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PRESIDENT'S BUDGET MAY PROVIDE STATES WITH INADEQUATE FUNDING TO MAINTAIN CURRENT SCHIP PROGRAMS

Budget Does Not Provide Funds to Insure More Children

By Edwin Park

In December 2007, Congress extended the expiring State Children's Health Insurance Program through March 2009. As part of his fiscal year 2009 budget, the President proposes to reauthorize SCHIP through the end of fiscal year 2013. The budget proposal would provide an additional \$19.7 billion to states for their SCHIP programs, above the \$5 billion-a-year funding level assumed in the budget baseline.

The proposed funding increase has been portrayed in some media reports as a significant expansion of SCHIP to cover more children. Yet while the \$19.7 billion amount does substantially exceed the amount proposed for SCHIP in the budget the President submitted a year ago,¹ it would not provide sufficient funding for states to significantly expand their SCHIP programs and cover many more uninsured low-income children. In fact, the amount that the President's new budget proposes for SCHIP likely would not even be sufficient to enable states simply to maintain their current SCHIP programs.

- The budget baseline assumes that annual federal SCHIP funding will drop from \$6.6 billion in fiscal year 2008 to \$5.3 billion in 2009 and \$5.0 billion in fiscal year 2010, and then remain frozen at \$5.0 billion in all years thereafter, without any adjustment for increases in health costs or other factors (such as child population growth or increases in the number of uninsured children as employer-based coverage continues to erode).²
- Under these baseline funding levels, states would experience an estimated federal SCHIP funding shortfall of approximately \$21.5 billion over the next five years (2009-2013). This means that under baseline funding levels, federal SCHIP funds would likely fall short of what will be needed through 2013 to sustain states' current SCHIP programs. By 2013, some 42

¹ Last year, the Administration's fiscal year 2008 budget proposed to reauthorize SCHIP for five years, but would have provided only \$4.8 billion in SCHIP funding above the baseline. Congressional Budget Office estimates last year indicated that the Administration's proposal would have closed less than half of the federal funding shortfall projected for the five-year period from 2008 through 2012. See Edwin Park and Matthew Broaddus, "CBO Estimates President's SCHIP Proposal Would Lead to Large Enrollment Declines and Funding Shortfalls," Center on Budget and Policy Priorities, March 13, 2007 and Congressional Budget Office, "Additional Information on CBO's Estimate of the Administration's SCHIP Proposals," March 9, 2007.

² As part of the extension of SCHIP through March 2009, Congress provided \$1.6 billion in fiscal year 2008 and \$275 million in fiscal year 2009 above the \$5.0 billion-a-year baseline funding level in order to avert the federal funding shortfalls otherwise projected to occur through March 2009.

states would face a total federal funding shortfall of \$6.3 billion, equal to the cost of covering about 3.7 million children.

- If the President's proposal for \$19.7 billion over the baseline is perfectly targeted to the states most in need of such funds, the President's budget proposal would, according to our estimates, provide about \$1.8 billion less than what is needed to avert SCHIP funding shortfalls. If the shortfalls are not fully closed, some states will have to scale back their existing SCHIP programs by reducing eligibility, capping enrollment, scaling back benefits, increasing beneficiary cost-sharing or cutting payments to providers, unless they are able to come up with sufficient additional state funds to plug the shortfalls.
- Even if the funding shortfall under the Administration's new budget proposal is somewhat smaller than we now project, the proposal would — at best — provide only enough funding to allow states to maintain their existing programs. The proposal would not allow states to expand to cover many of the millions of uninsured low-income children who are eligible for SCHIP (as well as Medicaid) but remain unenrolled. (If the federal funding shortfall is *larger* than we estimate, states would have to institute more substantial reductions in their SCHIP programs.)

Restrictions on Which Children Can Qualify

The President's SCHIP reauthorization proposal also would require many states to institute restrictions on which children may qualify for their SCHIP programs. These restrictions would go beyond the restrictions the Administration imposed administratively on August 17, 2007. The restrictions imposed last August will bar 23 states from continuing to cover, or instituting planned expansions that would cover, children in families with incomes above 250 percent of the poverty line (\$44,000 for a family of three).³

- While key details remain unavailable, the President's budget proposal apparently would extend the restriction in the August 17 guidance to children with incomes between *200 percent and 250 percent* of the poverty line (between \$35,200 and \$44,000 for a family of three). The budget proposal apparently would bar states from expanding their SCHIP programs to cover these children and reduce federal financial support for states already covering children in that income range.⁴
- The new proposal apparently also includes new restrictions on how states may count a family's income when determining whether these new limits on SCHIP coverage of children with

³ Cindy Mann and Michael Odeh, "Moving Backward: Status Report on the Impact of the August 17 SCHIP Directive to Impose New Limit on States' Ability to Cover Uninsured Children," Center for Children and Families at the Georgetown University Health Policy Institute, December 2007. States already covering children above 250 percent of the poverty line must comply with the August 17, 2007 directive by August 17, 2008. States implementing planned expansions were effectively barred from covering such children upon issuance of the directive.

⁴ States already covering children with incomes between 200 percent and 250 percent of the poverty line could apparently continue to cover such children, but only at a reduced SCHIP matching rate or the federal Medicaid matching rate. (On average, the federal government pays for 70 percent of the costs of SCHIP but 57 percent of the costs of Medicaid.)

incomes above 200 percent of the poverty line apply.⁵ Exactly how the restrictions on counting income would work is unclear. Currently, when assessing whether a child is eligible, most states deduct from a family's income a percentage of the family's earnings (in order to cover work-related expenses), as well as child care costs that a parent incurs in order to work and some other expenses. Combining significant restrictions on states' longstanding flexibility to deduct such expenses with the SCHIP eligibility limits discussed above would compel many states to effectively scale back the eligibility criteria for their SCHIP programs. Some children who would be eligible under current state eligibility rules would no longer qualify.

The President's SCHIP budget proposal thus cannot be viewed as a proposal to expand the SCHIP program and substantially reduce the number of uninsured children. While the Administration's budget acknowledges the need for SCHIP funding above the budget baseline and implicitly acknowledges that the SCHIP proposal the Administration submitted last year was highly inadequate, the new proposal is — as noted — likely to fall somewhat short of the funding levels that states will need simply to sustain their existing programs. As also noted, the budget proposal would impose new eligibility restrictions on states that would likely lead many states to cease providing health coverage through SCHIP to some low-income children whom they now cover. The likely result of the President's proposal thus would be that fewer children would be covered through SCHIP than would otherwise be the case, and that more children would be uninsured.

This stands in contrast to the two bipartisan SCHIP bills that the President vetoed last year. Those bills would have provided states with additional funding, new policy options, and financial incentives to help and encourage them to enroll more low-income children in both SCHIP and Medicaid. The Congressional Budget Office estimated that under the vetoed bills, nearly 4 million children who otherwise would be uninsured would gain health care coverage by 2012.

⁵ The August 17, 2007 guidance requires states to use a gross income test, under which all family income is counted in determining whether the family's income exceeded the guidance's limit on SCHIP coverage of children with incomes in excess of 250 percent of the poverty line. The President's budget proposal would codify this 250 percent of poverty gross income limit.