



## **Program Design Snapshot: Paperless Income Verification**

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### **Description**

Medicaid and the Children's Health Insurance Programs (CHIP) collect information on families' incomes in order to determine eligibility. States verify this income information both to ensure that families receive appropriate benefits and to protect program integrity. Verification can be accomplished in a number of ways. Most states require applicants to present paper copies of pay stubs and other documents, such as records of child support payments, to verify their incomes. States, though, have the opportunity to modernize their programs and improve efficiency by minimizing their reliance on paper documents, while expanding the use of computerized verification systems. Several states already rely on paperless income verification (sometimes called administrative verification), which allows them to use existing administrative data, rather than paper documents, to confirm applicants' sworn statements about their income. There are many different sources for data on income, including private and public wage databases and public programs such as Food Stamps, unemployment compensation, TANF, and Social Security. Using available data from these sources can streamline enrollment and renewal, help more children stay covered, and ensure program integrity.

### **Legislative Background**

Federal law does not require that families seeking coverage for their children under Medicaid or CHIP provide paperwork to document their income, although states are allowed to ask for it. Federal law does require Medicaid programs to use an income and eligibility verification system (IEVS) to access income information from other federal and state agencies.<sup>1</sup> In CHIP, there are no specific federal income verification requirements although states must establish procedures to ensure the integrity of the eligibility determination process.<sup>2</sup> States, therefore, may use reliable, outside sources to access income data. As discussed below, both Medicaid and CHIP are subject to certain federal requirements to show the programs operate within permissible limits in terms of error rates.

### **Where States Stand**

As of January 2009, 14 states do not require families to provide paper documentation of their income at enrollment for one or both of their child health programs.<sup>3</sup> These same states, with the addition of New York, allow paperless verification of income at renewal. See <http://ccf.georgetown.edu/index/medicaid-and-SCHIP-programs> for information on enrollment and renewal procedures by state.

<b>States with Paperless Verification of Income at Enrollment and Renewal, as of January 2009</b>		
<b>State</b>	<b>Medicaid</b>	<b>Separate CHIP</b>
Alabama	N	Y
Arkansas	Y	N/A
Colorado	Y	Y
Connecticut	Y	Y
Hawaii	Y	N/A
Idaho	Y	Y
Louisiana*	Y	Y
Maryland	Y	N/A
Michigan	Y	Y
Montana	N	Y
New York (renewal only)	Y	Y
Oklahoma	Y	N/A
Tennessee	N	Y
Vermont	Y	Y
Wyoming	Y	Y

Note: N/A indicates states without separate CHIP programs. \* In Louisiana, documentation only required if the state is unable to verify income administratively.

Source: D. Cohen Ross & C. Marks, "Challenges of Providing Health Coverage for Children and Parents in a Recession," Kaiser Commission on Medicaid and the Uninsured, (January 2009).

In addition to these states, others have employed modified versions of paperless verification. For instance, Florida, Illinois, Utah, and West Virginia allow paperless verification at renewal if family income has not changed.<sup>4</sup>

### **The Benefits and Risks of Paperless Income Verification**

Using electronic sources of data to verify income can streamline the enrollment and renewal processes. This eases the burden on families and keeps more children covered, in addition to reducing the state's use of time and resources in processing applications. The primary challenge to using paperless verification is in establishing the system to minimize erroneous determinations but states using paperless verification have shown that they can be successful in keeping error rates low. Paperless verification of income can:

- 1. Eliminate enrollment and renewal barriers.** When paper documents are the primary means of verification, the eligibility determination process can present unintended barriers to enrollment and retention. Documentation of income is not always readily available for families; often they must contact and obtain paperwork from third parties such as employers or noncustodial parents. Locating and submitting paperwork introduce opportunities for enrollment and renewal applications to stall and increase the potential for denials.

States often enact multiple policy changes at once, so it can be difficult to isolate the precise effects on enrollment of each change. Nonetheless, several studies indicate the effectiveness of paperless verification in limiting enrollment and renewal barriers for families.

- One study estimated that paperless verification procedures led to a 3.5 percentage point increase in the average probability of a child's enrollment in Medicaid or CHIP.<sup>5</sup>
- Ohio conducted a two-year pilot program in its largest county to test paperless verification. Approval rates increased from 65% to 85%, enrollment times decreased from 30-60 days to 14-30 days, and retention rates improved. Error rates were reported to be low, although specific rates were not cited.<sup>6</sup>

**2. Reduce churning.** Frequent and complex state renewal requirements, such as paper income documentation, have been shown to generate large disenrollments.<sup>7</sup> For example, a study of five states showed that missing or incomplete verification of income or other data was the cause of a significant proportion of denials at redetermination—between 35 and 100 percent of denials were attributed to this reason.<sup>8</sup> But many children who lose coverage remain eligible and reenroll within a few months.<sup>9</sup> This so-called “churning” costs both families and taxpayers. Children's health is put at risk during gaps in coverage and their quality of care suffers, while states and managed care plans must absorb the increased costs of disenrollment-reenrollment cycles. Paperless verification is one of a range of simplification policies that can address the costs of churning.

