



The Iowa Policy Project

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EXECUTIVE SUMMARY

A Healthier Iowa Labor Market

Medicaid Expansions and the Impact on Incomes and Work Choices

By Beth Pearson, Lily French and Peter Fisher

Access to quality, affordable health care is a necessity for all families, but the rising cost of health coverage makes meeting this basic need increasingly difficult. Low-income working families in particular struggle to afford health coverage. Many low-income workers work in jobs that do not offer employer-provided coverage, or where coverage is available some workers are increasingly unable to pay the employee share of premiums required by employer plans.

This report focuses on the relationship between state investments in public health insurance programs and the labor market outcomes of low-income workers. In theory, access to health insurance improves labor market outcomes by positively impacting the health of workers and their dependents and allowing workers to be more productive and miss less work. Additionally, expansions of public health insurance programs that raise income eligibility limits would allow recipients to earn increased income from taking a higher-paying job or increasing hours worked. Often referred to as the Medicaid “notch,” the loss of health benefits due to increases in income that exceed eligibility thresholds can serve as a disincentive to increase earnings due to anticipation of losing valuable health insurance coverage.

Increasing access to health insurance might also reduce the uncompensated care costs incurred by hospitals, which must provide emergency care services to those in need, regardless of an ability to pay. When people are healthier, more productive, and earning more money, and when hospitals are losing less money in uncompensated costs, state personal income and economic output grows. Such growth leads to higher tax revenues collected by the state, which provides a return on investment in public health insurance programs.

We find that an increase in income of between \$791 and \$1,050 a year for Medicaid recipients, as a result of raising income eligibility limits, could generate an aggregate \$71.9 million to \$95.4 million in additional income. Increased earnings generate additional tax revenue for state and local governments. If all workers receiving Medicaid benefits experienced a \$791 increase in their annual earnings, Iowa would receive an additional \$4.4 million in tax revenue. Additional tax revenue could be as high as \$5.8 million if those workers saw a \$1,050 increase in their annual incomes.

Low-income Iowa adults face substantial gaps in health coverage

Most non-elderly Iowans are covered by employer-provided health insurance, either through their own job, the job of a spouse, or through a parent in the case of children. However, employer-provided health insurance coverage has decreased dramatically in Iowa during this decade as employers cease to offer health benefits or the costs of these benefits become unaffordable to workers. As employer-provided health coverage disappears, many Iowans have struggled to obtain other forms of coverage. The substantial cost of private, non-group insurance is out of reach for many families, and while public

programs such as Medicaid and SCHIP (State Children’s Health Insurance Program) are meant to fill in gaps for low-income families who cannot afford coverage, eligibility restrictions result in many Iowa adults are falling through the cracks and going without coverage.

The bulk of uninsured Iowans are adults between 18 and 60, the majority of whom are working. In 2007, 35 percent of the uninsured were full-time, year-round workers, while another 35 percent worked part time or for part of the year (Figure 1).

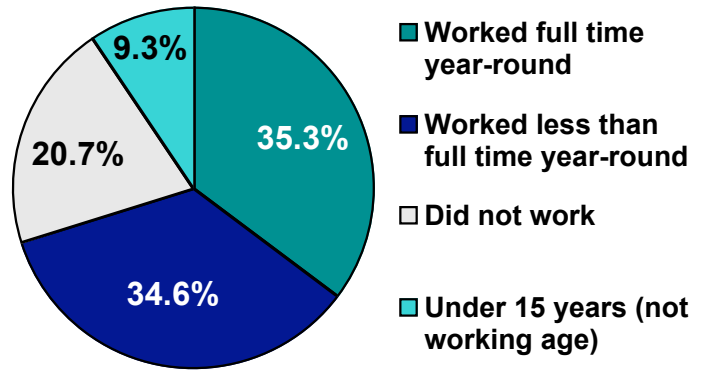
Only about one in five of the uninsured did not work during 2007.

Low-income, working adults in Iowa who have lost their employer-provided coverage or who cannot afford health coverage are frequently ineligible for Medicaid because of its categorical and income eligibility restrictions.

