

The Costs of Cutting Health Care

An Analysis of Recent Changes to New Jersey FamilyCare

Kalyani Thampi

November 2011



The National Center for Children in Poverty (NCCP) is a leading public policy center dedicated to promoting the economic security, health, and well-being of America's low-income families and children. Using research to inform policy and practice, NCCP seeks to advance family-oriented solutions and the strategic use of public resources at the state and national levels to ensure positive outcomes for the next generation. Founded in 1989 as a division of the Mailman School of Public Health at Columbia University, NCCP is a nonpartisan, public interest research organization.

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This policy report uses results from the Family Resource Simulator and the Basic Needs Budget Calculator to analyze New Jersey's work support policies through the lens of cuts to New Jersey FamilyCare (NJFC). It examines the significant and measurable ways in which these cuts affect low-income children and families, the state budget, and the local economy. The report closes with policy recommendations that could provide a better investment in New Jersey's working families and its economy.

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Across the country, states grapple with the reality of unflagging unemployment and weak revenues. Fiscal prudence competes with an unprecedented need for public services as poverty rates continue to rise. In 2010, 15.4 percent of children living in poverty were uninsured, yet Medicaid has taken primacy over other public programs being targeted for cuts.¹ New Jersey serves as an example of the challenging fiscal environment in which critical programs operate across states. Although Governor Christie recently revoked his initial proposal to drastically reduce parents' enrollment in New Jersey FamilyCare (the state's public health insurance program), it does not seem likely that he will amend the 2010 cuts, which reduced income eligibility levels for parents from 200 percent to 133 percent of the federal poverty level (FPL).² Cutting Medicaid would have deleterious effects on working families and the state. Medicaid supports insurance providers, provides counter-cyclical coverage to those who need health insurance the most, and ensures access to long-term care services. Findings from NCCP's Family Resource Simulator (FRS) show that public health insurance can mediate the high cost of basic needs and more effectively support workers' advancement toward economic self-sufficiency. Parents' access to public health insurance can also strengthen the health and well-being of New Jersey's children. Finally, Medicaid plays a vital role in New Jersey's economy and in the acquisition of federal funding. The fiscal reality

Tools for Policy Analysis

NCCP's **Family Resource Simulator** is an innovative, web-based tool that calculates the impact of federal and state work supports on the budgets of low- to moderate-income families. The Simulator illustrates the effectiveness of current policies that reward and encourage work. NCCP also uses this tool to model potential policy reforms. Family Resource Simulators are available for 25 states, with more than 100 localities. See www.nccp.org/tools/frs.

The **Basic Needs Budget Calculator** is a related tool that shows how much a family needs to make ends meet without the help of work supports. Users can select different household scenarios, and the Calculator adjusts the family's tax liability and budget. Budgets are provided for nearly 100 localities across 19 states. See www.nccp.org/tools/frs/budget.

of Medicaid's role in state budgets is far more complex than is often reported. This report uses results from the FRS to analyze New Jersey's work support policies through the lens of cuts to New Jersey FamilyCare (NJFC) and subsequent threats to Medicaid. It examines the significant and measurable ways in which these cuts affect the economic well-being of working families and recommends policy priorities that would provide a better investment in New Jersey's economy and its residents.

Making Ends Meet in New Jersey

Although state finances are showing signs of revenue growth, there is still a long road to recovery. New data from the U.S. Census reveal that 46.2 million people are living in poverty of which 24 percent are children.³ In New Jersey, poverty rates rose from 12 percent in 2008 to 14 percent in 2009,⁴ and employment declined in 13 of the 15 largest counties in New Jersey from 2009 to 2010.⁵ Not only are more people slipping into poverty, but employment is growing at a slower rate in New Jersey compared to the nation. A recent study showed that in June, 2011, the unemployment rate reached 9.2 percent, and only 11 percent of jobs lost during the recession have been added back to payrolls, compared to 20 percent in the U.S.⁶

Low-income families face particular disadvantages compared to their counterparts. According to data from the National Center for Children in Poverty (NCCP), 22 percent of children in New Jersey lived in low-income households with parents who were unemployed in 2009, compared to two percent of children who lived in above low-income households with parents who were unemployed. Moreover, 78 percent of children in low-income

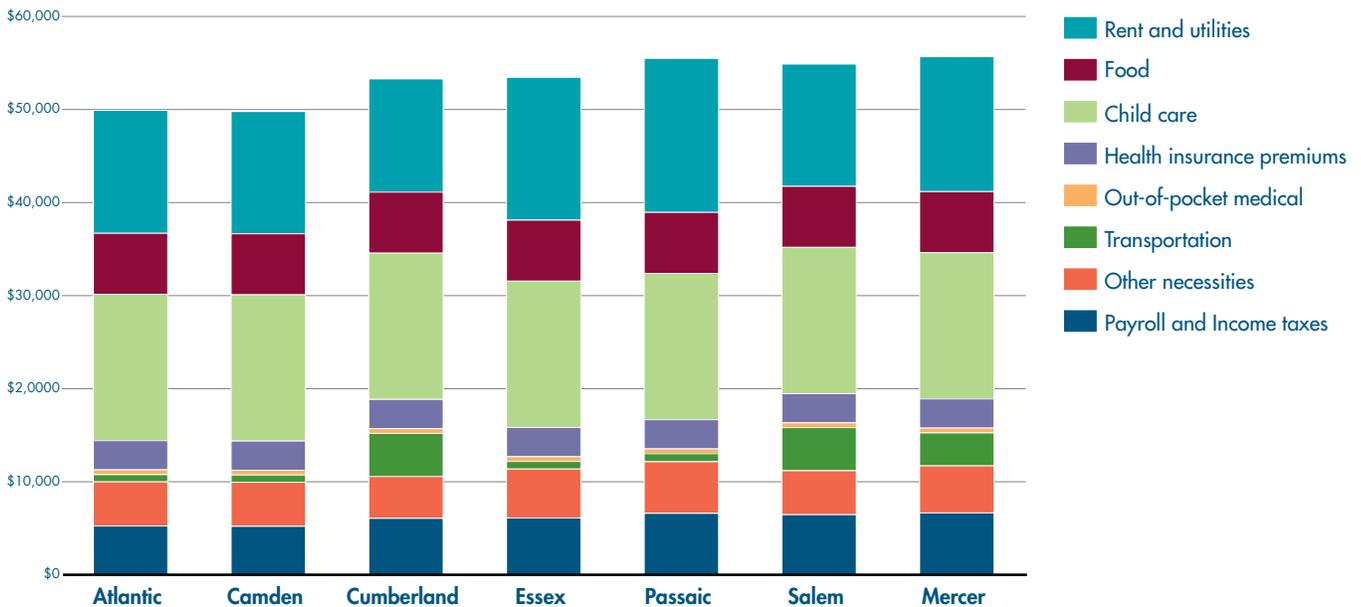
families had parents who did not have a high school degree and 51 percent had no college education.⁷ This compounds an already bleak situation for New Jersey's most vulnerable residents, as many workers who lost their jobs in the recession do not have the education nor the skills necessary for the industries that show the most promise of growth. Furthermore, employment opportunities for workers without a college degree can be found in industries that have shrunk since the recession and are associated with even lower earnings levels than before the recession.⁸ Thus, structural unemployment in New Jersey (or the mismatch of those who are looking for jobs and the jobs available with their skill set) continues to stymie job growth among low-wage workers. Almost every county we identified in the FRS experienced an increase in poverty between 2008 and 2009, and where there was not an increase, poverty rates stayed the same or decreased only slightly.⁹ The change in the labor market coupled with rising rates of poverty only strengthens the argument for better counter-cyclical work supports that may mitigate the risk of long-term and persistent poverty.

