Lessons from States with Self-Declaration of Income Policies

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Executive Summary

Across the country, states have taken steps to simplify application and renewal procedures in their public health insurance programs in an effort to promote access to health insurance coverage and ultimately to reduce the number of uninsured low-income Americans. An estimated one-third of uninsured Americans are eligible for public health insurance. Complicated application and renewal processes for public health insurance programs are barriers to enrollment and thereby contribute to the large number of eligible but uninsured persons. Documentation of income is a particularly difficult requirement for low-income individuals and families whose work is often informal and episodic. In addition, the income documentation requirement creates challenges for eligibility workers and limits the potential gains of technological innovations designed to improve efficiency in public programs.

Simplification of the Medicaid application process can help increase enrollment of those who are eligible for the program, but must also be balanced with the need to maintain program integrity. As with all means-tested programs, states must ensure that they enroll only those who meet Medicaid's eligibility requirements and therefore must verify applicants' eligibility for the program. States have the flexibility to simplify their income verification requirements, and to balance these measures with appropriate safeguards so that simplification efforts do not result in erroneous eligibility determinations.

Verification of income is not required under federal Medicaid law, so states have broad flexibility in determining what verification, if any, to require. As of March 2003, Arkansas, Connecticut, Florida, Georgia, Idaho, Maryland, Michigan, Oklahoma, Vermont, Washington, Wisconsin, and Wyoming exercised this flexibility by allowing self-declaration of income for certain populations in their Medicaid programs.* The United Hospital Fund conducted a survey of state officials in these 12 states in order to understand the states' practices and procedures with regard to self-declaration of income and to glean potential lessons on the states' successes and challenges in implementing this reform.

Self-Declaration of Income Policies

States' implementation of self-declaration of income policies has varied. Eleven of the 12 states surveyed conduct procedures to verify self-reported income information using a combination of federal and state databases available to state agencies. In general, states were already using these databases as part of the Income Eligibility and Verification System (IEVS) processes required by federal law. State Medicaid agencies use different combinations of databases to obtain individual and employer-reported data on wages, taxes, and unearned income. States with self-declaration of income policies typically use between four and five databases to confirm income information provided by applicants. State officials reported that they are confident in the accuracy of the data in these databases,

* Washington discontinued its self-declaration of income policy in April 2003. Washington was the only state to allow self-declaration of income but not conduct any systematic third-party verification of income information provided by applicants.

although there was concern about the age of some data. Ultimately, post-eligibility audits provided reassurance that the number of ineligibles is low.

The timing of third-party verification also varies across these states. Most states conduct third-party checks before an eligibility determination, which seems to result in lower error rates. Four states conduct checks before and after an eligibility determination, depending upon the availability of the data, and one state does all checks after the eligibility determination. Only one state, Washington, does no systematic third-party verification.

Impact of Self-Declaration of Income Policies

Since implementing self-declaration of income, most states experienced increased enrollment in Medicaid, but because states made multiple policy changes simultaneously, officials do not attribute the increase solely to self-declaration of income. Most state officials also reported that case worker productivity increased as a result of self-declaration of income. The reduced documentation requirements allowed workers to process applications more quickly and generally increased the speed of eligibility determination. This survey did not examine cost savings associated with self-declaration of income policies.

Under federal law, states must conduct audits to ensure that their Medicaid programs enroll only those who are eligible for coverage. However, requirements have changed over time and since 1994 states have had increased flexibility with regard to audit procedures. Eight states included in our study exercised this flexibility and conduct pilot quality control studies; the remaining four states conduct traditional Medicaid eligibility quality control (MEQC) studies. Pilot studies are intended to allow states to conduct targeted reviews of complex populations while traditional MEQC studies entail an audit of the entire Medicaid population. Error rates are not comparable between states with pilot and traditional quality control procedures. In the four states with traditional MEQC procedures, error rates were at or below 3 percent (once considered the federal tolerance level) and error rates varied in the eight states with pilot quality control studies. Four of six pilot states with pre-eligibility verification reported eligibility error rates at or below 3 percent; none had error rates above 6 percent. Higher error rates occurred in states that verified income information only after an eligibility determination or did no third-party verification.

State officials reported that a number of changes were made as a result of their audit findings. One state, Florida, has begun verifying income information before an eligibility determination and has found that error rates have begun to decline as a result. Several states will make enhancements to their third-party verification procedures and data exchange systems in order to increase the accuracy of these checks. Washington chose to eliminate self-declaration of income as a result of its error rates, despite the recommendation in its MEQC report to increase third-party verification procedures. Overall, most state officials reported that error rates did not increase as a result of their self-declaration of income policy. Despite this, because of renewed emphasis on Medicaid's program integrity at the national level, states may have to demonstrate more explicitly that increased simplification efforts have not increased eligibility determination errors.

Our survey findings indicate that with the right third-party verification procedures, it is possible to simplify the application process by allowing self-declaration of income without increasing error rates. Conducting third-party checks before an eligibility determination and using sound and reliable data exchange systems help states maintain low rates of eligibility error. Quality control studies document that program integrity has been maintained. Furthermore, self-declaration of income can create an easier, more efficient process for workers and applicants. Ultimately, self-declaration of income, with appropriate safeguards, provides states with the opportunity to simplify enrollment procedures and increase enrollment of eligible individuals without jeopardizing program integrity. That 11 of the 12 states with self-declaration of income in their Medicaid programs will continue this policy in a time of budget constraint is a testament to its success.

