



# Issue Brief

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## Budget & Tax Policy Initiative



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## SCHIP REAUTHORIZATION AND FAMILY COVERAGE IN ILLINOIS

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One of the main points of contention in the struggle over federal reauthorization of the State Children's Health Insurance Program (SCHIP) has become the use of SCHIP funds to cover adults. In his veto message of October 3, 2007, President Bush indicated that he wants a bill that "moves adults out of a program meant for children." In subsequent statements about the SCHIP reauthorization bill, the President has criticized states that have allegedly strayed from the original purpose of the program by spending more SCHIP funds on adults than on children. The President has not mentioned, however, that most of the adults in question are low-income *parents* whose children are enrolled in Medicaid or SCHIP.<sup>1</sup>

In federal fiscal year (FY) 2007, eleven states, including Illinois, had federal waivers allowing the use of SCHIP funds to cover parents or other adult caretakers of low-income children. Although the Bush Administration initially approved eight of the waivers for parental coverage, it now wants to eliminate all SCHIP funding for adults (with the exception of pregnant women). For Illinois, one of the states singled out for criticism by the President, parental coverage is a major issue. In December 2006, about 290,000 low-income parents nationwide were enrolled under SCHIP waivers, including 130,000 in Illinois. Moreover, Illinois is among a group of states that sought waivers as part of an effort to emphasize *family coverage* for the benefit of both parents and children.<sup>2</sup>

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<sup>\*</sup> This issue brief is drawn from a longer report, *SCHIP Reauthorization: Rhetoric, Reality, and Implications for Illinois* (Voices for Illinois Children, October 2007). The report is available at [www.voices4kids.org/library/budgettaxpolicyreports.html](http://www.voices4kids.org/library/budgettaxpolicyreports.html).

<sup>1</sup> See Bush, 2007a, 2007b, 2007c. The same line of argument about SCHIP coverage of adults has been made by U.S. Representative Judy Biggert (R-Illinois). See Biggert, 2007. The original SCHIP statute (Title XXI of the Social Security Act) explicitly prohibited coverage for non-pregnant childless adults but not for parents or caretaker relatives.

<sup>2</sup> Artiga and Mann, 2007.

## **SCHIP and FamilyCare in Illinois**

In August 2001, the Bush Administration announced the Health Insurance Flexibility and Accountability (HIFA) initiative, which was designed to make it easier and simpler for states to expand access to health care coverage through Medicaid and SCHIP. The following year, Illinois received approval for a HIFA waiver to use unexpended SCHIP funds to cover parents of Medicaid and SCHIP children. Approval of the waiver was announced with considerable fanfare. Secretary of Health and Human Services Tommy Thompson declared: “This approval will bring the security of health coverage to many Illinois residents who otherwise would be uninsured— including parents whose children are already covered.” Tom Scully, administrator for the Centers for Medicare and Medicaid Services, added: “We are continuing to work with states to ensure that maintaining and expanding coverage for children is the top priority for SCHIP. . . . We also want states to use the new waiver opportunity to expand health coverage to low-income adults who otherwise would not be eligible.”<sup>3</sup>

Beginning in October 2002, Illinois expanded SCHIP coverage to low-income parents under its “FamilyCare” program. The income eligibility limit for parents was initially set at 49 percent of the federal poverty level (FPL) and was gradually raised to 185 percent of FPL in January 2006. (The SCHIP income eligibility limit for children in Illinois is 200 percent of FPL.) The FamilyCare program bridges much of the gap in coverage between low-income children and their parents. Under federal law, Medicaid covers children under age 6 in families with incomes up to 133 percent of FPL, as well as children ages 6-18 up to 100 percent of FPL (see Table 1). There are no comparable nationwide eligibility standards for parents, however. In Illinois, adult recipients of Temporary Assistance for Needy Families (TANF) are automatically covered by Medicaid, and those who leave TANF because of increased earnings are eligible for up to 12 months of transitional medical assistance. In addition, federal law specifies that parents can qualify for Medicaid if they would have been eligible for cash assistance under a state’s old Aid to Families with Dependent Children (AFDC) program. Currently, most parents covered by Medicaid in Illinois have extremely low incomes — at or below 37 percent of FPL (see Table 1).

