

## **SCHIP Reauthorization Issue Brief**

For the Health District of Northern Larimer County Board of Directors  
June 8, 2007

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**Issue Summary:** The SCHIP program is due for federal reauthorization by September of this year.

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### **Overview**

The State Children's Health Insurance Program (SCHIP) was created 10 years ago. The federal legislation authorizing the program is due to expire this year and Congressional action is needed to reauthorize the program. Reauthorization is an opportunity to revisit the program and make changes in funding levels and program design. Several bills have been filed relative to SCHIP reauthorization. Senators John D. Rockefeller IV (D-West Virginia) and Olympia Snowe (R-Maine) have introduced the Children's Health Insurance Program Reauthorization Act of 2007, S. 1224, (referred to as the Rockefeller-Snowe bill). Senator Hillary Clinton (D-New York) and Representative John Dingell (D-Michigan) have introduced a pair of bills (H.R. 1535 and S. 895) entitled the Children's Health First Act. Both S. 895 and S. 1224 are in the Senate Finance Committee. However, Senator Max Baucus (D-Montana) and Senator Charles Grassley (R-Iowa), who chair the Senate Finance Committee, will be introducing their own bill which will be the main reauthorization vehicle. It is unknown at this point what the Baucus-Grassley bill will look like. It may include pieces of the other SCHIP reauthorization bills. A bill could emerge from the Senate Finance Committee and go to the full Senate for a vote by the end of June and then make its way through the House.

### **Provisions of the Rockefeller-Snowe bill include:**

- Providing significant new funding over the next five years
- Expanding coverage to other low-income populations
  - State option to cover legal immigrant children and pregnant women in CHIP or Medicaid
- Improving enrollment of eligible but unenrolled kids by
  - Allowing "Express Lane" eligibility, which permits states to use financial information from other low-income programs like WIC or school lunch to find and enroll eligible kids
  - Giving states flexibility to determine the best way to meet the citizenship documentation requirement
- Improving quality of care
  - Strengthen the CHIP benefit package by making dental coverage a guaranteed benefit and strengthen the federal standards for the provision of mental health benefits
  - Establish a child health quality and access initiative to develop quality measures, operate demonstrations and pursue the use of health information technology for children

### **Provisions of the Clinton-Dingell bill include:**

- Expanding coverage to new populations
  - Granting states the option to expand coverage of children whose family income is any percentage up to 400% of the federal poverty level.
  - Authorizing states to offer purchase of coverage for uncovered children under SCHIP who are not otherwise eligible for assistance under SCHIP or Medicaid.
  - Outlines state options for additional coverage expansions, including older children under Medicaid, targeted low-income pregnant women under SCHIP, and legal immigrants under both programs.
- Providing subsidies for employment-based coverage of children eligible for SCHIP or Medicaid.

- Expanding SCHIP benefits by requiring coverage of early and periodic screening, diagnostic, and treatment services and dental services.
- Changing outreach and enrollment procedures
  - Gives states the option to provide for "Express Lane" eligibility and simplified determinations of a child's financial eligibility for Medicaid or SCHIP.
  - Requires a state Medicaid plan to apply outreach procedures to all pregnant women and children.
  - Gives states the option to require certain individuals to present satisfactory documentary evidence of citizenship or nationality for Medicaid eligibility.
- Establishing new base SCHIP allotments responsive to increases in health care costs and enrollment expansions.
- Providing for a two-year initial availability of SCHIP allotments, and for redistribution of unused allotments to address state funding shortfalls.

