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CLEARING UP CONFUSION ON THE COSTS OF COVERING UNINSURED CHILDREN ELIGIBLE FOR MEDICAID OR SCHIP

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In recent days, several media accounts have cited some Congressional offices from both parties as saying that a Congressional Budget Office memo issued last month¹ shows that the cost of immediately covering all uninsured children who are eligible for Medicaid or the State Children's Health Insurance Program (SCHIP) would be \$32 billion over five years.² Since CBO places the net cost of fully averting the looming federal funding "shortfalls" in state SCHIP programs (i.e. of enabling states to sustain their current programs) at just under \$8 billion over five years,³ some Congressional staff have concluded that the *total* cost of closing the shortfalls *and* covering all eligible, uninsured children is \$40 billion over five years.⁴

The February 20 CBO memo:

<http://www.cbpp.org/3-13-07health2-CBO2.pdf>

The March 13 CBO memo:

<http://www.cbpp.org/3-13-07health2-CBO1.pdf>

The February CBO memo, however, did not discuss the cost of covering all eligible uninsured children. Due to the way that the memo presented its data, it is easy to see how a reader of the memo could draw the conclusion that CBO was estimating the cost of covering all eligible uninsured children at \$32 billion over five years. But such a conclusion is not valid, and the \$32 billion figure understates the cost, as this analysis — and a new CBO memo issued March 13 — indicate.

¹ Congressional Budget Office, "Approximate Costs of Covering More Children in Medicaid and SCHIP," February 20, 2007.

² See, for example, John Reichard, "Cutting Care for Old People to Pay for Kids' Coverage," CQ HealthBeat, February 27, 2007; Fawn Johnson, "SCHIP Cost Estimates by CBO Trigger Debate, Confusion," Congress Daily AM, March 9, 2007 and John Reichard, "Pelosi: Budget Resolution to Include Added Funds for SCHIP," CQ HealthBeat, March 9, 2007.

³ Congressional Budget Office, "Fact Sheet for CBO's March 2007 Baseline: State Children's Health Insurance Program," February 23, 2007 (which estimates that states would face a total SCHIP federal funding shortfall of \$13.4 billion over the next five year under the baseline funding level of \$5 billion per year, but that due to interactions with Medicaid, the net federal cost of closing the shortfall is \$7.9 billion over 5 years). See also Edwin Park, "CBO Estimates That States Will Face Federal SCHIP Shortfalls of \$13.4 Billion Over Next Five Years," Center on Budget and Policy Priorities, February 26, 2007.

⁴ Johnson, *op cit*.

One news account last week referred to there being differing interpretations of what the CBO memo means for the cost of enrolling all eligible, uninsured children.⁵ The issue, however, is *not* one of differing interpretations of the memo; rather it is one of misinterpretation of the original CBO memo. In fact, because of the misunderstanding of its original February memo by some Congressional offices, CBO issued a second, clarifying memo on March 13.⁶ This analysis explains the implications of the two CBO memos for the cost of covering all eligible uninsured children.

The CBO Memos

On February 20, CBO issued an informal memorandum to Congressional staff estimating the costs of enrolling more eligible but unenrolled children in Medicaid and SCHIP. The memo provided an estimate of the cost of immediately enrolling one million additional children in each of the two programs. CBO determined that the cost of enrolling one million additional children in Medicaid would be \$6 billion over five years (2008-2012), while the cost of enrolling the same number of additional children in SCHIP would be \$4 billion over five years.

The February memo was simply intended to provide a helpful “rule of thumb” about how much it might cost to cover the millions of uninsured children who are eligible for Medicaid or SCHIP but are not enrolled. CBO indicated that the figures in the table could be dialed up or down to approximate the cost of covering any number of additional children in Medicaid and SCHIP. CBO was careful to note that its estimates were “generic estimates,” were only “approximate,” and “did not reflect any specific legislative proposal.”