Addressing the High Cost of Living

Previous NCCP analysis has found that parents across the United States need earnings that are at least twice the Federal Poverty Level (\$18,310 a year for a family of three) to cover their family's basic living necessities, such as adequate food, stable housing, health care, and work-related expenses such as child care and transportation.¹⁰ In a high cost state like New Jersey, employment, alone, is often not enough for low-wage workers and their families. The Family Resource Simulator (see FRS box) shows that even with full-time employment, low wage workers in New Jersey cannot cover the cost of basic necessities without the help of work supports, such as food stamps, EITC, public health

insurance and child care subsidies. Across localities in New Jersey, the rising cost of living and the stagnating wages have resulted in significant earning gaps among low-income workers that can often lead to persistent debt. Figure 1 shows that a single parent with two children needs an annual income ranging from \$50,000 in Essex County to \$56,000 in Mercer County to cover basic expenses. This is equivalent to a wage range of \$24 to \$27 per hour. It is also more than three times the value of the state's minimum hourly wage of \$7.25 and more than one and a half times the value of New Jersey's median wage of \$11.72.

Figure 1: Basic Needs Budgets Across New Jersey
Single parent with two children, ages 3 and 6



Source: NCCP's Basic Needs Budget Calculator, New Jersey 2010 <www.nccp.org/tools/frs/budget>.

While there is some amount of variation in cost of living by county, low-income workers in New Jersey still face a significant earnings gap across the state. In Mercer County, a higher-cost county, a single-parent family of three needs more than \$55,000 to make ends meet (see Figure 2). This is more than 300 percent of the poverty level and equivalent to a full-time job at \$27 an hour. Even in a lower-cost county, such as Atlantic County, the same family must make close to \$50,000 – or \$24 an hour – to make ends meet. Child care costs are prohibitively high across counties and account for a large portion of a family's expenses. Thus, low-income parents must earn significantly more than the minimum wage in order to fill the gap between their earnings and the cost of living.

It is also important to note that the budget shown in Figure 1 includes only the basic expenses that families would need to support themselves in New Jersey. It does not include other family expenses

such as debt payments, spending on durable goods (such as furniture or appliances), or renter's insurance. It also excludes assets such as IDAs, CDAs, or retirement accounts. However, without the financial cushion of savings, families cannot build a foundation for long-term economic security.

The area-specific cost of living in a state like New Jersey necessitates a living wage which far exceeds the minimum wage. In the face of rising poverty rates and high unemployment, income inadequacy is a glaring problem. Raising wage levels to more effectively meet the needs of residents across earnings levels is critically important, but most likely impracticable in the short-term. At the very least, states should shield work supports against budget cuts and ensure that services support families over a longer period of time, helping them to not only bridge the gap between their resources and expenses but to secure a decent standard of living for their families.

When Work Supports Work

For low-income families living in New Jersey, there are a number of federal and state work supports that can help close the gap between their earnings and expenses. These benefits include child care assistance, federal and state tax credits, food stamps, and public health insurance. For a detailed summary of work supports considered in this report, see NCCP’s publication, “Making Work Supports Work.” The bundle of work supports that a family receives can support them as they move towards an economic position of stability and then security. Integral to the work support system in New Jersey is New Jersey FamilyCare (NJFC), the addition of which can greatly increase a family’s financial bottom line. With unemployment and health care costs on

the rise, NJFC/Medicaid can provide an essential financial cushion that could absorb future out-of-pocket medical costs. Faced with a budget shortfall, most parents will cut down on expenses, often going without health insurance rather than paying for private health insurance.

Consider the case of Jane Smith. Jane is a single mother with two children who lives in Trenton, New Jersey. She works full-time at \$8 an hour. Without work supports, her family faces a gap of nearly \$30,000 between her earnings and the cost of basic necessities (Figure 2, first column). But as benefits – including federal and state tax credits, food stamps, child care and public health insurance

Figure 2: Impact of Work Supports: Trenton, New Jersey
Single parent with two children, ages 3 and 6 (assumes full-time employment at \$8/hour)

	Employment alone (no benefit; no tax credits)	Employment plus: • federal tax credits • SNAP/food stamps • child care subsidy	Employment plus: • federal tax credits • SNAP/food stamps • child care subsidy • public health insurance for children and parents
Annual Resources (cash and near-cash)			
Earnings	\$16,640	\$16,640	\$16,640
Federal EITC	\$0	\$4,996	\$4,996
State EITC	\$0	\$1,249	\$1,249
Federal Child Tax Credit	\$0	\$2,000	\$2,000
SNAP/Food stamps	\$0	\$4,478	\$4,478
Total Resources	\$16,640	\$29,363	\$29,363
Annual Expenses			
Housing	\$14,496	\$14,496	\$14,496
Food	\$6,559	\$6,559	\$6,559
Child care	\$12,575	\$0	\$0
Health care*	\$3,135	\$3,135	\$0
Transportation	\$2,837	\$2,837	\$2,837
Other necessities	\$5,053	\$5,053	\$5,053
Payroll taxes	\$1,273	\$1,273	\$1,273
Income taxes (excluding credits)	\$0	\$0	\$0
Total Expenses	\$45,928	\$33,353	\$30,218
Net Resources (resources – expenses)	-\$29,288	-\$3,989	-\$855

Source: NCCP’s Family Resource Simulator, New Jersey 2010 <www.nccp.org/tools/frs>. Results assume that children are in center-based settings while their parents work (school-aged child is in after-school care) and family members have employer-based health coverage when they are not receiving public health insurance.

*Methodological note: Employer-sponsored health insurance costs are based on the Medical Expenditure Panel Survey: Insurance Component State and Metro Area (IIC2, IID2, IIE2). Data reflect health costs in 2009.

