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## SENATE REPUBLICAN LEADERSHIP TO SEEK RECONSIDERATION OF SCHIP PLAN THAT WOULD FAIL TO MAKE PROGRESS IN COVERING UNINSURED CHILDREN

by Edwin Park and Matt Broaddus

Senator Mitch McConnell, the Senate Minority Leader, plans to ask for reconsideration of the SCHIP legislation that he and Senate Minority Whip Trent Lott offered as an alternative during Senate floor debate on SCHIP on August 1. The McConnell-Lott proposal was defeated at that time on a 61-35 vote.<sup>1</sup>

In contrast to the bipartisan SCHIP bill the Senate and House approved last month but the President vetoed, which the Congressional Budget Office estimates would cover 3.8 million children who otherwise would be uninsured, the plan that Senator McConnell intends to offer again would not make any progress in reducing the number of uninsured low-income children.

### The SCHIP Provisions

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 shortfall of \$13.4 billion over the next five years (fiscal years 2008-2012).<sup>2</sup> CBO estimates that by 2012, some 35

#### KEY FINDINGS

- Senate Minority Leader Mitch McConnell plans to ask for Senate reconsideration this week of a SCHIP plan he and Senator Trent Lott offered in August. In contrast to the SCHIP legislation that the President vetoed, the McConnell plan would make no progress in reducing the number of uninsured low-income children. In August, the Senate rejected the plan 61-35.
- Under the plan, more than one-third of the states would face SCHIP funding shortfalls by 2012. This would occur, in part, because the plan would distribute SCHIP funds inefficiently — giving some states less than they need and other states more than they will use — and prohibit any redistribution of funds from states that leave funds unspent to states needing additional funds to avert cutbacks. This prohibition would reverse current SCHIP policy.
- The plan also restricts existing state flexibility in covering children, and fails to provide new tools or financial incentives for states to enroll low-income children who are eligible for SCHIP or Medicaid but are uninsured.
- The plan is financed by cuts in federal matching payments for costs state incur in administering Medicaid. These cuts would likely weaken state efforts to enroll more of the low-income children who are eligible for Medicaid but are uninsured.

<sup>1</sup> The SCHIP provisions in the current McConnell proposal (S. 2152) are identical to those in the Lott-McConnell amendment (S. Amdt. 2593) offered on August 1 as a substitute to the original Senate SCHIP bill. The new version omits several non-SCHIP provisions that would preempt state health insurance laws and expand Health Savings Accounts.

<sup>2</sup> 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

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 well below today's level. CBO also estimates that the bipartisan SCHIP legislation that the Senate and House approved would fully avert these shortfalls and thereby prevent 700,000 children from losing their SCHIP coverage and becoming uninsured by 2012. (The bipartisan legislation also would cover an additional 3.1 million children who would otherwise be uninsured, so that a total of 3.8 million children who otherwise would lack insurance would gain coverage by 2012.)

CBO estimates of the original Lott-McConnell amendment from August show that only a net of 700,000 children who would otherwise be uninsured would be covered in 2012, which is the number of children just from ensuring that, in the aggregate, states can maintain their existing SCHIP programs.<sup>3</sup> (It is likely, moreover, that updated CBO estimates of the McConnell legislation would find it would produce net coverage gains *smaller* than the gains simply from maintaining states' current SCHIP programs.<sup>4</sup>)

The McConnell SCHIP plan produces these disappointing children's coverage results because it contains the following features:

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

The plan would provide an additional \$13.9 billion over five years above current SCHIP funding levels, enough in the aggregate to address the five-year SCHIP shortfall estimated by the Congressional Budget Office, but *only* if perfectly targeted. Because some of these funds would be inefficiently distributed among states, the plan would leave federal funding shortfalls in more than one-third of the states by 2012. These states would be at risk of having to institute cuts in their SCHIP programs and reduce the number of children they cover.<sup>5</sup>

- The plan would use a formula to allocate SCHIP funds among the states under which a portion of the bill's \$13.9 billion in additional SCHIP funding would be directed to states that would not need the funds, even as other states with greater funding needs were given insufficient funds to maintain their current caseloads.

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Billion Over Next Five Years," Center on Budget and Policy Priorities, February 26, 2007. Because of substantially higher SCHIP spending projections reported by states in the most recent SCHIP expenditure data from August 2007, the total federal funding shortfall would likely be significantly larger than what CBO previously estimated in March 2007.

<sup>3</sup> Congressional Budget Office, "Preliminary CBO Estimate of Changes in SCHIP and Medicaid Enrollment under the Kids First Act of 2007," August 1, 2007.

<sup>4</sup> Since August, CBO has reduced its estimate of the number of uninsured children who gain coverage when states are provided sufficient funding to maintain their current programs from 800,000 to 700,000. When it originally estimated the enrollment effects of the Lott-McConnell plan in August, CBO estimated a coverage gain of 700,000 — or 100,000 short of the 800,000 who would be covered if current state SCHIP programs are maintained. It is likely that CBO would now reestimate a coverage gain of 600,000 under the McConnell legislation, which would then continue to fall short by 100,000 children of the gains simply from maintaining current SCHIP programs.