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Introduction

Across the country, states have taken steps to simplify application and renewal procedures in their public health insurance programs in an effort to promote access to health insurance coverage and ultimately to reduce the number of uninsured low-income Americans. To date, states' simplification efforts have been successful. According to recent survey data, increased enrollment in public programs appears to have staved off larger increases in the number of uninsured as employer-sponsored coverage has declined (Holahan and Wang 2004). Despite the serious budget problems facing states, a recent 50-state survey conducted by the Center on Budget and Policy Priorities found that most states maintained simplifications adopted in the past (Cohen Ross and Cox 2003).

An estimated one-third of uninsured Americans—or 14.1 million people in 2001—are eligible for public health insurance (Blue Cross Blue Shield 2003). Complicated application and renewal processes for public health insurance programs are barriers to enrollment (Cox 2001; Perry et al 2000; GAO 2001; Smith, Elias, and Chang 2001; The Lewin Group forthcoming)* and thereby contribute to the large number of eligible but uninsured persons.

This paper focuses on one particularly promising simplification strategy: self-declaration of income, the practice of allowing applicants to attest to their income instead of submitting documents, such as pay stubs or tax statements, to prove their income levels.

Documentation of income is a particularly difficult requirement for low-income individuals and families whose work is often informal and episodic (Hill and Lutzky 2003; Bachrach and Tassi 2000; Lawler 2003; Dutton and Fairbrother 2003; Erikson and Yaknin 1999; Care for the Homeless 2001; Aspengren, Soffel, and Wunsch 2003). In addition, the income documentation requirement creates challenges for eligibility workers because it often requires extensive follow-up with applicants. Furthermore, as state and local agencies increase the use of technology, such as electronic applications, to improve efficiency in their public program procedures, the income documentation requirement limits the potential gains of these innovations because it continues to rely on paper records.

Simplification of the Medicaid application process can help increase enrollment of those who are eligible for the program, but must also be balanced with the need to maintain program integrity. As with all means-tested programs, states must ensure that they enroll only those who meet Medicaid's eligibility requirements and therefore must verify applicants' eligibility for the program.

States have the flexibility to simplify their income verification requirements, and to balance these measures with appropriate

* Washington State's 1998 MEQC study found that 80 percent of children denied Medicaid eligibility were income eligible, but many had difficulty with document requirements (Washington State 2002).

safeguards so that simplification efforts do not result in erroneous eligibility determinations. Verification, or proof, of income is not required under federal Medicaid law, so states have broad flexibility in determining what verification, if any, to require (CMS 1998a; CMS 1998b; Shruptrine and Hartvigsen 2003). As of March 2003, 12 states had exercised this flexibility by implementing self-declaration of income procedures in their Medicaid programs. To understand the states' practices and procedures with regard to self-declaration of income and to glean potential lessons on the states' successes and challenges in implementing this reform, the United Hospital Fund conducted a survey of state officials in these 12 states.

The United Hospital Fund survey built upon two previous surveys of simplification initiatives conducted by the Center on Budget and Policy Priorities. The first is a 2001 survey of states with self-declaration of income policies in children's health coverage programs (Cox 2001), and the second is a 2003 50-state survey of states' eligibility, enrollment, renewal, and cost-sharing practices in Medicaid and State Child Health Insurance Program (SCHIP) (Cohen Ross and Cox 2003). The United Hospital Fund survey focused in detail on states that have implemented self-declaration of income policies in their Medicaid programs. We spoke with state officials in spring 2003 and asked them to verify their responses over the course of the summer and fall of 2003.

The primary components of the survey covered the following areas:

- programs and populations to which self-declaration of income applied;
- checks, if any, conducted to verify income information declared by the applicant either pre- or post-eligibility determination (e.g., of wage, Social Security Administration, Internal Revenue Service, or other public benefit program databases);
- procedures used in the event of a discrepancy between the income information in the databases and the income reported by the applicant;
- impact of self-declaration of income policies on program enrollment, error rates, and the speed of eligibility determination; and
- findings from post-eligibility audits.

In conducting the survey, we were particularly interested in the third-party verification procedures used by states to verify income in lieu of documentation and the effect of self-declaration on error rates in the corresponding programs. The reliability of the data in the databases mentioned above, as determined through post-eligibility audits, is critical to the success of self-declaration of income policies.

Self-Declaration of Income Policies

As of March 2003, Arkansas, Connecticut, Florida, Georgia, Idaho, Maryland, Michigan, Oklahoma, Vermont, Washington, Wisconsin, and Wyoming allowed self-declaration of income for certain populations in their Medicaid programs (Table 1).* In all states, self-declaration of income applied to both Medicaid and SCHIP, except Oklahoma, which does not have an SCHIP program. Unless otherwise mentioned, the information in this report pertains to states' Medicaid programs.

As with most simplification initiatives, states began implementing self-declaration of income policies with children and pregnant women. All 12 states allow self-declaration of income for children and ten states include pregnant women. Five states also allow

* Washington discontinued its self-declaration of income policy in April 2003. Washington was the only state to allow self-declaration of income but not conduct any systematic third-party verification of income information provided by applicants.

parents and one state also allows childless adults to self-declare their income.*

Eleven of the 12 states surveyed conducted procedures to verify self-reported income information using a combination of federal and state databases available to state agencies. In general, states were already using these databases as part of the Income Eligibility and Verification System (IEVS) processes required by federal law (see box).