– are added to her budget, Jane gradually increases her resources until she is able to cover most of her family’s basic expenses (Figure 2, last column). On the expense side, we see that without NJFC, the Smith family faces a shortfall of nearly \$4,000 annually, despite working full-time and receiving multiple benefits. At this point, her health care expenses consume nearly 80 percent of her net resources (resources minus expenses). The addition of health care coverage reduces her existing deficit and improves the financial health of the Smith family. Figure 2 (column 3) shows the significant impact that public health insurance can have on families who are eligible to receive it. With NJFC benefits, Jane hovers just below the breakeven line and can realistically start to build resources to cover her expenses completely.

Once again, it is important to note that the cost of living in New Jersey ultimately affects the value of work supports. Even with the full package of work supports at a high dollar value, Jane cannot cover

her basic expenses at \$8 an hour. Unfortunately, the high cost of living weakens the value of these benefits and its effect on a family’s budget. The dynamic between expenses, income adequacy, and work supports is more clearly illustrated in Figure 3. If the family of three (one parent, two children) relies on job earnings alone, it sustains a budget deficit from \$27,000 to over \$29,000. These counties – Mercer, Cumberland, and Passaic – are varied in their demographics, ranging from low-to-high cost and from urban to rural. Yet, the net effect is still the same. Low-income parents cannot cover basic expenses in this high-cost state on earnings alone. And even with the addition of a full package of benefits – including public health insurance for parents and children – families still do not make it beyond the breakeven line. The cost of living becomes a critical factor in making working supports work for families in New Jersey, and thus, adjusting benefit levels to keep pace with cost may be an effective way to support families.

Figure 3: Net Resources in Selected Counties in New Jersey



Source: NCCP’s Family Resource Simulator, New Jersey 2010 <www.nccp.org/tools/frs>. Results assume family size of three – single parent and two children (ages 3 and 6). Children are in center-based settings while their parents work (school-aged child is in after-school care) and family members have employer-based health coverage when they are not receiving public health insurance. Family structure and expenses are consistent across counties.

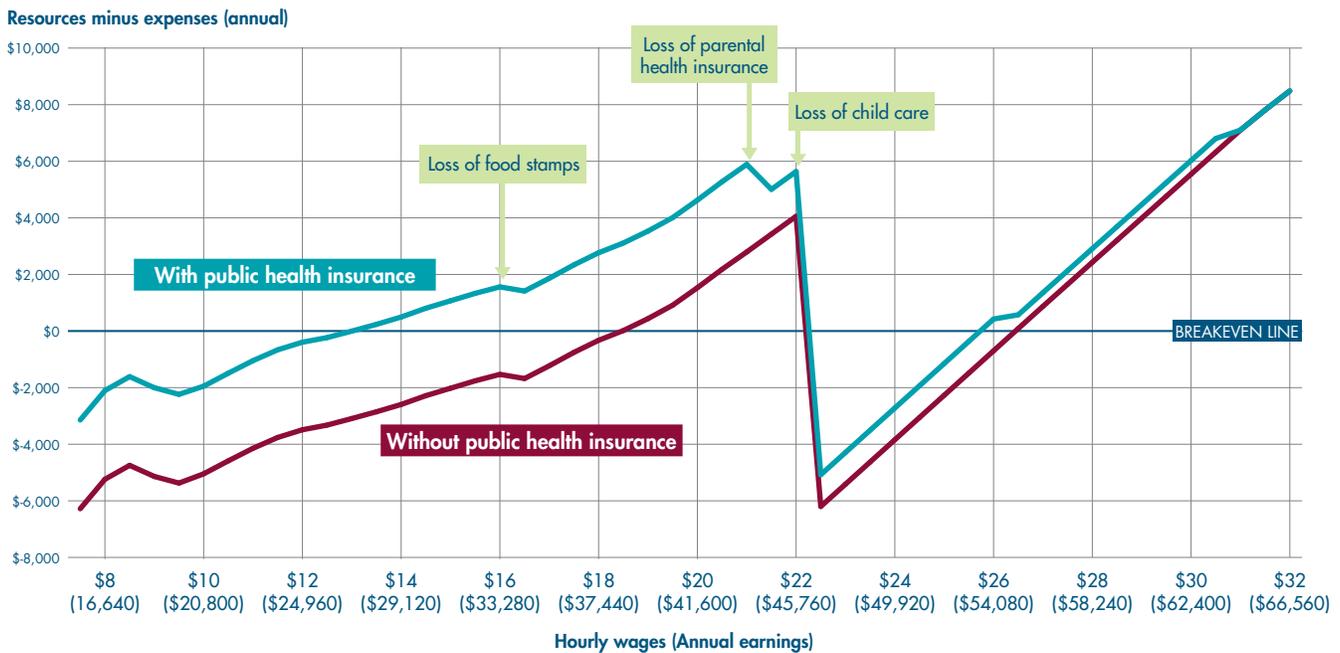
Public Health Insurance Can Make a Difference

Despite the high cost of living, work supports can still make a difference to a low-wage worker's financial bottom line. Unfortunately, there are many potential barriers to participation and, therefore, too many workers do not receive all the benefits for which they are financially eligible.¹¹ For those who are fortunate enough to receive an array of work supports, the interaction between income, expenses, and benefits can have unintended consequences. Since work supports are typically means-tested, workers who are ascending the career ladder can find that increased earnings do not always mean that they are better off. In some cases, even a very small increase in income can result in a substantial loss of benefits, known as benefit "cliffs." These benefit cliffs can occur in rapid succession, leading families towards large financial losses. SNAP and the federal/state tax credits phase out gradually as income rises toward the eligibility limit. In other programs, like child care, high-value benefits end suddenly when the eligibility limit is reached. These precipitous fluctuations in income can create natural disincentives for families to progress in the workforce. Figure 4 simulates the interaction of income, expenses and work supports along an earnings progression and highlights the impact of parental health insurance on the Smith family's budget. The analysis seen here represents two different scenarios:

- ◆ The first graphed line – "*with public health insurance*" – assumes that Jane receives the full package of work supports – tax credits, food stamps, public health insurance and child care subsidies. Jane is only able to cover her expenses with work supports and a full-time job when her earnings reach \$12 an hour. However, as her earnings rise, Jane faces benefit cliffs that undermine her progression in the workforce and pull her below the breakeven line (the line represents the point at which the family's resources cover basic expenses). The first benefit cliff occurs when her wage hits \$20 an hour and she loses health insurance benefits. The second cliff occurs shortly thereafter, which leaves her with a budget deficit of around \$4,676. Even though Jane works hard to increase her earnings over time, the loss of child care and health insurance threatens her economic stability. It is not until her earnings exceed \$26/hour, or more than \$54,000, that further wage increases actually help Jane build savings.
- ◆ The second graphed line – "*without public health insurance*" – represents the same earnings progression assuming that Jane goes without public health insurance. In this case, the cliffs trace a similar path as the one above; however, Jane's growth in net resources is severely constrained by her health care costs. She only reaches the breakeven line at \$18 an hour, and as her earnings increase, she experiences a steep child care benefit cliff of \$4,000 in net resources. Unfortunately, this benefit loss causes her net resources to drop abruptly by \$10,000, leaving her almost \$6,000 below the breakeven line. Once again, it is not until her earnings exceed \$54,000 that she can build a stable path towards economic security.

