WebMemo
Published by The Heritage Foundation
No. 1591
August 27, 2007

The Administration's SCHIP Regulations: A Sound Prescription

Nina Owcharenko

The Bush Administration's release of new State Children's Health Insurance Program (SCHIP) regulations is a bold and welcome development. Critics allege the regulations will limit low-income children's access to coverage, but in reality, the new regulations clarify existing law, preserving SCHIP for the core populations it is intended to serve, deterring further erosion of private coverage, and ensuring states are focused on meeting the basic goals of the program.

A New Focus on Children. SCHIP was created to help states assist uninsured children from low-income families access health care services. This population was clearly defined in the law as uninsured children in families at or below 200 percent of the federal poverty level (FPL).

SCHIP's focus, however, has become blurred over the years. Instead of remaining a targeted program for low-income uninsured children at or below 200 percent FPL, some states have used SCHIP as a vehicle for the expansion of government-run health care.

The Administration's new regulations clarify and reinforce the original focus of the program by requiring states that want to expand SCHIP to do the following:

- **Adopt procedures to prevent substitution of private coverage for public coverage.** Under the new regulations, states wanting to expand SCHIP beyond 250 percent of the FPL are required to adopt five specific strategies to combat "crowd out":[1] (1) require a one-year waiting period for individuals dropping private coverage to enroll in SCHIP; (2) establish meaningful cost-sharing for SCHIP enrollees so that SCHIP is not more appealing than private coverage; (3) check health insurance status at the time of application; (4) verify family insurance through a database that includes non-custodial parents; and (5) deter employers from changing dependent coverage policies in ways that push individuals into SCHIP.

  Current law requires states to have procedures in place to prevent substitution, but many states are making it easier and more attractive for families with private coverage to enroll in SCHIP. For example, the overwhelming majority of states have enrollment waiting periods of 6 months or less, and 16 states have no waiting period at all.[2] Moreover, 11 states require no cost-sharing for SCHIP enrollees.[3] The Administration's new rules will help keep SCHIP focused on those who lack access to private coverage.

- **Meet basic federal enrollment benchmarks.** The new regulations require states wanting to expand SCHIP coverage beyond 250 percent of

This paper, in its entirety, can be found at:
www.heritage.org/Research/HealthCare/wm1591.cfm

Produced by the Center for Health Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

the FPL to demonstrate that they have enrolled at least 95 percent of eligible children in SCHIP and Medicaid.[4] Moreover, states would have to demonstrate that the number of children insured through employer-based coverage has not decreased by more than 2 percentage points over the previous five years.[5]

As mentioned, the original purpose of SCHIP was to help states assist low-income uninsured children. States that want to expand the program beyond this targeted population should have to prove that they have fulfilled the original mission of the program, including protecting against substitution. This kind of performance measure can determine whether or not the program is successful in meeting its mission and help justify its effectiveness to taxpayers.

- **Monitor and report data.** The new regulations require states wanting to expand SCHIP to be current on all existing reporting requirements within SCHIP and Medicaid and to provide a monthly report on crowd out.[6]

For a federal–state program to be effective, transparency is vital. The state government and the federal government should share information and data in order to provide an accurate and up-to-date assessment of the program, and guarantee accountability to taxpayers at the state and federal level.

Conclusion. As debate over SCHIP reauthorization continues, the Administration's new regulations will reduce confusion over the purpose of the program and keep the reauthorization process focused on improving SCHIP as a program for low-income uninsured children, not a vehicle for government expansion. The Administration's new regulations will help to focus SCHIP back to its original calling and prevent it from undermining the foundation of America's private health care system.

—Nina Owcharenko is Senior Policy Analyst in the Center for Health Policy Studies at The Heritage Foundation.

1. Letter from Dennis Smith, Director, Center for Medicaid and State Operations, Center for Medicare & Medicaid Services (CMS), to State Health Officials, August 17, 2007, at *www.cms.hhs.gov/smdl/downloads/SHO081707.pdf*.
2. Donna Cohen Ross, Laura Cox, and Caryn Marks, "Resuming the Path to Health Coverage for Children and Parents: A 50 State Update on Eligibility Rules, Enrollment and Renewal Procedures, and Cost-Sharing Practices in Medicaid and SCHIP in 2006," Henry J. Kaiser Family Foundation, January 2007, p.32, at *www.kff.org/medicaid/upload/7608.pdf*.
3. Kathryn G. Allen, Director for Health Care, U.S. Government Accountability Office, "Children's Health Insurance: States' SCHIP Enrollment and Spending Experiences in Implementing SCHIP and Considerations for Reauthorization," statement before the Subcommittee on Health of the Committee on Energy and Commerce of the U.S. House of Representatives, February 15, 2007, GAO–07–447T, p. 18, at *www.gao.gov/new.items/d07501t.pdf*.
4. Letter from Dennis Smith to State Health Officials.
5. *Ibid.*
6. *Ibid*.