, in general, a poor population, with more than 70 percent of the uninsured living in families below 200 percent of poverty.

## **Rationale for Medicaid Buy-In**

A Medicaid Buy-In could be made available for persons not in the labor force. The lack of affordable child care causes many employable women with young children to withdraw from the labor force. If employment-based health insurance or insurance for the unemployed uninsured were not to cover adult dependents, then a significant population group could be left without the opportunity for coverage (as much as 10 percent of the uninsured population). Other unemployed individuals with specific medical problems that make it difficult for them to obtain health insurance elsewhere also may represent a sizable uninsured population. Miscellaneous other individuals, such as the disabled who are not covered by Medicaid or Medicare, may also need health insurance coverage. We suggest a special program for a Medicaid Buy-In for individuals who cannot reasonably be expected to obtain employment-based coverage.

## **Benefit Options**

Again, for the subsidized program, the premium share for individuals is determined by the family income level (see equation 1). The Medicaid Buy-In for normal health risk would cost between \$60 and \$100 per month. Since 73 percent of this population lives in families with incomes below 200 percent of poverty, substantial subsidies will be necessary to achieve reasonable participation rates. Again, high rates of premium subsidization in combination with low participation rates of employers in a small employer health insurance pool may act as a significant employment disincentive. Selection of a benefit package under the voluntary approach is, by necessity, market driven. The package must be acceptable to those who buy it, but it must not be so rich that it creates more health care cost inflation by causing the coverage offered by firms currently providing benefits to expand, nor should the package be so rich that the unemployed have a disincentive to seek employment. Thus, the package selected should be slightly below that typically offered by small employers.

### Administrative Issues

A major difficulty with the voluntary Medicaid Buy-In options presented here is that the beneficiary premium share may need to be paid in after-tax dollars. For an employed population, firms could be asked to create flexible spending accounts into which employees can deposit pre-tax dollars, which then might be used to purchase coverage from the Medicaid Buy-In program. A similar arrangement might be possible for persons receiving unemployment insurance. However, unemployed uninsured who have exhausted their unemployment benefits and those not in the labor force may have to make their premium contributions in after-tax dollars. Deductibility of health care expenses for federal income tax has been limited by recent tax law changes and is available only to itemizers. Other things being equal, to achieve some level of coverage in the currently uninsured population, more state subsidies will be required to compensate for the after-tax cost of the coverage to the nonpoor.

### NOTES

1. This premium estimate assumes that catastrophically ill infants would continue to "spend down" to Medicaid eligibility
2. Adjusted for the value of the premium contribution and the expected deductibles and copayments.

$$\text{Premium share} = \frac{(\text{Family income} - \text{premium} - \text{expected copays and deductibles})}{\text{Poverty income} + \text{premium}}$$

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