In March 2007, FamilyCare enrollment of parents (about 146,000) was nearly the same as SCHIP enrollment of children (155,000). This reflects the fact that the starting point of SCHIP income eligibility is much lower for parents than for children. About half of SCHIP-covered parents were below 100 percent of FPL, whereas all children below poverty level are covered by Medicaid rather than SCHIP. Looking at Medicaid and SCHIP together, enrollment of parents is less than half the enrollment of children (see Table 2).

In regard to both Medicaid and SCHIP spending, service costs per enrollee are higher for parents than for children. Given similar SCHIP enrollment levels for children and parents in Illinois, it should not be surprising to find that more than half of the state’s SCHIP spending is for low-income parents. There is no evidence that this spending has somehow shortchanged children in Illinois.

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<sup>3</sup> HHS, 2002b. See also the news releases on approval of HIFA waivers for parental coverage in Arizona, New Mexico, and Oregon (HHS, 2001, 2002a, 2002c).

**Table 1: Medicaid and SCHIP Eligibility for Low-Income Children and Parents in Illinois**

*Children up to age 1*

Medicaid: Family income up to 200% of FPL

*Children over age 1 and under age 6*

Medicaid: Family income up to 133% of FPL

SCHIP: Family income between 133% and 200% of FPL

*Children ages 6-18*

Medicaid: Family income up to 100% of FPL

SCHIP: Family income between 100% and 200% of FPL

*Parents and other adult caretakers*

Medicaid: Receipt of TANF or family income up to 37% of FPL

SCHIP: Family income between 37% and 185% of FPL

*Pregnant women*

Medicaid: Family income up to 200% of FPL

Note: Federal poverty level in 2007 is \$17,170 for a family of three, \$20,650 for a family of four.

**Table 2: Illinois Medicaid and SCHIP Enrollment of Children and Parents, 1997 to 2006  
(in 1,000s, as of September 30 of each year)**

	Children			Parents		
	Medicaid	SCHIP	Total	Medicaid	SCHIP (FamilyCare)	Total
1997	777.4	-----	777.4	277.5	-----	277.5
1998	747.7	23.5	771.3	258.3	-----	258.3
1999	770.5	43.8	814.3	252.9	-----	252.9
2000	830.7	60.0	890.7	252.6	-----	252.6
2001	887.1	66.6	953.7	260.5	-----	260.5
2002	891.4	69.6	961.0	264.1	-----	264.1
2003	959.6	81.7	1,041.3	289.0	41.0	330.0
2004	1,025.8	90.1	1,115.9	330.7	79.9	410.6
2005	1,064.4	113.2	1,177.6	355.6	109.1	464.7
2006	1,132.2	136.2	1,268.4	360.5	133.3	493.8
Growth:						
1998-2002	143.7	46.1	189.7	5.8	-----	5.8
2002-2006	240.8	66.6	307.4	96.4	133.3	229.7

Source: Illinois Department of Healthcare and Family Services

One of the explicit objectives of the state's initial waiver proposal for parental coverage was increased enrollment of eligible children in Medicaid and SCHIP.<sup>4</sup> Enrollment trends since the implementation of FamilyCare suggest that the program has been successful in achieving that objective. Between September 2002 (a month before the implementation of FamilyCare) and September 2006, combined Medicaid and SCHIP enrollment for children grew by more than 300,000, compared with an increase of about 67,000 in the previous four-year period (see Table 2).

