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## NEW CDC DATA SHOW THE IMPORTANCE OF SUSTAINING MEDICAID AND SCHIP COVERAGE AS PRIVATE HEALTH INSURANCE ERODES IN 2002

by Leighton Ku

Data released on Friday, September 20 by the Centers for Disease Control and Prevention (CDC) show that private health insurance coverage of children and non-elderly adults fell during the first quarter of 2002. Only the responsiveness of states' Medicaid and SCHIP programs — and the resulting growth in public insurance coverage — helped keep uninsurance rates from climbing sharply in the first quarter of this year.

The preliminary data from the National Health Interview Survey (NHIS) show how private and public health insurance coverage changed between last year (2001) and the first quarter of 2002 (January to March):<sup>1</sup>

- Between 2001 (these are average data for 2001 as a whole) and the first quarter of 2002, the proportion of children with private health insurance coverage fell from 67.1 percent to 63.8 percent.
- During the same period, the share of children covered through Medicaid and SCHIP programs rose from 23.4 percent to 27.7 percent.
- Had the growth in Medicaid and SCHIP coverage *not* taken place, about two million more children would have been uninsured.
- Similarly, the proportion of working-age adults (those aged 18 to 64) with private health insurance coverage fell from 73.9 percent in 2001 to 72.8 percent in the first quarter of 2002. Coverage under Medicaid grew from 9.4 percent in 2001 to 10.4 percent in the first quarter of 2002, largely offsetting the loss of private health coverage.

Reports from the Kaiser Family Foundation and the Commonwealth Fund indicate that private health insurance coverage is faltering in 2002 for three reasons. First, unemployment

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<sup>1</sup> Centers for Disease Control and Prevention, National Center for Health Statistics, "Early Release of Selected Estimates Based on Data from the First Quarter 2002 NHIS," Sept. 20, 2002. The trends for children were significant with 95 percent confidence. The trends reported for adults did not attain statistical significance at the 95 percent confidence level, primarily because the sample size for one calendar quarter's worth of NHIS data is much smaller than for the full annual survey, so the confidence intervals are larger. Calculations show that if the first quarter's rates were sustained for the full 2002 sample of working-age adults, the differences between 2002 and 2001 will be statistically significant with 95 percent confidence.

rates have been climbing during the economic downturn, so more workers and their dependents have lost job-based coverage. Second, double-digit increases in health care costs are leading more small businesses to stop offering insurance. Third, companies are increasing the amount that workers must pay for insurance, making it harder for low-wage employees to afford job-based insurance for themselves or their dependents.

## **Policy Implications**

Because Medicaid and SCHIP are designed to aid low-income uninsured people, their caseload levels rise when the economy slumps and more people qualify for Medicaid or SCHIP because their incomes have fallen, or when the number of low-income people who lack private coverage rises for other reasons. This responsiveness of state Medicaid and SCHIP programs has been critical in keeping the number of persons who are uninsured from climbing higher.

That may be changing, however. State budget shortfalls are leading a growing number of states to adopt or plan Medicaid or SCHIP cutbacks that will shrink the number of families and children who are eligible. According to a study by the Kaiser Commission on Medicaid and the Uninsured issued last week, 18 states already have adopted or planned reductions in Medicaid eligibility. The fiscal picture for states, almost all of which are required to balance their budgets even during economic downturns, looks grimmer for the coming year than for last year. State revenues continue to fall below projected levels, and states face widening deficits for 2003 and/or 2004 that they will have to close. Many states have already exhausted the less severe ways to close fiscal gaps, such as drawing down “rainy day” funds or other available reserves. Accordingly, either in special state legislative sessions after the fall elections or regular legislative sessions in early 2003, many states will be forced to look harder at cutting Medicaid and SCHIP or other basic services, like education. A first indication of how severe the cuts may be — and the degree to which they may swell the ranks of the uninsured — is the sharp cuts in health insurance for low-income children, seniors and disabled persons that Oklahoma adopted last week (see text box below).

### **The Latest State Budget Cut: Terminating Health Care Coverage for Tens of Thousands of Low-income Children in Oklahoma**

Faced with mounting budget deficits, in September the Oklahoma Health Care Authority took steps to slash Medicaid and SCHIP coverage for low-income children, elderly, and disabled people. For children in Oklahoma aged 1 to 5, eligibility for health insurance is being reduced from 185 percent of the poverty line to 133 percent. For children aged 6 to 18, eligibility is being cut from 185 percent to 115 percent of the poverty line. These changes nearly eliminate Oklahoma’s SCHIP program. The state also is reducing Medicaid eligibility for elderly and disabled people from 100 percent of the poverty line to less than 80 percent of the poverty line and terminating its “medically needy” program. (Under the medically needy program, Medicaid coverage is provided to needy people whose gross incomes modestly exceed the Medicaid income limits but who have high medical bills that reduce their disposable income to below the income limits.) These changes together will result in approximately 80,000 low-income people in Oklahoma losing health care coverage. Oklahoma originally planned to implement these eligibility cutbacks by November 1, 2002. It now appears likely the state will delay the eligibility changes until March 1, 2003, although other cutbacks in benefits will go forward as approved.

These problems could be reduced — and the ability of states' Medicaid programs to continue to cover the uninsured significantly strengthened — if Congress provided temporary fiscal relief to states to help states address the effects of the economic downturn on their budgets. The Senate included a provision providing \$9 billion in fiscal relief to states, primarily through a temporary increase in the federal Medicaid matching rate, in generic drug legislation (S. 812) that it approved in August. The generic drug legislation has stalled in the House, however.

A second threat to the ability of Medicaid and SCHIP to continue offsetting losses in employer-based coverage involves *federal* budget policies related to the SCHIP program. Federal SCHIP funding to states fell by \$1 billion in 2002, and the reduced level is scheduled to remain in effect for two more years. States were able to absorb the \$1 billion funding reduction in 2002 because they could draw on unspent SCHIP funds from SCHIP's early years, when states were just starting their programs. Some of the unspent funds from earlier years are slated to revert to the U.S. Treasury after September 30, however, and other unspent funds from earlier years are gradually being used up. As a result, the Office of Management and Budget has forecast that, under current federal rules, the number of children insured through SCHIP will decline by 900,000 between 2003 and 2006. Bipartisan legislation was recently introduced by Senators Rockefeller, Chafee, Kennedy and Hatch (S. 2860) to address these problems and avoid the decline in children's coverage.

In summary, private health insurance coverage is now reaching fewer Americans due to the economic slowdown and rising health insurance costs. Though the first quarter of 2002, Medicaid and SCHIP were able to offset these reductions in private coverage and thereby avert an increase in the ranks of the uninsured. Budget cuts at the state level and inadequate SCHIP funding at the federal level, however, are threatening the ability of Medicaid and SCHIP to provide health insurance to low-income families that are suffering the loss of employer-sponsored coverage. Accordingly, it is essential for the federal government to support Medicaid by providing temporary fiscal relief to states and to strengthen federal funding for SCHIP.