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# BARTON-DEAL SCHIP BILL WOULD NOT PROVIDE STATES SUFFICIENT FUNDING EVEN TO MAINTAIN CURRENT CASELOADS

## Bill Would Cause Significant Increase In Number Of Uninsured Children

by Edwin Park and Matt Broaddus

This week, the House is scheduled to consider health legislation developed by the chairmen of the House Energy and Commerce and the House Ways and Means Committees to reauthorize and expand the State Children's Health Insurance Program (SCHIP). This legislation, known as the "CHAMP Act,"[1] would provide health care coverage to nearly 5 million uninsured children by 2012, according to the Congressional Budget Office.

On July 25, Rep. Joe Barton (R-TX), the ranking member of the House Energy and Commerce Committee, and Rep. Nathan Deal (R-GA), the ranking member of the Health Subcommittee of that Committee, introduced rival SCHIP reauthorization legislation (H.R. 3176). The Barton-Deal bill may serve as a key part of the House Republican Leadership's alternative to the CHAMP Act on the House floor, possibly along with some tax provisions.

In contrast to the CHAMP Act, the Barton-Deal SCHIP bill would be likely to reduce existing children's coverage and increase the number of uninsured children. The following brief analysis explains why the bill would have these effects.

**KEY FINDINGS**

- In contrast to the CHAMP Act, which would provide coverage to nearly 5 million uninsured children, the SCHIP bill introduced by Representatives Barton and Deal would significantly *increase* the number of uninsured children.
- By 2012, some 27 states would face funding shortfalls under the bill that are equivalent to the cost of covering 2 million children throughout the year.
- The Barton-Deal bill also would sharply reduce states' flexibility in covering children.
- In addition, the bill contains no new tools or financial incentives for states to enroll more of the eligible but uninsured children.
- The bill would eliminate federal standards that prevent SCHIP funds from being used to pay for private coverage that includes inadequate benefits and unaffordable cost-sharing.

### 1. The bill would not provide states with sufficient funding to maintain their existing SCHIP programs.

The Congressional Budget Office estimates that if SCHIP funding remains frozen at the current level of $5 billion per year, states will face a federal funding

[1] CHAMP stands for the Children's Health and Medicare Protection Act of 2007.

shortfall of $13.4 billion over the next five years (fiscal years 2008-2012).[2] CBO estimates that by 2012, some 35 states would have insufficient federal funding to maintain their current programs, and the number of children and pregnant women enrolled in an average month would fall approximately 1.4 million below today's level.[3]

The CHAMP Act would avert these shortfalls and also would provide states with additional funds to cover substantial numbers of uninsured children. The Barton-Deal bill would not. Over the next five years, it would provide only $11.5 billion above the current SCHIP funding level, or about $2 billion less than what CBO estimates is needed just to sustain current state SCHIP programs.

Moreover, the Barton-Deal bill would exacerbate this problem in several ways that would magnify the depth of the cuts many states would have to institute in their SCHIP programs and consequently enlarge the number of children who would lose coverage.

- The bill would use a formula to allocate SCHIP funds among states under which a substantial share of the bill's $11.5 billion in additional SCHIP funding would be directed to states that may not need them, while the states with the greatest funding needs (particularly states that have faced federal funding shortfalls in recent years) would receive insufficient funds to maintain their current caseloads. In 2008, some 14 states would face an estimated SCHIP federal funding shortfall of $1 billion under the bill.[4]

- The bill also would change current law to *prohibit* the redistribution of unspent funds from states that leave funds unspent to states that need and can use the funds. (Currently, funds provided to a state that remain unspent after three years are redistributed to other states.) As a result, the bill would result in an estimated *$2 billion to $3 billion in unspent funds expiring and reverting to the U. S. Treasury* over the next five years, even as many other states were being forced to cut their programs and to cast low-income children into the ranks of the uninsured, due to a lack of adequate federal funding.

The net result of the various features of the Barton-Deal bill would be a total estimated federal funding shortfall of $10.8 billion over the next five years. By 2012, some 27 states would have inadequate federal SCHIP funding to sustain their current programs. The shortfall would reach $3.2 billion in 2012 alone, equal to the cost of covering 2 million children per month throughout the year (see Table 1 on page 3).

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[2] See Congressional Budget Office, "Fact Sheet for CBO's March 2007 Baseline: State Children's Health Insurance Program," February 23, 2007 and Edwin Park, "CBO Estimates That States Will Face Federal SCHIP Shortfalls of $13.4 Billion Over Next Five Years," Center on Budget and Policy Priorities, February 26, 2007. It is likely that a new estimate of the shortfall would be larger today, due to higher SCHIP spending projections reported by states in the most recent SCHIP expenditure data from May 2007.

[3] CBPP analysis of CBO estimates.

[4] This estimate comes from the Center on Budget and Policy Priorities' SCHIP expenditure model, which is based on the model developed by the actuaries at the Center for Medicare and Medicaid Services at the U.S. Department of Health and Human Services. This estimate measures how short states would fall of the funding they would need to maintain their current SCHIP programs, with current state participation rates and eligibility criteria.