Using the CBO figures to estimate the cost of covering *all* eligible but unenrolled children, however, is not as straightforward as readers of the original CBO memo might assume. One *cannot* simply multiply the CBO estimates of the cost of covering one million children by the commonly used estimates that four million uninsured children are eligible for Medicaid and two million uninsured children are eligible for SCHIP (for a total of about six million uninsured children who are eligible for Medicaid and SCHIP). Doing so would produce an estimate of \$32 billion over five years (\$24 billion in Medicaid and \$8 billion in SCHIP) as the cost of covering all eligible, uninsured children, but such an estimate would not be valid for two basic reasons, which are explained below.

1. The Need to Adjust the CBO Figures to Reflect “Point-in-Time” Estimates

The number of eligible but uninsured children *in any given month* (i.e., at a specific point in time) is substantially lower than the number of children who are eligible but uninsured *at some point over the course of the year*. CBO clearly indicated in its February memo that its estimate of the cost of covering one million additional children figure is an estimate of the cost of covering one million additional children *at some point during the year* and is not an estimate of the cost of serving one million additional children per month.

⁵ Johnson, *op cit*.

⁶ Congressional Budget Office, “Clarifications to Our Estimates of the Costs of Covering More Children in Medicaid and SCHIP,” March 13, 2007.

This distinction is crucial. The average cost per child of serving a child at some point during the year (i.e., for less than 12 months) is necessarily lower than the average cost per child of serving a child throughout the year. CBO's estimate that it would cost \$6 billion over five years to serve an additional one million children in Medicaid is an estimate of the cost of adding substantially fewer than one million children to Medicaid in any given month.

As CBO points out in its followup memo, the commonly used estimates, based on Census data, that there are about six million eligible but uninsured children is effectively an estimate of the number of children who are eligible but uninsured *in any given month*.⁷ The number of children who are eligible but uninsured *at any point during the year* is substantially higher.

This means that one cannot estimate the cost of serving all eligible insured children by simply multiplying CBO's estimate of the cost of serving an additional one million children at some point during the year by the six million children who are eligible but uninsured in any given month. Rather, as CBO explains in its followup memo, one must multiply the cost of serving an additional million children *in any given month* through Medicaid and SCHIP by the number of children who are eligible but unenrolled in any given month.

CBO has provided the information to do this calculation properly. Its memos indicate that the additional number of children who would be served in an average month would be about 20 percent lower in Medicaid — and about 40 percent lower in SCHIP — than the additional number of children served at some point during the year. In other words, \$6 billion over five years is the cost of covering an additional one million children in Medicaid at some point during the year — or an additional 800,000 children each month. Thus, the cost per child of serving an additional child *each month* would be \$7,500 over five years (\$6 billion divided by 800,000). Put another way, as CBO's March 13 memo explicitly states, the cost of enrolling an additional one million children in Medicaid each month is \$7.5 billion over five years.)

Similarly, \$4 billion is the SCHIP cost of enrolling an additional one million children over the course of the year — or an additional 600,000 children per month. The cost per child in SCHIP of serving an additional child each month would be \$6,667 over five years, and as CBO's March 13 memo states, the cost of enrolling an additional one million children in SCHIP each month would be \$6.7 billion over five years.

A related problem is that the commonly used estimate of about six million eligible, uninsured children applies to 2005, the most recent year for which Census data are available. This number is expected to increase over the next five years due to population growth and the continued erosion of employer-based coverage.

CBO did not provide in either its February memo or its March 13 followup memo an estimate of the average number of eligible but unenrolled children over the next five years. Based on research analyzing Census data conducted by Lisa Dubay of John Hopkins University and by researchers at the Urban Institute, we estimate that on an average annual basis, there will be about 6.5 million eligible but uninsured children over the five-year period (2008-2012). (Note: this figure takes into account population growth but does *not* adjust for the erosion of employer-based insurance, which

⁷ The estimates of the number of eligible but unenrolled children are based on the Census Bureau's Current Population Survey. Analysts believe the CPS effectively measures the number of uninsured individuals at a point in time. See, for example, Congressional Budget Office, "How Many People Lack Health Insurance and for How Long?," May 2003.

would make the number higher; we do not have the data to make such an adjustment.) Of these 6.5 million children, about 72 percent (4.7 million) would be eligible for Medicaid, and 28 percent (1.8 million) would be eligible for SCHIP.

