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ADMINISTRATION'S FISCAL YEAR 2007 BUDGET IS LIKELY STILL TO LEAVE SCHIP COVERAGE FOR LOW- INCOME CHILDREN IN JEOPARDY

By Matt Broaddus

The State Children's Health Insurance Program (SCHIP), jointly financed by states and the federal government, provides comprehensive health insurance coverage to more than 4 million low-income children who would otherwise be uninsured.¹ In fiscal year 2007, under current law, 18 states will have insufficient federal funding under SCHIP to sustain their existing enrollment of low-income children.

To address this issue, the Administration's budget proposes to redistribute \$635 million in already available federal SCHIP funds. These funds would be redistributed from states now holding them to meet needs in future years to the states that are projected to face federal funding shortfalls in their SCHIP programs in 2007.

New analyses by the Congressional Research Service (CRS) and the Center on Budget and Policy Priorities (CBPP) indicate, however, that federal SCHIP funds available under current law are approximately \$1 billion less than states' needs for such funds in 2007. Thus, the Administration's proposal will fall short of fully funding states' needs for SCHIP funding in 2007. Our analysis suggests that more than 200,000 children could go without SCHIP coverage next year as a result.²

The CRS and CBPP estimates show that these 18 shortfall states will face an aggregate federal financing shortfall in SCHIP in 2007 of about \$1 billion, or about \$355 million more than the

¹ The most recent data available indicate that more than 4 million children are enrolled in SCHIP at any given point in time. The Department of Health and Human Services reports that the number of children enrolled at any point over the course of a year stood at more than 6 million in 2004.

² Under SCHIP, some states have elected to use SCHIP funds to expand Medicaid coverage to more low-income children as opposed to creating a separate state program. In the event of a federal SCHIP funding shortfall, these states can decide to continue to cover their SCHIP children in Medicaid. However, the federal contribution to the cost of these children's care would be reduced to the regular Medicaid matching rate. States would thus be responsible for generating additional state funds to compensate for the lost federal matching funds. The SCHIP enrollment reduction in 2007 due to funding shortfalls would be less than estimated if states choose to cover some of their SCHIP children in Medicaid at the lower Medicaid matching rate.

additional expenditures projected under the Administration's proposal.³ (See Table 1 for a complete list of shortfall states and the estimated remaining shortfalls after implementation of the Administration's proposal). The Administration's proposal thus would appear to leave the 18 states with inadequate federal SCHIP funds in fiscal year 2007. The 18 states would either have to increase their own state funding to make up for the shortfall of federal SCHIP funds, or cut back their SCHIP programs by reducing eligibility, eliminating benefits, or cutting provider payments. In states that cut back their programs, SCHIP beneficiaries would be at significant risk.

Background

The federal government, on average, covers 70 percent of the cost of serving children in SCHIP. Federal funding for SCHIP is capped annually, with each state receiving a portion of an annual national allotment that is available for three years. In the early years of SCHIP, the combination of annual allotments and redistributions of unspent federal funds from lower-utilization states enabled the higher-utilization states to have sufficient federal funding to sustain and grow their programs. Since then, however, most states' SCHIP programs have matured and have reached more children, resulting in higher levels of state usage of federal SCHIP funds, greater need for federal funds, and fewer unspent federal funds available for redistribution to meet the needs of other states. In addition, overall federal SCHIP funding declined significantly in 2002, 2003, and 2004. Finally, \$1.4 billion in unspent SCHIP funds was allowed to revert to the Federal Treasury over the last two years, rather than being redistributed to states that could use these funds.

As a result, beginning in 2005, a number of states began facing federal financing shortfalls in their low-income children's health insurance programs. In 2005 and 2006, these shortfalls were largely or entirely eliminated through legislative and administrative action. But states now face more serious federal financing shortfalls in 2007.

Congressional Research Service Projects Shortfalls for 2007

Based on states' estimates of future SCHIP spending in fiscal year 2007, more aggressive action will need to be taken to prevent the health care needs of significant numbers of eligible low-income children from going unmet next year. The Congressional Research Service projects that the need for federal SCHIP funds will exceed available federal SCHIP funds in 18 states in 2007 by a collective \$1.04 billion. Assuming that the unspent funds expected to be available for redistribution in 2007 are targeted only to these 18 shortfall states (as was done in 2005 and is expected to be done in 2006), a collective \$946 million shortfall will remain. Analysis using the CBPP SCHIP financing model, which is similar to CRS' model, results in an estimate of the aggregate shortfall of \$1.07 billion, and a net shortfall after the regular redistribution of funds of \$990 million among the same

³ Evelyne Baumrucker and Chris Peterson, *Reconciliation and Financing Issues for SCHIP*, presentation before the National Academy of State Health Policy, Congressional Research Service, February 22, 2006. The Center on Budget and Policy Priorities' SCHIP financing model is based on a model created by the Office of the Actuary at the Centers for Medicare and Medicaid Services.

