



Issue Brief

Budget & Tax Policy Initiative



December 2007

Another Presidential Veto of SCHIP

NEXT STEPS FOR CONGRESS, FISCAL PROBLEMS FOR ILLINOIS

Larry Joseph

President Bush has vetoed a second version of the Children's Health Insurance Program Reauthorization Act (H.R. 3963). The new bill was approved by a vote of 265-to-142 in the U.S. House of Representatives on October 25 and by a vote of 64-to-30 in the Senate on November 1. Negotiations to achieve veto-proof majorities in both Houses reached an impasse, and the second bill was sent to the President on November 30, although he waited until December 12 to veto it. In his veto message, the President declared that the new bill "does not put poor children first, and it moves our country's health care system in the wrong direction." The legislation, characterized as "essentially identical" to the earlier bill, would "still shift SCHIP away from its original purpose."¹

The veto message exemplifies the Bush Administration's continued misrepresentation of the proposed legislation, which is not a departure from the original purpose of SCHIP. Like the first bill, the second bill is designed to provide more federal support for existing state programs and to enroll more children who are already eligible for SCHIP or Medicaid. The newer bill also incorporates some significant revisions, including stricter income eligibility limits for SCHIP, financial incentives targeted to enrollment of children in Medicaid, and a mandate for all states to adopt best practices for limiting "crowd out" of private health insurance.²

This report begins with an overview of projected spending and enrollment under the second SCHIP bill. The discussion then turns to legislative provisions regarding income eligibility, crowd-out prevention, and family coverage. The report concludes with a

¹ Bush, 2007. This report uses the original program name and acronym — "State Children's Health Insurance Program" (SCHIP). Both reauthorization bills would change the official name to "Children's Health Insurance Program" (CHIP).

² Other revisions in the second SCHIP bill include tighter citizenship documentation requirements for both Medicaid and SCHIP and accelerated phase-out of SCHIP coverage for childless adults. For more detailed comparison of the two bills, see Park and Solomon, 2007; KFF 2007. For a discussion of the earlier bill and its implications for Illinois, see Joseph, 2007a.

consideration of issues raised by a simple extension of SCHIP through the current fiscal year. For Illinois and many other states, such an extension would have to include additional federal appropriations to avoid severe funding shortfalls. A “hold harmless” extension would also require suspension of the Bush Administration’s unilateral effort to impose new limits on income eligibility. Finally, the dispute over SCHIP coverage for parents has troublesome fiscal implications for the FamilyCare program in Illinois.

Spending and Enrollment Estimates

Spending estimates for the second reauthorization bill are similar to those for the earlier legislation. According to the Congressional Budget Office (CBO), the second bill would involve \$35.4 billion in new federal outlays over five years, although less than \$25 billion would actually involve SCHIP payments to states. The CBO projections also include estimated effects on federal Medicaid spending (\$5.7 billion), bonus payments to states for increased enrollment of children in Medicaid (\$2.5 billion), and other outlays (\$2.7 billion) designated for various purposes other than SCHIP allotments (see Table 1).

In regard to performance bonuses, the first bill offered states payments for increased enrollment of children who were already eligible for SCHIP or Medicaid. The bonus payments were based on percentages of per enrollee spending from state funds, with larger payments for Medicaid than for SCHIP. The new bill reinforces the focus on poor children by restricting the incentive bonuses to enrollment in *Medicaid*.

Table 1: Estimates of New Federal Spending under the Second SCHIP Reauthorization Bill (H.R. 3963), Fiscal Years 2008-2012 (in \$ billions)

SCHIP benefits and administrative costs	\$23.6
Contingency fund to cover funding shortfalls	0.6
Outreach grants and additional administrative funding	0.3
Effects on federal Medicaid spending	5.7
Performance bonus payments for Medicaid enrollment	2.5
All other*	2.7
Total	35.4

* Includes funds for revising citizenship documentation requirements, modifying state per capita income data for calculating federal matching rates, developing quality measures for child health, and other designated purposes.

Source: CBO, 2007a.

