INTRODUCTION

In the aftermath of the 1996 welfare reform law, welfare rolls have dropped dramatically across the country. While welfare reform has been hailed for decreasing the welfare rolls and moving former recipients to jobs, little attention has been devoted to the health coverage of those who lose welfare benefits. As this report shows, one of the unintended consequences of welfare reform is that many people lose Medicaid coverage and become uninsured. This is the first study to show a direct connection between the loss of welfare benefits and the loss of health insurance coverage.

Using data from the U.S. Census Bureau's Current Population Survey and from the Health Care Financing Administration, we have found that *over two-thirds of a million low-income people—approximately 675,000—lost Medicaid coverage and became uninsured in 1997 due to welfare reform*. The majority (62 percent) of those who became uninsured due to welfare reform were children, and most of those children were, in all likelihood, still eligible for coverage under Medicaid. Moreover, the number of people who lose health coverage due to welfare reform is certain to grow rather substantially in the years ahead.

Because 1997 was the first year of welfare reform implementation, this study reports only the earliest consequences of welfare reform, before many of the time limits imposed by the new law take effect. This year, more people will be required to work in order to retain their welfare benefits. The vast majority of people moving from welfare into jobs wind up in entry-level positions with low salaries and no employer-subsidized health insurance. If, as required by law, they are granted 6- to 12-months of Medicaid coverage during the transition to work, they are then likely to join the ranks of the uninsured when their transitional coverage ends. Similarly, large numbers of people will be dropped from the welfare rolls in the future as they reach the 5-year lifetime limit on welfare benefits. When that happens, we can expect the number of uninsured to swell.

LOSING HEALTH INSURANCE:

5/13 RELEASE

KEY FINDINGS

- *Welfare reform has contributed to the increase in the number of low-income people without health insurance.* In 1997, an estimated 675,000 low-income people became uninsured as a result of welfare reform.
- *Welfare reform has contributed to declining Medicaid enrollment.* Approximately 1.25 million people with incomes under 200 percent of the federal poverty level lost their Medicaid coverage from 1995 to 1997 as a result of welfare reform.
- *Children under age 19 made up the majority of people who became uninsured as a result of welfare reform.* Of the 675,000 low-income people becoming uninsured in 1997 as a result of welfare reform, more than three out of five (62 percent) were children. Of the 1.25 million people who lost Medicaid between 1995 and 1997 as a result of welfare reform, almost two-thirds (65 percent) were children.
- *More than half of both children and adults became uninsured when they lost Medicaid.* Fifty-four percent of all people losing Medicaid as a result of welfare reform became uninsured.
- *Most of the children who lost Medicaid in 1997 as a result of welfare reform probably were still eligible for Medicaid and should not have lost that coverage.* Considerably more than half of the children who lost Medicaid between 1995 and 1997 as a result of welfare reform were eligible under federal requirements.
- *Poor people are more likely than those just above the poverty line to become uninsured when they lose Medicaid.* For people with income below the federal poverty, nearly two out of three adults (62 percent) and over half children (57 percent) became uninsured when they lost Medicaid. The impact on those with incomes just over poverty was significant as well: for people with incomes between the federal poverty level and 200 percent of poverty, 45 percent of adults and 42 percent of children became uninsured when they lost Medicaid.
- *Minority children are more likely to go uninsured than white children when they lose Medicaid.* When minority children lost Medicaid, about 58 percent

became uninsured, while 41 percent of white children became uninsured when they lost Medicaid.

- *The number of people becoming uninsured as a result of welfare reform is likely to increase considerably in the years following 1997.* These data show only the early-warning signs of welfare reform's impact on health insurance coverage for people with low incomes. As welfare reform is fully implemented over time, there will be large increases in the number of low-income uninsured people.

Breaking the Link Between Welfare and Medicaid

The 1996 welfare reform law(P.L.104-193, the Personal Responsibility and Work Opportunity Reconciliation Act) fundamentally altered our system of providing public assistance to poor families. Welfare reform eliminated the entitlement to cash assistance and ended the 60-year-old Aid to Families with Dependent Children (AFDC) program. Congress replaced the AFDC program with the Temporary Assistance to Needy Families (TANF) block grant program. TANF carries new requirements that recipients must meet in order to receive benefits and emphasizes moving welfare recipients off of the welfare rolls as quickly as possible.

