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CBO ESTIMATES THAT STATES WILL FACE FEDERAL SCHIP SHORTFALLS OF \$13.4 BILLION OVER NEXT FIVE YEARS

By Edwin Park

On February 23, the Congressional Budget Office issued estimates of the federal funding shortfalls states will face if annual funding for the State Children's Health Insurance Program (SCHIP) is frozen at the current funding level of \$5 billion a year, as is assumed under the budget "baseline." (A federal funding shortfall occurs when a state has less federal SCHIP funding than it needs to sustain its current SCHIP program, without any cutbacks.)¹

The shortfalls reflect the fact that the budget baseline makes no adjustment for projected increases in health care costs or in the number of children in the country. Nor does the baseline reflect the effect of continued erosion in employer-based coverage, which CBO expects will occur. The CBO findings show:

- States would face total federal funding shortfalls of \$13.4 billion over the next five years (2008-2012) if SCHIP is reauthorized and annual SCHIP funding is set at the baseline funding level of \$5 billion per year.²
- In fiscal year 2008, some 20 states would face an overall shortfall of \$1.5 billion. By fiscal year 2012, 35 states would face a combined shortfall of \$3.8 billion.
- The number of children and pregnant women covered through SCHIP at some point during the year would decline from 7.6 million in 2007 — assuming that Congress closes the current fiscal year 2007 shortfalls — to 5.3 million by 2012, a reduction of 2.3 million.³ (Total SCHIP

¹ Congressional Budget Office, "Fact Sheet for CBO's March 2007 Baseline: State Children's Health Insurance Program," February 23, 2007. The shortfall estimate represents CBO's projection of the amount by which baseline funding levels will fall short of states' needs, assuming rising health care costs, population growth and continued erosion in employer-based coverage that increases the number of uninsured (and continuation of current program eligibility rules and benefits under states' SCHIP programs).

² CBO estimates that states will face a total shortfall of \$47.1 billion over the next 10 years (2008-2017).

³ These enrollment figures represent the number of children and pregnant women enrolled at any time over the course of a year. According to CBO, the number of individuals enrolled in SCHIP in any given month would be about 40 percent lower than these figures. Under CBO's baseline estimates, the number of children and pregnant women enrolled in any given month will be about 4.6 million in 2007 if the 2007 shortfall is closed, but fall to about 3.2 million by 2012, for a reduction of 1.4 million.

enrollment would fall by 2.7 million.⁴)

- The *net* federal cost to fully address these shortfalls would be \$7.9 billion over five years. The net cost is less than the total federal funding shortfall of \$13.4 billion because CBO assumes that some states facing shortfalls would shift some SCHIP children into their Medicaid programs, thereby increasing Medicaid costs. If the shortfalls are closed, states will not have to make this shift and Medicaid expenditures will be lower. Accordingly, CBO assumes that the net cost to the federal government of closing the shortfalls is \$7.9 billion. (Under pay-as-you-go rules, \$7.9 billion is the amount that would need to be offset.)
- CBO estimates that over *ten* years, SCHIP funding increases of \$47.1 billion are needed to sustain state SCHIP programs and close the shortfalls. CBO estimates that this would result in a net cost to the federal government of \$28 billion.

These CBO estimates are very close to estimates previously issued by both the Center on Budget and Policy Priorities and the Congressional Research Service.⁵ (CBO also confirmed the estimates recently issued by both CRS and CBPP that SCHIP faces a federal funding shortfall of more than \$700 million in fiscal year 2007.) These estimates demonstrate that if Congress wishes to ensure that states have sufficient funding to sustain their SCHIP programs, it will need to include in this year's SCHIP reauthorization bill an increase in federal SCHIP funding well above the baseline levels.

Moreover, there is an emerging consensus among many health care providers, religious organizations, state governments, insurers, and low-income advocates — as well as a number of members of Congress of both parties — that the SCHIP reauthorization legislation should make further major progress toward the goal of covering all uninsured low-income children. Research indicates that 74 percent of the nearly 9 million children in the United States who are uninsured are low-income children who are eligible for Medicaid or SCHIP, but are not enrolled.⁶ Enrolling and covering a substantial share of these uninsured children will require a considerably larger increase in federal funding for SCHIP (and Medicaid), over and above the increase needed to sustain current state SCHIP programs.

⁴ In addition to children and some pregnant women, the total enrollment figures include some parents of children enrolled in Medicaid and SCHIP and some childless adults covered through waivers. The total number of individuals enrolled at any point during the year will be about 5 million in 2007 if the 2007 shortfall is closed and will decline to about 3.4 million by 2012 under the baseline projections, a reduction of 1.6 million individuals.

⁵ See Matt Broaddus and Edwin Park, "Freezing SCHIP Funding in Coming Years Would Reverse Recent Gains in Children's Health Coverage," Center on Budget and Policy Priorities, revised February 22, 2007 (which estimates a total federal funding shortfall of between \$12.3 billion and \$13.4 billion over the five-year period 2008-2012); and Chris Peterson, "Funding Projections and State Redistribution Issues," Congressional Research Service, updated January 30, 2007 (which estimates a total federal funding shortfall of \$12.1 billion over the next five years).

⁶ See Kaiser Commission on Medicaid and the Uninsured, "Enrolling Low-Income Uninsured Children in Medicaid and SCHIP," January 2007.