Table 1: **State Medicaid Programs' Self-Declaration of Income Policies, Part 1**

State	Implementation Date	Administrative or Legislative Authority	Populations Included	State Allows Electronic Submission of Applications
Arkansas	August 2000	Administrative	Children	N
Connecticut	July 2001	Legislative: Public Act 01-137	Children, parents	N
Florida	1998-2002	Legislative: Florida Statute 409.811.821 (children) Administrative: pregnant women	Children, pregnant women	N
Georgia	1991	Administrative	Children, pregnant women	In progress*
Idaho	November 1999	Legislative: 16.03.01	Children, pregnant women, parents	Considering
Maryland	July 1998	Legislative: COMAR 10.09.11	Children, pregnant women	Testing in 2 sites
Michigan	August 2000	Administrative	Children, pregnant women	Y†
Oklahoma	January 1998	Administrative	Children, pregnant women	Considering
Vermont	September 1995	Administrative‡	Children, pregnant women, parents, childless adults	N
Washington	December 1998	Administrative	Children, pregnant women	Y§
Wisconsin	July 2001	Administrative	Children, pregnant women, parents	Considering
Wyoming	April 2001	Administrative	Children, pregnant women, parents	Considering

* Georgia is working on electronic signature and processing for children's Medicaid applications; currently applicants can submit the application online, but must also mail a signed copy within six months of applying and, if applicable, documentation of immigration status within 45 days. SCHIP applications do not require a signature and can be submitted electronically; however, for children ages six and above, premium payment must be received to trigger coverage (Wysen 2003).

† Pertains to children's applications only. Applicants must mail a signed copy of the application along with documentation of immigration status, if applicable, to complete the application (Wysen 2003).

‡ Vermont implemented self-declaration of income as a pilot project in 1995, but it is now considered to be a permanent change.

§ In Washington, a copy of the electronically filed application must be mailed in with signature and required documentation. Further, because the online application system lacks a direct link to the agency's eligibility database, workers must re-enter the application information into this system (Impact Research and Heartland Alliance 2004).

* Arkansas and Florida also allow self-declaration of income for elderly persons applying for Medicare Savings programs. Arkansas also allows self-declaration of income in its Family Planning Waiver program and for applicants with tuberculosis.

Available Databases*

In states that have implemented self-declaration of income, Medicaid agencies access IEVS databases as a means of verifying self-declared income either prior to making an eligibility determination or following the determination. This is accomplished through match procedures in which Medicaid agencies submit new applicant information to the agency in question (e.g., the Social Security Administration (SSA)), which then produces a report for those applicants who have a record in their system. Since the establishment of IEVS, states have also developed procedures to access data from other state databases that contain income information, including state public program databases and state new hire databases (see box and Appendix I for more information on databases).

Databases Used by States

To verify self-declared income, state Medicaid agencies use different combinations of the databases described above to obtain individual and employer-reported data on wages, taxes, and unearned income (e.g., interest income, unemployment compensation). In general, states with self-declaration of income policies use between four and five databases to confirm income information provided by applicants. State officials reported using the following databases:

- Food Stamps, Temporary Assistance to Needy Families (TANF), and other public program databases: 11 states
- SSA databases: 11 states
- IRS databases: 10 states
- State wage databases:† 10 states

INCOME ELIGIBILITY AND VERIFICATION SYSTEM (IEVS)

In 1984, Congress passed the Deficit Reduction Act, which mandated that states establish IEVS as a means for ensuring the accuracy of eligibility and benefit determinations in their public assistance programs.* The Act also required that state agencies administering such programs exchange information about enrollees and applicants in order to support this effort. States implemented IEVS beginning in 1986, and have developed IEVS procedures to obtain information about applicants' earned and unearned income using a variety of state and federal databases. Medicaid, Temporary Assistance for Needy Families (TANF), and unemployment compensation programs are all required to participate in IEVS; Food Stamp program participation is optional.† In order to fulfill IEVS requirements, these agencies request information on beneficiaries' wages, net earnings, public benefits, unearned income, and unemployment compensation from other federal and state agencies such as the Social Security Administration (SSA), Internal Revenue Service (IRS), and state wage information collection agencies.

As enacted in 1984, IEVS consists of six databases: the Beneficiary and Earnings Data Exchange (BENDEX), Beneficiary Earnings Exchange Reports System (BEERS), State Data Exchange (SDX), State Wage Information Collection Agency (SWICA), IRS, and Unemployment Insurance (UI). Based on their own assessment of cost-effectiveness and productivity, states may elect to use only a selection of these databases, but must receive permission from the Centers for Medicare and Medicaid Services (CMS) in order to do so. CMS also encourages random post-eligibility checks and other procedures to verify information obtained through IEVS (State Medicaid Manual, 15-8-3). (See Appendix I for more information on these databases.)

* Section 2651 of the 1984 Deficit Reduction Act amended the Social Security Act (Title XIX, Section 1137), the Food Stamp Act, and the Internal Revenue Code to require the creation of IEVS. Regulations implementing IEVS are found at 42 CFR 435.940.

