

The Earned Income Tax Credit (EITC) and Health Insurance Coverage of Mothers and Children

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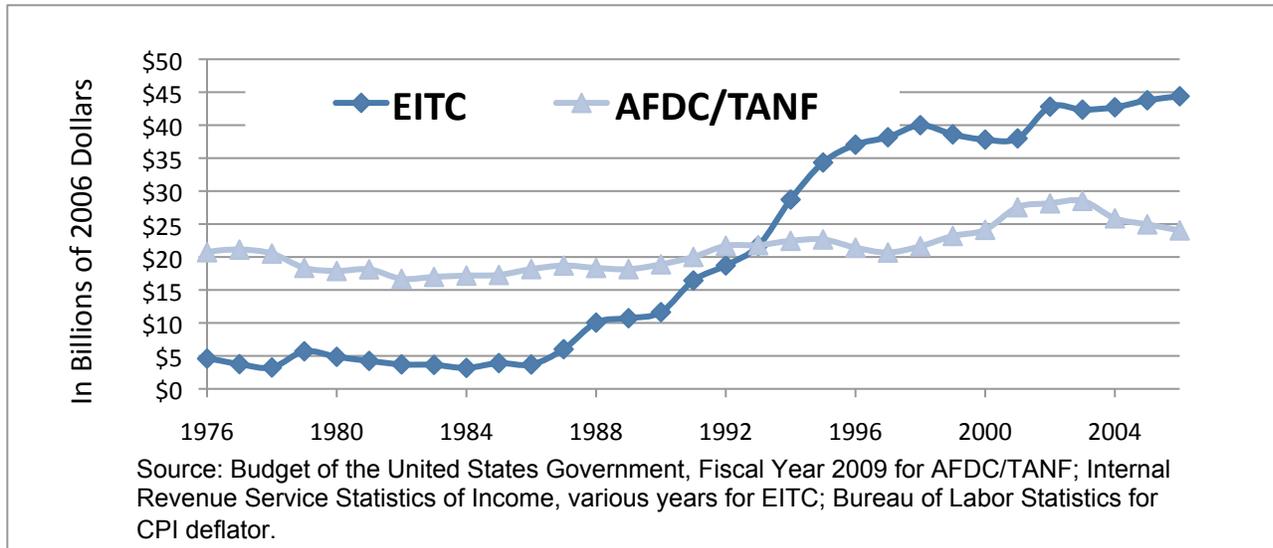


Figure 1: Real Federal Spending on EITC and Welfare

The Earned Income Tax Credit (EITC) is a federal income tax policy that subsidizes the wages of low-income earners while at the same time encouraging them to work. Because of these positive incentives, this program has been widely supported politically and financially. Since its introduction in 1976, as shown in Figure 1, this program has expanded tremendously, surpassing the funding level of Aid to Families with Dependent Children (AFDC) in 1994. The federal government spent \$41.2 billion on the EITC in 2006 and it is the largest cash anti-poverty program in the US. According to the Urban-Brookings Tax Policy Center, the credit lifts roughly 4 million people out of poverty each year.¹ In 1999, more than 80 percent of families with children eligible for the EITC claimed the credit, a much higher take-up rate than for

¹ <http://www.taxpolicycenter.org/briefing-book/key-elements/family/eitc.cfm>

Temporary Assistance to Needy Families (52 percent in 1999) or for food stamps (67 percent in 1999). Additionally, Meyer and Rosenbaum (2001) show that the EITC and other tax changes were more effective in encouraging single mothers to take up work during 1984 to 1996 than welfare benefit cuts, welfare waivers, training programs and child care programs.

Despite its popularity and its success in reducing poverty and increasing labor participation by low-income families, there have been few studies of the impact of the EITC on the wellbeing of recipient families. In this analysis, we examine the effect of EITC on the probability of having private health insurance coverage. We hypothesize that the EITC may encourage workers to accept lower salaries in return for higher benefits, especially health insurance, because lower salaries make them eligible for the EITC. If this is true, then receiving EITC would be positively associated with an increase in private health insurance coverage.