## **Background**

### *The SCHIP Program*

The State Children's Health Insurance Program (SCHIP) was designed to insure children whose families are low-income but earn too much to be eligible for Medicaid. Unlike Medicaid, SCHIP is not an entitlement program and the total amount of federal funding available to each state for the program is capped. Funding is allocated based on a formula that takes into account an estimate of the number of low-income children in that state, the number of such children who are uninsured, and an adjustment to reflect the cost of medical services in the state. States that exceed the federal funding allocation or that are unable to finance their share of the program costs may be forced to freeze enrollment in the program as many states did during the most recent economic downturn. At the program's inception, states were allowed to use SCHIP money to expand their Medicaid program, establish a separate SCHIP program, or operate a combination of the two (a Medicaid expansion along with a separate SCHIP plan). For states with separate SCHIP programs, the benefit package is usually leaner than Medicaid benefits and SCHIP programs may require greater cost-sharing by families. The federal matching rate is higher for SCHIP than for Medicaid, generally 15% above the Medicaid match rate. Colorado has a separate SCHIP program called CHP+ and receives a federal match of about 65%.

### **Issues for Reauthorization**

Reauthorization of the program is very likely. There are a number of issues around the level of funding authorized and the design of the program that will be the subject of Congressional debate. Before adjourning for their April recess, both the House and Senate passed their budget resolutions. Both chambers included a commitment of \$50 billion for SCHIP, for the next five years, on top of the current allocation. SCHIP is presently funded at \$5 billion per year. Reauthorization at the \$5 billion per year level would amount to a program cut as the costs of health services and the number of the uninsured rise. Funding the additional \$50 billion over five years would not only maintain current SCHIP programs but also allow for significant expansion. Funding at the \$50 billion over five years level would bring Colorado about \$618.3 million in new federal funding.<sup>1</sup> Under the "pay as you go" policy, Congress must fund new federal mandatory spending by either increasing revenue or cutting something else from the budget. It is unclear how Congress will find the \$50 billion to allocate to SCHIP. Possible funding sources include a decrease in the Medicare Advantage plans' reimbursement rates and/or a federal tobacco tax increase of \$0.61 per pack of cigarettes and a comparable tax on other tobacco products. It is likely that several funding sources will be combined if Congress reauthorizes at the \$50 billion level.

In addition to the funding level, there are several other key program design issues that will likely be debated as Congress takes up a reauthorization bill. Among them are: 1) Who should the program cover?; 2) Should the allocation formula change?; and 3) Should there be any changes in benefit design, enrollment efforts, or eligibility requirements?

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<sup>1</sup> Families USA, *SCHIP Reauthorization: What's at Stake for Colorado?*, May 2007

### *Who should SCHIP cover?*

Congress could consider redefining the target population of the program either by increasing or decreasing income levels required to be eligible, by changing rules around the eligibility of adults, or expanding eligibility to new populations like legal immigrants or children of state employees. Where lawmakers stand on these issues will be determined by their ideas about what the goal of the program should continue to be and how much they are willing and able to spend. Use of the program to cover adults has been a point of contention among lawmakers some of whom feel strongly that the program should only cover children. A number of states have used the program to extend coverage to pregnant women and parents of children in the program. Research has consistently demonstrated that insuring parents is an effective way to get more eligible kids enrolled in the program, yet expanding the program to more adults obviously incurs greater costs. There are advocates who are calling for Congress to use the SCHIP program to achieve universal coverage of children by allowing children with higher incomes to enroll in the program using several measures including a buy-in program. Opponents of program expansion have expressed support for keeping the program eligibility tied to 200% of the federal poverty level, thereby maintaining an exclusive focus on low-income children.

Another issue around coverage is the significant number of children across the county who are eligible for Medicaid and SCHIP but unenrolled. Congress could require aggressive state efforts to enroll these children but would have to consider the substantial cost to both programs. One measure that might be considered to improve outreach and enrollment efforts by states an increase the fiscal incentives to states to enroll kids in Medicaid. Because all kids who apply for SCHIP are required to be screened for Medicaid eligibility first, efforts to improve SCHIP enrollment also drive increases in Medicaid enrollment. The matching rate for Medicaid is well below that for SCHIP which creates a disincentive to states to aggressively enroll kids in SCHIP.