† Food Stamp program participation in IEVS was mandatory prior to 1996; the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) made IEVS participation optional (CFR 272.8a1).

* Information on available databases was compiled from the following federal and state sources: CMS 2004b, page 15-8-3; Federal Regulations Establishing IEVS Requirements 42 CFR 435.940; U.S. DOA FNS 2002; CMS 2000a; Shruptrine and Hartvigsen 2003; North Carolina DHHS 2002.

† Includes data on recently hired employees and quarterly wages. In many states these data are maintained by the Department of Labor.

DATABASES WITH INCOME INFORMATION

Social Security Administration (SSA) – Beneficiary and Earnings Data Exchange Title II (BENDEX)*	SSA records of individuals receiving Social Security benefits
SSA – Beneficiary Earnings Exchange Reports System (BEERS)*	SSA recipients' income from self-employment, out-of-state wages, federal and military wages, and agricultural wages (reported to SSA by IRS)
SSA – State Data Exchange (SDX)*	Supplemental Security Income eligibility or payment amount, current earned/unearned income
Internal Revenue Service – (IRS)*	Tax returns – unearned income (interest and dividends), earned income for the self-employed
State Wage Information Collection Agency (SWICA)*	Quarterly wage information, employer information
Unemployment Insurance (UI)*	Unemployment compensation benefits
Public Program Records – (Food Stamps, TANF, Child Care)	Beneficiary income information
State New Hire Agency	Employee and employer identification information

*IEVS database

- Unemployment compensation databases: 6 states

We asked state officials about the age of the data in these databases. In general, state officials reported that SSA and unemployment benefit data are current; wage and new hire data are up to one quarter old; and IRS data are at least one year old. The age of data from other public programs depends upon when the beneficiary applied for the other program. Importantly, state officials reported that they are confident in the accuracy of the data in these databases, although there was concern about the age of some data. Ultimately, state officials reported that post-eligibility audits provided reassurance that the number of ineligibles is low.

Third-Party Verification Procedures

The survey demonstrated that the timing of the third-party verification is important. Most states conduct third-party checks before an eligibility determination, which seems to result in lower error rates. Four states conduct checks before and after an eligibility determination, depending upon the availability of the data, and one state did all checks after the eligibility determination. States that check databases after an eligibility determination chose not to delay applications because data were not available, but they may reconcile eligibility status once the data become available. Only one state, Washington, does no systematic third-party verification. In case of a discrepancy between information provided by the applicant and information in the databases, eligibility workers follow up with applicants. In most states, workers follow up with applicants only if the discrepancy would affect eligibility. In other words, if income information differs, but according to both sources the applicant meets the eligibility requirements, no follow-up is conducted. Two states require more extensive follow-up. Workers in Wisconsin follow up on additional discrepancies, including any difference with state wage data that is more than $1,000 or any difference with Social Security Income data. Workers in Maryland follow up on any discrepancy. In general, all states require follow-up with applicants when information is deemed "questionable" by an eligibility worker. Follow-up in most states consists of contacting applicants by phone and mail and asking for an explanation of the discrepancy and/or documentation of income. Only one state, Maryland, requires a face-to-face interview, while other states allow this at worker discretion.

It is important to note that there will always be a portion of applicants for whom data in third-party databases are not available. For example, income information is not available for workers who get paid "off the books." In these cases, certain states (including some that have not implemented self-declaration of income policies more broadly) already allow income attestation as a last resort. In addition, income information is not available in state databases for parents who apply for their children only and do not provide their own Social Security numbers. In these cases, states can request documentation of income and/or rely on post-eligibility audits. Ultimately, states find that they are able to maintain acceptable levels of eligibility error using these verification procedures.

Impact of Self-Declaration of Income Policies

Enrollment and Worker Productivity

Since implementing self-declaration of income, most states experienced increased enrollment in Medicaid, but because states made multiple policy changes simultaneously, officials do not attribute the increase solely to self-declaration of income.* Other policy changes include increased outreach, out-stationed eligibility workers, elimination of face-to-face interviews, elimination of resource tests, and implementation of an electronic application.

This survey did not examine cost savings associated with self-declaration of income policies. One recent analysis by The Lewin Group in California found that self-declaration of income would achieve administrative savings, but that total program costs would increase due to increased enrollment of eligible persons (Chimento et al. 2003). Other studies conclude that savings achieved through imposing administrative barriers are inefficient because people are likely to overcome enrollment barriers when sick and have greater health expenses (Birnbaum et al. 2004; Health Policy Analysis Program 2004).

Most state officials reported that case worker productivity increased as a result of self-declaration of income. The reduced documentation requirements allowed workers to process applications more quickly and generally increased the speed of eligibility determination.† Only Wisconsin found that

* According to a study that used 2001 Current Population Survey data to examine how state policy choices affect child enrollment in Medicaid and SCHIP, self-declaration of income increases public program enrollment by 3.5 percentage points (Kronenbusch and Elbel 2004).

