



Extending Medicaid and CHIP Coverage for Children: Long-Run Budgetary Effects of the President's 2025 Budget Proposal

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Summary

The President's budget request for fiscal year 2025 includes a proposal that would allow states to let all children who qualify for health care coverage through Medicaid or the Children's Health Insurance Program (CHIP) remain in the program for three years regardless of changes to their family's circumstances that might affect their eligibility. Such a policy is referred to as continuous eligibility. States would also have the option to provide continuous eligibility to qualifying children from birth through age 5.

In this report, the Congressional Budget Office describes how the impact of that proposed policy on children's health insurance coverage during the fiscal year 2025–2034 period would affect the U.S. economy and the federal budget over the long run (through 2099). CBO projects that increases in children's enrollment in Medicaid and CHIP would result in better health for those children and higher average earnings when they became adults, along with other effects on the economy.

Changes in the federal budget that result from a policy's economic effects are known as budgetary feedback. This report focuses on the economic effects and budgetary feedback that are estimated to accrue through 2099 because of the additional enrollment in Medicaid and CHIP (relative to projected enrollment under current law) that would occur during the fiscal year 2025–2034 period under the policy.¹

CBO compared the present value of those long-run effects with the policy's initial direct costs during the

fiscal year 2025–2034 period, as based on CBO's cost estimate for the policy (which does not include economic effects and budgetary feedback).² The results are sensitive to many parameter values used in the estimate, most notably the discount rates used to calculate the present value of future costs and savings and the method of financing the continuous eligibility policy:

- If the policy was financed in a deficit-neutral way, by reducing other federal noninvestment spending, the budgetary feedback effects associated with increases in the adult earnings of affected children and related economic changes could offset 15 percent to 86 percent of the proposal's initial direct costs on a present-value basis, CBO estimates. That range of estimates reflects different discount rates.
- If the policy was financed through additional federal borrowing, its net long-term budgetary feedback effects would be negative rather than positive. On a present-value basis, those effects would increase the budget deficit by an additional 34 percent to 130 percent of the initial direct costs of the policy.

This analysis differs in three important ways from an analysis of a similar illustrative policy that CBO

1. Any changes to the economy or the federal budget resulting from additional enrollment in Medicaid and CHIP after fiscal year 2034, and any direct costs of the policy after that year, are beyond the scope of this analysis.

2. A present value expresses a flow of current and future income or payments as a single equivalent lump-sum value at a specific time, generally the present. That value depends on the rate, known as the discount rate, that is used to translate future cash flows into current dollars. For more information, see Congressional Budget Office, *How CBO Uses Discount Rates to Estimate the Present Value of Future Costs or Savings* (October 2024), www.cbo.gov/publication/60284. For details of CBO's cost estimate for the President's policy, see Congressional Budget Office, "Estimate of the President's Budget Request for Fiscal Year 2025: Proposals Affecting Health Programs in Budget Function 550" (August 2024), <https://tinyurl.com/mtyfc6n6>.

published in 2023.³ First, for the policy's initial direct costs, this analysis uses the total net cost instead of average outlays for Medicaid. The total net cost incorporates offsets in federal costs for children who would have other sources of health insurance in the absence of the policy.

Second, CBO refined its estimates of the distribution of family income for children affected by the policy. Specifically, CBO incorporated the expectation that the average family income of affected children would be higher than that of Medicaid enrollees under current law, because the policy would keep children enrolled regardless of changes in income. As a result, the children who would be affected by the President's policy are projected to have higher family income than the distribution used in CBO's previous analysis. The estimated size of the effect on future earnings decreases with family income, so the updated income distribution reduces the budgetary feedback effects of the policy relative to the effects estimated in the previous analysis.

Third, CBO revised its method for estimating the overall economic impact of changes in affected children's earnings as adults. The revised method better reflects how changes to their earnings would alter the income of other people, national savings, and investment behavior.

Details of the Proposed Policy and Its Initial Direct Costs

Since January 1, 2024, states have been required to provide 12 months of continuous eligibility for children under 19 who qualify for Medicaid or CHIP. (Like Medicaid, CHIP is a joint federal-state program; it provides health coverage to children in families whose income is low but is above the threshold to qualify for Medicaid.) In addition, some states have federally approved waivers that allow continuous eligibility for children in those programs for multiple years.⁴

The President's budget for fiscal year 2025 includes a proposal that would give states the option to extend

continuous eligibility for children in Medicaid or CHIP to 36 months. It also includes a proposal that would allow states to provide continuous eligibility for children in those programs from birth through age 5.⁵ Under those policies, children could remain in Medicaid or CHIP for the specified period even if their family's income or other circumstances changed in ways that would otherwise affect their eligibility for benefits.

In its estimates of health-related proposals in the President's budget, CBO examined how those two proposals, if enacted, would affect the federal budget relative to CBO's latest current-law baseline budget projections, which cover fiscal years 2025 to 2034.⁶ In this report, CBO treats the two proposals as a single policy and estimates how the policy's effects on children's health insurance coverage during that 10-year period would affect the economy and, by extension, the federal budget through 2099. The present value of those long-term economic effects and resulting budgetary effects is compared with the present value of the policy's initial direct costs over the fiscal year 2025–2034 period.