In fiscal year 2007, average monthly SCHIP enrollment was about 4.5 million. The CBO estimates that funding SCHIP at the baseline level (\$5 billion per year) would result in enrollment dropping to only 3.3 million by FY 2012. Additional funds in the second reauthorization bill would enable states to boost SCHIP enrollment by 4 million within existing eligibility groups and by 1.1 million through expansion of eligibility. Furthermore, spillover effects from SCHIP would increase Medicaid enrollment of children by 1.7 million. Combined Medicaid and SCHIP enrollment of children in FY 2012 is esti-

mated to be about the same under both reauthorization bills, although projections under the second bill are slightly higher for Medicaid and slightly lower for SCHIP.³

Income Eligibility and Crowd-Out

A major point of contention in the SCHIP reauthorization debate has been whether states should continue to have flexibility in setting income eligibility standards. As of July 2007, SCHIP programs in 18 states had upper income limits above 200 percent of the federal poverty level (FPL), including eight states at 300 percent. One state — New Jersey — had a limit of 350 percent of FPL. The first SCHIP bill would have put various restrictions on federal funding for children in families above 300 percent of FPL. The second bill, however, *prohibits* states from raising their income eligibility limits above that level. New Jersey would be allowed to continue its current policy.

Both SCHIP bills contain provisions for preventing “crowd out,” i.e., substitution of public insurance for private insurance. Under the first bill, states with income eligibility limits above 300 percent of FPL would be required, beginning in FY 2011, to implement “best practices” for crowd-out prevention and to meet certain standards for coverage rates for low-income children. Under the second reauthorization bill, these requirements would apply to *all* states.

Family Coverage

Illinois is one of eleven states that have had federal waivers allowing the use of SCHIP funds to cover parents of low-income children.⁴ The Bush Administration approved eight of those waivers, including the waiver for Illinois’s FamilyCare program, which began in 2002. As recently as June 2007, Wisconsin’s waiver for family coverage was renewed. At the end of July, however, the Secretary of Health and Human Services asserted that no new waivers would be approved for SCHIP coverage of adults. Renewal of existing waivers would be contingent on moving adults from SCHIP to Medicaid.⁵

Both versions of the SCHIP reauthorization bill would prohibit new federal waivers to cover parents, but states with “applicable existing waivers” could opt for an automatic extension through FY 2009. Beginning in FY 2010, funding for low-income parents would come from a block grant set aside from the state’s SCHIP allotment, and federal matching funds would gradually be reduced to the Medicaid rate.

The new SCHIP bill contains one change in legislative language with important implications for Illinois. In the first bill, automatic extension of an “applicable existing waiver” meant a waiver that was in effect during fiscal year 2007. The second version, however, refers to waivers in effect on October 1, 2007. The only state affected by this change is Illinois, whose waiver for parental coverage expired on September 30. As a result, the state would lose all federal SCHIP funding for its FamilyCare program.

³ CBO, 2007b.

⁴ See Artiga and Mann, 2007; Joseph 2007b.

⁵ Leavitt, 2007.

Stopgap Funding for States

A veto override vote has been postponed until January 23, 2008. Meanwhile, the focus of attention in Congress has shifted to a simple extension of SCHIP through the end of FY 2008. It is imperative that any such extension provide stopgap funding for states to maintain coverage for currently eligible children. The delay in reauthorizing SCHIP has already led some states to make contingency plans for capping or cutting enrollment.⁶ Analysis from the Congressional Research Service indicates that if the program were extended at FY 2007 funding levels, 21 states would exhaust all available federal SCHIP funds before the end of September. The total projected funding shortfall would be about \$1.6 billion. For Illinois, the shortfall is estimated at \$253.2 million — more than half of its projected spending of federal funds. Moreover, Illinois is one of nine states that are expected to run out of federal funds as early as March 2008 (see Table 2).

