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FOURTEEN STATES FACE SCHIP SHORTFALLS THIS YEAR TOTALING OVER \$700 MILLION

By Edwin Park and Matt Broaddus

New estimates, based on the latest available data, show that 14 states face federal funding shortfalls this year in the State Children's Health Insurance Program. These states lack sufficient federal funding to maintain current enrollment levels through the end of fiscal year 2007. The shortfalls in these states total more than \$700 million. (The Congressional Research Service has produced very similar estimates.)

The 14 states are Alaska, Georgia, Illinois, Iowa, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, Rhode Island and Wisconsin.

These figures reflect the shortfalls that remain after the effect of a provision enacted in December 2006 is taken into account. Shortly before adjourning in December, Congress approved legislation (H.R. 6164) that contained a modest provision to delay the onset of the shortfalls. Under the SCHIP provision of H.R. 6164, some unspent federal SCHIP funds from prior fiscal years will be distributed to seven of the 14 states and will delay the shortfalls until early May.

Congress will need to act expeditiously to enact further SCHIP legislation that provides additional funding to address the substantial shortfalls that remain. Otherwise, the affected states will be forced to scale back their SCHIP programs, placing several hundred thousand low-income children at risk of losing health care coverage, unless these states can come up with sufficient new state funds to fully plug the holes.

In fact, the state of Georgia, which faces an estimated shortfall of \$124 million, has already announced that effective March 11, it will bar any new children from enrolling in the program. Georgia will thereby cut the number of children that it insures through the program, since children who leave the program (as their families' incomes rise or when children exceed the program's age limit) will no longer be replaced with newly participating children.

The SCHIP Provision Enacted in December 2006

The SCHIP provision of H.R. 6164 was intended to partially address the fiscal year 2007 SCHIP funding shortfalls. It altered the scheduled redistribution of unspent fiscal year 2004 SCHIP funds, and targeted those unspent funds entirely on states that face shortfalls in 2007. These unspent 2004 funds will be redistributed among the shortfall states on a monthly basis, with the funds being allocated among these states in the order in which the states otherwise would encounter shortfalls.

H.R. 6164 Would Restrict Use of SCHIP Funds for Parents by Shortfall States in 2007

H.R. 6164 includes a restriction on the use of the unspent fiscal year 2004 and 2005 funds that will be redistributed to shortfall states. Shortfall states that cover low-income parents through SCHIP and that receive some of the reallocated 2004 and 2005 funds will be able to use those funds for coverage of parents only at the regular federal Medicaid matching rate, which is about 13 percentage points lower, on average, than the SCHIP matching rate. This will have the effect of artificially reducing the size of the shortfall in these states — by reducing their projected need for *federal* SCHIP by about \$24.7 million and increasing the amount of *state* funds that these states will have to provide by the same amount.

If this restriction were *not* applied, three of the seven states that are projected to face shortfalls first — Illinois, New Jersey and Rhode Island — would still face shortfalls of \$24.7 million through early May. To the extent these three states address those shortfalls by reducing coverage of parents, the loss of coverage is likely not only to cause many of the parents losing coverage to become uninsured but also to affect children's coverage. An extensive body of research demonstrates that covering low-income parents increases enrollment in public programs among eligible children. Scaling-back SCHIP coverage of parents consequently would be likely also to result in reduced coverage for low-income children in these states.*

* See Leighton Ku and Matthew Broaddus, "Coverage of Parents Helps Children Too," Center on Budget and Policy Priorities, October 20, 2006.

Under H.R. 6164, a portion of the SCHIP funds originally allocated in *fiscal year 2005* that remain unspent after March 31, 2007 also will be redistributed to shortfall states (again, in the order in which these states encounter shortfalls). Here, too, the funds will be redistributed on a monthly basis, until they are depleted.

The SCHIP provision of H.R. 6164 will provide an estimated \$271.3 million to the seven shortfall states that are expected to face shortfalls first — Alaska, Georgia, Illinois, Maryland, Massachusetts, New Jersey and Rhode Island.¹ (The other shortfall states will *not* receive any funds under H.R. 6164.) This should postpone the onset of shortfalls in these seven states until early May 2007.² The total amount of funds made available to shortfall states under H.R. 6164 will, however, be only about one-fourth of the amount needed to fully close the 2007 shortfalls, and a projected shortfall of \$744.4 million will remain among the 14 shortfall states.³ (See Table 1 for the estimated remaining fiscal year 2007 shortfalls in each of the 14 states.) The Congressional Research Service has issued nearly identical estimates.⁴ This remaining shortfall is equivalent to the annual, average cost of covering approximately 510,000 children under SCHIP in 2007.

¹ Our estimates are derived from the Center on Budget and Policy Priorities' SCHIP financing model and incorporate states' final SCHIP spending estimates from November 2006. The \$271.3 million figure includes a projected \$146.9 million in unspent 2004 funds and a projected \$124.4 million in unspent 2005 funds.