While the welfare law established restrictions and limitations for the receipt of cash welfare benefits, Congress included provisions intended to insulate Medicaid participation from those restrictions and limitations. Prior to welfare reform, most low-income families qualified for Medicaid by first qualifying for welfare. The welfare reform law maintains the Medicaid entitlement and requires Medicaid eligibility to be determined independently from welfare. Despite the effort to ensure that low-income people continue to receive Medicaid benefits, hundreds of thousands of people, as of 1997, were stripped of health insurance as an unintended consequence of welfare reform.

How People Lose Health Coverage Because of Welfare Reform

There are three ways that low-income people lose health care coverage as a result of welfare reform. ***First, people lose health coverage when they or a family member successfully move from welfare to work.*** The vast majority of people moving from welfare to work wind up in jobs that provide no health care coverage *and*, after they leave welfare for a job, they often remain eligible for Medicaid only during a limited transition period. ***Second, termination from welfare***

for any reason often results in wrongful losses of Medicaid coverage. Many people dropped from the welfare rolls remain eligible for Medicaid but, because Welfare administrators fail to inform people of their continuing eligibility, many people inappropriately lose their Medicaid coverage. *Third, state efforts to deter people from applying for welfare often result in people being denied the opportunity to apply for Medicaid.*

Losing Health Coverage When Moving from Welfare to Work

When families move from welfare to work, they are likely to find jobs that pay very low wages and do not offer benefits such as affordable health insurance. Evidence from a review of state "exit studies" (surveys of people who have left welfare) shows that, on average, only about 25 percent of people who got jobs after leaving welfare reported having employment-based health insurance.[1] (See box on pages 12-13 for more information about state exit studies.) A number of studies have shown that people moving from welfare to work tend to find jobs that pay less than $8 an hour and that do not provide benefits such as health insurance or paid sick leave.[2] Most welfare recipients who find jobs work less than full-time, full-year and earn less than the poverty level; however, even such a low-wage, part-time job will make a parent ineligible for Medicaid in most states.

Parents are eligible for Medicaid only if they earn very little money. In nine states, parents become ineligible for Medicaid when they earn more than 37 percent of the federal poverty level ($5,051 for a family of three in 1998). In half of the states, parents become ineligible if they earn more than 59 percent of the federal poverty level ($8,054 for a family of three in 1998). In all but nine states, parents become ineligible if they earn more than the federal poverty level ($13,650 for a family of three in 1998).[3] (See Figure 1 for state Medicaid eligibility levels for parents.)

