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The effect of Medicaid expansions for low-income children on Medicaid participation and private insurance coverage: evidence from the SIPP

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Abstract

We examine Medicaid enrollment and private coverage loss following expansions of Medicaid eligibility. We attempt to replicate Cutler and Gruber's [Q. J. Econ. 111 (1996) 391.] results using the Survey of Income and Program Participation (SIPP), and find smaller rates of take-up and little evidence of crowding out. We find that some of the difference in results can be attributed to different samples and recall periods in the data sets used. Extending the previous literature, we find that take-up is slightly increased if a child's siblings are eligible and with time spent eligible. Focusing on children whose eligibility status changes during the sample, we estimate smaller take-up effects. We find little evidence of crowding out in any of our extensions.

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1. Introduction

In recent years, public commitment to health insurance coverage for children has increased dramatically. Beginning in the mid-1980s, a series of federal laws uncoupled Medicaid eligibility from eligibility for cash assistance (then Aid to Families with Dependent Children, or AFDC), substantially expanding the population eligible for Medicaid. The expansions raised the child eligibility threshold from the AFDC level to

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at least 100% of the poverty line and possibly higher, depending on the age of the child. These expansions in public health insurance for children have led to two potentially contradictory concerns for public policy. On the one hand, the availability of public insurance may lead families to enroll their children in Medicaid rather than obtaining private coverage (“crowding out”). This may occur if the cost of public insurance for an eligible child is less for the family than the cost of employer-sponsored health insurance, or if employers change their dependent health insurance provisions in response to the expansions. On the other hand, research has found that many Medicaid-eligible children still do not have health insurance, with most of these children being eligible under Medicaid expansion programs (Selden et al., 1998). While lack of health insurance may not seem to be an important issue when children who need care can receive it in emergency room settings, research has shown that children who do not have health insurance often do not get preventive care (see, for example, Marquis and Long, 1994; Currie and Gruber, 1996; McNeil, 1995).

The question of whether crowding out occurred as a result of the expansions has received substantial attention from economists, and this literature has influenced public policy. Lawmakers wrote explicit anti-crowd-out provisions into the law creating the new State Children’s Health Insurance Program (SCHIP), an action which can plausibly be attributed to the attention drawn to the issue by economists. The paper by Cutler and Gruber (1996) has been particularly influential, since it was the first to be published and since it shows evidence of a substantial negative relationship between eligibility for Medicaid and private coverage. The question of the extent of crowding out has been controversial, however, with the literature producing a range of estimates from considerable (49% of new Medicaid enrollees came from private insurance) to negligible (2%).

In this paper, we use panel data from the Survey of Income and Program Participation (SIPP) to revisit the issue of crowding out, while also examining the question of Medicaid take-up behavior. The SIPP offers several advantages for studying Medicaid participation and private insurance coverage. First, data collection occurs three times per year, rather than annually, as in many data sets. Second, the survey was designed to collect income and program participation information and thus provides more detailed data on these variables. Third, the panel nature of the data allows us to examine whether the response to eligibility varies with time and to relax some of the assumptions made in the previous literature by estimating fixed effect and lagged dependent variable models.

Our goals in this paper are twofold. Our first goal is to attempt to replicate, in the SIPP, the results obtained by Cutler and Gruber (1996) using data from the Current Population Survey (CPS) and to examine possible reasons for the differences in the results across the two data sets. Our second goal is to extend the previous literature on Medicaid take-up and crowding out in several directions. First, we examine the impact of having Medicaid-eligible siblings on public and private coverage. Second, we allow the effects of eligibility to differ with time spent eligible. Third, we examine the effect of eligibility on the response of children in marginal families, i.e. children whose eligibility changes over the sample period. Fourth, we estimate simple dynamic models which allow the short-run and long-run effects of eligibility to differ.

Our results from the SIPP using the method of Cutler and Gruber (1996) differ from those obtained from the CPS, particularly in showing little evidence of crowding out.

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