CBO estimates that the policy would increase the enrollment of children in Medicaid and CHIP by about 400,000 full-year equivalents, on average, in each fiscal year from 2025 to 2034. Roughly 60 percent of those children would have private health insurance under current law (through a family member's employer or the marketplaces established under the Affordable Care Act), and the other 40 percent would be uninsured, in CBO's estimation.⁷ Of the children enrolled in private health insurance under current law, roughly 60 percent would continue that coverage under the new policy but also enroll in Medicaid or CHIP. CBO's estimate of the number of people with multiple sources of coverage is based on data from the continuous coverage provision that was in effect from March 2020 to March 2023 (during most of the period officially considered the COVID-19 public health emergency in the United States). During

3. Elizabeth Ash and others, *Exploring the Effects of Medicaid During Childhood on the Economy and the Budget*, Working Paper 2023-07 (Congressional Budget Office, November 2023), www.cbo.gov/publication/59231.

4. Elisabeth Wright Burak, "North Carolina and Hawaii Make 10: States Advancing Medicaid/CHIP Multi-Year Continuous Eligibility for Young Children" (Georgetown University, McCourt School of Public Policy, Center for Children and Families, November 16, 2023), <https://tinyurl.com/bdhuxy9>.

5. Office of Management and Budget, *Budget of the U.S. Government: Fiscal Year 2025* (March 2024), pp. 21, 77–78, 151, and 165, www.whitehouse.gov/omb/budget.

6. Congressional Budget Office, "Estimate of the President's Budget Request for Fiscal Year 2025: Proposals Affecting Health Programs in Budget Function 550" (August 2024), <https://tinyurl.com/mtyfc6n6>.

7. CBO estimates that 6.5 percent of children would be uninsured in 2034 under the President's policy, compared with 6.8 percent in 2034 under current law.

that time, all states provided continuous eligibility to Medicaid enrollees in exchange for an increase in the federal matching funds they received for Medicaid.

CBO also estimates that the President's policy would add a total of \$10.5 billion to federal outlays for Medicaid and CHIP over the fiscal year 2025–2034 period. Some children who are projected to be enrolled in employment-based or marketplace insurance under current law would no longer be enrolled in that insurance under the new policy. Because premiums paid for employment-based health insurance receive preferential tax treatment, and because eligible people who buy health insurance through the marketplaces can receive premium tax credits, the decrease in the number of children with such insurance would partly offset the increases in outlays for Medicaid and CHIP under the policy. CBO and the staff of the Joint Committee on Taxation (JCT) estimate that those offsets would amount to a decrease in outlays of \$1.1 billion and an increase in revenues of \$1.3 billion over the fiscal year 2025–2034 period.⁸ Thus, on net, the policy would increase the primary budget deficit (which excludes net spending for interest) during that period by a total of \$8.1 billion in nominal terms (that is, with no discounting or adjustments to remove the effects of inflation), CBO and JCT estimate.

CBO's Analytic Methods

In accord with long-standing practice, CBO's conventional estimates of the initial direct costs of a policy proposal cover only the nominal changes in federal spending that would result from the policy over a 10-year projection period. In addition, conventional cost estimates incorporate the assumption that the nation's economic output—as measured by nominal gross domestic product (GDP)—would be the same with or without the policy. Consequently, those estimates do not capture the effects of how changes in the economy resulting from the policy would in turn affect the federal budget.⁹

In this analysis, CBO estimates the long-term economic and budgetary effects of the President's continuous

eligibility policy in present-value terms, using two different approaches to translate future costs and savings into an equivalent lump sum today. Under the first approach, CBO discounts expected future cash flows by the yields on Treasury securities of similar maturities—the same method required by the Federal Credit Reform Act of 1990 for budget estimates of federal credit programs. Under the second approach, called fair-value estimating, CBO uses a higher discount rate to capture market risk (the element of financial risk that is associated with the overall performance of the economy rather than with the performance of a specific investment). CBO estimated that higher discount rate using methods that academic studies have used to measure the financial value of payments that are based on future wages.¹⁰

In this analysis, CBO also considers two methods of financing the policy to extend children's eligibility for Medicaid and CHIP.¹¹ In the deficit-neutral method, lawmakers reduce other federal noninvestment spending by enough to offset the initial direct costs of the policy, leaving the budget deficit unchanged (not accounting for economic changes and the resulting budgetary effects). In the deficit-financed method, lawmakers fund the policy by increasing federal borrowing. Increases in federal borrowing reduce national savings, leading to higher interest rates and thus reducing private investment (a phenomenon called crowding out). Less investment leads to a smaller stock of productive capital and smaller GDP

8. For more information about how CBO and JCT collaborate to analyze the budgetary effects of changes in health insurance, see Congressional Budget Office, "How CBO and JCT Analyze Major Proposals That Would Affect Health Insurance Choices" (January 2020), www.cbo.gov/publication/56053.