Taking these factors into account, the cost of enrolling all of the eligible but unenrolled children would be estimated as follows:

Medicaid Cost = (Number of Medicaid-eligible but uninsured children in any given month) X (cost per child of serving these children each month over five years).

Medicaid Cost = 4.7 million X \$7,500 = *\$35.3 billion*.

SCHIP Cost = (Number of SCHIP-eligible but uninsured children in any given month) X (cost per child of serving these children each month over five years).

SCHIP Cost = 1.8 million X \$6,667 = *\$12.2 billion*.

Total Cost = \$47.5 billion/5 years (2008-2012)

As a result, appropriate use of the CBO memos yields \$47.5 billion as the five-year cost of immediately enrolling all of the uninsured children who are eligible for Medicaid and SCHIP, \$15.5 billion more than the mistaken \$32 billion figure.

2. These figures also do not take into account two additional types of costs that must be factored in.

Both the mistaken \$32 billion figure and the valid \$47.5 billion figure just cited are too low, for another reason. These figures do not include two additional types of costs that must be taken into account.

First, these figures do not reflect the additional costs of the *policies* necessary to increase enrollment in Medicaid and SCHIP. (CBO stated this in both its original February memo and its March memo.) Significant increases in enrollment almost certainly will require both new enrollment tools for states *and* fiscal incentives to induce states to take stronger action to reach more of the eligible but uninsured children. This is true in SCHIP, as well. The additional cost of fiscal incentives undertaken to reach more of the eligible but uninsured children must be included when estimating the cost of covering all eligible, uninsured children. As CBO noted in its March 13 memo, “our figures do not include any additional costs that might be incurred in order to get those children enrolled.”

Second, these cost estimates do not reflect additional costs due to “crowd out.” If states undertake major efforts to reach all of the eligible, uninsured children, some children who currently have private insurance that provides limited benefits or carries higher charges may switch to public program coverage. This effect is likely to be modest, because these children are already eligible for Medicaid and SCHIP, but it is an added cost that must be taken into account when estimating the cost of reaching all eligible, unenrolled children.

Estimating the Approximate Five-Year Cost of Sustaining Current SCHIP Programs and Enrolling All Eligible but Uninsured Children

Using the data in the CBO memo appropriately, the five-year cost of immediately serving all eligible uninsured children would be about \$47.5 billion over five years *plus* the cost of fiscal incentives *and* the cost that would result from some children switching from less comprehensive or more costly private insurance to public coverage. The \$8 billion cost of closing the SCHIP shortfalls would need to be factored in, as well. The total cost would thus easily exceed \$55 billion over a five-year period (2008-2012). (If policymakers include a bipartisan proposal to accord states the option of covering legal immigrant children and pregnant women during their first five years in the United States, a proposal that the Senate approved in 2003 and many health policy analysts regard as having strong merit, the cost would rise by about \$1.5 billion over five years, according to informal CBO estimates.⁸)

One Other Factor Would Moderate the Cost

A final caveat applies. It is not reasonable simply to assume that all eligible, unenrolled children can be reached from the first month of fiscal year 2008, even if an optimal set of policies designed to reach eligible uninsured children is enacted. The resulting increase in enrollment would occur over several years. An estimate of the cost of serving all eligible uninsured children consequently should assume that this goal is achieved gradually over several years rather than immediately as the February CBO memo assumed for simplicity's sake. In its followup memo, CBO notes that how many additional more children would enroll in Medicaid and SCHIP and how quickly they would do so would depend on the specifics of each legislative proposal.

⁸ Adoption of other proposals to establish an explicit SCHIP option to cover pregnant women and to improve the quality of children's health care would result in further modest increases in cost.