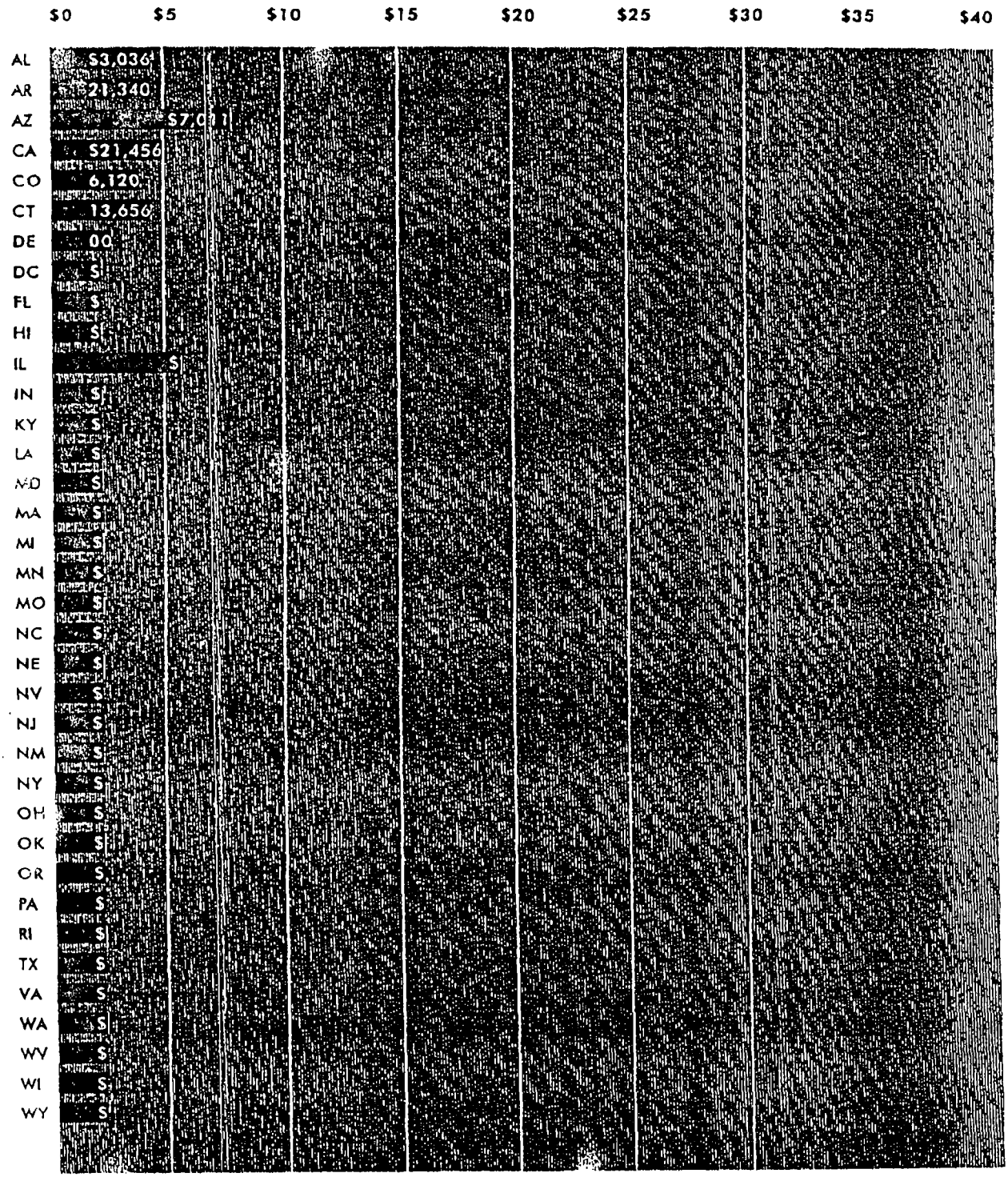
In many cases, children remain eligible for Medicaid even when their parents lose eligibility because children are eligible for Medicaid at higher income levels (see box on page 15). However, because families are unaware of this and states may fail to reassess the child's eligibility when parents are terminated, many children in working families are eligible but not enrolled in

THE UNINTENDED CONSEQUENCES

Figure 1

Income Eligibility Limits for Parents Receiving Medicaid

(Based on a family of three with one wage earner)