9. For more information about how CBO produces cost estimates, see Congressional Budget Office, *CBO Describes Its Cost-Estimating Process* (April 2023), www.cbo.gov/publication/59003.

10. For more details, see Congressional Budget Office, *How CBO Uses Discount Rates to Estimate the Present Value of Future Costs or Savings* (October 2024), www.cbo.gov/publication/60284, and *How CBO Produces Fair-Value Estimates of the Cost of Federal Credit Programs: A Primer* (July 2018), www.cbo.gov/publication/53886. The specific discount rates and associated discount factors used in this analysis are included in the supplemental data posted with this report at www.cbo.gov/publication/60666. For 2025, the first future year in this analysis, CBO used a Treasury discount rate of 5.0 percent and a fair-value discount rate of 5.3 percent. CBO projects that Treasury discount rates and fair-value discount rates will tend to diverge over the following 30 years, equaling 4.7 percent and 8.3 percent, respectively, in 2054.

11. The President's budget request contains many other proposed policies that could be used to offset some or all of the budgetary effects of extending children's continuous eligibility for Medicaid and CHIP. For CBO's analysis of the budgetary effects of the President's policy proposals, see Congressional Budget Office, *An Analysis of the President's 2025 Budget* (October 2024), www.cbo.gov/publication/60438. Many of those policies would affect economic output by directly altering people's incentives to work and save or by affecting productivity—thus generating additional budgetary feedback effects.

over time. The decrease in GDP further reduces saving and investment. Those economic effects in turn affect the federal budget.

This report focuses on three key estimates:

- The initial direct costs of the policy (CBO’s conventional cost estimate), which encompass both the increase in spending on Medicaid and CHIP and the offsetting reduction in federal subsidies for private health insurance over the fiscal year 2025–2034 period.
- The policy’s impact on GDP, which reflects several factors: the increase in the adult earnings of children who remain enrolled in Medicaid and CHIP longer during the fiscal year 2025–2034 period because of the policy; the increase in capital income that occurs because improvements in those adult workers’ labor quality (the skills and knowledge they acquire through education and experience) increase the returns on capital; and subsequent increases in saving and investment resulting from those workers’ higher income and from the increase in capital income (as well as decreases in saving and investment resulting from greater federal borrowing in the case of deficit financing).
- The feedback effects on the budget resulting from the policy’s economic effects, which account for changes in tax revenues (net of means-tested transfers) stemming from the changes in labor and capital income.¹² Those budgetary feedback effects also include increases in spending resulting from higher net interest payments on federal debt because the increased returns on capital (as well as greater federal borrowing in the case of deficit financing) would raise interest rates.

To estimate the long-run effects of Medicaid or CHIP coverage on future earnings, CBO first projects the earnings of affected children without the policy change. That projection is based on information about the family income of children who would be likely to remain enrolled in Medicaid or CHIP during the fiscal year 2025–2034 period under the President’s policy but not under current law. Those children’s future earnings under the policy are estimated as a percentage change from

12. Means-tested transfers are cash payments and in-kind services provided through government assistance programs. People’s eligibility is determined mainly on the basis of income, which must be below certain thresholds.

CBO’s baseline earnings projection, with that change reflecting an increase in their labor quality.¹³

The improvement in labor quality also increases returns on capital and boosts capital income. In CBO’s assessment, the change in capital income resulting from greater labor quality is proportional to the ratio of capital to labor income in CBO’s baseline economic projections. That change in capital income accrues to owners of capital, who tend to differ from the people directly affected by changes in Medicaid policy.

The resulting increases in income throughout the economy would boost saving, which would further increase investment and GDP. In CBO’s assessment, the children affected by the policy would save a smaller percentage of their income in adulthood than the average adult in the population (because, on average, children from lower-income families are more likely to have lower earnings in adulthood, and lower-income households typically save less than higher-income households).¹⁴ Thus, when estimating the effects on investment and GDP, CBO applies a lower saving rate to the change in labor income among affected children but applies the average saving rate to all other changes in income.

Next, CBO estimates the effects of those economic changes on the budget and discounts expected future cash flows to 2024 dollars. To estimate the effects of the increase in future labor income among affected children, CBO uses the applicable marginal federal tax rates (net of means-tested transfers) on labor income.¹⁵ To estimate the effects of the increase in capital income resulting from the boost in labor quality, CBO uses the

13. In the analysis of a similar illustrative policy that CBO published in 2023, the authors did not explicitly consider CHIP coverage. Because the President’s policy would extend continuous eligibility for CHIP as well as for Medicaid, CBO assigned equivalent earnings effects to Medicaid and CHIP in this analysis, conditional on family income percentile in childhood. For details about the size of those effects and how they vary by age and family income, see Elizabeth Ash and others, *Exploring the Effects of Medicaid During Childhood on the Economy and the Budget*, Working Paper 2023-07 (Congressional Budget Office, November 2023), www.cbo.gov/publication/59231.