Together, the graphed lines illustrate the dynamic role that public health insurance plays in the interaction between a typical family's income, expenses, and benefit levels. It also shows how public health insurance mediates income volatility caused by benefit cliffs. As this analysis shows, public health insurance reduces expenses and allows families in New Jersey to cover the cost of basic necessities with net resources at an *earlier* point in their earnings progression and over a *greater* range of earnings levels than they otherwise would have had they not acquired public health insurance. In other words, these families reach the breakeven line faster and stay above it longer with the additional resource.

Figure 4: Net Family Resources (With and Without Public Health Insurance) as Earnings Increase
Single parent with two children, ages 3 and 6



Breakeven line: Where family resources, including earnings and work supports, equal basic expenses. When net resources are above the line, the family has resources left over after basic expenses are paid; when net resources are below the line, the family faces a deficit.

Source: NCCP's Family Resource Simulator, New Jersey 2010 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal tax credits, SNAP/food stamps, public health insurance for children, and a child care subsidy. Results assume that family members receive employer-sponsored health insurance when they lose public health insurance benefits.

History of New Jersey FamilyCare

New Jersey's SCHIP program began in 1998 as "KidCare" under Republican Governor Christie Whitman in an effort to help those vulnerable families who were ineligible for Medicaid attain health insurance coverage for their children. Two years later, New Jersey's administration used the *Section 1115 Waiver* to extend eligibility for KidCare to childless adults and to parents of children below 100 percent FPL who had no other coverage and the program was renamed FamilyCare. By the following year, 120,000 parents had signed up. In the midst of a budget deficit, the program faced major cutbacks in 2002, and income eligibility for adults was drastically reduced. Enrollment dropped by more than 100,000 in just over three years. In 2005, Governor Corzine began a three-year program expansion by raising income eligibility for parents incrementally up to 200 percent FPL in 2008. By 2010, 165,000 patients were added to the FamilyCare program, 75 percent of them parents. Parental enrollment in NJFC increased by 220 percent in five years.¹²

In 2010, Governor Christie responded to the state's budget deficit by reducing income eligibility to 133 percent FPL. This change eliminated access to more than 40,000 patients in FY2011 and an estimated 30,000 in FY2012. Using the *Section 1115 Comprehensive Waiver* that Governor Whitman used to transform New Jersey KidCare into New Jersey FamilyCare, Governor Christie proposed further income limits for NJFC that would ban parents who earn more than 30 percent FPL. However, thanks largely to the efforts of advocates, like New Jersey Policy Perspective, Governor Christie revised the proposed waiver to restore parents' eligibility to 133 percent FPL.

The following tiered eligibility reflects the health care policy in New Jersey before it was restricted in 2010.

- Plan A: 100-133 percent FPL – children and parents
- Plan B: 133-150 percent FPL – children and parents
- Plan C: 150-200 percent FPL – children and parents
- Plan D: 200-350 percent FPL – children

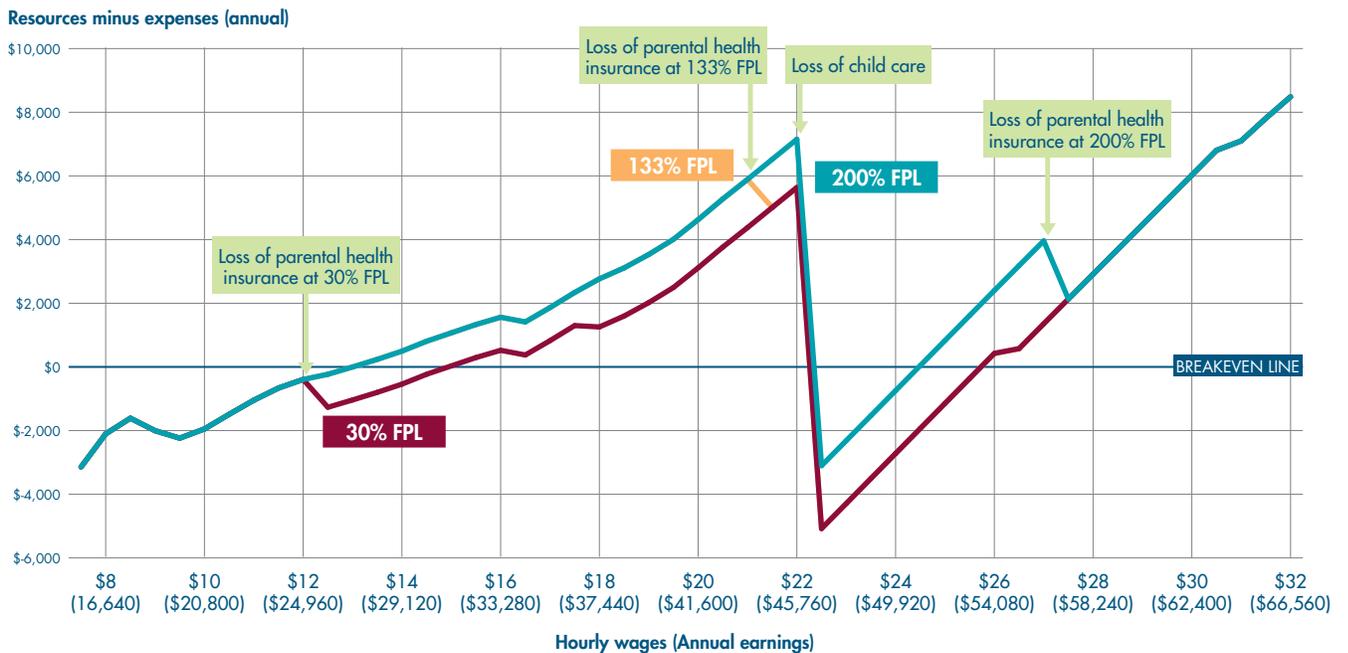
The Impact of Health Care Cuts on Working Families

While SCHIP has been a statewide priority since 1998, parental health insurance has experienced fluctuations in eligibility since its inclusion in NJFC. In 2010, parental eligibility was cut from 200 percent FPL to 133 percent FPL resulting in more than 40,000 parents being denied health coverage rising to an estimated 70,000 in FY2012.¹³