**2. The bill sharply restricts existing state flexibility in covering children and parents.**

Throughout the SCHIP program's history, states have enjoyed flexibility to provide SCHIP coverage to children in modest-income families — that is, families with incomes above 200 percent of the poverty line (now about $34,300 for a family of three). Currently, 23 states and the District of Columbia cover children above 200 percent of the poverty line or are in the process of implementing such an expansion.

The Barton-Deal bill would restrict SCHIP eligibility to 250 percent of the poverty line. Furthermore, states would be barred from covering children with incomes between 200 percent and 250 percent of the poverty line (between $34,000 and $42,900 for a family of three) unless they already cover 90 percent of the eligible low-income children in the state (defined as children below 200 percent of the poverty line).

Hardly any means-tested program reaches 90 percent of the individuals or families eligible for it, and *only two* states currently meet this threshold — Hawaii and Vermont. As a result, the 21 other states and the District of Columbia would be forced to scale back their current SCHIP eligibility levels and to remove children from the program, many of whom would likely become uninsured. Hawaii and Vermont would have to cut their programs as well, even though they do reach at least 90 percent of their eligible low-income children; these two states cover children up to 300 percent of the poverty line and would be barred from continuing to use SCHIP funds to cover children above 250 percent of the poverty line.

**TABLE 1**

**27 States Projected to Face Federal SCHIP Financing Shortfalls in 2012 Under H.R. 3176**

| State | Projected Federal Funding Shortfall in 2012 |
|---|---|
| Alabama | $30,009,000 |
| Arizona | $43,925,000 |
| Arkansas | $90,233,000 |
| California | $467,345,000 |
| Georgia | $296,989,000 |
| Hawaii | $6,346,000 |
| Illinois | $414,961,000 |
| Iowa | $46,097,000 |
| Louisiana | $84,498,000 |
| Maryland | $40,073,000 |
| Massachusetts | $282,818,000 |
| Michigan | $90,942,000 |
| Minnesota | $35,024,000 |
| Missouri | $28,023,000 |
| Montana | $4,714,000 |
| Nebraska | $18,975,000 |
| New Jersey | $251,352,000 |
| New Mexico | $63,281,000 |
| New York | $265,207,000 |
| Ohio | $64,387,000 |
| Oklahoma | $62,432,000 |
| Oregon | $13,502,000 |
| Rhode Island | $66,675,000 |
| Texas | $322,322,000 |
| Utah | $26,365,000 |
| Virginia | $40,652,000 |
| Wisconsin | $77,667,000 |
| **TOTAL** | **$3,234,812,000** |

Source: Center on Budget and Policy Priorities' SCHIP financing model, based on a model created by the Office of the Actuary at the Centers for Medicare and Medicaid Services.

The bill would take away state flexibility in other ways as well. Of particular note, the bill would mandate the development and issuance of new federal rules governing how family income is to be measured, and would require states to substitute these new federal rules for the rules they now use. The new federal rules could be substantially more restrictive than the rules that many states use

today. For example, there are 11 states (in addition to the 23 states and the District of Columbia noted above) that disregard income used for certain purposes — such as child care costs — and as a result, enable some children with gross incomes above 200 percent of the poverty line to qualify. As a consequence of the elimination of state "income disregards" and their replacement by yet-to-be-developed federal rules, the Barton-Deal legislation could require a total of up to 34 states (and the District of Columbia) to cut back their income eligibility limits for SCHIP, likely causing a number of children who now receive SCHIP to end up without insurance.

Finally, in yet another restriction on state flexibility, the bill would prohibit the relatively small number of states that do so from continuing to use SCHIP funds to provide health insurance to low-income *parents* of children who are enrolled in Medicaid or SCHIP. These states are providing such coverage under waivers approved by the federal government — in most cases, by the Bush Administration.

Various studies have found that covering children and their parents together results in a larger share of the eligible children being enrolled and receiving needed health care services. In response to a question posed during the Senate Finance Committee's consideration of SCHIP legislation on July 19, Congressional Budget Office director Peter Orszag explained that "restricting eligibility to parents does have an effect on take up among children…. for every 3 or 4 parents you lose, you might lose 1 or 2 kids, for example." As a consequence, not only would the approximately 300,000 low-income parents who now receive coverage through SCHIP lose such coverage and be at risk of becoming uninsured, but some of their children could become uninsured as well.

### 3. The bill contains no new tools or financial incentives for states to enroll more of the eligible but uninsured children.