Importantly, it is not enough for someone to simply be low-income to qualify for Medicaid; recipients must also fit into one of the eligibility groups that the federal government calls “categorically needy.” Because low-income adults — particularly non-custodial adults (single adults and childless couples) — are not one of the eligibility groups identified by the

Medicaid program, even adult Iowans living in poverty are frequently ineligible for Medicaid benefits. Supplemental Security Income (SSI) recipients (aged, blind or disabled persons with little income who receive federal cash assistance to help meet basic needs) in Iowa receive Medicaid services if they have incomes below 74 percent of the federal poverty level. Parents with dependent children and incomes below 71 percent of the FPL are covered by Medicaid, but non-custodial adults do not currently receive Medicaid in Iowa.

Figure 1. Working Iowans Are 70 Percent of the Uninsured



Source: Current Population Survey, Annual Social and Economic Supplement (2008)

Expanding Medicaid eligibility can lead to positive labor market outcomes

Academic investigations return mixed results regarding the relationship among health insurance, health status, changes in earnings and labor force participation, and the effects of policy. On the one hand, decades of research demonstrate strong evidence both for health insurance improving health status, and for health and health insurance status affecting labor market outcomes, including earnings. One comprehensive review of existing studies on the links between health insurance, health status, and income found that insurance reduces general mortality anywhere from 4-5 percent to 20 percent for the adult population and that poorer health status is associated with a 15 percent to 20 percent reduction in annual earnings.¹ However, in many studies, evidence that health coverage improves health outcomes is weaker for Medicaid coverage than for private coverage, due largely to the demographic differences between Medicaid recipients and those who can afford private health insurance.

Researchers have also hypothesized that expanding Medicaid by raising eligibility thresholds might induce increases in income by allowing recipients to earn more without fear of losing their Medicaid coverage. If increased earnings guaranteed that a family would be able to take up private insurance, their loss of Medicaid benefits would be negligible. However, low-wage jobs that may render an adult ineligible for Medicaid may not provide health insurance or even an income sufficient to purchase

insurance on the private market. In addition, rising health care costs and the decline of job-based coverage over the past decade have reduced access to affordable private insurance for families transitioning off work support programs. As a result, it can be more cost-effective for a family to maintain a level of income that allows them to continue to access Medicaid coverage, rather than increase their hours worked or pursue a job with a higher wage rate and lose their health insurance.

Academic research into this question has not settled the debate over whether — and to what extent — the increased availability of Medicaid benefits positively affects the labor market participation of low-income individuals. One recent analysis of health reform in Wisconsin, for example, finds that the expansion of Medicaid-equivalent coverage for low-income parents increases the quarterly earnings of recipients by 7 percent, which translates to an annual increase in earnings of more than \$600.² Other studies find either that it is difficult to separate the effects of public health insurance expansions from other factors with a bearing on changes in earnings or that increasing income eligibility for Medicaid has no significant effect on labor market behavior of low-income adults.

Overall, existing research results point to the need for ongoing evaluations of the labor market effects of attempts to increase access to public medical insurance, particularly related to recent state reform plans that have expanded insurance coverage to low-income working families. Perhaps most importantly, the entire body of research on the relationship between Medicaid and labor supply helps emphasize the fact that changes to Medicaid alone will not fundamentally alter the barriers to labor market participation faced by low-income individuals. The potential loss of health insurance benefits is one disincentive for low-income workers to increase their income or their hours worked, but other factors also have a powerful influence on this decision. Lack of access to affordable and quality child care, low levels of education and training, inadequate transportation options, and multiple other factors affect the labor market participation of low-income individuals.