The estimated 70,000 parents who will be denied FamilyCare in FY2012 because of the 2010 cuts face severe challenges to economic security. With unemployment on the rise, more parents will lose employer-sponsored health insurance and will need a safety net to fall back on. Indeed, no county will be untouched: Essex County will have the largest number of uninsured parents due to closed enrollment. Nearly 4,000 parents will be denied FamilyCare. In Camden, 2,713 parents will be denied insurance, and the list goes on.¹⁴

Figure 5 represents the three parental eligibility levels in the public health insurance program – 200 percent FPL (FY 2010 threshold), 133 percent FPL (current threshold) and 30 percent FPL (a threshold the Christie Administration’s proposed in 2011 and subsequently withdrew). It simulates the impacts of these eligibility limits on the Smith family’s budget. At the 200 percent FPL threshold, we see that Jane Smith reaches the breakeven line at \$12 an hour and faces a benefit cliff at \$22 an hour which leads to a \$2700 budget deficit. However, Christie’s 2010 cuts pushed the eligibility threshold down to 133 percent FPL, resulting in two budget cliffs at \$21/hr and at \$22/hr. As the graphed line shows, the loss of parental health insurance leads to budget cliffs that occur earlier in the earnings progression, resulting in a budget deficit that is almost 75 percent higher than when Jane had health insurance at 200 percent FPL.

Figure 5: Impact of New Jersey’s Health Care Cuts on a Family’s Resources
Single parent with two children, ages 3 and 6



Breakeven line: Where family resources, including earnings and work supports, equal basic expenses. When net resources are above the line, the family has resources left over after basic expenses are paid; when net resources are below the line, the family faces a deficit.

Source: NCCP’s Family Resource Simulator, New Jersey 2010 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal tax credits, SNAP/food stamps, public health insurance for children, and a child care subsidy. Results assume that family members receive employer-sponsored health insurance when they lose public health insurance benefits.

If Christie's proposal to cut eligibility to 30 percent of the FPL had taken effect, the Smith family would be worse off still. As the figure shows, Jane doesn't reach the breakeven line in a significant way until she makes \$14/hr. Her net resources are also comparatively smaller at each earnings level. We see that with the regressive income limit, Jane struggles to stay above the breakeven line until she reaches \$24/hr. The loss of parental health insurance destabilizes the family income before Jane can begin

to cover her expenses, thereby reducing her overall resources at virtually every earnings level. On an individual level, these hypothetical budgets reveal the potential consequences of cutting public health insurance in New Jersey and its grave impacts on families' income stability. Given the sluggish economy in New Jersey and the recent threats to NJFC, it is necessary to consider the various financial impacts public health insurance can have on a family's budget.

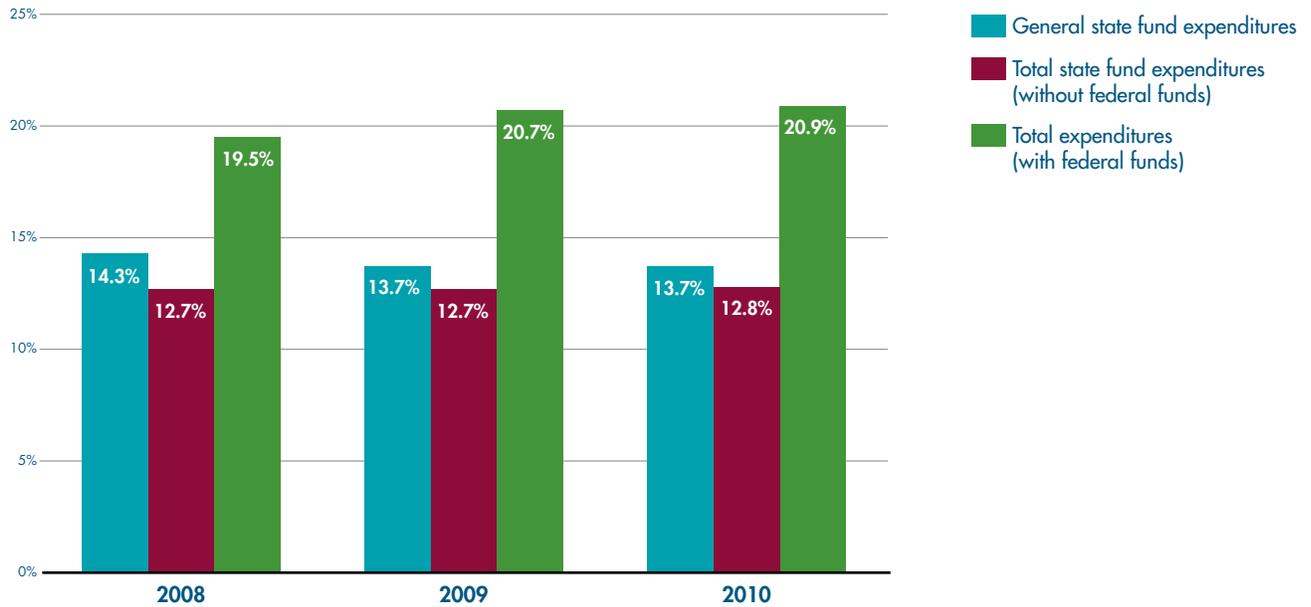
The Impact of Medicaid on New Jersey's Budget

Policymakers should remember that Medicaid is not the principal cause of state budgetary problems; nor, for that matter, is it the primary solution. A less expensive program will not fix state budget deficits, especially not in New Jersey. However, it could result in lost federal funds, hospital charity costs, lost jobs, and an uninsured, unstable labor force. The rising demand for public services coupled with meager revenues in states like New Jersey are, together, putting pressure on states to maintain their budgets as federal fiscal relief wanes.

Before the recession, Medicaid cost growth had slowed across states. Furthermore, as a result of ARRA's enhanced FMAPs and cost containment mechanisms implemented in the early 2000s, Medicaid expenditures have slowed in the past two years even though demand for Medicaid services has grown.¹⁵ States estimate that \$19.4 billion in state savings in FY2009 and \$35.3 billion in FY2010 were attributable to the temporary increase in FMAP under ARRA.¹⁶ Finally, according to the U.S. Department of Health and Human Services, in 2009 alone, state Medicaid spending fell by 10 percent even though enrollment in Medicaid climbed by seven percent due to the recession.¹⁷