† Other researchers have found that substantial productivity gains are realized in a simplified enrollment process. This study estimates that enrollment costs would be reduced by approximately 40 percent in a simplified system (Fairbrother et al. 2004).

worker productivity did not improve during this period, but state officials attributed this to other factors.*

Audit Procedures and Error Rates

State eligibility oversight procedures have changed over time. Between 1978 and 1994, under the Medicaid Eligibility Quality Control (MEQC) program, states were required to conduct detailed eligibility and liability case reviews of a random sample of their Medicaid enrollees and to report these findings to the Centers for Medicare and Medicaid Services (CMS).† If CMS determined that payment errors exceeded 3 percent of a state's total expenditures, it could seek a disallowance of the federal share of Medicaid program payments to the state. By the end of 1994, states had successfully reduced and maintained low error rates and as a result, CMS offered states more flexibility in operating their MEQC programs (CMS 2000b).‡ Since 1994, states have had two options regarding how they conduct MEQC activities: traditional MEQC or a pilot program that uses Alternate Quality Control (AQC) procedures (CMS 2002). In our sample, four states conducted traditional MEQC reviews and eight states used AQC procedures.

A traditional MEQC review entails taking a random sample of the entire Medicaid population for audit. Alternatively, an AQC review entails targeting a specific population to review, usually a complex population such as nursing home beneficiaries or those who self-declared their income. CMS has frozen error rates in the states using AQC procedures at the level prior to implementation of the pilot program in order to allow the states to conduct focused reviews of selected populations without concern about the possibility of financial disallowances. Error rate information from their pilot studies for the states using AQC procedures are shown in Table 2. Because of differences in review procedures, MEQC and AQC error rates are not comparable. Further, the error rates for states with AQC procedures are *expected* to be higher because they reflect targeted reviews of complex populations.

While there are differences in target populations in MEQC and AQC reviews, the audit methodologies are similar. Most states take a random sample of cases each month and request documentation of income to verify against the information the applicant has provided. Eligibility error rates (also called case error rates) reflect the number of ineligible persons who are enrolled. Payment error rates reflect the percent of Medicaid spending on ineligible enrollees. Payment error rates are usually a fraction of the eligibility error rates associated with self-declaration of income policies because more expensive cases, such as nursing home beneficiaries, customarily fall outside of these policies. Error rates shown for MEQC states are payment error rates while error rates shown for AQC states are eligibility error rates (Table 2).

In the four states relying on traditional MEQC review procedures, payment error rates were at or below 3 percent and, as expected, eligibility error rates varied in the eight states using AQC procedures.** Higher error rates occurred in states that verified income information only after an eligibility determination or did no third-party

* Officials in Wisconsin reported that worker productivity did not increase, but they attributed this mainly to the fact that the state eliminated the face-to-face interview requirement at the same time it instituted self-declaration of income. Because applicants still needed assistance with the application process, productivity gains were negated.

† 42 CFR 431.800ff

‡ In January 2001, CMS reported that the national average Medicaid eligibility error rate had been below 2 percent for over ten years and only one state had been subject to a disallowance since 1996 (CMS 2001).

** While error data were not available from Michigan for this survey, the General Accounting Office reports that in 2001, Michigan's error rate was 3 percent. This rate pertains to both SCHIP and Medicaid and is an overall error rate, not specific to income error (GAO 2001).

Table 2: **State Medicaid Programs' Self-Declaration of Income Policies, Part 2**

State	Verification Procedures (Before or after eligibility determination)	MEQC Procedures* (Frozen payment error rate or pilot AQC eligibility error rate)	Error Rate† (Overall error or income error)	Allow self-declaration at renewal in 2003	Will continue self-declaration policy in 2004
Arkansas	Before and after	MEQC (payment error rate)	<2 percent (overall error)	Y	Y
Michigan	Before and after	MEQC	n/a‡	Y	Y
Oklahoma	Before	MEQC (payment error rate)	<1 percent (overall error)	Y	Y
Vermont	Before (limited checks)	MEQC (payment error rate)	<1 percent (overall error)	Y	Y
Connecticut	Before	AQC (eligibility error rate)	3 percent (income error)	Y	Y§
Florida	After	AQC (eligibility error rate)	20 percent (income error)	Y	Y
Georgia	Before	AQC (eligibility error rate)	1 percent (overall error)	Y	Y
Idaho	Before	AQC (eligibility error rate)	2 percent (overall error)	Y	Y
Maryland	Before	AQC (eligibility error rate)	<1 percent (income error)	Y	Y
Washington	No checks	AQC (eligibility error rate)	12 percent (income error)	Y	N (discontinued April 2003)
Wisconsin	Before and after	AQC (eligibility error rate)	6 percent (income error)	Y	Y
Wyoming	Before and after	AQC (eligibility error rate)	4 percent (income error)	Y	Y

* States have the option to conduct traditional MEQC studies or alternate quality control (AQC) studies. In AQC states, error rates are frozen in order to allow these states to conduct pilot studies. (Rates are frozen at the level prior to the implementation of a pilot.) Error rates shown above for Arkansas, Oklahoma, and Vermont are their frozen payment error rates. Error rates shown above for Connecticut, Florida, Georgia, Idaho, Maryland, Washington, Wisconsin, and Wyoming are the results of the states' pilot studies and reflect eligibility error rates, not the frozen payment error rates. Error rates are not directly comparable between states with traditional and alternate MEQC procedures. (Note: Arkansas conducts pilot QC reviews, but error rate data are not available from the pilot study. Connecticut conducted both a pilot QC study of its SD population and a traditional MEQC review; the error rate shown above pertains to the pilot study.)

† Some states conducted quality control studies that specifically measured income eligibility error rates related to self-declaration of income. In general, income error represents the vast majority of total eligibility error.

