What SCHIP Reauthorization Means for the States

Presentation at ALEC Annual Meeting
July 2007 • Philadelphia, PA

Mary Katherine Stout
Texas Public Policy Foundation

Tarren Bragdon
Maine Heritage Policy Center

State Policy Network

Network of independent, non-profit, market-oriented, state-based think tanks.
Member groups educate local citizens, elected officials, and opinion leaders about market-oriented solutions to state and local policy challenges.

www.spn.org

SCHIP Basics

Congress created SCHIP in 1997, began in 1998

- Target population: Making too much for Medicaid and too little for private health insurance = 200% FPL
- NOT an entitlement
- Funding allocated to states according to calculation of state need, drawn down through matching funds
- Benchmark benefits package
- Cost sharing up to 5% of income
SCHIP since 1997

- 15 States with adult expansions: AR, AZ, CO, ID, IL, MI, MN, NV, NJ, NM, OR, RI, VA, WI
- 33 States with eligibility up to 200% FPL
- 9 States with eligibility 200-300% FPL
- 8 States with eligibility 300% FPL +
  New York has highest eligibility level at 400% FPL (just passed and not yet enacted)
SCHIP Reauthorization

Two Prevailing Issues:

1. Use SCHIP to reduce the uninsured.

2. Expand SCHIP to prevent state shortfalls.
Is SCHIP the solution to the uninsured?
SCHIP Crowd Out

Health Coverage for Kids in Middle-Income Families (200-300% of poverty) 2004-2005

- 33 states & DC with SCHIP up to 200% FPL: 9.4% private, 17.1% Medicaid/SCHIP, 77.1% insured
- 9 states with SCHIP 201-300% FPL: 9.5% private, 23.0% Medicaid/SCHIP, 73.4% insured
- 8 states with SCHIP at least 300% FPL: 9.1% private, 21.2% Medicaid/SCHIP, 73.8% insured

Private □ Medicaid/SCHIP □ Uninsured

Kaiser Family Foundation, US Census Bureau
May add to more than 100% due to overlapping coverage, figures averaged for each state.
SCHIP Crowd Out

Has very large crowd out effect

- For every 100 SCHIP enrollees, 25 to 50 will have dropped private coverage (CBO, May 2007)
- For those 200-300% of poverty – for every 100 SCHIP enrollees, 60 will have dropped private coverage (NBER, Jan 2007)
- For those 300-400% of poverty – for every 100 SCHIP enrollees, 73 will have dropped private coverage (NBER, Jan 2007)

Causes a substantial cost shift

- For every 100 kids in the US, 26 are on Medicaid/SCHIP and 61 have private insurance and 11 are uninsured
- If Medicaid pays $0.70 for every $1.00 in costs and if those 26 kids use as much health care as the 61 with private insurance, the 61 with private insurance will pay 13% more for their coverage as a result of this cost shift
Uninsured Children

The uninsured are dynamic.
For every 100 kids that become uninsured
  50 will be insured within 4 months
  75 will be insured within 12 months
  86 will be insured within 24 months
Only 14 will remain uninsured for over 2 years
(CBO, May 2003)
## SCHIP’s Effectiveness?

### Uninsured Children by Income 1996-2005

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Children (Thousands)</th>
<th>Percent Uninsured</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>660</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>2,014</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>3,358</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>4,603</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>5,354</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>5,985</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>6,103</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>6,114</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>6,622</td>
<td></td>
</tr>
</tbody>
</table>


Note: FPL = federal poverty level.
State SCHIP Shortfalls

According to the CBO:
• 35 states projected to spend above their allotment in 2007
• 11 states will exhaust their available funds and would require $646 million in 2007 to maintain their existing programs.
State SCHIP Shortfall

States have three years to spend their SCHIP allotment before it is swept and redistributed.


National Institutes of Health Reform Act of 2006 anticipated the 2007 shortfalls and:

• Accelerated redistributions by 6 months.
• Secretary redistributes funds in the order states realize funding shortfalls.
SCHIP Reauthorization

Senate SCHIP Agreement

- Adds 3.3 million “additional uninsured, low-income American children”
- State allotments changed to reflect projected spending
- Increase outreach and enrollment efforts
- Coverage above 300% FPL gets Medicaid match
- Cover prenatal care for pregnant women
- Childless adults currently on SCHIP moved to Medicaid
- Improve “pediatric quality measures”
SCHIP Reauthorization

SCHIP baseline is $25 billion
- President Bush’s proposal totals $30 billion
- Congressional Democrats proposal totals $75 billion
- Senate compromise totals $60 billion

Increase federal cigarette tax from $.39 to $1.00

Ongoing and increasing Medicare, Social Security and general Medicaid funding challenges

Expanding eligibility doesn’t reduce the uninsured, it reduces private coverage and induces government dependence.

