The effect of expanding Medicaid eligibility on Supplemental Security Income program participation

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ABSTRACT

Low-income adults without dependent children have historically had few paths to obtain public health insurance unless they qualified for Supplemental Security Income (SSI) cash benefits because of a disability. However, in states that expand their Medicaid programs, childless adults may obtain Medicaid without undergoing an intensive SSI disability review process and with substantially higher income and assets than the SSI program allows. This expanded availability of Medicaid coverage, independent of SSI participation, creates an opportunity to increase earnings and savings without jeopardizing health insurance coverage. In this paper, we use the natural experiments created by state decisions to expand Medicaid to nondisabled, nonelderly adults without dependent children to study the effect of decoupling Medicaid eligibility and cash assistance using a difference-in-differences study design. We collected data on the income eligibility limits, enrollment caps, and coverage characteristics of state Medicaid expansions to childless adults from 2001 to 2013. We combine these data with the nationally representative American Community Survey to estimate the effects of state expansion on SSI participation. We find relative declines in SSI participation of 0.17 percentage points on average after the introduction of Medicaid coverage for childless adults, a 7% relative decrease. This finding suggests the potential for small but important efficiency gains from separating SSI and Medicaid eligibility.

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1. Introduction

The federal Supplemental Security Income (SSI) program provides cash assistance to poor adults with work-limiting disabilities who have few assets. Qualification for SSI also typically conveys immediate eligibility for public health insurance through Medicaid. Nationwide, 4.9 million non-elderly adults with disabilities receive SSI benefits totaling $34 billion per year in federal cash payments (Social Security Administration, 2015a) and an average of $9250 per beneficiary per year in federal Medicaid expenditures (Congressional Budget Office, 2012). Historically, participation in the SSI program has served as the primary route to Medicaid coverage for adults with disabilities (Medicaid and CHIP Payment and Access Commission, 2012).

The Affordable Care Act (ACA) authorizes and incentivizes states to offer Medicaid coverage to adults with incomes at or below 138% of the federal poverty level (FPL), regardless of health, parental, or disability status. Prior to the ACA, coverage for non-disabled adults without dependent children required a special waiver from the federal government to use Medicaid funds or an independent fully state-funded initiative. Many states chose to implement some degree of expansion of public coverage for adults without dependent children under these mechanisms in the two decades prior to the ACA. In these states, low-income adults with disabilities could obtain Medicaid coverage without pursuing the federal disability application process and with relatively higher income and assets than the SSI program allows. The purpose of this paper is to study how the availability of such stand-alone Medicaid coverage affects enrollment in SSI.

Understanding the degree to which the availability of public insurance coverage not linked to disability status influences enrollment in disability programs is important because Medicaid recipients who qualify through the SSI program generally face stronger disincentives to earn income and accumulate assets than they would under non-SSI-linked Medicaid. Changes in the attributes of the disability program itself or those of related transfer programs may influence an individual’s valuation of an SSI award and the decision to participate (Moffitt, 1992). If some current or potential SSI beneficiaries choose not to take up SSI because of the availability of outside health insurance, the result could be reduced net program costs and gains in social welfare from reductions in distortions to work and saving decisions.

Decoupling Medicaid eligibility from SSI eligibility may decrease SSI participation if it reduces the transaction costs associated with obtaining Medicaid and decreases the relative value of an SSI award. Alternatively, SSI participation may increase to the extent that the greater availability...
of Medicaid improves access to the health care needed for a disability determination, or increases awareness and take-up of other welfare programs. Although not uniform in their findings, the few empirical studies that have considered the interactions between health insurance and SSI adult participation provide stronger support for the hypothesis that they are net substitutes (Yelowitz, 1998; Yelowitz, 2000; Baicker et al., 2014; Maestas et al., 2014).

In this paper, we contribute to the literature on disability program participation by providing the first estimates of the effects of adult Medicaid expansions on SSI participation for a population we expect to be particularly affected by the separation of health insurance from cash benefits, nonelderly adults without dependent children (“childless adults”). We combine a new national dataset we developed that characterizes state Medicaid expansions with the nationally representative American Community Survey (U.S. Census Bureau, 2014; Ruggles et al., 2015). Using a difference-in-differences design, we compare the changes in SSI program participation for low-income childless adults who resided in states that implemented a Medicaid expansion for childless adults from 2001 to 2013 (prior to the implementation of ACA-incentivized expansions) to those in states without such expansions.

We find that the existence of a Medicaid program for childless adults decreases the proportion of non-elderly childless adults enrolled in SSI in the state by an average of 0.17 percentage points, a decline of 7% relative to not having a program. This finding is robust to several definitions of Medicaid coverage, adjustment for the presence of Medicaid enrollment caps or freezes, and a variety of alternative model specifications, including a triple-difference version of the estimator. We show that the effects are concentrated among childless adults who are lower-income, those with a health limitation, and those who are single, and that effects are driven by the states which we classify as having expanded their program during this period.

We perform several checks that support the plausibility of our empirical design. We show that estimated leads of the policy variable are zero. A placebo simulation indicates our result is a clear outlier relative to randomly assigned expansions. We find no evidence that interstate migration is responsive to these Medicaid expansions. We also find no response in populations whose SSI participation decisions are unlikely to be sensitive to the availability of separate Medicaid coverage for working age adults: elderly adults and adults with very high income.

Our findings offer a preview of the potential consequences of the ACA Medicaid expansions on participation in social welfare programs and provide insight into the relative value of health insurance coverage and cash benefits for low-income adults with disabilities.

