Abstract: Having low income is one of the requirements for Medicaid eligibility. However, low income may result not only from low productivity but also from low work effort. In this paper we ask two questions: 1) Does Medicaid significantly distort work incentives? 2) Can the insurance-incentives trade-off of Medicaid be improved without changing the size of the redistribution in the economy? Our tool is a general equilibrium model with heterogeneous agents that matches many important features of the data. We find that around 20% of Medicaid enrollees do not work in order to be eligible. Our policy analysis builds on the insights from the New Dynamic Public Finance literature. We start with the full information benchmark where individuals' productivity is public information and can be used to determine Medicaid eligibility. Then we explore policies that can replicate this outcome in the environment where productivity is unobservable. We show that asset testing is effective in eliminating labor supply distortions among Medicaid beneficiaries. However, this policy creates large saving distortions and brings small welfare gains. To achieve welfare gains close to the full information benchmark, asset limits should be different for workers and non-workers.