**3. Increase administrative efficiencies.** In addition to keeping children covered, paperless income verification can increase efficiency for states. Using an automated data match to verify income frees workers from requesting, following up on, collecting, and processing income paperwork. It can reduce overall case processing times. It can also encourage further system improvements because it makes use of more automated systems and the same information technology can be put to use in other tasks.

Paperless verification of income at enrollment and renewal also offers a way to increase efficiency across programs. Other programs, like Food Stamps, TANF, and unemployment compensation, must check income frequently because benefit levels are sensitive to changes in income—lower income means higher food stamp benefits, for instance. But in Medicaid and CHIP, families are either eligible or not eligible—income fluctuations generally matter only when a family crosses the eligibility threshold (though in some states, income changes can affect cost-sharing obligations). Therefore, it makes sense for Medicaid and CHIP to make use of the more frequently collected income data from other programs when they conduct enrollment and renewal determinations.

**4. Maintain quality control standards.** The potential for error is the main reason offered in support of requiring families to verify income through pay stubs and other documents. Income information from external databases must be sufficiently accurate and timely to avoid eligibility determination errors. States' experiences, however, have shown that error rates usually remain low under paperless verification. Researchers found that most states—eight of eleven states that verified income data administratively in 2003—experienced error rates of 3% or below. Two more were between 4-6%, and one exceeded 6%. States with higher error rates verified income after an eligibility determination had been made, while lower error rates

were associated with predetermination checks.<sup>10</sup> In addition, because paperless verification eases enrollment and renewal for eligible families, it can help to reduce negative case errors—those determinations that incorrectly terminate or deny eligible children.

## Issues to Consider

**Federal Quality Control Requirements:** With or without paper documentation of income, states remain responsible for assuring the accuracy of their eligibility determinations. Medicaid programs must comply with Medicaid Eligibility Quality Control (MEQC) procedures and, every three years, both Medicaid and CHIP are subject to Payment Error Rate Measurements (PERM) reviews. CMS has clarified that MEQC procedures should not preclude simplification measures like paperless verification and suggests that states conduct focused reviews or use targeted samples to maintain accuracy in simplified systems.<sup>11</sup> Likewise, the PERM process allows for paperless verification of income. In a PERM review, states may rely on documentation from a reliable third-party source, for example, another program's database, as long as the information is not older than 12 months.<sup>12</sup> In addition, the CHIP law enacted in 2009 requires that CMS issue new PERM regulations and specifically states that the new regulations must ensure that payment error rates do not interfere with the use of self-verification if a state is following federally-approved procedures.

**Social Security Numbers:** Due to the structure of existing databases, accessing data on a family's income is easier with the Social Security numbers (SSNs) of the household's earners. However, states must comply with federal laws on the collection of SSNs. Social Security numbers (or proof of application for a SSN) must be provided for Medicaid applicants, but they may not be *required* for other members of the applicant's household. For children applying to Medicaid, this means the child's SSN must be on the application, but the household's wage earner—the parent—cannot be required to provide his or her SSN.<sup>13</sup> For CHIP, states can require the applicant child's SSN but it is not a federal requirement.<sup>14</sup>

Because databases often use SSNs as identifiers, it can be difficult to match wage data without them. One way to address this challenge is to give families the choice of providing SSNs for all wage earners in the household or providing income documentation. This allows families and the state to benefit from paperless verification simplifications in the cases when families are willing to provide SSNs, but preserves the choice for those who are not.

**Administration:** Verifying income using other government databases requires cooperation and coordination with other programs. Medicaid and CHIP officials must identify which other programs possess timely data and establish data sharing procedures. This also requires states to invest in technology to ensure that different computer systems can share data in a useful way. States typically use four to five databases to confirm income information—Food Stamps, TANF, Social Security, the IRS, and state wage and unemployment compensation programs. Typically, state Medicaid agencies already have access to these databases. In addition, some states also check child support and child care subsidy databases and a private wage database called The Work Number. States must also decide whether to perform verification checks with these databases before or after eligibility determinations.<sup>15</sup>