<sup>5</sup> These estimates come 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. The estimates measure 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.

- Such mistargeting is not uncommon under formula-driven block grants, but the plan would magnify the adverse effects of the mistargeting by changing current law to *prohibit* the redistribution of unspent funds from states that leave funds unused to states that need them. Currently, funds provided to a state that remain unspent after three years are redistributed to other states. The McConnell plan would reduce the period during which funds are available to two years, starting with the 2008 SCHIP allotments, but prohibit the redistribution of the funds that remain after the two-year period. As a result, the plan would result in an estimated *\$714 million in unspent funds expiring and reverting to the U.S. Treasury over the next five years*, even as numerous states were at risk of having to cut their programs due to a lack of adequate federal funding.

The net result of these features of the plan would be an estimated total federal funding shortfall of \$7.2 billion over the next five years, according to our estimates. By 2012, some 20 states would have inadequate federal SCHIP funding to sustain their current programs. The shortfall would reach \$2.3 billion in 2012 alone.

## **2. The plan 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, 24 states, including the District of Columbia, cover children above 200 percent of the poverty line or are in the process of implementing such an expansion.

Eleven additional states use their flexibility under SCHIP on how to measure income to 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.

The McConnell legislation would effectively prohibit all of these states from continuing to cover SCHIP-eligible children in families with gross incomes above 200 percent of the poverty line. Under the plan, “income disregards” would be eliminated. In addition, states would only be able to claim the lower federal Medicaid matching rate (which averages 57 percent, compared to the federal SCHIP matching rate, which averages 70 percent) for children in families with incomes above 200 percent of the poverty line who are already enrolled. States would be prohibited from using *any* SCHIP funds for *new* children who have gross incomes above 200 percent of the poverty line, including children who qualify under their state's current SCHIP income limits. Thus, as children who are currently enrolled cycle out of the program (as they age out, their incomes rise, or they become ineligible for other reasons), states would be barred from replacing them with newly eligible children. This means that coverage of children with gross incomes above 200 percent of the poverty line in these 35 states would be entirely eliminated over time.

This would create a risk that substantial numbers of children in these states who would otherwise be eligible and enrolled in SCHIP would end up without health insurance. In fact, the CBO estimates of the original Lott-McConnell proposal indicate that about 200,000 children who would otherwise be covered through SCHIP in 2012 would instead be uninsured, due to these restrictions.

The plan also would effectively prohibit the relatively small number of states now using SCHIP funds to provide health insurance to some low-income *parents* of children enrolled in Medicaid or

SCHIP from continuing to do so. (These states provide such coverage under waivers approved by the federal government — in the overwhelming majority of cases, by the Bush Administration.) As with the plan’s treatment of children, states would be able to claim the lower Medicaid matching rate for parents who are already enrolled, but would not be able to use any SCHIP funds for new parents. As parents who are currently enrolled leave the program, states would be barred from replacing them with newly eligible parents, so over time, all coverage of low-income parents through SCHIP would end.

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.”<sup>6</sup> As a consequence, not only would SCHIP coverage of parents be eliminated in these states, leaving many low-income parents uninsured, but some of the eligible children of these parents likely would end up unenrolled, and uninsured, as well. (The bipartisan SCHIP bill passed by the Senate and House also contains provisions to restrict parent enrollment, by barring any new waivers from being granted to states to cover parents and by reducing the federal matching rate for parent coverage in states that already have waivers to cover parents under SCHIP. The bipartisan bill’s parent provisions are less severe, however, than those in the McConnell legislation.<sup>7</sup>)

### **3. The McConnell plan contains no new tools or financial incentives for states to enroll more 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.<sup>8</sup>) Both the bipartisan children’s health legislation approved by the Senate and House include new tools to help states find and enroll more of these eligible, uninsured low-income children.

For example, the bipartisan bill includes an “Express Lane” state option to allow SCHIP and Medicaid agencies to use income information collected by other benefit programs to streamline the enrollment process. The bipartisan bill also would provide financial incentives for states to increase enrollment among eligible low-income children, particularly poor uninsured children who are eligible for Medicaid. These incentives are a primary reason that CBO estimates the bipartisan bill would lead to 3.8 million uninsured children gaining coverage. Of these children, 1.7 million would be uninsured children who are eligible for Medicaid, many of whom live below the poverty line.

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<sup>6</sup> See also Leighton Ku, “Collateral Damage: Children Can Lose Coverage When Their Parents Lose Health Insurance,” Center on Budget and Policy Priorities, September 17, 2007.

<sup>7</sup> The legislation approved by the Senate and the House would move the coverage of parents under existing SCHIP waivers outside of SCHIP in 2010, and lower the federal matching rate for covering such parents starting in 2011. It would set the reduced matching rate halfway between the SCHIP and Medicaid matching rates. States would have to meet certain benchmarks in their children’s coverage to qualify for this matching rate.