14. Raj Chetty and others, “Where Is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States,” *Quarterly Journal of Economics*, vol. 129, no. 4 (November 2014), pp. 1553–1623, <https://doi.org/10.1093/qje/qju022>.

15. A marginal tax rate is the percentage of an additional dollar of income that is paid in taxes.

Table 1.

Net Present Value of the Policy’s Effects on GDP and the Federal Budget

Billions of 2024 dollars

Discounting approach	Change in the budget deficit from the policy’s initial direct costs (fiscal years 2025 to 2034) ^a	Change in GDP from the policy (calendar years 2024 to 2099) ^b	Change in the budget deficit from the policy’s economic effects (calendar years 2024 to 2099)	
			In dollars	As a percentage of the policy’s initial direct costs
Deficit-neutral financing of the policy				
Treasury rate discounting	6.1	30.9	-5.2	-86
Fair-value discounting	n.a.	6.4	-0.9	-15
Deficit financing of the policy				
Treasury rate discounting	6.1	1.2	7.9	130
Fair-value discounting	n.a.	-0.6	2.1	34

Data source: Congressional Budget Office. See www.cbo.gov/publication/60666#data.

Under the continuous eligibility proposal in the President’s 2025 budget, states would have the option to let all children who qualify for health care coverage through Medicaid or CHIP remain covered for three years or from birth through age 5 regardless of changes to their family’s circumstances that might affect their eligibility for those programs.

These present-value estimates use two alternative approaches to translate future costs and savings into an equivalent lump sum today. Under the first approach, CBO discounts expected future cash flows by the yields on Treasury securities of similar maturities (the same method required by the Federal Credit Reform Act of 1990 for budget estimates of federal credit programs). Under the second approach, called fair-value estimating, CBO uses a higher discount rate to capture market risk (the element of financial risk that is associated with the overall performance of the economy rather than with the performance of a specific investment).

Negative numbers indicate a reduction in GDP or in the federal budget deficit.

CHIP = Children’s Health Insurance Program; GDP = gross domestic product; n.a. = not applicable.

- a. The policy’s initial direct costs consist of the increase in federal outlays for Medicaid and CHIP and the decrease in federal subsidies for employment-based health insurance and insurance purchased through the marketplaces established under the Affordable Care Act from fiscal year 2025 to 2034. Estimates of those initial direct costs come from Congressional Budget Office, “Estimate of the President’s Budget Request for Fiscal Year 2025: Proposals Affecting Health Programs in Budget Function 550” (August 2024), <https://tinyurl.com/mtyfc6n6>. They have been converted to net present values for this analysis.
- b. The change in GDP reflects changes in labor income and capital income throughout the economy from calendar year 2024 to 2099 as a result of the additional enrollment of children in Medicaid and CHIP from fiscal year 2025 to 2034. If the policy was financed by increasing federal borrowing, that increase would reduce national savings and crowd out private investment, leading over time to higher interest rates, a smaller stock of productive capital, and smaller GDP. Those effects would result in a smaller total change in GDP than would occur if the policy was financed in a deficit-neutral way.

average tax rate on capital income in the U.S. economy. And to estimate the effects of additional changes to GDP—which stem from changes in saving and investment, including the effects of crowding out if the policy is financed through an increase in federal borrowing—CBO uses the average marginal tax rate (net of means-tested transfers) economywide.

Results of CBO’s Analysis

The President’s proposed policy to extend continuous eligibility for children in Medicaid or CHIP would have initial direct costs over the fiscal year 2025–2034 period equivalent to \$6.1 billion (in 2024 dollars) on a present-value basis, CBO estimates (see Table 1), or \$8.1 billion without discounting. For the present-value estimate, CBO discounted future costs using projected

interest rates on Treasury securities, which are generally considered risk-free, because the policy’s direct costs are not subject to market risk.¹⁶

The present values of the policy’s long-run effects on GDP and the federal budget depend on the discount rate that CBO used to convert those cash flows into 2024 dollars—either Treasury rates or higher, fair-value rates that account for market risk. Fair-value discount rates reflect the higher rates of return that private investors would require to accept the market risk associated

16. A Treasury security is generally seen as free of credit risk (the risk that the federal government will default). But it is subject to interest rate risk (the risk that results from changes in prevailing interest rates) when the holder sells the security before its maturity date.



with the policy. That risk is passed on to government stakeholders—both beneficiaries of government programs and taxpayers—for whom, as investors, it would have a cost. The economic and budgetary effects of the policy would be greater when overall income levels were higher (and would be smaller when overall income levels were lower), meaning that spending on Medicaid tends to have larger returns when incomes are high than when they are low. Private investors require higher average rates of return for investments that pay off when they least need the money. Discounting the future effects using those higher rates results in lower present values.