Expanding Medicaid eligibility in Iowa

Our analysis also estimates some effects of an expansion of Medicaid for uninsured adults in Iowa, assuming that positive labor market effects like those observed in the case of Wisconsin health reform occurred here. When we apply the findings of this research to the case of low-income working adults in Iowa, we find that an increase in income of between \$791 and \$1,050 a year for Medicaid recipients could generate an aggregate \$71.9 million to \$95.4 million in additional annual income. Increased earnings generate additional tax revenue for state and local governments. If all workers (both full- and part-time) receiving full Medicaid benefits experienced a \$791 increase in their annual earnings, Iowa would receive an additional \$4.4 million in annual tax revenue. Additional tax revenue could be as high as \$5.8 million if those workers saw a \$1,050 increase in their annual incomes.

Table 1. Medicaid Expansion Could Generate Up to \$95 Million Added Annual Income for Iowans

Adult workers receiving Medicaid benefits in Iowa	90,888
Average annual income increase	\$791-\$1,050
Aggregate annual income increase	\$71.9 million - \$95.4 million
State taxes as share of income	6.1%
Additional annual state tax revenue	\$4.4 million - \$5.8 million

The additional tax receipts generated by expanding Medicaid in Iowa amount to a small percentage of the total cost of such an expansion. A recent study of the cost of health reform in Iowa estimates that expanding access to Medicaid to adults under 150 percent of the federal poverty level would cost the

state of Iowa between \$630 million to \$787 million, depending on specifics of policy design.³ The additional \$4.4 million to \$5.8 million in income and sales tax revenues the state could see as a result of increased earnings by Medicaid recipients who are no longer limited by low income-eligibility thresholds amounts to only about 0.7 percent of the state cost of health reform.

Nonetheless, the positive return on a state investment in public health insurance demonstrates that expansions in access to affordable health care produce more than just health benefits. The economic security of Iowa families is closely related to access to health care, and raising income eligibility limits for adults can mean that more Iowans are able to go to work and earn more when they are not constrained by the limits of the current health care system. It is also important to remember that, in the status quo, health insurance policies generate substantial costs to state governments as well as employers and individuals. As employer-provided health coverage continues to decline in the context of an ongoing recession, Medicaid spending rises due to growth in enrollment and in per-enrollee costs. States share the cost of Medicaid with the federal government, meaning that failure to enact meaningful health reform will put greater future strain on state budgets. Urban Institute researchers who have modeled various scenarios find that Medicaid/SCHIP spending could increase between 28 percent and 46 percent from 2009 to 2014, depending on factors such as levels of economic growth and health cost increases during those years.⁴

Comprehensively measuring the costs of a status quo policy environment, in which low-income adults are particularly disadvantaged by gaps in health insurance coverage, means recognizing the multiple ways in which the current system distorts labor market incentives and strains government budgets. Additional tax revenue from the increased incomes of Medicaid recipients no longer subject to eligibility thresholds that discourage work is one component of the returns that state governments will experience as a result of expanding coverage to low-income adults. Iowa can work to extend these important benefits to low-income workers by improving their access to Medicaid coverage through state reform initiatives and advocacy related to national health reform. Our analysis urges state and federal policymakers to consider several recommendations:

- Expand Iowa's Medicaid program to cover all adults with incomes below 150 percent of the federal poverty level.
- Provide federal matching funds for states to expand eligibility beyond current federal minimums, particularly with regard to low-income adults.
- Remove categorical eligibility criteria for Medicaid and set minimum federal eligibility standards based on income alone.

¹ Jack Hadley, "Sicker and Poorer—The Consequences of Being Uninsured: A Review of the Research on the Relationship between Health Insurance, Medical Care Use, Health, Work, and Income," *Medical Care Research and Review* 60, no.2 (Supplement to June 2003): 3S-75S.

² Barbara Wolfe et al., *Extending Health Care Coverage to the Low-Income Population: The Influence of the Wisconsin BadgerCare Program on Labor Market Outcomes*, Discussion Paper 1546 (Bonn: Institute for the Study of Labor, 2005).

³ The Lewin Group, *Cost and Coverage Impacts of Options for Expanding Health Insurance Coverage in Iowa: Final Report* (August 2008).

⁴ John Holohan et al., *Health Reform: The Cost of Failure*, (Urban Institute, 2009).

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