‡ While error data were not available from Michigan for this survey, the General Accounting Office reports that in 2001, Michigan's error rate was 3 percent. This rate pertains to both SCHIP and Medicaid and is an overall error rate, not specific to income error. The report does not specify whether this refers to payment or eligibility error (GAO 2001).

§ Governor Rowland's 2004 budget proposed eliminating self-declaration of income, but the enacted budget did not eliminate this policy.

verification. For example, before January 2003, Florida verified all income information after an eligibility determination and its income eligibility error rate was 20 percent. Washington did not conduct any third-party checks and its income eligibility error rate was 12 percent.

State officials reported a number of changes made as a result of these error rate findings. In January 2003, Florida began to verify income information before an eligibility determination, and state officials report that error rates have begun to decline as a result. Washington chose to eliminate self-declaration of income as a result of its error rates, despite the recommendation in its MEQC report to increase third-party verification procedures.* Several states, including Idaho and Wisconsin, will make enhancements to their third-party verification procedures and data exchange

MARYLAND CHILDREN'S HEALTH PROGRAM'S (MCHP) POST-ELIGIBILITY AUDIT PROCEDURES

A monthly quality control sample of 20 to 40 or more cases is drawn, starting with the month after the determination, to confirm the accuracy of the eligibility determination and income information. A total of 343 cases were selected for audit between November 2000 and October 2001. (The sample size was increased in 2002.)

Income verification is requested of applicants included in the sample. Maryland's Medicaid Quality Control and Program Integrity (MQC&PI) Division sends one to three letters to applicants requesting the following documentation of income:

1. A copy of pay stubs for the six most recent weeks of employment for all individuals in the household that are currently working;
2. The most recent tax return for self-employed individuals; and
3. If applicable, payment verification (copies of checks, award letters, etc.) for income from child support, alimony, pensions, Social Security, rental income, retirement, strike benefits, unemployment, veterans benefits, or workmen's compensation.

Applicants are told at application that they could be asked to supply this information. If MQC&PI does not hear back within the specified timeframe, MQC&PI staff will call applicants to follow up on letters.

This information is compared with a hard copy of the file and the electronic file record at the Department of Health to determine if an error was made. It is also determined whether the error was procedural (technical) or in eligibility determination. If an error is determined, the county supervisor is notified and required to correct it. The case will also be referred to the Program Integrity division; if it is determined to be fraud or abuse, the case will be referred to the Division of Recoveries. For the period November 2000 to October 2001, the eligibility error rate was less than 1 percent.

Source: *Maryland Children's Health Program Quality Review Program: Annual Report for November 2000 to October 2001*, March 6, 2002.

* Wisconsin eliminated self-declaration of income for its SCHIP program in April 2004. This policy change was made in conjunction with the decision to request documentation of insurance status, as a result of evidence that children enrolled in SCHIP have other coverage. Because the state will contact employers for documentation of workers' insurance status, they will also request workers' income information (personal communication with Vicki Jessup, Wisconsin Division of Health Care Financing, February 12, 2004).

systems in order to increase the accuracy of these checks.*

Most state officials reported that error rates did not increase as a result of the self-declaration of income policy. Four of six AQC states with pre-eligibility verification reported eligibility error rates at or below 3 percent; none had error rates above 6 percent. And, as noted earlier, payment error rates are likely a smaller fraction of eligibility error rates since self-declaration of income policies are targeted at relatively inexpensive Medicaid enrollees — children, pregnant women, and non-disabled adults. (See Appendix II for more information on states' audits.)

Program Integrity Initiatives

Over the past three years, CMS has been piloting the Payment Accuracy Methodology (PAM) in selected states. PAM measures whether Medicaid payments were for medically necessary services, whether beneficiaries were eligible on the date of service, and whether the claims were processed correctly. The Improper Payments Information Act of 2002 requires each federal agency to estimate the amount of improper payments, and any agency with potential error above 2.5 percent of program payments *and* $10 million must include this estimate in its annual budget submission.† As a result of this act, CMS is currently developing a new system called Payment Error Rate Methodology (PERM), which builds off of the PAM system and is expected to begin October 2006.‡ All states will participate in the PERM program. The purpose of PERM is for states to measure the accuracy of eligibility determinations in all programs that receive federal funding, including Medicaid and SCHIP. This could mean that states will have to demonstrate more explicitly that increased simplification efforts have not increased eligibility determination errors (Chimento et al. 2003 and personal communication with Moira Forbes, Lewin Group, December 2003. The Lewin Group is the technical consultant to CMS in the development of PERM).

While there is renewed emphasis at the national level on Medicaid's program integrity, it is important to put quality control efforts related to beneficiary eligibility in context.§ A recent analysis of Medicaid's financial management includes several recommendations about ways to improve the program's financial integrity (Thompson 2004). Prepared by Penny Thompson, formerly the Deputy Director of CMS' Center for Medicaid and State Operations and CMS' Director of Program Integrity, the report makes an important distinction between "high risk" and "low risk" transactions. High risk transactions include supplemental payments made under upper payment limit and disproportionate share hospital programs, while low risk transactions include eligibility determinations. Self-declaration of income policies targeted toward low cost Medicaid enrollees would be considered low risk and are unlikely to significantly affect program costs.