² Shortfall states that provide SCHIP coverage to parents are likely to experience limited shortfalls *prior* to early May; see the box on this page.

³ Taking into account the restriction in H.R. 6164 on parents' coverage, which artificially reduces the size of the shortfall by \$24.7 million (see the box on page 2), the remaining shortfall will be reduced from \$744.4 million to \$719.7 million.

⁴ See Chris Peterson, "SCHIP Provisions of H.R. 6164 (NIH Reform Act of 2006)," Congressional Research Service, Updated December 13, 2006 and Chris Peterson, "Funding Projections and State Redistribution Issues," Congressional Research Service, Updated January 30, 2007. CRS estimates that H.R. 6164 will provide \$271.3 million to six shortfall states, leaving a remaining shortfall of \$744.5 million in fiscal year 2007. Both the \$271.3 million figure and the \$744.5 million figure are virtually identical to our estimates. CRS, however, has somewhat different estimates than we do of the effect of the restriction on the use by shortfall states of redistributed SCHIP funds for parents.

A Stop-Gap Measure

Passage of the SCHIP provision of H.R. 6164 in December 2006 was a welcome development, but H.R. 6164 is only a stop-gap measure. To close the remaining shortfall, Congress will need to act.

If Congress does not do so, the 14 shortfall states will have to cut their SCHIP programs — by reducing eligibility, shrinking enrollment, scaling back benefits, increasing cost-sharing and/or cutting payments to health care providers — unless these states can come up with the additional funds themselves. One of the shortfall states, Georgia, has already announced an enrollment freeze.

As noted, effective March 11, the Georgia SCHIP program (known as PeachCare for Kids) will no longer enroll any additional eligible children.⁵ Since some portion of the children currently on the SCHIP program leave it each month (because their family income rises or they “age out” of the program), the effect of the freeze will be to reduce the overall number of low-income children that the program insures and, correspondingly, to increase the number of children in the state who are uninsured. Georgia also may consider reducing the income eligibility limit for children and eliminating coverage for services such as dental care.⁶ In shortfall states that cut their programs, significant numbers of SCHIP beneficiaries will be at risk of losing some or all of their coverage unless Congress acts swiftly to ensure no state faces a SCHIP funding shortfall this fiscal year.

⁵ Bill Hendrick, “PeachCare to halt new sign-ups,” *Atlanta Journal-Constitution*, February 9, 2007.

⁶ Bill Hendrick, “Legislature 2007: Tightened PeachCare eligibility proposed,” *Atlanta Journal-Constitution*, February 10, 2007.

TABLE 1**14 States Projected to Face Federal SCHIP Financing Shortfalls in 2007**

<u>STATE</u>	Federal SCHIP Funding Shortfall Not Counting <u>H.R. 6164</u>	Remaining Shortfall After H.R. 6164 <u>Redistribution*</u>
Nation	\$1,015,763,000	\$744,448,000
Alaska	\$13,475,000	\$12,130,000
Georgia	\$128,473,000	\$124,163,000
Illinois	\$365,460,000	\$247,253,000
Iowa	\$15,047,000	\$15,047,000
Maine**	\$539,000	\$539,000
Maryland	\$79,446,000	\$60,744,000
Massachusetts	\$139,145,000	\$85,409,000
Minnesota	\$15,763,000	\$15,763,000
Mississippi	\$23,713,000	\$23,713,000
Missouri	\$3,339,000	\$3,339,000
Nebraska	\$80,000	\$80,000
New Jersey	\$178,595,000	\$122,620,000
Rhode Island	\$49,851,000	\$30,811,000
Wisconsin	\$2,837,000	\$2,837,000

* Includes both the regular redistribution of unspent federal SCHIP funds from states' 2004 SCHIP allotments and the accelerated redistribution of a portion of states' unspent federal SCHIP funds from their 2005 SCHIP allotments. States receive redistributed funds as they experience shortfalls.

Shortfalls are further reduced artificially by an additional \$24.7 million because, if states use the redistributed funds for coverage of parents, they will receive only the lower Medicaid matching rate as opposed to the enhanced SCHIP matching rate. The following states are affected: Illinois (\$14.7 million), New Jersey (\$7.5 million), and Rhode Island (\$2.5 million). This additional \$24.7 million reduction is not reflected in this table.

** State officials have indicated to CBPP staff that Maine's SCHIP spending in fiscal year 2007 could be significantly higher than under the state's most recent estimates submitted to the Centers for Medicare and Medicaid Services. Maine's shortfall could be as high as \$6.5 million in 2007.

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 model incorporates SCHIP provisions of the Deficit Reduction Act, states' November 2006 estimates of federal SCHIP funding needs for federal fiscal year 2007, and the fiscal year 2007 state allotments announced by CMS in August 2006.