**Implementation Options:** States can use intermediate steps before adopting a state- and program-wide paperless verification system. Establishing a pilot paperless verification program in a county, city, or region can assist the state in testing the effectiveness of its system. States can also begin by implementing paperless verification at renewal or by establishing administrative renewal. Administrative renewals require families to review pre-printed renewal forms and send them back to the agency to report changes in income or family circumstances. Another variation is to allow paperless verification when income is stable and far from the eligibility threshold. For example, in Louisiana, families with reported incomes below 75% of the eligibility limit do not have to provide pay stubs since the state found through testing that an error is unlikely to affect their eligibility status.<sup>16</sup>

**Other Enrollment and Renewal Simplifications:** While paperless verification of income can remove one important barrier to enrollment and renewal for many families, other policies can further ease the obstacles to gaining and keeping coverage. Such policies include making the renewal form simple and easy to understand, allowing children to stay enrolled for 12 continuous months, and making any premiums easier to pay. For additional information on these and other retention strategies see the <http://ccf.georgetown.edu/index/strategy-center>.

**Medicaid/CHIP Coordination:** Both families and states can benefit from aligned practices in Medicaid and CHIP and paperless verification of income can be implemented in both. When programs are coordinated, families who transition from one program to another do not have to respond to different paperwork requirements and have a better idea of what to expect.

### For More Information

Additional information on administrative income verification and the related practice of self-declaration of income is available from the following sources.

#### [The Burden of Proof: How Much is Too Much for Health Care Coverage?, 2nd. Ed.](#)

Nicole Ravenell, ed., Southern Institute on Children and Families, October 2003.

This publication provides CMS responses to state questions about verification requirements in Medicaid and CHIP.

#### [Lessons from States with Self-Declaration of Income Policies](#)

Danielle Holahan and Elise Hubert, United Hospital Fund, 2004.

This study examines self-declaration of income, available verification databases, and the impact of income policies in twelve states.

### Endnotes

<sup>1</sup> 42 CFR 435.948.

<sup>2</sup> 42 CFR 457.380; and N. Ravenell, ed., "The Burden of Proof: How Much is Too Much for Health Care Coverage?" Second Edition, Southern Institute on Children and Families (October 2003).

<sup>3</sup> D. Cohen Ross & C. Marks, "Challenges of Providing Health Coverage for Children and Parents in a Recession," Kaiser Commission on Medicaid and the Uninsured, (January 2009).

<sup>4</sup> *ibid.*

<sup>5</sup> K. Kronebusch and B. Elble, "Simplifying Children's Medicaid and SCHIP: What helps? What hurts? What's next for the states?" *Health Affairs*, 23(3): 233-246 (May/June 2004).

<sup>6</sup> C. Penn and R. Staib, “Income Self-Declaration Boosts Enrollment for Healthy Start/Healthy Families,” Ohio Department of Job and Family Services and Cuyahoga Health and Nutrition (January 2002).

<sup>7</sup> A. Dick, et al., “Consequences of States’ Policies for SCHIP Disenrollment,” *Health Care Financing Review*, 23(3): 65-88 (Spring 2002); L. Ku and D.C. Ross, “Staying Covered: The Importance Of Retaining Health Insurance For Low-Income Families,” Center on Budget and Policy Priorities (December 2002); and I. Hill and A.W. Lutzky, “Is There a Hole in the Bucket? Understanding SCHIP Retention,” Urban Institute (2003).

<sup>8</sup> *ibid.*, (I. Hill and A.W. Lutzky).

<sup>9</sup> *ibid.*; B. Sommers, “From Medicaid to Uninsured: Drop-Out Among Children in Public Insurance Programs,” *Health Services Research* 40(1): 59-78 (February 2005); and L. Summer and C. Mann, “Instability of Public Health Insurance Coverage,” The Commonwealth Fund (June 2006).

<sup>10</sup> One additional state, Washington, allowed self-declaration of income but did not administratively verify the data and reported an income error rate of 12%. D. Holahan and E. Hubert, “Lessons from States with Self-Declaration of Income Policies,” United Hospital Fund (2004).

<sup>11</sup> Centers for Medicare and Medicaid Services, “Continuing the Progress: Enrolling and Retaining Low-Income Families and Children in Health Care Coverage,” CMS Publication No. 11000, August 2001.

<sup>12</sup> Centers for Medicare and Medicaid Services, “Payment Error Rate Measurement, Verifying Eligibility for Medicaid and SCHIP Benefits,” (October 2007).

<sup>13</sup> 42 *CFR* 435.910.

<sup>14</sup> *op. cit.* (2), Ravenell, p. 20.

<sup>15</sup> *op. cit.* (10).

<sup>16</sup> Communication with Ruth Kennedy, Medicaid Deputy Director/LaCHIP Director, Louisiana Department of Health and Hospitals, December 2008.

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## Acknowledgements

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