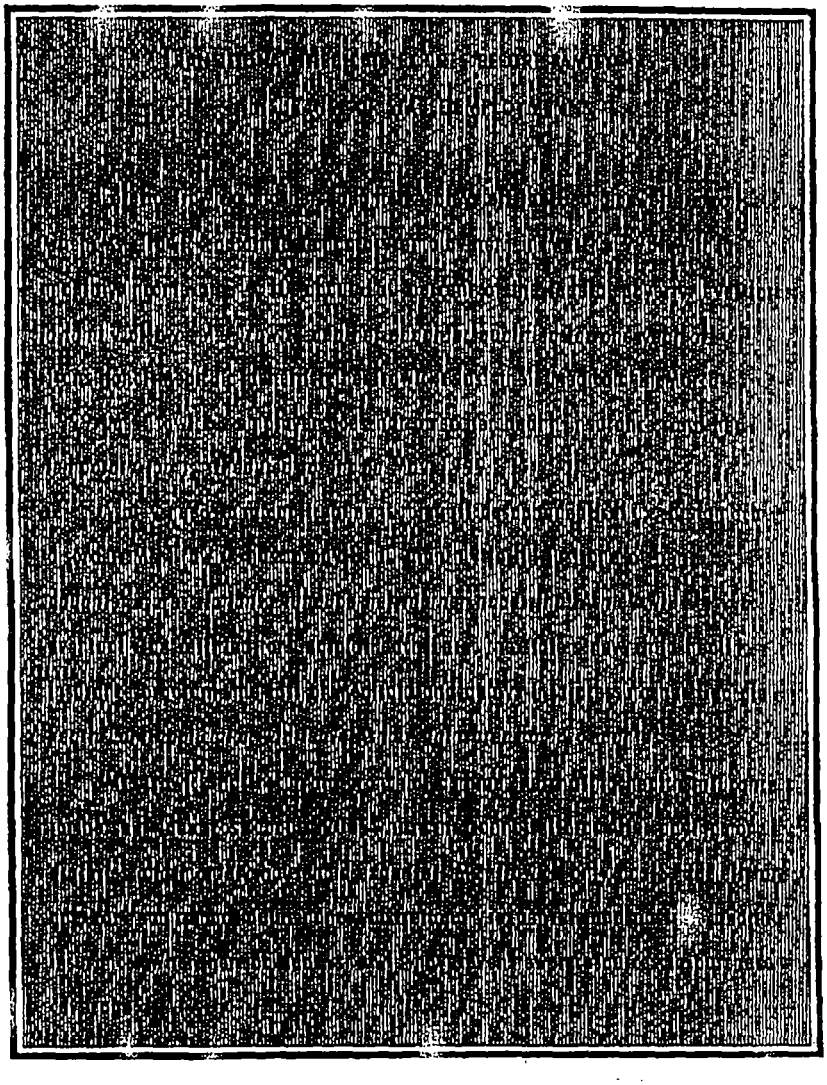


Source: 1998 Data Reported By Jocelyn Guyer and Cindy Mann, Employed But Not Insured, Center on Budget and Policy Priorities, March 1, 1999

*Information from a survey of state officials in late 1998/early 1999. These state income limits take into account earnings disregards for parents receiving Medicaid who have worked for 12 months or more. Income limits assume that earnings are the only source of income for the family. These income limits are for single-parent families; limits for two-parent families are lower in 18 states.

Medicaid.[4]

When low-income families become ineligible for Medicaid, they have very few places to turn for health insurance. The vast majority of insured people get their health coverage from their employers, but employer-sponsored coverage has declined significantly since 1987. This decline in employer-sponsored health insurance has hit low-wage workers the hardest: by 1997, only 42 percent of workers in jobs paying less than $7 per hour had employer-sponsored health insurance.[5] Over the past decade, the rising costs of health care led many employers to cut down on the scope of health insurance benefits they offer, to increase the percentage of health insurance costs that employees must pay, and to stop providing coverage for employees' spouses and children.[6]



Families who become ineligible for Medicaid because they have increased income from work are entitled to receive extended Medicaid benefits, called "Transitional Medicaid." Families receive six months of Transitional Medicaid

regardless of how much income they earn. They should get a second six months if their income (minus childcare expenses) is below 185 percent of the federal poverty level.[7] It is difficult to find data on the availability of Transitional Medicaid: states are not required to report such data to the federal government and most states do not track Transitional Medicaid in any systematic way. However, two studies have found that very few families who leave welfare actually receive Transitional Medicaid.[8] Those who do get transitional coverage will only have it for a limited time, whether or not they have access to affordable health insurance at their new jobs.

In 1997, the first year of federal welfare reform implementation in the states, only a small percentage of people moving from welfare to work reached the limits of their Transitional Medicaid coverage. As more and more people move from welfare to work, and as the six-month to one-year transition periods expire, increasing numbers of people are likely to lose health insurance coverage.

