Medicaid or Subsidized Commercial Insurance? Evidence from Income Manipulation around the ACA Medicaid Expansion's Eligibility Thresholds.

Authors: Keith Marzilli Ericson[1,2], Aaron Schwartz[3], Julie Shi[4], Jacob Wallace[5]

1. Boston University Questrom School of Business; kericson@bu.edu
2. National Bureau of Economic Research
3. Harvard University; aschwart@fas.harvard.edu
4. Peking University; jshi@pku.edu.cn
5. Harvard University; jacobwallace@fas.harvard.edu

Extended Abstract

There is a debate over whether Medicaid coverage is preferable to other sources of insurance coverage. We use a revealed preference to determine whether households prefer Medicaid to subsidized health insurance purchased on health insurance exchanges (HIXs). The Affordable Care Act (ACA) incentivizes states to expand Medicaid to households up to 138% of the federal poverty level (FPL), as well as provided premium tax credits to purchase insurance via health insurance exchanges (HIX). In states that expand Medicaid eligibility, households at 138% of the FPL face a choice: manipulate income down to be eligible for Medicaid, or manipulate income up and become eligible for premium tax credits on the HIX. This paper builds on the previous work of Shi (2015), who examined the Massachusetts' Medicaid expansion and found evidence that individuals adjusted their income to fall below the 150% and 300% FPL thresholds.

We examine how income is distorted in response to the ACA's Medicaid expansion and HIX subsidies using a difference-in-difference design and data from the 2013 and 2014 American Community Survey. In states that expanded Medicaid, we examine discontinuities in the income density at 138% FPL, the point at which households transition from being eligible for Medicaid to being eligible for premium tax credits on the HIX. Whether the density is higher above or below the threshold indicates whether households prefer Medicaid coverage or subsidized HIX coverage.

In states that did not expand Medicaid, we examine discontinuities at 100% FPL, where households become eligible for premium tax credits on this HIX.

Because the ACA allowed states to expand Medicaid prior to 2014, we also test for income discontinuities in six states that pursued the early expansion option. We find a significant discontinuity in California, which had a relatively large Medicaid expansion in 2010 up to 200% of the FPL. The five other early expansion states have no detectable discontinuity at their eligibility thresholds, which may be a result of the smaller size and reduced visibility of these expansions.