Peer-reviewed academic studies have estimated that there are between 5 million and 6 million low-income children who are eligible for Medicaid or SCHIP but are not enrolled and are uninsured. (The Congressional Budget Office concurs that this is the best estimate.[5]) Both the CHAMP Act and the bipartisan children's health legislation approved by the Senate Finance Committee on July 19 include new tools to help states find and enroll more of these eligible, uninsured low-income children. For example, the House bill includes an "Express Lane" option (the Senate bill includes a ten-state Express Lane demonstration project) to allow SCHIP and Medicaid agencies to use income information collected by other benefit programs to streamline the enrollment process. Both bills also grant states some increased flexibility in complying with the citizenship documentation requirement for Medicaid-eligible individuals enacted in 2006, which has led to substantial numbers of citizen children and parents losing coverage because they lack ready access to a birth certificate or passport.[6]

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[5] Letter from Peter Orszag to Senator Max Baucus, Chairman of the Senate Finance Committee, Congressional Budget Office, July 24, 2007.

[6] Government Accountability Office, "Medicaid: States Reported that Citizenship Documentation Requirement Resulted in Enrollment Declines for Eligible Citizens and Posed Administrative Burdens," June 2007; Donna Cohen Ross, "Medicaid Documentation Requirement Disproportionately Harms Non-Hispanics, New Data Show: Rule Mostly Harms U.S. Citizen Children, Not Undocumented Immigrants," Center on Budget and Policy Priorities, July 10, 2007; and Donna Cohen Ross, "New Medicaid Citizenship Documentation Requirement Is Taking a Toll: States Report Enrollment Is Down and Administrative Costs Are Up," Center on Budget and Policy Priorities, Revised March 9, 2007.

Similarly, both the CHAMP Act and the Senate Finance Committee bill provide financial incentives for states to increase enrollment among eligible low-income children, particularly poor uninsured children who are eligible for Medicaid. For example, the CHAMP Act provides bonus payments to states that adopt a number of procedures to streamline and simplify the enrollment process and succeed in raising enrollment in Medicaid and SCHIP above certain target levels. These incentives are a primary reason that CBO estimates the CHAMP Act would lead to nearly 5 million uninsured children gaining coverage, nearly 3 million of whom would be uninsured children eligible for Medicaid, many of whom live below the poverty line.

The Barton-Deal bill, by contrast, would not provide *any* new enrollment tools or financial incentives for states. (The bill would require states to indicate how they will cover at least 90 percent of low-income children who lack access to private coverage, but since the bill would not provide states sufficient funding even to maintain their existing programs, let alone to cover more uninsured children, this requirement would have little meaning.)

**4. The bill would allow the diversion of SCHIP funds to private coverage that offers inadequate benefits and unaffordable cost-sharing, because the bill would effectively repeal current federal standards that provide safeguards against such actions.**

Under current law, states may establish "premium assistance" programs, under which they enroll SCHIP-eligible children in employer-sponsored health insurance and use SCHIP funds to help pay the required premiums for such coverage. States must ensure that using SCHIP funds to enroll eligible children in an employer plan would be no more costly than enrolling the child in SCHIP directly. State SCHIP programs also must provide supplemental (or "wrap-around") benefits if the benefits provided under the employer-based plan are less comprehensive than the benefits that the child otherwise would receive under SCHIP. Finally, states must ensure that the premiums, deductibles and co-payments charged to the child's family would not be greater than the maximum amount allowed under SCHIP, which is generally 5 percent of a family's annual income. A modest number of states operate such "premium assistance" programs as part of their SCHIP (and Medicaid) programs.

The Barton-Deal bill would *mandate* that all states operate a premium assistance option for children in families that have access to employer-based health insurance. The bill also would require states to provide "alternative coverage options" through private insurance companies, presumably in the individual health insurance market. Under both the premium assistance option and the other private-coverage options, the current requirements for cost-effectiveness, benefit adequacy, and affordable cost-sharing would essentially be waived. For the first time, SCHIP funds could be used to enroll children in private coverage that provides scaled-back health coverage for children, charges deductibles and co-payments that low-income families may have difficulty affording, or costs *more* than it would cost to enroll the children directly in SCHIP.

Enrollment in these private coverage options would be voluntary for parents. But low-income parents may have considerable difficulty understanding all of the differences between the benefits and cost-sharing requirements under a private coverage option and under the state SCHIP program. Significant numbers of low-income children could end up in health plans with fewer benefits and substantially higher cost-sharing charges and be made significantly worse off than under current law.

Subsidizing private coverage in this manner also could end up being more costly in some cases than providing SCHIP coverage directly to the SCHIP-eligible children.

## Conclusion

The Barton-Deal bill is deeply flawed. It provides insufficient federal funding to maintain existing state SCHIP programs, let alone to cover more uninsured children. It restricts state flexibility in covering children (and some parents) and would require many states to make their eligibility criteria considerably more restrictive and thereby to disqualify many children (and some parents) who now are covered. The bill also fails to provide tools to help states reach and enroll the substantial numbers of low-income children who are eligible for SCHIP or Medicaid but remain uninsured.

As a result, unlike the CHAMP Act — which would cover nearly 5 million additional uninsured children by 2012, according to Congressional Budget Office estimates — the Barton-Deal bill would likely increase the number of low-income children who are uninsured.