
OFFICE OF GOVERNOR RONNIE MUSGROVE
INTEROFFICE MEMORANDUM

TO: BOYD
FROM: RILEY
SUBJECT: NGA ISSUE BRIEF: STATE POLICY OPTIONS FOR HEALTH CARE COVERAGE FOR FAMILIES ON, LEAVING, OR DIVERTED FROM WELFARE AND OTHER LOW-INCOME FAMILIES
DATE 10/4/00
CC: FILE

This issue brief focuses on public-sector options for states to ensure that former and current welfare recipients and those diverted from welfare have access to health care coverage, which can assist families retain employment and achieve long-term sufficiency. Below are policy options available through Section 1931 of the Social Security Act, as amended by the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PWRORA), Section 1115 waivers and other TANF and Medicaid provisions.

The welfare law delinked Medicaid and welfare eligibility, so TANF recipients are not automatically eligible for and enrolled in Medicaid. Under Section 1931's family coverage category, families are eligible for Medicaid if they meet the income and resource requirements of the state's AFDC plan in effect on July 16, 1996. However, Section 1931 also provides states with new policy options to update Medicaid eligibility in light of welfare changes and innovations. **Per your approval, I'm going to confer with Michael Raff as to which, if any of these policy options, we have implemented or have considered.**

Coverage for Families on Welfare

States can effectively maintain automatic Medicaid eligibility for TANF recipients using Section 1931 and other policy options. By aligning or coordinating eligibility, states not only reduce administrative complexity but also help ensure that families' health care needs are met and that the lack of coverage does not pose a barrier as they move toward self sufficiency. Policy options for ensuring coverage for families on welfare include:

- **Align TANF and Medicaid eligibility requirements:** Many states have made significant changes in earnings disregards for individuals who are already receiving welfare. With TANF's flexibility, states can drop prior AFDC earnings disregards of "\$30 and 1/3" to allow welfare recipients to earn even more income and still be eligible for assistance. By aligning TANF and Section 1931 earnings disregards, state can ensure families receiving assistance will continue to be

eligible for Medicaid and that the 12-month Temporary Medical Assistance (TMA) period will begin when their earnings increase to the point that they leave the welfare rolls.

- Align income standards by changing disregards: Under PRWORA, states are given the latitude to define “needy” for TANF eligibility. But under Section 1931, states may only raise income and resources standards for Medicaid by as much as the Consumer Price Index (CPI) index since July 16, 1996. If a state raises its TANF income standard beyond the CPI, it can achieve the same effect for Medicaid by disregarding additional income.
- Extend coverage for more two parent families: On August 7, 1998, HHS issued a new regulation which enables states to treat two-parent working families the same as single-parent families and continue to provide Medicaid coverage to two-parent families that are working and fall within the income standard, regardless of the number of hours worked.

Coverage for Families Leaving Welfare

Families may become ineligible for TANF for several reasons, including increased income from earnings or child support, case closure for failure to comply with requirements, or termination because the family reached its time limit. Depending on the reason for closure, family members may still be eligible for Medicaid or TMA.

- TMA: PRWORA requires that states provide Medicaid coverage for up to 12 months to families that become ineligible for Medicaid because their earnings exceed eligibility standards under Section 1931. For the second six months of TMA, families are only eligible if their income remains below 185 percent of the federal poverty level. If a state has aligned its TANF and Section 1931 eligibility requirements, TMA begins when increased earnings make a family ineligible for TANF. For a family to be eligible for TMA, it must have received Medicaid under Section 1931 eligibility criteria for three of the past six months; however, a state does have flexibility to revise its policies in these areas (see first policy bullet below).
- Families involuntarily terminated from welfare may still be eligible for Medicaid: Families that reach their time limit for receipt of cash assistance or are sanctioned off welfare for noncompliance with a TANF requirement will still be eligible for Medicaid so long as their income and resources do not exceed the Section 1931 eligibility standards. However, Medicaid coverage would not be available in states that adopted the PRWORA option to terminate Medicaid for parents in a family that has become ineligible for welfare due to failure to comply with a work requirement.