In order to test this hypothesis, we use three waves of Fragile Families Data. The data follows a cohort of nearly 5,000 children born in the U.S. between 1998 and 2000 and includes an over-sample of non-marital births. In contrast to other micro data, this survey records, at each wave, whether a family has applied for EITC tax credits. Based on labor earnings, marital status, and the number of children, we calculate whether each family is eligible for the EITC. As a result, we create a variable that indicates whether a household was eligible and had applied for EITC. We can compare these households to 1) households who were eligible but did not apply, 2) households who were not eligible but applied, and 3) households who were neither eligible nor applied for EITC credit. We include only households with positive labor earnings in the formal sector.

Table 1 presents our 4 groups of households sorted by average household labor earnings. Households that did not apply and were not eligible for EITC have the highest labor earnings,

followed by households who applied but were not eligible for EITC. Households who were eligible but did not apply have lower labor earnings than the households who were eligible and applied. Thus, we use these three comparison groups in three separate regressions to show how receiving EITC (applied and were eligible for EITC) in the previous wave is correlated with greater health insurance coverage of children and mothers. Our analysis includes fixed effects and a rich set of time-varying controls for household composition, socioeconomic status, and social support (both public and private).

Table 1. Four Groups in Terms of Eligibility and Application for the EITC (2nd follow-up wave)

	N	Average Labor Earnings (SD)
Household did not apply but was eligible	947	5,270 (9,084)
Household applied and was eligible	1193	9,284 (10,767)
Household applied but was not eligible	319	26,946 (22,775)
Household did not apply and was not eligible	416	37,109 (31,461)

As shown in Table 2, our preliminary findings suggest that when our comparison group is households who did not apply and were not eligible for EITC (the highest earners), receiving EITC increases private health insurance coverage of children and mothers by 8.6 percentage points and 11.3 percentage points, respectively. When our comparison group is households who applied but were not eligible for EITC, there is a lower association with private health insurance than the previous model. We still observe a positive increase in the private health insurance coverage of children and mothers by 6.2 percentage points and 9.1 percentage points, respectively. Finally, when the comparison group is our poorest group, households who did not apply but were eligible, we see a positive association between EITC receipt and private health

insurance coverage but it is smaller in magnitude than the previous models and not statistically significant.

Our results are still preliminary but support the hypothesis that the EITC is likely to encourage workers to move from jobs with higher labor income without private insurance coverage to jobs with lower labor income with private insurance coverage. In particular, we observe the highest positive association with private insurance when we use the highest labor income group (households did not apply and were not eligible for the EITC) as a reference group, suggesting that workers receiving EITC are trading off income for benefits.

References

Meyer, D. Bruce and Dan T. Rosenbaum. 2001. Welfare, The Earned Income Tax Credit, and The Labor Supply of Single Mothers. *The Quarterly Journal of Economics* 116 (3): 1063-1114.

Tax Policy Center Urban and Brookings Institution, *The Tax Policy, Briefing Book, A Citizen's Guide for 2008 Election and Beyond*. <http://www.taxpolicycenter.org/briefing-book/key-elements/family/eitc.cfm>

Table 2: Household EITC Receipt and Private Insurance Coverage of the Mother and Child (Fixed Effects Results)

Dependent Variable:	Child covered by private insurance	Mother covered by private insurance	Child covered by private insurance	Mother covered by private insurance	Child covered by private insurance	Mother covered by private insurance
Household did not apply but was eligible for EITC last wave	0.051 (0.038)	0.072* (0.043)	0.027 (0.037)	0.051 (0.042)	Reference group	
Household applied & was eligible for EITC last wave	0.086** (0.038)	0.113*** (0.043)	0.062* (0.034)	0.091** (0.039)	0.035 (0.023)	0.041 (0.026)
Household applied but was not eligible for EITC last wave	0.024 (0.037)	0.022 (0.042)	Reference group		-0.027 (0.037)	-0.051 (0.042)
Household did not apply & was not eligible for EITC last wave	Reference group		-0.024 (0.037)	-0.022 (0.042)	-0.051 (0.038)	-0.072* (0.043)
Observations	3,698	3,697	3,698	3,697	3,698	3,697
Number of id	2,333	2,333	2,333	2,333	2,333	2,333

Controls include marital and cohabitation status, number of children, labor earnings, public program participation, social support, and waves. Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.