### **Parental Coverage and SCHIP Reauthorization**

The Bush Administration's FY 2008 budget, released last February, included a proposal to reauthorize SCHIP but to "refocus" the program on its original target population, i.e., uninsured children in families with incomes at or below 200 percent of FPL. In regard to low-income parents, states could continue to cover parents up to existing eligibility levels, but the enhanced SCHIP matching rate (65% for Illinois) would no longer apply. Instead, states would receive the regular Medicaid matching rate (50% for Illinois), with the funds still coming out of their SCHIP allotments.<sup>5</sup>

Contrary to the impression fostered by some of its critics, the SCHIP reauthorization bill vetoed by the President would not expand eligibility for parents. The bill would prohibit additional federal waivers to cover parents of targeted low-income children. States with existing waivers could opt for an automatic extension through FY 2009, after which there would be limits on federal reimbursement. For FY 2010-2012, funding for low-income parents would come from a block grant set aside from the state's SCHIP allotment. The set-aside would be equal to the federal share of 110 percent of a state's projected expenditures for this population in each fiscal year. In FY 2010, the federal matching rate for SCHIP would apply only if a state meets one of several outreach or coverage benchmarks for children. Otherwise, the regular Medicaid matching rate would apply. In FY 2011 and 2012, meeting one of the benchmarks would allow a state to receive federal reimbursement halfway between its regular Medicaid match and its enhanced SCHIP match (57.5% for Illinois).

Depending on its ability to meet the outreach and coverage benchmarks, Illinois could lose almost one-fourth of its federal funding for FamilyCare. If the President's veto is upheld and the transition period for parental coverage does not become law, the financial implications for Illinois could be even worse. The FamilyCare waiver expired on September 30th. Illinois could request that low-income parents be transferred to Medicaid under a state plan amendment, which would mean that the federal matching rate would immediately drop from 65 percent to 50 percent. There is no guarantee, however, that the Bush Administration would approve such a request.<sup>6</sup>

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<sup>4</sup> IDPA, 2001.

<sup>5</sup> OMB, 2007.

<sup>6</sup> See Graham, 2007.

## Conclusion

Nationwide, the uninsured rate for low-income parents is about twice the rate for low-income children. Lack of coverage can adversely affect both parental health and the financial stability of their families. Nearly half of these uninsured parents have chronic health problems, and many of them delay or forego treatment because of costs. About one-third of low-income uninsured parents report that medical bills have had a major financial impact on the family.<sup>7</sup> There is also research evidence that Medicaid and SCHIP coverage of low-income parents raises participation rates of eligible children, improves continuity of coverage for children, and increases the probability that children will have a regular source of care and will receive preventive services. In short, family coverage is important for both parents and children.<sup>8</sup>

The new restrictions in the SCHIP reauthorization bill represent an unfortunate setback for family health care coverage. The bill does, however, allow a reasonable transition period for states that extended SCHIP to low-income parents with the encouragement and approval of the Bush Administration. Several Senate Republicans who support the reauthorization bill have called attention to the inconsistencies in the Administration's position on this aspect of SCHIP. Senator Pat Roberts of Kansas has said:

“The greatest paradox of enormous irony . . . is that this bill actually stops the waivers this administration has been so generously granting to States to cover adults . . . This bill also . . . lowers the Federal matching rates for states that currently have waivers to cover parents and now must meet certain benchmarks in covering low-income children.”<sup>9</sup>

One Republican-sponsored alternative to the bill vetoed by the President is the “Kids First Act,” which would impose even tighter constraints on parental coverage than those proposed by the President in February. This new bill, introduced in the Senate, would immediately reduce federal matching rates for parents or caretaker relatives who are currently enrolled through SCHIP waivers and would prohibit federal SCHIP funding for any new enrollees.

Members of the Illinois congressional delegation should realize that the SCHIP reauthorization bill vetoed by the President would not expand eligibility for parents. The bill already includes restrictions on parental coverage. Sustaining the President's veto in order to impose even tighter restrictions would not be sound public policy and would be a disservice to low-income children and families in Illinois.

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<sup>7</sup> Schwartz, 2007.

<sup>8</sup> Ku and Broaddus, 2006; Rosenbaum and Whittington, 2007; Artiga and Mann, 2007.

<sup>9</sup> Roberts, 2007. See also Grassley, 2007; Hatch, 2007; Snowe, 2007.

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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. Jerome Stermer is President of Voices for Illinois Children, and Craig R. 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.

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