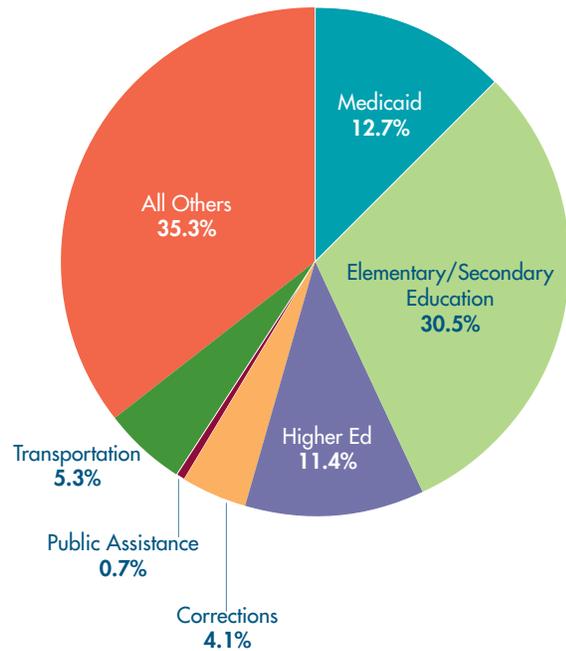
Furthermore, recent mischaracterizations of Medicaid's impact on state budgets have threatened the stability and the health of the program. Advocates of conservative spending measures often exaggerate the "burden" of Medicaid on state finances. For instance, it is often generalized that states spend a little over 20 percent of their state budgets on Medicaid, but this figure usually includes state *and* federal funds. When state spending on Medicaid is taken into account as a share of "state general funds," it is actually closer to 18 percent and just 14 percent of state spending (state general funds and state special funds).¹⁸ Identifying these nuances in the state budget composition is critical to analyzing how Medicaid funds flow from the federal to state levels and how it finally impacts critical services and recipients. In 2009, New Jersey Medicaid expenditures accounted for 20.7 percent of total expenditures but with the elimination of federal funds, this number totaled only 12.7 percent of state fund expenditures (the same as in 2008) while the percent of federal funding devoted to Medicaid expenditures was nearly 50 percent (See Figures 6-9). As a share of state general fund expenditures, Medicaid accounted for only 13.7 percent in 2009, compared to a national average of 31.6 percent. Thus, New Jersey's share of state expenditures on Medicaid was significantly below the national average.

Figure 6: Medicaid as a Share of New Jersey's Expenditures (2008-2010)



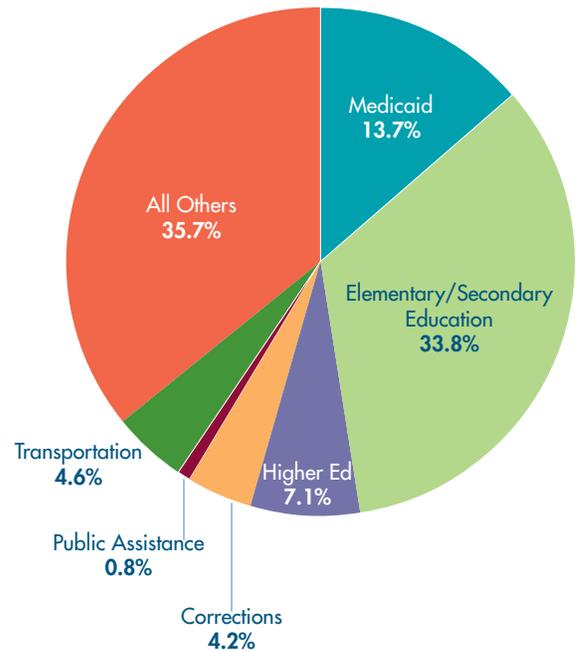
Source: NCCP's calculations based on National Association of State Budget Officers, "State Expenditure Report, Fiscal Year 2009" (2010).

Figure 7: New Jersey Expenditures as a Share of Total State Funds, 2009



Source: NCCP's calculations based on National Association of State Budget Officers, "State Expenditure Report, Fiscal Year 2009" (2010).

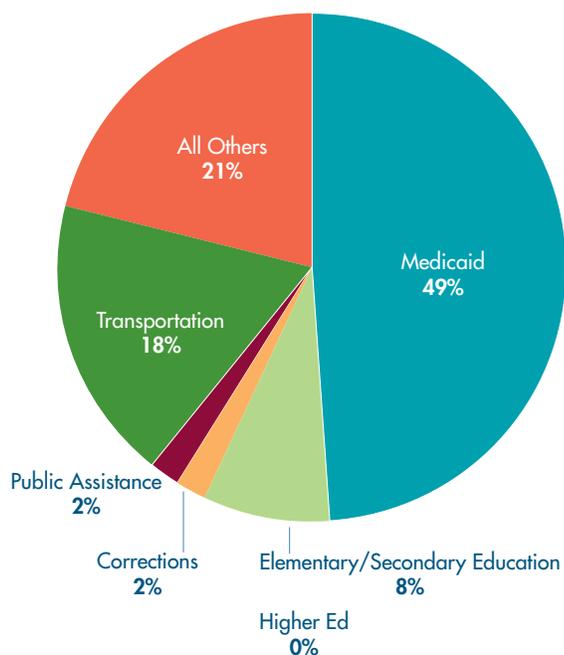
Figure 8: New Jersey Expenditures as a Share of General Fund, 2009



Source: NCCP's calculations based on National Association of State Budget Officers, "State Expenditure Report, Fiscal Year 2009" (2010).

State spending on Medicaid (that is, the share of funds from its general fund and specialized funds) stayed relatively flat during the recession years as did the relative budget composition. Even if we consider changes in Medicaid expenditures as a share of total state spending, New Jersey experienced a 1.8 percent increase between fiscal year 2008-2009, well below the national estimate of 7.8 percent and below the regional percentage change among the mid-Atlantic states.¹⁹ Finally, the Medicaid expenditures are particularly inflated when the state spending from federal fund sources are taken into account. This is evident from Figure 9 in which Medicaid accounts for nearly 50 percent of state spending from federal funding in New Jersey.

Figure 9: Medicaid as a Share of Federal Funding in New Jersey, 2009



Source: NCCP's calculations based on National Association of State Budget Officers, "State Expenditure Report, Fiscal Year 2009" (2010).

Thus, while New Jersey's Medicaid cost growth most likely did increase during the recession due to rapid enrollment, it was offset by large amounts of federal funding. And while the enhanced FMAP rates have recently expired, this is not reason enough to limit the reach of the program. In fact, between 2004 and 2007, New Jersey's spending on Medicaid as a share of its general fund was on par with its spending during the recession. Slight increases in Medicaid costs and the loss of stimulus funds will surely create budget shortfalls; however, the data still do not support disproportionate cuts to Medicaid.²⁰

The Department of Health and Human Services estimated that closing enrollment to parents (part of Governor Christie's original waiver) could have saved \$9 million; however, according to analysis by New Jersey Policy Perspective, the state would have lost about \$17 million in federal matching funds, resulting in a net loss of \$8 million in resources to the state. Passaic and Essex counties (two counties we profile in the FRS) would have experienced some of the highest losses in federal matching funds at \$3.1 and \$4.6 million respectively. Unfortunately, these two counties also have some of the highest rates of poverty in the state.²¹ If the purpose of a Comprehensive Waiver is to maximize the allocation of federal funds to increase health care provisions, then New Jersey's proposal to cut funding would have only served to decrease future federal funds at a critical time of recovery.