* Wisconsin will make a series of improvements to data exchange processes so that data are more timely and useful for workers. It will also increase the amount of data that are "auto-populated" in the state data system (Client Assistance for Re-employment and Economic Support) to reduce workload and reduce opportunity for worker error.

† The Improper Payments and Information Act, Public Law Number: 107-300.

‡ CMS is currently developing the proposed regulation to implement the PERM program. On June 23, 2004, CMS released a request for proposals from states interested in pilot testing PERM in FFY 2005 (CMS 2004a).

§ President Bush's Fiscal Year 2005 budget proposes to allocate $20 million from the Health Care Fraud and Abuse Control Program to help finance Medicaid and SCHIP financial management initiatives (US OMB 2004). In FFY 2003, $6.5 million was spent on these efforts compared to over $700 million on the Medicare Integrity Program (Thompson 2004).

Conclusion

Trends in national health insurance coverage during the economic downturn between 2000 and 2002 reinforce the importance of public health insurance programs. Researchers report that without the expansion of public coverage, the increases in the number of uninsured people would have been much greater (Holahan and Wang 2004). As with all means-tested programs, it is important to enroll only those who meet eligibility requirements, but the process should not be so burdensome that it systematically excludes significant numbers of eligible individuals.

Our survey findings indicate that with the right third-party verification procedures, it is possible to simplify the application process by allowing self-declaration of income without increasing eligibility error rates. Conducting third-party checks before an eligibility determination and using sound and reliable data exchange systems help states maintain low rates of eligibility error. Quality control studies document that program integrity has been maintained. Furthermore, self-declaration of income can create an easier, more efficient process for workers and applicants. Ultimately, self-declaration of income, with appropriate safeguards, provides states with the opportunity to simplify enrollment procedures and increase enrollment of eligible individuals without jeopardizing program integrity. That 11 of the 12 states with self-declaration of income in their Medicaid programs will continue this policy in a time of budget constraint is a testament to its success.

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Appendix I:
Databases Available to States with Income Information*

IEVS Databases

I. Social Security Administration (SSA)

A) **Beneficiary and Earnings Data Exchange Title II (BENDEX) –** BENDEX is a database containing information from the SSA's records of individuals receiving Retirement, Survivors, Disability Insurance (Social Security benefits), and Medicare. Matches are conducted when the state or local agency that administers benefits submits new applicants' Social Security numbers, and the SSA produces a report for those applicants who have a "match" in the SSA system. The state also receives BENDEX reports on current beneficiaries when a beneficiary first receives Social Security, becomes entitled to an increase or decrease in benefits, has a change in hospital benefits, becomes entitled to insurance or supplemental Medicare insurance, or there is any other change in SSA's Master Beneficiary Records (MBR) (USDA FNS 2002; Medicaid North Carolina DHHS).

B) **Beneficiary Earnings Exchange Reports System (BEERS) –** The BEERS database contains information on beneficiaries' annual earnings from self-employment, out-of-state wages, federal and military wages, and agricultural earnings, as reported on the Internal Revenue Service (IRS) Form W-2. The BEERS match functions in a similar manner to the BENDEX match, but data obtained through BEERS are reported to the SSA through the IRS. Therefore, states using the data must ensure the security of this data through procedures specified by the IRS. BEERS data may be up to one year old (USDA FNS 2002).

C) **State Data Exchange (SDX) –** SDX includes eligibility, benefit payment, and demographic data on Supplemental Security Income (SSI) recipients and applicants that are transmitted by SSA to the states, as in the BENDEX match. Again, when an SDX data element in a beneficiary's record changes, the state receives updated files electronically soon thereafter. File updates include information on changes in address, resources, SSI eligibility or payment amount, and current earned/unearned income. Financial eligibility for SSI is reviewed at least once per year and beneficiaries are required to report changes in circumstances between eligibility reviews (CMS 2000a). If no changes are reported, the state will receive one SDX update per year for a cost of living adjustment. Different state agencies may receive different portions of SDX files, depending on their data needs; therefore Medicaid agencies must ensure that they receive all fields necessary for income verification.

* Information on available databases was compiled from the following federal and state sources: CMS 2004b, page 15-8-3; Federal Regulations Establishing IEVS Requirements 42 CFR 435.940; U.S. DOA FNS 2002; CMS 2000a; Shruptrine and Hartvigsen 2003; North Carolina DHHS 2002.

In the past 10 years, the SSA has introduced new technology to improve public program agencies' access to information contained in the BENDEX, BEERS, and SDX databases. Previously, state or local agencies had to submit and receive data inquiries in batches on magnetic tape via postal mail, and the inquiries had to be done separately for each of the three databases. Today, the State Online Query System (SOLQ) and State Verification Exchange System (SVES) make it possible for states to use a common electronic interface to access BENDEX, BEERS, and SDX data. SOLQ and SVES match applicants' or beneficiaries' Social Security numbers, as submitted by public program agencies, against multiple SSA databases. The systems then collect the information on benefits and covered income obtained from these databases into one report for the state to use for verification purposes. Using SOLQ and SVES, states can electronically submit a query for an individual beneficiary and will receive an electronic transmission of the beneficiary's last date of income and resource determination on the following day (USDA FNS 2002).