### *Changes to the allocation formula*

Because the SCHIP allocation formula is based on the number of low-income children, the number of those children who are uninsured and the cost of health services, the formula reduces allotments to states that enroll more kids in SCHIP. Potential measures to address this issue include incorporating the number of children on SCHIP into the formula or basing the formula on previous state spending. Other issues around funding allocation include changing the rules regarding how unspent SCHIP funds are redistributed and perhaps reexamining the Medicaid match rate. There has been very little analysis done on what potential formula changes would mean to Colorado, and staff is not able to determine how different formulas would affect Colorado's allocation.

### *Changes in benefits/enrollment/eligibility procedures*

The benefit packages in SCHIP programs are leaner than Medicaid benefits but still must meet federal standards. Congress could include a richer set of benefits for the SCHIP program, such as Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) to address the issue of underinsurance among children with special health care needs who are on SCHIP. Congress could also give states the flexibility to provide wrap-around benefits meant to supplement employer sponsored coverage parents already have.

An important issue that policymakers may consider is a change to the Deficit Reduction Act (DRA) to allow states the option to determine how to meet the citizenship documentation requirement for Medicaid applicants. Proponents of the change note that states are finding that the document requirements place a substantial burden on applicants and sometimes have the effect of keeping citizens off the program. Opponents of changes to the Deficit Reduction Act requirements are concerned that loosening the documentation requirements might undo what DRA was designed to do, which was in part to keep those who are not eligible for Medicaid due to immigration status off the program.

Lawmakers may also consider some changes to enrollment and eligibility determination procedures to simplify and streamline program applications. An option popular with healthcare advocates is "ExpressLane" eligibility, a process by which SCHIP and Medicaid determine an applicant's eligibility based on information provided to apply for other federal programs such as WIC, food stamps, or free and reduced price school lunch. Evidence indicates that measures like ExpressLane eligibility are very successful in reaching kids who are eligible for SCHIP and Medicaid but not enrolled.

### *The Issue of Crowd-Out*

The question of how much the introduction of SCHIP has supplanted private, employer-sponsored insurance coverage is an important one for lawmakers considering expansions to the program. As benefits and eligibility become more generous it is possible that parents who would have participated in employer-sponsored insurance choose instead to enroll their children in SCHIP. SCHIP may also influence employer behavior. If employers sense that SCHIP makes the offering of health insurance less important to employees, employers may stop providing insurance, increase the amount employees are required to pay, or reduce benefits offered. A May 2007 Congressional Budget Office (CBO) paper on SCHIP reauthorization indicated that efforts to quantify how much SCHIP crowds out private insurance is difficult to estimate. The report concluded that “Estimates of the extent to which private coverage has declined in response to the program vary; the available evidence, however, strongly suggests the net effect of the program has been to reduce the number of uninsured children.”

### **Why is this issue important?**

Health insurance coverage plays an important role in children’s health. Research has consistently demonstrated that children without health insurance are more likely to go without needed care and experience worse health outcomes compared to children with health insurance coverage. In Colorado there are approximately 176,000 uninsured children, two-thirds of whom are eligible for either CHP+ or Medicaid. Reauthorization and expansion of the program could reach more of those eligible but unenrolled children and significantly reduce the number of uninsured children.

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### **About this Analysis**

This analysis was prepared by Health District of Northern Larimer County staff to assist the Health District Board of Directors in determining whether to take an official stand on various health-related issues. Analyses are based on bills or issues at the time of their consideration by the Board and are accurate to the best of staff knowledge. It is suggested that people check to see that a bill has not changed during the course of a legislative session by visiting the Colorado General Assembly web page at [www.state.co.us/gov\\_dir/stateleg.html](http://www.state.co.us/gov_dir/stateleg.html). To see whether the Health District Board of Directors took a position on this or other policy issues, please visit [www.healthdistrict.org/policy](http://www.healthdistrict.org/policy).

### **About the Health District**

The Health District is a special district of the northern two-thirds of Larimer County, Colorado, supported by local property tax dollars and governed by a publicly elected five-member board. The Health District provides medical, mental health, dental, preventive and health planning services to the communities it serves.

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