The Impact of Medicaid on New Jersey's Economy

While Governor Christie's retreat from his plans to sharply restrict public health insurance eligibility is welcome, the state should seriously consider increasing access to parental health insurance by restoring NJFC to its 2010 thresholds. Budgetary savings should be sought in programs that are less critical to the state's most vulnerable population. Cutting away at Medicaid not only generates lost federal dollars, but it lessens the flow of dollars through the economy starting with health care providers in New Jersey – including hospitals, nursing facilities, group homes, community health centers and managed care plans – and ending, as many state-based studies show, with reduced local economic activity and output.²² During the recession of the early 2000s, states reported that the increased federal matching funds helped to reconcile the state's Medicaid budget shortfall, avoid additional Medicaid cuts, and even resolve state general fund budgets.²³ In fact, New Jersey experienced a return on its state investment in Medicaid of \$9.9 billion in new business activity and \$3.4 billion in new wages attributable largely to a higher federal matching fund rate and increased state spending on Medicaid.²⁴

State investment in Medicaid spending could contribute to the growth of the economy as it did nearly a decade ago. From an economic perspective, state spending is often viewed as an effective way to generate revenue and economic activity since the “multiplier” effect leads to successive rounds of spending which directly and indirectly stimulate the economy. Since the federal matching dollars are attached to state Medicaid spending, the program pulls more dollars into the state economy than would otherwise exist through spending, alone. Thus, Medicaid can play a critical role in supporting New Jersey's struggling economy. Previous studies have shown that Medicaid spending adds new jobs to the economy, increases the output of goods and services, and generates new wages, ultimately contributing to state revenues.²⁵ This flow of money through the economy would be critically important to New Jersey's anemic revenue stream as a result of increased consumption and production. Alternatively, Medicaid cuts will lead to lost federal funds, lost money to providers, lost jobs, and higher charity care costs for hospitals.

The Impact of Parental Health Insurance on Children

As previous NCCP analyses have shown, there is a significant disparity between health insurance coverage rates for children and parents across the country.²⁶ Among poor parents, 47 percent are uninsured, whereas 13 percent of poor children are uninsured. Yet less than a third of states have public health insurance programs open to parents with incomes of up to at least 200 percent of the FPL.²⁷ The disparity between parents and children is increasing: the median eligibility level for child health insurance is 235 percent of FPL while the median for a working parent is 64 percent FPL.²⁸ Parents who forego health coverage may not access regular medical care which could affect their health or, in unforeseen medical emergencies, lead to

financial insolvency. Unfortunately, low-income parents are more likely to be uninsured and are also more likely to have chronic health problems than their counterparts.²⁹

Public health insurance is a vital part of securing the health of vulnerable families. More importantly, parental health insurance is critical to ensuring that children maintain continuous coverage. Research suggests that when health insurance is extended to parents, enrollment and retention in child health insurance improves.³⁰ In fact, the fluctuations in parental enrollment restrictions in NJFC have revealed a similar correlation between parental enrollment and children's enrollment/retention.³¹

Between October 2000 and June 2002, a high percentage of income-eligible parents enrolled in the tiered NJFC program due to liberalized eligibility requirements. According to recent studies, having at least one parent enrolled lowered the relative hazard of disenrollment for children in all plans.³² After 18 months, the percentage of children remaining in the NJFC program was nearly 20 percent higher for children with at least one enrolled parent than children with no enrolled parents.³³ Nearly 72 percent of children from families with income less than 200 percent of FPL had at least one parent enrolled. Of children with parents enrolled, 61 percent had one enrolled parent.³⁴

Ultimately, closing enrollment to parents in 2002 resulted in 45,000 fewer children being enrolled, a \$750 million increase in charity care over four years, and an estimated loss of over \$1 billion each in federal funds and business activity.³⁵ The story seems to be repeating itself in 2011 as preliminary data show that the restrictions to parental enrollment in NJFC last year resulted in about 18,000 fewer children enrolling in the program. Moreover, among participants, there was a 10 percent increase in enrollment of children whose parents were allowed to enroll, compared to a one percent decrease in children whose parents were denied enrollment.³⁶

Barriers to Affordable Health Care in New Jersey

As our analysis of the Smith family shows, health care coverage enables families to maximize their resources by reducing expenses while supporting families as they progress in the workforce. These findings are consistent with research that links health insurance to better parental health and more hours of work. These studies suggest that parents who experience chronic health conditions are more likely to work fewer hours and to receive lower wages than their counterparts, diminishing their ability to attain employer sponsored insurance coverage and to afford private coverage.³⁷ Unfortunately, there are few alternatives to public health insurance for those low-income parents in New Jersey who are denied coverage through Medicaid or NJFC. Recent cost increases have motivated New Jersey business owners to drop coverage or increase employee contributions. The decline in coverage was most pronounced among smaller companies with two to 19 employees.³⁸ Since more low-income workers tend to work in small businesses, they are also less likely to obtain health insurance through their employers in New Jersey. Indeed, a majority of workers in firms that do not offer insurance are low-wage earners.³⁹ Actions taken by businesses in New Jersey are consistent with national studies that reveal a consistent decline in employer-based health insurance over the last

decade. In fact, New Jersey experienced statistically significant declines in coverage for both adults and children during this time.⁴⁰

In the first full year after the recession, national data shows that the rate of employment-based coverage in 2010 was, once again, lower than the rate in 2009.⁴¹ Although no one has been spared the decline of job-based insurance, our analysis shows that low-income workers are the most vulnerable to changes in resources and expenses. Thus, the loss of public health insurance and the denial of job-based coverage present low-income families with two alternatives: 1) they can absorb the cost of private health insurance which will most likely pull them below the breakeven line or 2) they can choose to pay out-of-pocket for future medical costs which often leads to extreme debt.

Faced with these costly alternatives, most low-income families would forego care altogether. However, the rising rates of uninsurance means higher premiums for those who have employer-sponsored insurance. In fact, two-thirds of the cost of uninsurance is paid for by those with health insurance through higher premiums. Studies have shown that the rising uninsurance rates in New Jersey have led to higher health insurance premiums

which have added yet another burden to the high cost of living especially for low-wage workers.⁴² Providers demand higher reimbursement rates for “uncompensated care” and insurance companies pass along the cost in the form of higher premiums. Ironically, higher premiums lead many residents (particularly lower-income) to opt out of coverage. Thus, the cycle of uninsurance continues.