18 states. Our analysis indicates that net shortfalls of this amount represent the annual cost of providing health care to up to 730,000 children.⁴

The Administration's FY2007 Budget Proposal

The Administration's budget proposes to spend an additional \$635 million in the SCHIP program by redistributing existing SCHIP funds in fiscal year 2007 to shortfall states, beyond the funds that normally would be redistributed. The budget states that this would be accomplished through "better targeting SCHIP funds in a more timely fashion."⁵ The method by which the Administration would accomplish the enhanced redistribution is not entirely clear from Health and Human Services budget documents.⁶

Whatever the approach, however, it is clear that this provision, while helpful, will not fill states' shortfalls completely. Assuming that \$635 million in additional funds are made available to the shortfall states in 2007, the 18 shortfall states will be left with an aggregate shortfall of \$311 million under the CRS estimates and \$355 million under the CBPP estimates. (This assumes that the \$635 million in redistributed funds will be made available to all 18 shortfall states in proportion to each state's share of the overall shortfall.)

Implications for Affected States and Low-income Children

Under CBPP estimates, the shortfalls that would remain among the 18 states — of \$311 million to \$355 million after implementation of the Administration proposal — represent the annual cost of providing health care coverage to up to 230,000 low-income children. The 18 states would be forced either to reduce eligibility or limit benefits in their SCHIP programs or to increase the share of the costs that states bear, potentially compromising other state budget priorities.

As Congress prepares to craft a fiscal year 2007 budget resolution, it is important that the budget include adequate federal SCHIP funding to fully address the funding shortfalls in the 18 states. As this analysis demonstrates, the level of additional SCHIP spending proposed by the Administration's budget, while well-intended, is not sufficient and needs to be increased by up to another \$355 million to avert federal SCHIP funding shortfalls in 2007.⁷

⁴ We use per capita cost figures in SCHIP as estimated by the Office of the Actuary at the Centers for Medicare and Medicaid Services. Assuming the CRS projected net shortfall of \$946 million, we would estimate that this shortfall represents the cost of serving roughly 700,000 children in SCHIP for a full year.

⁵ The Department of Health and Human Services Budget in Brief for Fiscal Year 2007, page 68.

⁶ The Administration's 2006 budget included a proposal to shorten the initial availability of states' annual SCHIP allotments from three to two years and to target funds unspent after two years to shortfall states.

⁷ Congress also should increase accordingly the five year level of additional SCHIP funding to account for the future year budget effects of fully filling in the state shortfalls in 2007.

TABLE 1

18 States Project Federal SCHIP Financing Shortfalls in FFY2007

(all figures in thousands of dollars)

<u>STATE</u>	<u>Federal SCHIP Funding Shortfall</u>	<u>Shortfall After Regular Redistribution*</u>		<u>Redistribution Under Administration Proposal**</u>	<u>Remaining Shortfall Under Administration Proposal</u>	
	CBPP	CBPP	CRS		CBPP	***
Nation	\$1,069,096	\$988,785	\$946,000	\$635,000	\$353,785	\$311,000
Alaska	13,941	12,894	15,000	8,281	4,613	4,931
Georgia	41,839	38,696	40,000	24,851	13,845	13,150
Illinois	171,764	158,861	149,000	102,021	56,840	48,984
Iowa	29,288	27,088	28,000	17,396	9,692	9,205
Louisiana	22,526	20,834	21,000	13,379	7,454	6,904
Maine	280	259	100	166	93	33
Maryland	100,882	93,304	92,000	59,920	33,384	30,245
Massachusetts	111,570	103,189	102,000	66,268	36,921	33,533
Minnesota	40,768	37,705	37,000	24,215	13,491	12,164
Mississippi	83,635	77,352	72,000	49,676	27,676	23,670
Missouri	53,106	49,117	46,000	31,543	17,574	15,123
Nebraska	13,122	12,136	12,000	7,794	4,342	3,945
New Jersey	170,684	157,862	148,000	101,379	56,483	48,655
North Carolina	124,408	115,063	115,000	73,894	41,169	37,807
North Dakota	6,071	5,615	6,000	3,606	2,009	1,973
Rhode Island	51,819	47,926	45,000	30,778	17,148	14,794
South Dakota	7,276	6,730	7,000	4,322	2,408	2,301
Wisconsin	26,117	24,155	9,000	15,513	8,643	2,959

* Assumes that unspent FFY2004 federal SCHIP funds are redistributed to shortfall states in proportion to each state's share of the total shortfall.

** Assumes that \$635 million are redistributed to shortfall states in proportion to each state's share of the total shortfall.

*** Estimates based on CRS' national shortfall projection. CBPP uses CRS' estimates of states' shortfalls after regular redistribution (third column) and then assumes that \$635 million are redistributed to shortfall states in proportion to each state's share of the total shortfall.

Source: Center on Budget and Policy Priorities' SCHIP financing model based on an original model created by the Office of the Actuary at the Centers for Medicare and Medicaid Services. The model incorporates SCHIP provisions of the Deficit Reduction Act and states' estimates, made in November 2005, of federal SCHIP funding need for FFY2007. CRS presentation given at NASHP meeting on February 22, 2006.