Table 2: States with Projected Shortfalls in Federal SCHIP Funding for Fiscal Year 2008, by Month of Project Shortfall

		Projected spending of federal funds (\$ millions)	Projected shortfall (\$ millions)	Shortfall as pct. of spending
March 2008:	Alaska	23.0	11.8	51.3%
	Georgia	370.4	199.9	54.0%
	Illinois	465.2	253.2	54.4%
	Iowa	69.2	35.8	51.7%
	Maine	32.9	17.3	52.6%
	Maryland	162.4	88.7	54.6%
	Massachusetts	275.1	157.3	57.2%
	New Jersey	334.0	191.1	57.2%
	Rhode Island	77.0	44.1	57.3%
April 2008:	Minnesota	90.3	41.6	46.1%
	Mississippi	116.8	55.8	47.8%
May 2008:	Missouri	126.2	44.2	35.0%
	Nebraska	35.5	14.1	39.7%
	North Dakota	13.5	4.9	36.3%
June 2008:	California	1,266.3	342.5	27.0%
	North Carolina	194.7	49.5	25.4%
July 2008:	Oklahoma	124.4	21.5	17.3%
Aug. 2008:	Arkansas	117.2	16.6	14.2%
Sept. 2008:	Louisiana	131.0	3.9	3.0%
	Ohio	228.8	11.9	5.2%
	South Dakota	14.0	0.7	5.0%

Source: Peterson, 2007.

⁶ McInerney, 2007.

The Ongoing Dispute Over Income Eligibility

Beyond the question of SCHIP funding shortfalls, states should be “held harmless” in unresolved disputes over income eligibility. In the absence of a full five-year reauthorization, states should be allowed to continue the SCHIP coverage that was in effect in FY 2007. In particular, a hold-harmless extension of SCHIP would necessitate a moratorium on the Bush Administration’s unilateral efforts to roll back income eligibility for children. On August 17, 2007, Centers for Medicare and Medicaid Services (CMS) issued a directive that would put severe restrictions on states offering SCHIP coverage to children in families with gross incomes above 250 percent of FPL. For example, the CMS directive requires that 95 percent of eligible children below 200 percent of FPL be enrolled in Medicaid or SCHIP before coverage can be extended to higher income levels. In addition, states could not expand eligibility above 250 percent of FPL unless they could show that private employment-based coverage for the state’s low-income children has not declined by more than two percentage points over the previous five years.⁷

Under the CMS directive, 13 states (and the District of Columbia) would have to be in compliance by August 2008 or face corrective action. Eight other states have been planning to expand SCHIP eligibility to 300 percent of FPL, and four of those states have already curtailed their plans.⁸ Illinois has a SCHIP income eligibility limit of 200 percent of FPL, but its All Kids health insurance program (instituted in July 2006) is available to uninsured children regardless of family income level. The state has not yet attempted to leverage additional federal funds for All Kids by requesting approval for a higher income eligibility limit for SCHIP; the state’s federal SCHIP allotments under current law could not cover the costs of such an expansion. Both reauthorization bills, however, would provide enough additional funding for the state to raise the eligibility limit to 300 percent of FPL.

Both versions of SCHIP reauthorization also contain provisions that would supersede the CMS directive on income eligibility. Senators Robert Menendez (D-New Jersey) and Arlen Specter (R-Pennsylvania) recently circulated a letter to their colleagues urging congressional action to repeal or suspend the directive.⁹ Although Illinois is not immediately affected by the CMS directive, the outcome of the controversy over income eligibility will have significant fiscal implications for the All Kids program.

The Future of FamilyCare in Illinois

Finally, there is the unresolved issue of whether states that have been covering parents under SCHIP waivers should have a reasonable transition period before moving parents to Medicaid, with its lower federal matching rates. The importance of family coverage — as distinct from coverage of adults without children — has been obscured in the reauthorization debate. Under the first reauthorization bill, the Illinois waiver, which expired on

⁷ Smith, 2007. For an incisive critique of the new requirements, see Mann and Odeh, 2007a.

⁸ Mann and Odeh, 2007b.

⁹ Menendez and Specter, 2007. Such congressional action would almost certainly require veto-proof majorities in both Houses.

September 30, could have been extended for two years. As of now, the state stands to lose all SCHIP funding for its FamilyCare program. Members of the Illinois congressional delegation should recognize the urgency of this matter and make a concerted effort to reinstate federal funding for FamilyCare pending full reauthorization of SCHIP.