Introducing policies in New Jersey that support both a healthy, productive workforce and a cost-friendly environment for businesses is challenging, yet extremely important for the long-term viability of the local economy. Policies that encourage businesses to provide quality and affordable coverage should be a part of a long-term plan to address alternatives to public health insurance programs in New Jersey. We realize that New Jersey is working within tight budget constraints; however, starting to invest in creative, long-term strategies now will

benefit business and workers alike in the long-run. Subsidizing the purchase of employer-based insurance and offering tax credits and other incentives are viable options that would support small businesses that are disproportionately affected by the high cost of health insurance. The recent enactment of the Patient Protection and Affordable Care Act (PPACA) will put states on the right path towards better health care financing and delivery options for small businesses. Under the Act, tax credits offered on the basis of a sliding scale would alleviate costs to small business employers who could use the tax credits towards the purchase of health insurance for their workers. The maximum value of the credit in 2010 was 35 percent of the employer’s costs for employee coverage. In New Jersey, this means 126,800 small businesses qualify for a portion of the tax credit, and 37,000 small businesses could earn the maximum tax credit of 35 percent.⁴³

Conclusion and Policy Recommendations

There are many costs and consequences of disinvesting in public health insurance programs- from the destabilization of a low-income family’s budget to lost economic activity. In a state with a much higher cost of living than the national average, New Jersey’s families are left to contend with soaring costs and a work support system that does not always foster the income stability necessary to move towards long-term economic security. Yet the public health insurance programs are a critical part of a family’s resources, and strengthening the value of these benefits, rather than cutting access to them, will produce a stronger, more stable workforce. NJFC, in particular, serves as a cornerstone of the state’s public benefit system, and it can have a great impact on income stability and family health, as well as the state’s budget and economy.

Many states are poised to enact cuts to their Medicaid programs. Fortunately, Governor Christie ultimately decided to maintain 133 percent eligibility thresholds for parents – dropping his proposal

to cut the threshold to 30 percent of the poverty line. But there are still other important program restorations and policy changes the state can make to support the health and well-being of its families.

Ensure that work supports actually work for families

A comprehensive and high-quality work support system should provide working parents with resources that cover their basic expenses and ensure that as their incomes rise, parents are always better off. Our cliff graphs show that this is not always the case. The large cliffs due to the loss of child care can be ameliorated by phasing out benefits over time and making sure that families do not lose multiple benefits too quickly as incomes rise. For instance, gradually increasing family contributions to child care as incomes rise would help families adjust to changes in their net resources. Lowering co-pays or subsidizing premiums for families who lose eligibility for public health insurance could

also help alleviate cost-sharing requirements and premium payments. New Jersey Family Care Advantage targets parents whose income exceeds NJFC eligibility requirements by allowing them to purchase NJFC at a lower-cost for their children. While this program is critical to the continuum of family health, it should be expanded to allow parental coverage – pegged at lower eligibility limits if necessary – so that families don't lose coverage or face steep benefit cliffs. These policy reforms would help families in New Jersey maintain an adequate level of net resources to ensure long-term economic security.

Implement policies that address the high cost of living in New Jersey

The Basic Needs Budget Calculator shows that it takes at least \$24 an hour to cover the basic costs of living in New Jersey. In the face of such high costs, work supports should provide adequate resources to a family's budget. As such, the state should consider attaching income eligibility limits to cost-of-living variations across counties. Benefit levels should reflect the area-specific costs that comprise a decent standard of living rather than relying on national cost estimates within the federal poverty level.

The value of benefits has also not kept pace with the increase in cost of living (see forthcoming comparative data from California's Family Resource Simulator). For instance, in New Jersey the child care market rate survey used for setting the state payment rate for child care has not been updated since 2008 even though child care costs continue to increase every year.⁴⁴ Moreover, New Jersey has not changed its TANF levels since its inception in 1996. In fact, the change in inflation-adjusted benefit levels between 1996 and 2010 was -28 percent meaning that TANF benefits in New Jersey are now worth 28 percent less in inflation-adjusted terms than in 1996.⁴⁵ Benefit values continue to decline against the rising cost of basic necessities. New Jersey should make sure its work supports hold value equal to area-specific costs and keeps pace with future changes in the cost of living.

Increase access to parental health insurance by restoring 2010 eligibility thresholds in NJFC

New Jersey should restore cutbacks to NJFC so that parents with incomes at 200 percent FPL are covered. As we have seen, parents can determine a family's health trajectory based on their own access to short-term and long-term health care. An illness or health condition can interfere with a parent's ability to care for a child, thereby affecting the health and wellbeing of the family. Moreover, as this report shows, when parents are denied health insurance, enrollment and retention in child health insurance programs decrease. A rising rate of uninsured parents and children contributes to hospital charity costs and high premiums, adding to the state budget deficit. Thus, limiting parental enrollment in health insurance programs may actually cost the state as much or more than it would gain in savings.

Create financing mechanisms that encourage businesses to offer affordable health insurance

The erosion of employer-sponsored health insurance is becoming a national policy concern, but it should be a state priority in New Jersey. Employers can provide an affordable and direct path towards health care for the majority of workers. The government should not only encourage businesses to provide quality health coverage, but should make it affordable for them to do so. Financing mechanisms should be implemented that support employers and further incentivize them to offer health insurance to their employees. The federal Affordable Care Act has paved the way for small business incentives, but New Jersey should continue to build a cost-friendly environment for employers to support the health of their workers. While budget constraints continue to plague policymakers, this should not prevent them from addressing the decline in employer-based health insurance in New Jersey. New Jersey Policy Perspective has proposed that the state strengthen its use of NJFC funds to help parents purchase their employer's health insurance plan.⁴⁶ Similar proposals would give working parents an affordable path towards health care coverage that they could retain over the long-term. Alternative plans like

premium assistance programs and subsidized job-based insurance would support family health while keeping employer costs down.

Reform the state Medicaid program so that it is cost-effective and does not compromise quality or limit access

Reduced spending on Medicaid can jeopardize the economy through lost business activity and lost jobs. Balancing the budget on the backs of Medicaid recipients will only hurt families and result in lost federal dollars. States should adopt cost-effective strategies that will save the state money without compromising the health of their low-income

residents. Governor Christie's proposed reform has promising features, some of which protect parents and expand care to individuals with developmental disabilities, but it should also prioritize higher eligibility levels for parents. Program savings may be found in more effectively managing high-cost enrollees who have fragmented care or more aggressively containing the rising cost of prescription drugs. Resources, tools, funding and administrative support are available from the U.S. Department of Health and Human Services to help better manage state Medicaid programs. The Department also provides case studies and cost-saving initiatives that would be helpful for New Jersey's short-term and long-term planning.⁴⁷

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