The method used to finance the policy also affects projections of its economic and budgetary outcomes. If the policy was financed in a deficit-neutral way, its effects on the economy over the long run would offset some of the policy's initial direct costs on a present-value basis, in CBO's estimation:

- Using Treasury rates for discounting, CBO estimates that GDP would increase by \$30.9 billion through 2099. The budgetary feedback effects of that change would reduce the total budget deficit by \$5.2 billion over that period, offsetting 86 percent of the policy's initial direct costs.
- Using fair-value discounting, CBO estimates that GDP would increase by \$6.4 billion through 2099. The budgetary feedback effects of that change would reduce the deficit by \$0.9 billion over that period, offsetting 15 percent of the policy's initial direct costs.

If, by contrast, the policy was financed entirely through additional federal borrowing, the budgetary effects of crowding out (reduced revenues and added interest costs) would be larger than the budgetary effects of increased earnings for affected children.¹⁷ In that case, the long-run effects on the budget would increase the total present-value cost of the policy, in CBO's estimation:

- Using Treasury rates for discounting, CBO estimates that GDP would increase by \$1.2 billion through 2099. The budgetary feedback effects of that change (including higher net interest costs) would increase the budget deficit over that period by \$7.9 billion, or 130 percent of the policy's initial direct costs.

- Using fair-value discounting, CBO estimates that GDP would shrink by \$0.6 billion through 2099. The budgetary feedback effects of that change (including higher net interest costs) would increase the budget deficit over that period by \$2.1 billion, or 34 percent of the policy's initial direct costs.

To illustrate how the effects of the policy would accumulate over time, CBO analyzed how the net present value of those effects would change as the time horizon of that calculation lengthened (see Figure 1). Under either approach to discounting and either financing method, the policy's cumulative budgetary feedback effects would be smaller than the initial direct costs, on a present-value basis, over any time horizon up to 75 years in the future, CBO estimates.

Limitations and Uncertainty of CBO's Estimates

The modeling framework that CBO uses for this report has several limitations, all of which are described in detail in the agency's previous analysis:¹⁸

- CBO includes the effects on affected children's earnings only from ages 20 to 65 (and the additional economic effects associated with those changes). However, the policy could have an impact on affected children's earnings beyond age 65, as well as on their Social Security and Medicare benefits after retirement.
- Additional Medicaid or CHIP coverage for children could affect the federal budget through other channels that are not included in this analysis, such as improvements in health and associated reductions in federal health care spending. To consider any other channels, either in this analysis or in a conventional cost estimate, CBO would require a substantial body of evidence and, particularly in the case of a conventional cost estimate, the ability to estimate the size of those effects within the 10-year budget period.
- Although this analysis incorporates CBO's estimates of how many states would choose to participate in the policy and how many children would be affected, other responses by state or local governments are not included in the analysis.

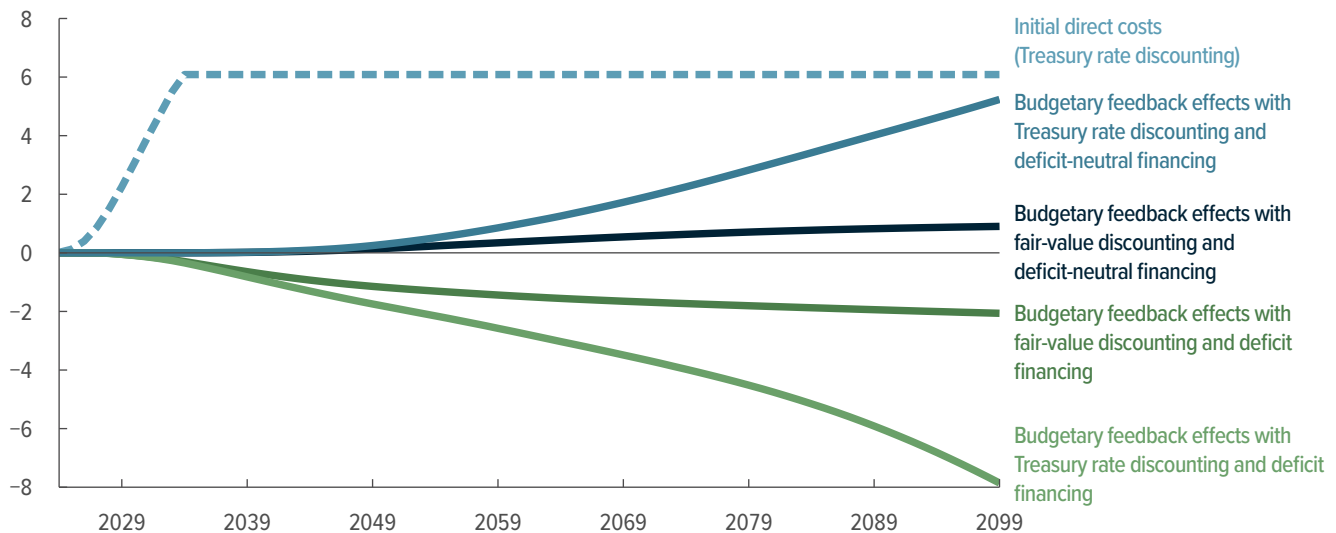
17. In this report, CBO follows a long-standing convention of cost estimates used for budget enforcement purposes: It excludes the interest costs generated by additional debt issued to finance a policy proposal and includes only the interest costs generated by the way in which changes to interest rates affect the amount of debt in the baseline projection.