Losing Health Coverage Due to Termination of Welfare Assistance

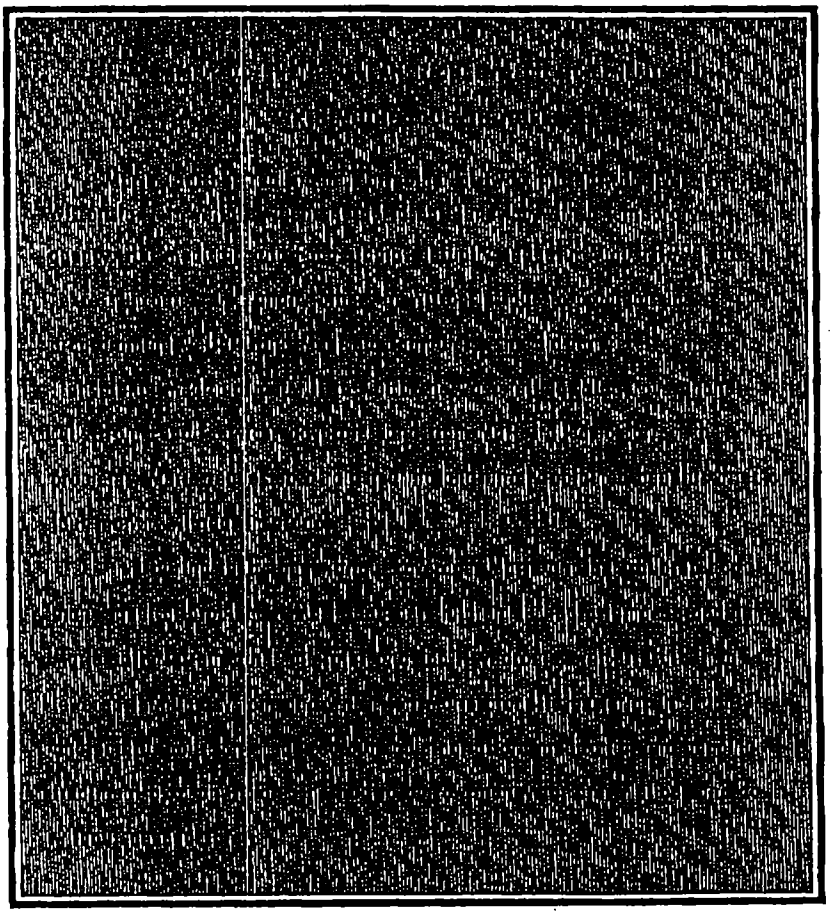
Historically, welfare has been the primary pathway to Medicaid for poor families. The two programs were linked so that people who qualified for welfare automatically received Medicaid as well. Although the law now requires Medicaid eligibility to be determined independently from welfare, state administrative systems often continue to treat Medicaid as an extra welfare benefit. This means that when a family is terminated from welfare, its Medicaid case is often closed at the same time. Because the two programs remain connected in the minds of caseworkers and recipients as well as in state computer eligibility systems, the new emphasis on closing welfare cases as quickly as possible is causing many families to be cut off Medicaid, even when they are still eligible.

A number of federal and/or state rules cause people to lose cash welfare assistance. These rules include the following:

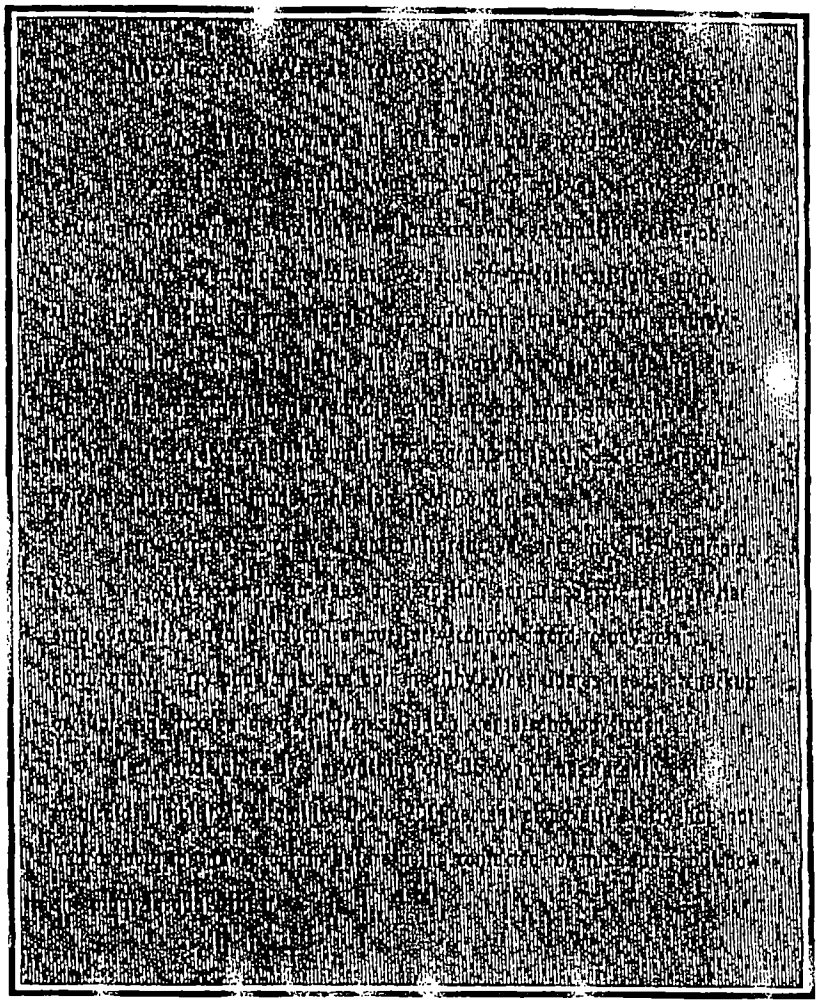
- Under federal law, families may only receive cash welfare assistance for a maximum of five years. Many states have established even shorter lifetime

caps for welfare.

- Federal law requires non-exempt[9] welfare recipients to be working in jobs after two years of receiving welfare benefits in order to continue receiving cash assistance.
- States may require welfare recipients to begin job search and work or other activities as soon as they are enrolled; failure to do so can result in termination of assistance.



While families may only receive cash welfare assistance for a specified number of years over their lifetime, there is no such time limit for Medicaid benefits. Similarly, none of the penalties for violating welfare rules can be applied to Medicaid participation except in one circumstance: states may opt to terminate an adult welfare recipient's Medicaid if the state cuts that person's welfare benefit for "refusal to work."[10] At no time, however, can a state terminate Medicaid for pregnant women or children because a member of their family has violated a welfare rule. Yet it appears that many people who are losing their cash welfare assistance are automatically losing their Medicaid coverage as well—either because of state administrative errors or because no one is informing low-



income families about their continued eligibility for Medicaid.

By July 1, 1999, current welfare recipients will have reached the two-year time limit when they must be working in order to keep their welfare benefits. Three years later, by July 1, 2002, individual families will have reached the lifetime limit on receipt of cash welfare. As these limits are reached, it is likely that many families losing welfare will lose their Medicaid coverage as well. Thus, the number of people losing health coverage due to welfare reform is likely to become considerably higher than the 1997 data depicted in this report.

Losses of Health Coverage Due to State Administrators' Diversion of Welfare Applications

Since cash welfare assistance is no longer an entitlement for eligible families, states are under no obligation to provide cash assistance to needy people. States are allowed to "divert" people from completing their welfare applications—by requiring them to undertake job search activities or to seek other forms of private help before applying for assistance, for example. In some

LOSING HEALTH INSURANCE:

WELFARE "DIVERSIONS" AND "SANCTIONS" DISCOURAGE MEDICAID APPLICANTS

New York City converted a number of its welfare offices to "Job Centers" following passage of welfare reform. At these Centers, people applied for Medicaid, cash assistance, and Food Stamps, but they were required to search for work before their applications were processed. In 1999, a federal court found that New York City's Job Center staff illegally discouraged and denied needy people from applying for Medicaid. The court barred the city from converting any more welfare offices to Job Centers until they corrected the problems.