Programs always grow beyond intended scope.

Don’t make promises you can’t keep—especially just to get the federal money.
SCHIP and Medicaid

1984 Mandatory coverage up to age 5 for families receiving cash assistance (state sets eligibility)
1989 Mandatory coverage up to age 6 with income up to 133%
1990 Mandatory coverage up to age 18 with income up to 100% FPL
1997 SCHIP created covers children up to 200% FPL
2007 SCHIP Reauthorization
Change in Child Population and Children's Medicaid and SCHIP Caseload 1985-2005

Source: US Census Bureau, Kaiser Foundation
SCHIPing to Single Payor

1985

17%

Government Health Care

47%

Government Health Care

71%


Reauthorization

2005
Problems with SCHIP

- Provides incentives for parents to drop coverage.
- Coverage does not mean access.
  - How many pediatricians accepting new Medicaid/SCHIP patients?
  - States need to focus on meeting needs of truly low-income kids before expanding to middle income kids.
- Quality of care often poor.
- Could encourage employers with a large share of low to middle-income employees to drop employer-paid family coverage.
- Creates new middle class entitlement.
- Creates a generation of entitlement.
Policy Solutions

- Myth busting on SCHIP
- Favor free market solutions to deliver an affordable, private, individual insurance market for kids

EXAMPLE: Ehealthinsurance.com provides plans for kids living in Washington DC from $41 a month ($1,200 deductible HMO) to $94 a month ($0 deductible PPO)
Policy Solutions

• State should have latitude to establish reasonable premiums and copays for SCHIP on a sliding scale

NOTE: DRA limits Medicaid/SCHIP premiums and copays to 5% of family income for those over 150% of poverty (almost all SCHIP kids)

For example, premiums could be 4% of family income, with a 20% copay up to a maximum out of pocket (premiums & copays) of 5% of family income
Affordability
SCHIP vs. Private Coverage


Annual Family Income

Sources: Kaiser Family Foundation, US DHHS, and Ehealthinsurance.com
Policy Solutions

• Support a seamless transition from Medicaid to SCHIP to Private Insurance

• Move Medicaid eligibility to fixed dollar amount or percent of median family income
  • At 200% of FPL, married couple with four children earning $55,000 can qualify for SCHIP, but a single mom with one child earning $27,500 earns too much

• Income is dynamic. Check eligibility more often than once a year.

• The uninsured are dynamic. Establish systems to identify and leverage employer coverage.

• Verify assets and income – gross versus net income, limit on car value

• Any Medicaid/SCHIP outreach efforts must include information on purchasing private coverage. Denied eligibility should provide information on private alternatives also.
## FPL Guidelines

<table>
<thead>
<tr>
<th>Size of Family (including adults)</th>
<th>Percent of all Kids</th>
<th>Percent of Federal Poverty Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>2</td>
<td>6%</td>
<td>$13,690</td>
</tr>
<tr>
<td>3</td>
<td>20%</td>
<td>$17,170</td>
</tr>
<tr>
<td>4</td>
<td>34%</td>
<td>$20,650</td>
</tr>
<tr>
<td>5</td>
<td>23%</td>
<td>$24,130</td>
</tr>
<tr>
<td>6</td>
<td>10%</td>
<td>$27,610</td>
</tr>
<tr>
<td>7</td>
<td>4%</td>
<td>$31,090</td>
</tr>
<tr>
<td>8</td>
<td>2%</td>
<td>$34,570</td>
</tr>
<tr>
<td>9</td>
<td>1%</td>
<td>$38,050</td>
</tr>
</tbody>
</table>

### 2005 Mean Family Income - $70,956 for family with kids

Source: US Census, DHHS
Mary Katherine Stout
VP Policy and Director of Health Care Policy
Texas Public Policy Foundation
mkstout@texaspolicy.com • www.texaspolicy.com
(512) 472-2700

Tarren Bragdon
Director of Health Reform Initiatives
Maine Heritage Policy Center
tbragdon@mainepolicy.org • www.mainepolicy.org
(207) 321-2550