18. Elizabeth Ash and others, *Exploring the Effects of Medicaid During Childhood on the Economy and the Budget*, Working Paper 2023-07 (Congressional Budget Office, November 2023), www.cbo.gov/publication/59231.

Figure 1.

Net Present Value of the Policy's Budgetary Effects, by Time Horizon of the Present-Value Calculation

Billions of 2024 dollars



Data source: Congressional Budget Office. See www.cbo.gov/publication/60666#data.

Under the continuous eligibility proposal in the President's 2025 budget, states would have the option to let all children who qualify for health care coverage through Medicaid or the Children's Health Insurance Program remain covered for three years or from birth through age 5 regardless of changes to their family's circumstances that might affect their eligibility for those programs.

"Budgetary feedback effects" refers to future changes in the federal budget as a result of the policy's effects on gross domestic product. Those budgetary effects reflect changes in revenues as well as in spending.

These present-value estimates use two alternative approaches to translate future costs and savings into an equivalent lump sum today. Under the first approach, CBO discounts expected future cash flows by the yields on Treasury securities of similar maturities (the same method required by the Federal Credit Reform Act of 1990 for budget estimates of federal credit programs). Under the second approach, called fair-value estimating, CBO uses a higher discount rate to capture market risk (the element of financial risk that is associated with the overall performance of the economy rather than with the performance of a specific investment).

Other limitations of the modeling framework that are not discussed in detail in CBO's previous analysis include the exclusion of parents' employment decisions and of intergenerational welfare dependency.

This analysis does not consider how the additional availability of health insurance for children could affect their parents' decisions about employment, because evidence on that issue in the research literature is mixed. In previous work, CBO projected that expanding access to health insurance for the adult population could reduce employment.¹⁹ However, the mechanisms through which Medicaid eligibility for children might affect their parents' labor market outcomes are different. The existing

research literature has found mixed results.²⁰ On the one hand, increasing the availability of Medicaid and CHIP for children could reduce parents' incentive to work because they might face lower costs than they would

19. Edward Harris and Shannon Mok, *How CBO Estimates the Effects of the Affordable Care Act on the Labor Market*, Working Paper 2015-09 (Congressional Budget Office, December 2015), www.cbo.gov/publication/51065.

20. For example, see Konstantin Kunze, *Public Health Insurance of Children and Parental Labor Market Outcomes*, Working Paper 349 (University of California, Davis, Department of Economics, March 2022), www.econstor.eu/handle/10419/267013; Daniel S. Grossman, Sebastian Tello-Trillo, and Barton Willage, *Health Insurance for Whom? The "Spill-Up" Effects of Children's Health Insurance on Mothers*, Working Paper 29661 (National Bureau of Economic Research, January 2022), www.nber.org/papers/w29661; John C. Ham and Lara D. Shore-Sheppard, "Did Expanding Medicaid Affect Welfare Participation?" *Industrial and Labor Relations Review*, vol. 58, no. 3 (April 2005), pp. 452–470, www.jstor.org/stable/30038598; and Aaron S. Yelowitz, "The Medicaid Notch, Labor Supply, and Welfare Participation: Evidence From Eligibility Expansions," *Quarterly Journal of Economics*, vol. 110, no. 4 (November 1995), pp. 909–939, <https://doi.org/10.2307/2946644>.

if their children were uninsured or had out-of-pocket expenses under private insurance. On the other hand, by removing the link between family income and children's eligibility for health coverage, a continuous eligibility policy could increase parents' incentive to work. Parents' participation in the labor market and work hours might also increase because additional access to Medicaid or CHIP could improve their children's health, meaning they had to spend less time attending to their children's health problems.²¹

This analysis also does not account for intergenerational welfare dependency—that is, the increased likelihood that people will participate in federal benefit programs as adults when they did so as children. Studies suggest that some of that increased likelihood may reflect greater familiarity with public programs when people are exposed to them early in life.²² This analysis excludes intergenerational welfare dependency for several reasons. First, the President's policy would extend the length of enrollment rather than expand eligibility to new populations, so it would be unlikely to increase familiarity with public programs. Second, the policy mainly targets people who currently exceed the income levels for Medicaid eligibility, and evidence indicates that children in families with higher income are less affected by policy expansions.²³ Third, participation in Medicaid as a child has been shown to improve health and economic outcomes in adulthood and thus decrease the likelihood of participating in means-tested programs.²⁴ Fourth, the evidence

for whether intergenerational welfare dependency exists is mixed.²⁵

In addition to those limitations of CBO's modeling, the projections of the policy's effects are uncertain because of the long time horizon considered in this analysis for the changes in income to fully materialize. Key areas of uncertainty include projections of children's future earnings in the absence of the policy, the size of the change in future earnings for affected children, and the effects of future policy decisions, particularly those related to federal taxes and transfer payments.²⁶

