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KIDCARE IMPLEMENTATION: A HELPFUL GUIDE FOR THE STATES

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Recently enacted legislation establishing the State Children's Health Insurance Program (S-CHIP)—often referred to as “kidcare”—will make \$48 billion in taxpayer dollars available to the states over the next 10 years for health coverage of low-income uninsured children. As recent criticisms of the program point out, however, S-CHIP may lead to significant expansions in Medicaid and a reduction in employer-provided private health coverage without significantly increasing the number of children covered by health insurance. More important, S-CHIP fails to give struggling working families that lack employer-provided health coverage what they need most in order to buy into the health plan of their choice: individual tax relief for their health care costs.

Although the legislation contains shortcomings, Congress included promising opportunities for states to develop consumer-based programs for uninsured children. These opportunities rely not on new or expanded government-run programs, but on families exercising their own choices in the private insurance market.

At a recent conference hosted by The Heritage Foundation and the State Policy Network, almost 100 state legislators, policy analysts, and state government employees from more than 20 states explored some of these opportunities and the dangers presented in the new children's health program. Key among the information and materials presented at the conference was a guide for the states developed by House Commerce Committee Chairman Thomas J. Bliley (R-VA): *The State Children's Health Insurance Program (S-CHIP) Implementation Guide*.

The purpose of the Implementation Guide is to answer the questions state policymakers may have about the objectives and provisions of the new law as interpreted by those who drafted the legislation. This is timely information, since the states currently are preparing their plans for uninsured children for submission to the Health Care Financing Administration (HCFA) and for consideration by their state legislatures.

A number of factors will influence state decisions about accepting the new federal matching grant dollars as a block grant or using the funds to expand Medicaid coverage. As the states deliberate the most cost-effective course to meet the needs of their intended beneficiaries, it is important that they fully understand all the options presented by S-CHIP.

The S-CHIP Implementation Guide highlights the key issues the states should consider. Specifically:

1. Vouchers and Tax Credits. The kidcare legislation encourages states interested in promoting market-based health coverage initiatives to explore “innovative means” to extend coverage to children through the use of tax credits and vouchers. The central issue for states is deciding who should control the subsidy dollars—individual families or the government. Vouchers and tax credits would empower low-income families by giving them an incentive and the resources they need to purchase private coverage so they can own and control their own health plans. Rather than finding themselves forced into a one-size-fits-all government-run health care program, families would be able to choose a plan that best meets their children’s needs. Allowing individuals to exercise choice will benefit the entire health care system by making it more competitive and efficient.

2. Block Grants for State Flexibility. While some published reports support Medicaid expansion as the preferred means of extending health coverage to uninsured children, the S-CHIP Implementation Guide clarifies significant drawbacks to this approach. By choosing to expand Medicaid coverage, a state is choosing to expand an entitlement program already hampered by too little flexibility, significant costs, and a less than stellar success rate at meeting the needs of low-income families. The U.S. General Accounting Office (GAO) reported last year that 35 percent of an estimated 10 million uninsured children in America currently are eligible for Medicaid but do not participate in the program. Fortunately, less restrictive options exist and are permitted under the new law.

The S-CHIP guide clarifies for the states many of the cost-benefit issues surrounding Medicaid expansion, and it emphasizes the value of taking the program funds as a flexible block grant. A state may decide to use the block grant to offer low-income families a voucher or a tax credit, and adjust their assistance level to reflect their relative needs. For example, a family may require only a small amount of assistance to receive dependent coverage through a parent’s employer-provided health coverage.

Block grants also can deliver more bang for the buck by allowing states or families to choose private health plans that offer comprehensive benefits without many of the expensive Medicaid mandates. This means states can offer coverage to more families with their S-CHIP allotment.

3. Benefit Flexibility. Although the states must comply with certain benefit requirements, there are opportunities for states to be creative in developing a benefits package for children. The law requires states either to provide one of three “benchmark” benefit packages (a state employee plan, the health maintenance organization (HMO) policy which has the largest enrollment in the state, or the federal employees’ Blue Cross/Blue Shield plan), or to spend the actuarial equivalent of any one of these plans with some caveats. Most of the benchmark plans outlined as state options are likely to include additional services that may not be needed and add costs to the program. But states can create a new health plan as part of their state employees’ health benefits plan, with a benefits package tailored specifically for children, and use this as the benchmark benefits for the kidcare program.

4. Coordination with Other State and Federal Programs. There are also opportunities for states to coordinate S-CHIP with their own welfare reform programs. Loss of health coverage serves as a significant disincentive for families to leave welfare dependency. States could use S-CHIP health care coverage to ease their welfare recipients’ transition into the workplace by providing health coverage for dependent children. Other linkages can be made to existing programs, such as using federal kidcare dollars to provide health care vouchers for adoptive children with health care needs. However, a state’s ability to use these dollars in creative ways to complement its welfare reform efforts is contingent upon receiving these funds in a block grant. Expanding Medicaid sends the wrong message to families trying to escape government

dependence. S-CHIP, on the other hand, is a way to offer low-income families with children temporary health care assistance in times of need.

Rather than increasing the government's involvement in the health care decisions of individual American families, the State Children's Health Insurance Program offers real opportunities for states to promote consumer-based, market-oriented health care options for the uninsured. The House Commerce Committee's S-CHIP Implementation Guide is a useful tool for state policymakers in deciding how best to proceed. Policymakers can obtain a copy of the Implementation Guide by visiting the House Commerce Committee's Web site at: www.house.gov/commerce or by contacting Chairman Bliley at the following address:

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