- Children may continue to be eligible even if parents aren't: Under federal law, mandatory coverage for children under the poverty-level categories is being phased in so that by 2002 all children below age 18 living in families with incomes below the federal poverty level will be eligible for Medicaid. States must now provide mandatory coverage for pregnant women and children below age six up to 133% of the FPL and to children born after September 30, 1983, up to 100% of the FPL.

Some families leave welfare before they become eligible or exhaust their TMA before they can assume payment of employer-sponsored insurance. The state has several policy options in this area:

- Make more families eligible for basic TMA: Using more liberal financial methodologies under Section 1931, states can elect to disregard the first three months of income for recipients that have received less than three months of cash assistance or Medicaid. The family would then be eligible for three months of Medicaid and then twelve months of TMA.
- Extend the duration and eligibility of TMA: States have used waivers to extend TMA beyond 12 months, but seeking a new waiver for extended TMA may no longer be feasible. But states can achieve the same result by modifying the earned income disregards under the less-restrictive methodologies provided for in Section 1931. A state could disregard all Medicaid earnings for a certain level (poverty level) for a limited time which would retain recipients' eligibility for Medicaid.

Policy options also exist outside of Section 1931:

- Use Medicaid funds to offset some costs of employer-sponsored coverage: Section 1906 of the Social Security Act allows states to pay a low-income worker's share of the premium and any cost-sharing provisions under employer-sponsored health insurance. The cost to the state of doing this must not exceed the cost of providing Medicaid and the individual or the family must be eligible for Medicaid.
- Use state funds to pay employees' share of coverage, which would count towards the TANF MOE requirement: States can use their own funds to subsidize employer-sponsored health insurance and can now count that spending towards the state spending requirement for TANF's maintenance-of-effort (MOE). A state could elect to pay the employee share of employer-sponsored health insurance for some period or up to a specified income level for former welfare recipients that have exhausted their TMA.

Successful diversion programs (lump-sum diversion, applicant job search requirements and alternative resources) result in individuals not receiving welfare and being ineligible

for Medicaid, but states can modify income and resource methodologies for Medicaid eligibility under Section 1931 and address these issues:

- Disregard lump sum payments: Under Section 1931, a state may disregard the lump-sum payment as income or an asset so that the family can be eligible for Medicaid in the month the payment was received.
- Disregard three months of income for the applicants: Diverted individuals who earn more than Section 1931 income standards are ineligible for TMA if they haven't received three months of Medicaid. Section 1931 will allow a state to elect to permit Medicaid applicants to disregard three months of income. So diverted individuals could receive three months of Medicaid and then be eligible for TMA.

Coverage for Other Low-Income Working Families

Policy options exist for providing medical coverage not only to former welfare recipients but to the “working poor” as well.

- Use Section 1931 to expand coverage to low-income working families with children: Section 1931's flexibility allows states to expand coverage to low-income working families independent of TANF. States can provide more generous earnings disregards not only for recipients but also for applicants, so a family that is already working may apply and be eligible for Medicaid. By increasing the earnings disregards, states are effectively increasing the Medicaid income eligibility threshold for low-income working families. States that adopt Section 1931 changes to cover working parents are entitled to receive federal Medicaid matching funds for these expenditures. Even with these matching funds, an expansion will have significant fiscal implications, so states considering this option may want to phase in higher disregards.
- Implement comprehensive health care reform demonstrations: Under Section 115's research and demonstration waiver process, states may receive approval to test new benefit approaches, adopt different financing mechanisms, and/or restructure Medicaid. The waiver process must be negotiated with HCFA and proposed reforms must meet the test of budget neutrality – over the life of the demonstration (not to exceed 5 years) federal costs under the waiver cannot exceed projected Medicaid costs without the waiver.
- Cover families under S-CHIP: States have a limited ability to cover uninsured parents as well as children with enhanced federal matching funds. The family coverage variance under S-CHIP requires the state to demonstrate that the family includes children who are eligible for S-CHIP, that family covering is no more costly than covering just the children and that family coverage will not substitute for private group coverage.