Comparison With CBO's Previous Analysis

In November 2023, CBO published a working paper analyzing how changes in Medicaid spending for children would affect the federal budget.²⁷ In that paper, CBO estimated the average effects of two illustrative policies for a one-year change in a child's Medicaid enrollment and found that the budgetary feedback effects of the policies would be larger than the initial direct costs

21. Various studies suggest that poorer health for children is associated with a reduction in parents' labor market participation and work hours. For more information, see Tine L. Mundbjerg Eriksen and others, "The Impact of Childhood Health Shocks on Parental Labor Supply," *Journal of Health Economics*, vol. 78 (July 2021), article 102486, <https://doi.org/10.1016/j.jhealeco.2021.102486>; and Paul Frijters and others, "To Work or Not to Work? Child Development and Maternal Labor Supply," *American Economic Journal: Applied Economics*, vol. 1, no. 3 (July 2009), pp. 97–110, <https://doi.org/10.1257/app.1.3.97>.
22. Robert Paul Hartley, Carlos Lamarche, and James P. Ziliak, "Welfare Reform and the Intergenerational Transmission of Dependence," *Journal of Political Economy*, vol. 130, no. 3 (March 2022), pp. 523–565, <https://doi.org/10.1086/717893>.
23. David W. Brown, Amanda E. Kowalski, and Ithai Z. Lurie, "Long-Term Impacts of Childhood Medicaid Expansions on Outcomes in Adulthood," *Review of Economic Studies*, vol. 87, no. 2 (March 2020), pp. 792–821, <https://doi.org/10.1093/restud/rdz039>.
24. Ibid.; Andrew Goodman-Bacon, "The Long-Run Effects of Childhood Insurance Coverage: Medicaid Implementation,

Adult Health, and Labor Market Outcomes," *American Economic Review*, vol. 111, no. 8 (August 2021), pp. 2550–2593, <https://doi.org/10.1257/aer.20171671>; and Sarah Miller and Laura R. Wherry, "The Long-Term Effects of Early Life Medicaid Coverage," *Journal of Human Resources*, vol. 54, no. 3 (July 2019), pp. 785–824, <https://doi.org/10.3368/jhr.54.3.0816.8173R1>.

25. A study that considered the effect on young people of receiving Supplemental Security Income (SSI) concluded that the correlation between parents' participation and their children's eventual participation was high. But it found that parents' removal from the SSI rolls had no causal effect on intergenerational SSI participation. For more information, see Manasi Deshpande, "Does Welfare Inhibit Success? The Long-Term Effects of Removing Low-Income Youth From the Disability Rolls," *American Economic Review*, vol. 106, no. 11 (November 2016), pp. 3300–3330, <https://doi.org/10.1257/aer.20151129>. Another study found that children of parents whose eligibility for the Disability Insurance program had been reduced were 11 percent less likely to participate in that program themselves, although their use of other government programs did not change (even though their parents shifted heavily to using other programs). See Gordon B. Dahl and Anne C. Gielen, "Intergenerational Spillovers in Disability Insurance," *American Economic Journal: Applied Economics*, vol. 13, no. 2 (April 2021), pp. 116–150, <https://doi.org/10.1257/app.20190544>.
26. Elizabeth Ash and others, *Exploring the Effects of Medicaid During Childhood on the Economy and the Budget*, Working Paper 2023-07 (Congressional Budget Office, November 2023), www.cbo.gov/publication/59231.
27. Ibid.

on a present-value basis in certain scenarios. In the current analysis, by contrast, there are no scenarios in which the budgetary feedback effects would be larger than the initial direct costs of the policy over the period of the analysis. The main reason is that CBO estimates that the President's policy would have much smaller effects on the adult earnings of affected children.

This analysis largely relies on the framework used in the 2023 working paper. However, it also incorporates estimates of initial direct costs and characteristics of affected children that are specific to the President's policy, revises the macroeconomic modeling approach, and uses a more recent CBO baseline for the underlying data.

Initial Direct Costs of the Policy

The total initial direct costs of the policy in this analysis are slightly lower, on net, than the estimate of Medicaid outlays used in the working paper, for two main reasons:

- The current analysis includes offsetting effects from reductions in federal subsidies for private health insurance to reflect the effects on the federal budget as a whole, whereas the prior analysis focused on Medicaid outlays.
- The current analysis accounts for a smaller expected increase in Medicaid and CHIP outlays for children who are projected to have multiple sources of health insurance under the policy compared with outlays for children who would be enrolled only in Medicaid or CHIP under the policy. The prior analysis did not incorporate that difference.²⁸

Those factors, which reduce initial direct costs in this analysis, are partially offset by higher estimates of Medicaid and CHIP outlays for children who are not projected to have multiple sources of health insurance under the policy. The increase in outlays for those children reflects CBO's most recent baseline, which projects higher Medicaid and CHIP outlays per child under current law than did the baseline used for the 2023 working paper.