2. Background

Supplemental Security Income is a means-tested program administered by the Social Security Administration (SSA) that provides income maintenance to several low-income populations including the elderly, children with disabilities, and the population of interest for this study, non-elderly adults with disabilities.1 The SSA defines disability as the inability to engage in “substantial gainful activity” (SGA) because of a medical condition that is expected to result in death or last for at least 12 months. 2 In addition to a designation of disability, initial SSI eligibility requires that the applicant’s earnings fall below the federal indicator of SGA (i.e., $1090/month in 2015),3 and the applicant may possess no more than $2000 in assets net of several exclusions (e.g., a home, a car, personal effects). The maximum federal cash benefit for adult SSI beneficiaries corresponds to an income of 75% of the federal poverty level (FPL) or $733/month in 2015. However, the average monthly federal payment is substantially less, about $550 (SSA, 2014a). Many states supplement the SSI federal cash benefits. In the most generous state, that supplement results in a total maximum monthly SSI income of 90% FPL (SSA, 2014b).

In addition to monthly cash payments, an SSI award typically confers eligibility for Medicare (SGA), because of a medical condition that is expected to result in death or last for at least 12 months (SSA, 2015). In states with enhanced eligibility criteria as their Medicaid criteria, Medicaid expansions in these states have a substantial impact on the receipt of SSI benefits. In the remaining 11 states, requires that the applicant’s earnings fall below the federal indicator of SGA (i.e., $1090/month in 2015),3 and the applicant may possess no more than $2000 in assets net of several exclusions (e.g., a home, a car, personal effects). The maximum federal cash benefit for adult SSI beneficiaries corresponds to an income of 75% of the federal poverty level (FPL) or $733/month in 2015. However, the average monthly federal payment is substantially less, about $550 (SSA, 2014a). Many states supplement the SSI federal cash benefits. In the most generous state, that supplement results in a total maximum monthly SSI income of 90% FPL (SSA, 2014b).

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2.1. Participation incentives

Although SSI program eligibility is limited to adults who are unable and unexpected to work, the SSI review process for disability is inherently subjective because the disabling effect of many medical conditions is not straightforward (Strand, 2002; Daly and Burkhauser, 2003; Keiser, 2010). The consequence of this partial subjectivity is that a prospective applicant faces uncertainty regarding an award. The uncertainty of an SSI award combined with the transaction costs of applying may reduce the desirability of SSI program participation and the incentive to apply for some individuals. An offer of Medicaid coverage independent of an SSI award may reduce SSI participation to the extent that Medicaid coverage alone is a substitute for Medicaid coverage plus a cash benefit for the marginal SSI applicant or beneficiary.

Non-SSI Medicaid is a plausible substitute for an SSI award for some applicants. There is some evidence that the Medicaid benefit may be more valuable than the cash benefit to a subset of potential or current SSI beneficiaries. The expected cumulative expenditures for a disabled adult from SSI program entry through the first six years of participation (or death) in 2012 dollars are just under $12,000 in cash benefits and $55,000 in Medicaid spending (Riley and Rupp, 2014). In addition, the transaction costs of obtaining/maintaining SSI eligibility may exceed the value of the cash award for some. At a minimum, the application process for disability-based benefits includes a review of medical records, an interview with the applicant, and substantial documentation of work history and education (Daly and Burkhauser, 2003). Throughout the application process, an applicant’s income and assets may not exceed the SSI maximum thresholds without jeopardizing the possibility of an award. The SSI program’s stringent financial eligibility criteria create disincentives for prospective and current beneficiaries to work and accumulate assets (Daly and Burkhauser, 2003). Empirical evidence demonstrates that SSI induces some moral hazard for at least a subset of beneficiaries (Neumark and Powers, 1998, 2000; Powers and Neumark, 2005; Kaushal, 2010). A large body of work on SSDI provides additional support for the idea that disability benefit programs can have work and asset disincentive effects (Gruber and Kubik, 1997; Black et al., 2002; Autor and Duggan, 2003; Chen and van der Klauuw, 2008; Maestas et al., 2013; French and Song, 2014; Moore, 2015; Shu, 2015). These disincentives are relevant for the SSI beneficiaries that have (or regain) the capacity to earn or save income beyond the SSI eligibility criteria, and evidence indicates that some do. Approximately one-quarter of successful and unsuccessful SSI applicants had some positive earnings in the years preceding application to the program (Bound et al., 2003). According to the National Beneficiary Survey, about 19% of

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1 For an excellent and comprehensive description of the SSI program, see Duggan et al. (2015).

2 The SSI program is distinct from the Social Security Disability Insurance (SSDI) program. Both are federal disability cash assistance programs and share the same medical eligibility criteria. However, SSDI is a social insurance program funded through payroll taxes and available to any individual with a sufficient work history regardless of financial need who meets the medical eligibility criteria, while SSI is a means-tested transfer program funded through general revenues and available regardless of work history to those who meet the financial and medical criteria. Thirty percent of nonelderly adult SSI beneficiaries also receive SSDI benefits (Social Security Administration, 2014a). These “concurrent beneficiaries” have a sufficient work history to receive SSDI payments, yet their income and assets fall below the SSI maximum thresholds.

3 The SGA earnings threshold is set in dollars in reference to an individual. It typically changes annually in accordance with changes in the national average wage index. The 2015 equivalent of the SGA in FPL terms is approximately 111%.

4 All states must offer Medicaid coverage to poor adults with disabilities (Social Security Act Title XIX, 2016). The large majority of states satisfy this federal requirement by adopting the SSI eligibility criteria as their Medicaid criteria. In the remaining 11 states, the SSI award satisfies the disability eligibility criterion for Medicaid; however, the SSI beneficiary must also meet income and/or asset eligibility criteria that is typically lower than the federal SSI thresholds (Bruen et al., 2003).
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