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SCHIP: The Bush Administration's Effort to Preserve Children's Private Health Coverage

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In August of 2007, the Centers for Medicare and Medicaid released a directive on the State Children's Health Insurance Program (SCHIP). The directive keeps the program focused on its core population—low-income uninsured children—and pays particular attention to the impact that SCHIP expansions have on existing private coverage.

The SCHIP statute describes the purpose of the program as assisting uninsured low-income children. Although there is some disagreement over its interpretation, the statute defines "low-income" children as those children whose family income is at or below 200 percent of the poverty line. In an effort to keep the program focused on uninsured children, the statute also includes provisions to ensure that the program does not substitute for coverage under a group health plan and to inform parents, through outreach efforts, of the possible availability of private coverage.

Impact of Expansion on Existing Private Coverage. Many low-income children have private health insurance. The Congressional Budget Office estimates that 50 percent of children between 100 percent and 200 percent of poverty have private coverage[1] and that 77 percent of children between 200 and 300 percent of poverty have private coverage.[2] It is critical to appreciate these numbers when considering expanding public programs, such as SCHIP, beyond the 200 percent threshold.

Estimates of the degree to which expansion of public programs affects the availability of and enrollment in private coverage vary widely. Economists Jonathan Gruber and Kosali Simon, looking at public programs in general, found that "the number of privately insured falls by about 60 percent as much as the number of publicly insured rises."[3] Gruber and Simon also concluded that the "crowd out" phenomenon is far more dramatic when considering the entire family. Thus, expansions reduce private insurance options for family members more dramatically.[4]

The Congressional Budget Office conducted a review of the literature and estimated that there is a 25 percent to 50 percent reduction in private coverage due to SCHIP.[5] Since its estimates consider only children and not parents, the CBO, like Gruber and Simon, points out that these estimates "probably understate the total extent to which SCHIP has reduced private coverage."[6]

The Heritage Foundation's Center for Data Analysis conducted an econometric analysis based on a modified and extended version of the methodology developed by Gruber. This analysis concluded that for every 100 newly eligible children in families with incomes between 200 percent and 400 percent of federal poverty, 54 to 60 children would lose private coverage.[7]

This paper, in its entirety, can be found at:
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Protecting SCHIP and Private Coverage. First, the directive is not aimed at all states, but those states that have expanded eligibility above 250 percent of poverty. Ironically, many of the affected states at or above 200 percent of poverty have received additional federal funding after overspending their allotments to address "shortfalls" within their programs, which leads to questions about whether these states have already expanded beyond capacity.[8]

The Administration directs states that want to expand SCHIP above 250 percent of poverty to meet certain requirements to ensure that the basic goals of the program are being met by preserving SCHIP for the core population it is intended to service and deterring further erosion of private coverage. This directive helps to reinforce and clarify existing law. Meaningful cost sharing and standard waiting periods, for example, will help protect SCHIP as a safety net program and ensure that the program's design does not create an incentive for families to drop their existing private coverage.

Policymakers need to balance access to public coverage with the need to avoid eroding private coverage. Instead of focusing solely on SCHIP as a vehicle for covering children, policymakers should broaden its efforts make private coverage more affordable for working families. Offering a federal tax credit to working families is one way to give families the help they need to afford private coverage. A dual approach that protects SCHIP for its intended low-income uninsured populations and offers a tax credit for others has a long history and broad support.[9]

Conclusion. These SCHIP directives help to preserve SCHIP as a safety net program for low-income uninsured children. Efforts to undermine these directives will both lead to further erosion of the private health insurance market and overburden public programs. In order to address the coverage needs of children, policymakers must look beyond public program expansion and consider solutions that will bolster—not unravel—the foundation of private health insurance in America's health care system.

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1. Congressional Budget Office, "The State Children's Health Insurance Program," May 2007, p. 12, at *www.cbo.gov/ftpdocs/80xx/doc8092/05-10-SCHIP.pdf*.
2. *Ibid*.
3. Jonathan Gruber and Kosali Simon, "Crowd-Out Ten Years Later: Have Recent Public Insurance Expansions Crowded Out Private Heath Insurance?" National Bureau of Economic Research *Working Paper* No. 12858, January 2007, p. 2, at *www.nber.org/papers/w12858*.
4. *Ibid.*, p. 28.
5. CBO, "The State Children's Health Insurance Program," p.11.
6. *Ibid*, p. 12.
7. Paul L. Winfree and Greg D'Angelo, "SCHIP and 'Crowd Out': The High Cost of Expanding Eligibility," Heritage Foundation *Web Memo* No. 1627, September 20, 2007, at *www.heritage.org/Research/HealthCare/upload/wm_1627.pdf*.
8. For example, six states at or above 250 percent of the federal poverty level (FPL) received additional funding under the Deficit Reduction Act (PL 109-171), and eight states are projected to receive additional funding through the Medicare, Medicaid, and SCHIP Extension Act (PL 110-173). See Chris L. Peterson, "SCHIP Financing: Funding Projections and State Redistribution Issues," Congressional Research Service, May 8, 2006, and Chris L. Peterson, "FY 2008 Federal SCHIP Financing," Congressional Research Service, January 9, 2008.
9. See Health Coverage Coalition for the Uninsured Web site at *www.coalitionfortheuninsured.org*.