<sup>8</sup> Letter from Peter Orszag to Senator Max Baucus, Chairman of the Senate Finance Committee, Congressional Budget Office, July 24, 2007.

### **McConnell Legislation Would Reduce Benefits and Increase Cost-Sharing for SCHIP-Eligible Children with Access to Employer-Based Coverage**

Under current law, states have the option to subsidize private insurance for SCHIP-eligible children whose families have access to employer-sponsored health insurance, if doing so would be cost-effective and the children have access to the same benefits and do not incur higher cost-sharing charges. The bipartisan SCHIP bill passed by the House and Senate includes additional provisions to make it easier for states to adopt this “premium assistance” option.

The McConnell legislation, however, would modify current law and likely make some children now on SCHIP worse off.

- States would no longer be required to provide supplemental “wrap-around” coverage if the employer plan does not provide benefits equal to those under the SCHIP plan and/or if the employer plan imposes higher co-payments than are charged under the SCHIP plan.
- States would explicitly be given the option to subsidize high-deductible health insurance plans attached to Health Savings Accounts offered by employers, even though low-income families whose children are eligible for SCHIP are unlikely to be able to afford high deductibles of \$2,200 or more before their children receive any benefits.
- States could make “premium assistance” mandatory, even if SCHIP-eligible children ended up receiving fewer benefits and facing higher co-payments than they would if they received SCHIP coverage directly.

The McConnell legislation, by contrast, would not provide any new enrollment tools or financial incentives for states. The plan would merely provide a modest amount of outreach funding — \$400 million over five years — to states and other organizations to enroll children who are eligible for SCHIP but are uninsured. This outreach funding appears to ignore uninsured children who are eligible for *Medicaid*, even though two-thirds of the eligible but uninsured low-income children are children who are eligible for Medicaid, and they are the poorest uninsured children in the United States.

### **The Medicaid “Offset” Provisions**

Medicaid administrative costs constitute only about 5 percent of total program costs, well below the levels found in private insurance plans. To offset the costs of its SCHIP provisions, however, the McConnell legislation includes two provisions that would substantially reduce federal support for the administrative costs that states incur in operating Medicaid.

While the federal government generally pays 50 percent of most costs that states incur in administering the program, certain administrative activities are eligible for a higher matching rate. The federal government pays 75 percent of the operational costs related to Medicaid management information systems, the inspection and certification of nursing homes, the operation of state Medicaid fraud and abuse control units, and the performance of utilization and quality reviews of hospitals and managed care plans. The federal government also pays 100 percent of the costs of operating an immigration status verification system for use in determining Medicaid eligibility. The McConnell plan would reduce federal support for these costs, weakening states’ ability to devote adequate resources to limiting fraud and abuse, guaranteeing the quality of care, and accurately determining eligibility for Medicaid. In examining the original Lott-McConnell amendment, CBO

determined that this provision would reduce federal Medicaid matching payments to states by *\$8.4 billion* over five years.

The McConnell plan also would reduce federal Medicaid matching payments to 46 states that historically have pooled the administrative costs of making eligibility determinations for families receiving Medicaid, food stamps and welfare. CBO estimates this provision would reduce federal Medicaid matching payments to states by an additional \$1.8 billion over five years.

By limiting federal support for states' Medicaid administrative costs, the McConnell plan would likely weaken efforts to encourage states to seek out and enroll more of the uninsured children who are eligible for Medicaid, most of whom are children living below the poverty line. (State outreach and enrollment efforts are financed as Medicaid administrative costs.) Unlike the bipartisan SCHIP bill, which provides states with new policy tools and fiscal incentives to encourage them to enroll more eligible children in Medicaid and SCHIP, the McConnell legislation moves in the opposite direction, weakening state efforts to enroll the lowest-income uninsured children.

## **Conclusion**

The McConnell legislation is seriously flawed. It targets poorly the SCHIP funds that it provides, and would cause substantial funding to revert unspent to the Treasury even as some states were being compelled to cut back their programs due a to lack of adequate federal resources. It would restrict state flexibility in covering children and require many states to make their eligibility criteria considerably more restrictive and thereby to disqualify many children (and some parents) who now are covered. It also would fail to provide tools or financial incentives to help states reach and enroll the substantial numbers of low-income children who are eligible for SCHIP or Medicaid but remain uninsured.

In addition, it includes harmful provisions that would shift Medicaid costs to states and likely undermine ongoing efforts by states to enroll more of the uninsured low-income children who are eligible for Medicaid. As a result, unlike the bipartisan SCHIP reauthorization bill that the Senate and the House approved — which would preserve coverage for 700,000 SCHIP children who would otherwise become uninsured due to inadequate federal funding, and also cover an additional 3.1 million uninsured children by 2012 — the McConnell plan would at best merely allow states as a group to maintain their existing SCHIP programs (and cause some states to have to cut their programs). It would fail to make any progress in covering more of the nation's low-income children.