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# SCHIP Reauthorization: Preparing for Another Round in Congress

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In the coming weeks, Congress may once again debate the reauthorization of the State Children's Health Insurance Program (SCHIP). By doing so, congressional leaders would have an opportunity to take a fresh approach to this issue and avoid the serious flaws in last year's legislation.

Extension of the popular program last year should have been an act of effective bipartisanship. Instead, political maneuvering obscured the crucial policy problems in the debate over SCHIP such as:

- The expansion of coverage to higher income children and adults, as well as noncitizens,
- The "crowd out" of private insurance,
- Unnecessary tax increases, and
- Budget gimmicks.

SCHIP legislation will impact all taxpayers and the cost of health insurance for everyone. It must also be noted that last year's SCHIP dispute was never about poor children; there is already a $1 trillion commitment to children on Medicaid and SCHIP over the next 10 years.

**Preparing for the Next SCHIP Proposal.** Before putting SCHIP legislation on the floor again, Congress should hold balanced hearings with outside policy experts, thoroughly examining the pitfalls and alternatives from last year's version before marking up legislation through regular order. Last year, SCHIP legislation went through dramatic changes without the opportunity for members to digest differing explanations about policy or what was really being accomplished. Leaders seemed determined to spend a pre-determined amount of money in excess of what was needed and even to the extent of rewarding unsound state policies.

In order to avoid last year's legislative failures, fresh consideration of SCHIP legislation must adhere to four provisions.

1. **Establish a Clear Policy from the Beginning**. Last year, Congress appeared to pick budget numbers first and then back into policy, a strategy that yielded strange results. With the number of children enrolled in Medicaid and SCHIP already exceeding the number of children below 200 percent of the Federal Poverty Level (FPL)—$41,300 for a family of four—Congress could not spend its target budget increase of $35 billion without expanding dependency to the middle class or federalizing a greater share of the cost of Medicaid. Only 14 percent of enrollment gains (800,000 out of 5.8 million) was attributed to uninsured, low-income children currently eligible for SCHIP. The balance of enrollment was due to Medicaid increases, "crowd out" of private insurance, preserving coverage of current enroll-

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ees, and expansion to higher income levels.

Expansion distorts the original purpose of SCHIP by re-defining who is "poor." For example, after the veto of SCHIP, in order to garner additional votes, congressional leaders discussed capping eligibility. However, legislation ultimately did *not* cap eligibility at 300 percent FPL ($61,950 for a family of four). Instead, states could continue to adopt "disregards" to allow families with gross income above 300 percent FPL to still qualify for the higher enhanced match rate.

A 2007 colloquy between John Dingell (D–Mich.), and Michael Burgess (R–Tex.) demonstrated the extent to which such "disregards" rendered any "cap" proposals a mere fiction. Through the magic of disregards, a family of four making $102,450 (496 percent of FPL) could subtract $40,500 and appear on paper to meet the eligibility cut-off at 300 percent FPL, thereby preserving the enhanced match for the state. Disregards have been used historically as incentives for people on welfare to return to work and escape government dependency. By allowing families at higher income levels appear to be low-income, SCHIP has turned this traditional definition on its head.

Even worse, the legislation did not apply the lower match rate if an expansion—to any income level—was through Medicaid. Allowing states to circumvent eligibility caps by expanding Medicaid renders the policy meaningless.

2. **Reject Provisions Favoring Wealthier States.** Expanding eligibility to 300 percent and beyond is likely to only attract a minority of states, the majority of which will be among the wealthiest in the nation. Of the 10 "richest" states, six have already expanded Medicaid or SCHIP eligibility above 250 percent FPL. A seventh (New York) has attempted to do so. Of the 10 "poorest" states, none has expanded above 250 percent FPL.

   Among the states that received over $1 billion in additional federal funds in 2006 and 2007 because of budget shortfalls, eight (Illinois, Maryland, Massachusetts, Minnesota, Missouri, New Jersey, Rhode Island, and Wisconsin) received 75 percent of the funds but were covering children at higher income levels, adults, or, in some cases, both. Thus, much of the SCHIP debate appears to be less about providing affordable health care to low-income children and more about bailing out states that overextended their budgets.

   The argument that higher health insurance costs justify SCHIP in wealthier states is undermined by data from the Agency for Healthcare and Quality and the Census Bureau:

   - The average cost of group health insurance provided through employers in the 10 richest states is $11,115.
   - The average cost in the 10 poorest states is $10,250.
   - The difference in health insurance costs between rich and poor states is just $865.
   - The average difference in the median income for a family of four between the 10 richest states and the 10 poorest states is a whopping $27,313.

   While the cost of health insurance is only slightly higher in the richest states, median family income is significantly higher, making the cost of insurance as a percentage of family income more affordable in the richer states. So why are taxpayers in the poorer states asked to subsidize higher income families in wealthier states?

3. **Fix the Funding and Lose the Gimmicks.** SCHIP funding should be straightforward, maintaining the capped allotments that reflect reasonable growth rates and with an updated allotment formula. Congress should jettison the gimmicks that caused much turmoil, such as the "Express Lane" eligibility that allowed non-citizens to slip into the program and the two new slush funds that rewarded states for letting them on the programs. For instance, the flaws of "Express Lane" will tempt states to gain additional federal dollars in three different ways:

   1. Capturing the higher enhanced match rate of SCHIP by enrolling children who are Medicaid eligible into SCHIP;

2. Capturing a "performance bonus" for increasing Medicaid enrollment by enrolling or retaining ineligible children, raising the effective match rate to at least 81 percent; and
3. Capturing federal funds to replace "state only" funding for children not otherwise eligible.

In November 2000, proponents published a "how-to" guide to "Express Lane." With prophetic vision, the guide advises how to enroll children who are actually eligible for Medicaid into SCHIP, how to sidestep the income and eligibility verification system (IEVS), and why not to fret liability for errors.

4. **Provide for Real Premium Assistance and Tax Credits.** Congress missed an opportunity to show genuine support for the use of premium assistance. While appearing to promote premium assistance, Congress actually took a step backwards. The provisions on premium assistance would have provided states with less flexibility than they currently possess and hobbled efforts to employ this strategy.

   Congress may instead wish to address the cost and expansion of health insurance through a tax credit for families to buy their own health insurance. Such legislation would provide relief to all states by diverting families from Medicaid and SCHIP and stabilize the market for all working families.

**Restoring SCHIP.** Congress should return SCHIP to its original focus on uninsured low-income children by exercising fiscal discipline and setting a firm cap on eligibility at 200 percent FPL that applies to both SCHIP and Medicaid. Expanding SCHIP would extinguish the potential of tax credits and deprive private insurance—including employer coverage—of the oxygen of healthy lives and resources needed to sustain insurance pools. Such irresponsible legislating would represent a tremendous setback for addressing the larger issue of the uninsured in America.

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