PEOPLE AFFECTED BY NEW YORK'S DIVERSION AND SANCTION POLICIES INCLUDED THE FOLLOWING:

- In October 1998, Ms. Jenny Cuevas, a pregnant teen, applied for Medicaid and other assistance at a Job Center. She attended high school at night. Job Center personnel told her that she would have to search for work daily and participate in a "work experience" project, sweeping streets for the Department of Sanitation, in order to receive assistance. The next day, Ms. Cuevas was ill and went to an obstetric clinic instead of to the Job Center's orientation. Although she explained this to Job Center personnel, her Medicaid was still denied, along with her Food Stamps and cash assistance, for "failure to comply with Employment Center Orientation."
- Ms. G., a 39-year-old homeless woman, lost her Medicaid, cash assistance, and Food Stamps in August 1998 when New York's Office of Employment Services alleged that Ms. G. had not reported to a work experience assignment with the Department of Sanitation—an allegation that Ms. G. disputed. She was "sanctioned" for four months and could not receive any assistance during that time period. In mid-November, Ms. G. was pregnant with twins and had severe anemia and low blood pressure. She desperately needed blood pressure medication and attempted to reapply for benefits. The Job Center gave her a "Job Profile" form and collected documents that Ms. G. had brought, but did not permit her to file a Medicaid application until the following week. When Ms. G. returned the following week, the Job Center had lost her documents. Ms. G. completed application forms and was required to visit either the Job Center or another welfare office daily. When Ms. G. went to a doctor's appointment, the Job Center would not reschedule her Medicaid and welfare eligibility interview. In early December, for reasons that are not clear, the Job Center denied Ms. G.'s applications for Medicaid, cash assistance, and Food Stamps and told her that she would have to reapply for benefits.

Source: Reynolds v. Giuliani, 98-Civ-8877(WHP)(S.D.N.Y.)

instances, welfare administrators provide a lump-sum benefit to tide families over temporarily while they seek other help; if families accept this inducement, their welfare applications are put on hold.

As of August 1998, 31 states had implemented some form of "diversion" in the application process for cash welfare assistance.[11] Although such "diversion" processes are legal and are becoming routine in the context of cash welfare assistance, they can improperly divert people from applying for Medicaid as well. As a result, many families entitled to Medicaid are not receiving such coverage, and they remain uninformed about their right to complete Medicaid applications. Since many people cycle in and out of Medicaid each year, these diversionary practices may constitute a barrier to coverage for both new applicants and those who have left the Medicaid rolls but need coverage again.

What Exit Studies and Evaluations Tell Us about Employer-Sponsored Coverage

How do we know what is happening to people who leave welfare? Although there has been no national study tracking the health insurance status of people leaving welfare, there have been some state efforts to determine what happened to people who left welfare in their state. These studies all use different survey methods, ask different questions, interview different groups of people, and tend to have relatively low response rates. All of this makes it difficult to draw national conclusions based on the findings. However, despite these differences, the studies show consistently that people who leave welfare lose health insurance.

The surveys described here contained questions about employer-provided health insurance. One review of the exit study and evaluation literature available found that, on average, only one out of four welfare recipients who found jobs received employer-sponsored insurance.[13] A few of the studies only asked respondents whether their employer *offers* health insurance, not whether they could afford to take that insurance. Many low-income workers cannot afford the insurance offered by their employers, and therefore go uninsured.

- Mathematica Policy Research, Inc. studied families in IOWA temporarily cut off welfare for failing to comply with program rules. They found that only 10 percent of people who had jobs after being terminated from welfare had employer-sponsored insurance.[14]
- A SOUTH CAROLINA study, conducted by the state Department of Social Services' Division of Program Quality Assurance, found that 11 percent of children and 36 percent of adults had private health coverage eight to twelve months after leaving welfare.[15]
- A survey of people who left welfare in NEW MEXICO found that 20 percent of respondents who were working were covered by employer-sponsored insurance. However, 50 percent of respondents who were working indicated that their employers *offered* health insurance. Most people who did not take their employer's insurance said that they could not afford it. The survey was conducted by the Bureau of Business and Economic Research at the University of New Mexico in September 1997.[16]
- A study of people in WASHINGTON state who had received welfare at any time between May and October 1996, found that, of respondents who had worked at any time since January 1996, 23 percent reported that their employer in their current or most recent job provided health insurance benefits. The study was conducted by the Social and Economics Sciences Research Center of Washington State University on behalf of the Washington State Department of Social and Health Services Economic Services Administration.[17]
- The Human Resources Administration (HRA) of the City of New York conducted a study of former