Income and Age Distribution of Affected Children

The effect of Medicaid coverage during childhood on earnings in adulthood varies by family income and

age. That effect is larger for children with lower family income and for children who are enrolled in Medicaid at younger ages (including before birth), CBO estimates.²⁹

In CBO's modeling, the earnings effect declines as family income increases, because children from households with more income typically have greater access to other resources, potentially diminishing the marginal benefits of Medicaid or CHIP coverage. One such resource could be access to private health insurance through a family member's employer. In this analysis, CBO projects that a larger percentage of children enrolled in Medicaid or CHIP would be from higher-income families and have multiple sources of health insurance coverage under the President's proposal than would be the case under current law. The greater prevalence of Medicaid or CHIP enrollees with multiple sources of coverage under the policy not only lowers the policy's initial direct costs, as discussed above, but also reduces the future earnings effect for children.

For this analysis, CBO updated its estimate of the distribution of family income and ages of children who would be affected by the policy. In the previous analysis, CBO used the distribution of family income and ages of Medicaid enrollees in 2019 in the states that were considered most likely to be affected by the illustrative policy changes. CBO adjusted the distribution of family income upward for this analysis to account for the expectation that there would be more Medicaid and CHIP enrollees from higher-income families because the policy would keep children enrolled regardless of changes in their family's income.³⁰ That expectation is consistent with CBO's baseline projections of Medicaid and CHIP enrollment by income level for the years when the continuous eligibility provision associated with the COVID-19 public health emergency was in place. It is also consistent with CBO's analysis of administrative

28. For children enrolled in both employment-based coverage and Medicaid or CHIP, employment-based coverage would serve as the primary payer.

29. Elizabeth Ash and others, *Exploring the Effects of Medicaid During Childhood on the Economy and the Budget*, Working Paper 2023-07 (Congressional Budget Office, November 2023), www.cbo.gov/publication/59231.

30. CBO also found that under the continuous eligibility policy in effect during the COVID-19 public health emergency, Medicaid enrollment of infants declined. However, it was difficult to disentangle the effects of that policy from the sharp decrease in fertility that occurred during the pandemic, so CBO projected that a very small number of infants would be affected by the President's policy.

data from Medicaid for that period.³¹ Because the estimated size of the effect on future earnings decreases with family income, that updated income distribution reduces the budgetary feedback effects of this policy relative to the effects of the policy estimated in the working paper.

The updated age distribution is also consistent with administrative data from Medicaid for the period of the COVID-19-era continuous eligibility provision. In this analysis, a smaller percentage of affected children are in the 6- to 11-year-old age group, and larger percentages are under age 6 or over age 11, than in the previous analysis. The largest increase in projected enrollment between the two analyses involved 3- to 5-year-olds. Overall, however, the age distribution in this analysis is fairly similar to the distribution in the previous analysis.

31. Congressional Budget Office, *Federal Subsidies for Health Insurance: 2023 to 2033* (September 2023), p. 6, www.cbo.gov/publication/59273. Estimates from administrative data for Medicaid (the Transformed Medicaid Statistical Information System Analytic Files, or T-MSIS) suggest a significant increase in the number of people enrolled in both Medicaid and another source of health insurance, probably employment-based coverage, during the public health emergency period in which the continuous eligibility provision was in effect. Access to employment-based coverage tends to increase with income. Thus, the growth in employment-based coverage among Medicaid enrollees while that provision was in effect suggests that Medicaid enrollees had higher income, on average, during that time than during the period before that policy.

Macroeconomic Modeling

In the previous analysis, CBO estimated that the effects on GDP reflected a rise in labor quality and subsequent increase in earnings among affected children in adulthood and an associated increase in capital income. This report extends that approach to include the effects of higher income on saving and investment. That additional investment increases GDP and boosts the income of people not directly affected by the policy, CBO estimates, regardless of how the policy is financed. In CBO's assessment, the additional increase in GDP resulting from the change in investment incorporated in this report would be distributed throughout the economy.

Updated Underlying Data

For this analysis, CBO updated all of the components of its modeling approach to be consistent with the agency's June 2024 baseline projections.³² That baseline includes updated projections of earnings, tax rates, Treasury and fair-value discount rates, and Medicaid spending per child. The current baseline projections of earnings are very similar to CBO's May 2022 projections, which were used in the working paper. The current projections of tax rates are slightly lower than the 2022 projections. Projections of discount rates are higher than they were in 2022, leading to a lower present value of future income than in the working paper. Projections of Medicaid spending are also higher than they were in the May 2022 baseline.

32. Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2024 to 2034* (June 2024), www.cbo.gov/publication/60039.

This report was prepared at the request of the Chairman of the Senate Committee on the Budget. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the report makes no recommendations.

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Mark Doms and Jeffrey Kling reviewed the report. Christian Howlett edited it, and Jorge Salazar created the graphics and prepared the text for publication. The report is available at www.cbo.gov/publication/60666.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.



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