References

Artiga, Samantha, and Cindy Mann (2007). *Family Coverage Under SCHIP Waivers*. Kaiser Family Foundation, May 2007.

Bush, George W. (2007). Message to the House of Representatives. The White House, Office of the Press Secretary, December 12, 2007.

CBO (2007a). "CBO's Estimate of the Effects on Direct Spending and Revenues of the Children's Health Insurance Program Reauthorization Act of 2007." Congressional Budget Office, October 24, 2007.

_____ (2007b). "CBO's Estimate of Changes in SCHIP and Medicaid Enrollment of Children Under the Children's Health Insurance Program Reauthorization Act of 2007." Congressional Budget Office, October 24, 2007.

Joseph, Larry (2007a). *SCHIP Reauthorization: Rhetoric, Reality, and Implications for Illinois*. Voices for Illinois Children, October 2007.

_____ (2007b). *SCHIP Reauthorization and Family Coverage in Illinois*. Voices for Illinois Children, October 2007.

KFF (2007). "Children's Health Insurance Program Reauthorization Act of 2007 (CHIPRA): The Revised CHIPRA Bill (H.R. 3963) Compared to the Original Bill (H.R. 976)." Kaiser Family Foundation, November 2007.

Leavitt, Michael O. (2007). Letter to Senator Charles Grassley. U.S. Department of Health and Human Services, July 31, 2007.

Mann, Cindy, and Michael Odeh (2007a). *Moving Backward: New Federally Imposed Limits on States' Ability to Cover Children*. Center for Children and Families, Georgetown University Health Policy Institute, August 2007.

_____ (2007b). *Moving Backward: Status Report on the Impact of the August 17 SCHIP Directive to Impose New Limits on States' Ability to Cover Uninsured Children*. Center for Children and Families, Georgetown University Health Policy Institute, December 2007.

McInerney, John (2007). "Potential Impacts of Delaying SCHIP Legislation." National Academy for State Health Policy, December 11, 2007.

Menendez, Robert, and Arlen Specter (2007). Letter to Senators Harry Reid, Max Baucus, Mitch McConnell, and Chuck Grassley. U.S. Senate, December 14, 2007.

Park, Edwin, and Judith Solomon (2007). "Second Children's Health Bill Makes Significant Changes to Focus More Heavily on Poor Children." Center on Budget and Policy Priorities, December 4, 2007.

Peterson, Chris L. (2007). "FY 2008 SCHIP Allotments." Congressional Research Service, October 25, 2007.

Smith, Dennis G. (2007). Letter to state health officials. Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services, August 17, 2007.



This report was prepared as a part of the Budget & Tax Policy Initiative at Voices for Illinois Children. To promote discussion of the information and analysis presented here, we encourage readers to make copies of the report and to disseminate it.

About Voices for Illinois Children

Voices for Illinois Children works across issue areas to improve the lives of children of all ages throughout our state so they grow up healthy, happy, safe, loved, and well- educated. For 20 years, Voices has been helping opinion leaders and policymakers understand the issues facing children and families. The Voices network weaves through the state, involving community leaders and people who care passionately about children. Jerry Stermer is President of Voices for Illinois Children, and Craig Culbertson is Chair of the Board of Directors.

About the Budget & Tax Policy Initiative

The Budget & Tax Policy Initiative provides information and analysis to advocates and policymakers on a wide range of spending and revenue topics that have direct impact on the lives of children and families in Illinois. The Initiative helps Illinois policymakers and advocates set priorities and make wise fiscal decisions for the short term and for the long haul.

The Budget & Tax Policy Initiative is funded by the Ford Foundation, the Annie E. Casey Foundation, and the Chicago Community Trust. We thank them for their support but note that the findings and conclusions presented here are those of Voices for Illinois Children alone and do not necessarily reflect the views of these foundations.

For more information, please contact Larry Joseph, Director of the Budget & Tax Policy Initiative, at 312-516-5556 or ljoseph@voices4kids.org.



208 S. LaSalle St., Suite 1490 • Chicago, IL 60604-1120
Phone: 312-456-0600 • Email: info@voices4kids.org • Web: www.voices4kids.org

B U I L D I N G B E T T E R L I V E S