II. IRS Data

IRS databases are used by states to collect information on beneficiaries' unearned income, including interest, dividends, and other unearned income compiled from the IRS Form 1099. States generally match with the IRS database during application period, then at least yearly thereafter, as data accessed may be up to one year old. The IRS requires that only one state agency submit all match requests; therefore all agencies administering public benefits must coordinate requests for Medicaid, TANF, and Food Stamp applicants. In addition, state agencies are required to ensure the security of this information, and are only permitted to use IRS data to determine eligibility and/or amount of benefits (USDA FNS 2002).

III. State Wages

A) **State Wage Information Collection Agency (SWICA) –** SWICA is the state agency that administers unemployment compensation law, the quarterly wage reporting system, or an alternate approved system of reporting employment-related income. The SWICA match accesses wage data that are submitted quarterly to the state unemployment insurance agency by employers whose employees are covered by unemployment insurance. In many states SWICA is part of the state Department of Labor. Information contained in states' SWICA databases include name, Social Security number, quarterly wages, employer's name, employer's address, and employer's identifier. These files are updated quarterly therefore data obtained through the SWICA match are generally three to six months old. States are required to match during the application period and then at least quarterly thereafter (USDA FNS 2002).

B) **Unemployment Insurance (UI) –** UI benefit databases are maintained by the state agency that administers unemployment laws, which is typically the same as the agency providing SWICA data. The UI match provides information on benefits provided to unemployment compensation recipients each month, and contains data on unreported income and resources (USDA FNS 2002). States are required to obtain this information for Medicaid applicants during the application period and for at least three months afterwards; for Medicaid recipients at the time of the loss of employment and for at least three months afterwards; and for recipients and applicants receiving unemployment compensation benefits until their benefits are exhausted (State Medicaid Manual, 15-8-3).

IV. Other Databases

A) **Food Stamp/TANF/Child Care Files –** As discussed earlier, state agencies administering public benefits are required to exchange information about applicants and enrollees as part of their IEVS procedures. Food Stamp and TANF programs always require documentation of income; therefore this allows Medicaid agencies to use data collected by other public benefit programs to verify self-attested income.

B) **State New Hire Databases –** State New Hire databases contain information reported to designated state agencies on recently hired employees. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, in conjunction with new child support enforcement laws, mandated that employers report information on new hires within 20 days of the date of hire or, if new hires are reported electronically, submit transmissions of this information twice a month. Employers must report employee and employer identification information, which assist state agencies that conduct matches with the new hire database in determining and tracking the employment status of an applicant or beneficiary (USDA FNS 2002).

Appendix II: Details of State Audits

State	Number of Cases Included in Audit	Error Rate Details (Overall error or income error)	Data Source
Arkansas	120 cases/month	Overall payment error rate: <2%	Arkansas' Quality Control study is not available. Information obtained from John Kennedy, Director of Field Operations, Division of County Operations, Arkansas Department of Human Services.
Connecticut	66 cases	Income eligibility error rate: 3%	Connecticut Department of Social Services, Office of Quality Assurance Memo dated September 30, 2002, to Director of Family Services Division re: Targeted Medicaid Quality Control Review of HUSKY A for the 3 months ended November 30, 2001.
Florida	1391 cases	Overall eligibility error rate: 21% Income eligibility error rate: 20%	Florida Medicaid Pilot Project, 2001.
Georgia	Approximately 50 cases/month	Overall eligibility error rate: 1%	Georgia's Quality Control study is not available; information obtained from Fran Ellington, Director of Recipient and Third Party Services, Department of Community Health, Georgia Medical Assistance Plans.
Idaho	400 Family Medicaid cases	Overall eligibility error rate: 2%	Idaho Department of Health and Welfare, Division of Welfare Program and Operations, Pilot Project Error Elimination Review (PEERS) Final Report FFY 2003.
Maryland	20-40 cases/ month	Income eligibility error rate: <1%	Maryland Department of Health and Mental Hygiene, Maryland Children's Health Program Quality Review Program, "Annual Report for November 2000 to October 2001," March 6, 2002.
Michigan	n/a	n/a	n/a*
Oklahoma	Approximately 60 cases/month	Overall payment error rate: <1%	Oklahoma's Quality Control study is not available; information obtained from Stuart McCollom, Program Administrator, Administrative Review Unit, Office of Inspector General, Oklahoma Department of Human Services.
Vermont	Approximately 30 positive cases/ month	Overall payment error rate: <1%	Vermont's Quality Control study is not available; information obtained from Linda Knosp, Quality Control Fraud Chief, Vermont Department of Prevention, Assistance, Transition, and Health Access.
Washington	1140 cases	Income eligibility error rate: 12%	Washington State Department of Social and Health Services, Medical Assistance Administration, "Medicaid Eligibility Quality Control Project #27: Self-declaration of Income," December 2002.
Wisconsin	608 cases	Income eligibility error rate: 6%	Wisconsin Department of Health and Family Services, "The State of Wisconsin's Medicaid Eligibility Quality Control: 2002, "November 2003.
Wyoming	65 cases/month	Income eligibility error rate: 4%	Wyoming Department of Family Services, "Medicaid Eligibility Quality Control Pilot Project April 2001-June 2002," October 2003.

* While error data were not available from Michigan for this survey, the General Accounting Office reports that in 2001. Michigan's error rate was 3 percent. this rate pertains to both SCHIP and Medicaid and is an overall rate, not specific to income error. The report does not specify whether ths refers to payment or eligibility error (GAO 2001).