

# WebMemo



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## SCHIP Bill: Top 10 Changes for Congress to Consider

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Congress's mad dash to expand the State Children's Health Insurance Program (SCHIP) fails to correct the serious flaws buried in last year's SCHIP bill.

The new SCHIP bill would not only make comprehensive health care reform more difficult; it would also directly undercut President Obama's promise to end special interest earmarks. Once Congress creates a new government benefit, it would be very difficult to reverse course. In this case, Congress would be taking more healthy lives out of the private health insurance pool, thus reducing private coverage, increasing taxpayer burdens, and undercutting the ability of the private sector to maintain or expand coverage later.

**Misleading Numbers.** The Congressional Budget Office (CBO) analysis of the proposed SCHIP expansion shows that enrollment would be far short of the stated purpose of the legislation to "enroll all six million uninsured children who are eligible, but not enrolled, for coverage today."<sup>1</sup> The CBO shows that the reduction of the uninsured of currently eligible individuals counting both Medicaid and SCHIP would be only 3.4 million individuals.<sup>2</sup> After subtracting out adults, the number of currently eligible children actually gaining coverage would be about 3.1 million. The first thing the Senate should do is use accurate and transparent numbers in the national debate.

**10 Key Changes.** Congress must make 10 important changes to the legislation.

- *Change #1: Limit Income Eligibility to "Targeted Low-Income Children."* SCHIP was created for children whose family income was above Medicaid but not sufficient to be able to afford insurance. Congress defined a targeted low-income child as living in a family with income at or below 200 percent of the federal poverty level, or 50 percentage points *above* Medicaid eligibility at the time of enactment. Strangely, the legislation does not change the definition of a targeted-low income child, but it does provide federal funds for children above the income threshold. This leads to confusion as to who is eligible for SCHIP. H.R. 2, the "Children's Health Insurance Program Reauthorization Act of 2009" (CHIPRA), does *not* cap eligibility, so it is possible that a state can make children in families at *any* income level eligible for assistance.
- *Change #2: Limit the Children's Program to Children.* Under Section 112 of CHIPRA, adults will continue to be eligible for SCHIP, and the states that operate demonstration projects to provide coverage to them will continue to receive the enhanced match rate through fiscal year 2012. Section 112 actually restores demonstra-

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tion projects that have expired, giving additional federal dollars to Oregon, Rhode Island, and Wisconsin for adults that were moved to Medicaid. New Jersey and Michigan would have also lost the enhanced match this month and are now protected. The individuals in these demonstrations did not lose eligibility; they were to receive continued coverage through Medicaid. The issue is what match rate will be paid to the states. Congress should end the enhanced match rate upon enactment.

- **Change #3: Increase Health Insurance Coverage, Not Government Dependency.** When government programs are expanded, people lose private coverage. When this “crowd out” effect occurs, insurance coverage is not expanded; taxpayer dollars are simply substituted for private dollars. This is even more likely to occur at higher income levels where families are more likely to have access to private coverage through employers. The House bill has failed again to apply meaningful protections against crowd out. CBO estimates that the reauthorization legislation will result in the reduction in private coverage of 2.3 million individuals.<sup>3</sup> At a minimum, Congress should require the secretary of health and human services to certify that 95 percent of low-income children in a state have insurance before allowing a state to raise eligibility to higher income children. Congress should impose stiff requirements to ensure that poor children are served first.
- **Change #4: Respect Parental Authority, Religious Liberty, and the Integrity of the Family Unit.** SCHIP legislation should not become an open-ended grant of power for bureaucracy to define and limit parental authority and resolve sensitive issues that should be left to families. Pro-family groups may find that a change in Administrations mean a change in how provisions of SCHIP may be interpreted. Congress should modify

these provisions to prohibit unwanted or unintended government intrusions into parental authority and family autonomy.

- **Change #5: Make Sure Immigration Does Not Become a Path to Dependency.** The legislation pushes the hot button issue of immigration by extending benefits to immigrants. For more than 10 years since the enactment of welfare reform, federal law has prohibited even legal immigrants from being eligible for Medicaid and SCHIP for the first five years upon entering the United States. A legal immigrant is brought into the country by a sponsor and the sponsor has agreed to provide for the needs of the individual. That responsibility should not be shifted to taxpayers, and the provision should be deleted.
- **Change #6: End the Budget Gimmicks.** The SCHIP legislation repeats the budgetary sleight of hand from last year in which the appropriation for SCHIP is reduced by \$10 billion in order to avoid regular congressional spending rules. If it turned out to be true, millions of children on SCHIP would be thrown off the program. This is not responsible legislating and must be fixed.
- **Change #7: Be Fair to Taxpayers.** The legislation is funded principally through a tax on tobacco. Any tax in an economic downturn is inadvisable, and this particular type of tax falls disproportionately on low-income individuals. An increase in the federal tax will also decrease state revenues. Congress should offset the increase in SCHIP and Medicaid with spending reductions.
- **Change #8: Root Out Special Interest Earmarks.** The legislation flatly contradicts presidential and congressional pledges to eliminate earmarks. Individual states and providers will receive special treatment through a variety of provisions. If the new Congress and Administration are serious about change and delivering on promises to end earmarks for special interests, such provisions should not be included.

1. Committee on Finance, Description of the Chairman’s Mark, “The Children’s Health Insurance Program Reauthorization Act of 2009,” U.S. Senate, p. 3.
2. Congressional Budget Office, “CBO’s Preliminary Estimate of Changes in SCHIP and Medicaid Enrollment in Fiscal Year 2013 Under the Children’s Health Insurance Program Reauthorization Act of 2009,” January 14, 2009.
3. *Ibid.*

- *Change #9: Maintain Program Integrity.* Medicaid and SCHIP will be thrown wide open to abuse through the expansion of presumptive eligibility, Express Lane eligibility, and the Performance Bonus. Such policies are incompatible with both fiscal responsibility and program integrity. Giving control of determining eligibility to providers who will have incentives to game the system is a serious abdication of responsibility.
- *Change #10: Stand Up for Fiscal Integrity.* H.R. 2 unnecessarily drives up the cost of providing coverage to low-income children. The amount of allotments greatly exceeds actual demand by states. The Performance Bonus, for example, would pay states a super-enhanced match rate for Medicaid children who *are already eligible* for the program. Eligibility expansions backed by a new Contingency Fund would undermine the

integrity of allotments and will reward states for overspending. With the assurance of more federal dollars, states will pursue unsound policies regarding eligibility levels, crowd out, and cost sharing. The federal taxpayer would be on the hook for any decision the state makes. Weakening citizenship documentation requirements would cost \$1.9 billion, and changes would be made without solid evidence that citizens have been denied Medicaid eligibility. Congress should consider rational and responsible alternatives that would achieve better results at a lower cost to the taxpayers.

The Senate can do much better than the House. It is time for change.

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