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Policy Position

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07/24/2007

HHS-09. The State Children's Health Insurance Program (S-CHIP)

9.1 Preamble

The Governors share the commitment of Congress and the Administration to making health insurance available to children in need. States have long been leaders in improving health care access for children. Under the State Children's Health Insurance Program (S-CHIP), states are using state-designed programs, Medicaid expansions, or a combination of both approaches to make more children eligible for health care coverage. The Governors stand ready to work with Congress and the Administration to ensure a timely and successful reauthorization of the program that currently provides health insurance coverage to more than six million children nationwide. Reauthorization of S-CHIP must reflect the needs of states that manage and finance the program. Governors urge Congress to provide adequate, predictable funding and enhanced flexibilities for states that will allow improvements in health care and coverage for children through this critical, state-based program.

9.2 Providing Adequate Federal Funding to States

9.2.1 Fiscal 2007 Funding Shortfalls. A number of states continue to face substantial federal funding shortfalls in S-CHIP in fiscal 2007. This could leave these states, as early as March 2007, with insufficient funds to continue providing coverage to those currently on the program. Governors believe that each state and territory must—at a minimum—have sufficient federal funds to cover fully its current S-CHIP caseload. We urge Congress to act quickly to fill the fiscal 2007 shortfalls in the program prior to reauthorization.

9.2.2 Reauthorization Funding. Critical to states' ability to manage and finance S-CHIP is the availability of adequate and predictable federal funding.

Investments in S-CHIP must not come out of Medicaid or other state health and human services programs.

Predictability of federal funding foremost requires that Congress fully reauthorize S-CHIP in a timely fashion. Governors and state legislatures need ample time to be aware of program and funding changes for future years of the program. To prevent any coverage disruptions, Governors urge Congress to work to reauthorize S-CHIP well before the end of the fiscal year. This timely reauthorization is critical as states are already making decisions for their fiscal 2008 programs.

As S-CHIP caseloads have grown over time, available federal funding has decreased and fewer funds are available for redistribution. This has resulted in significant shortfalls for some states. For that reason, Governors believe that federal funding levels should be increased to include sufficient funding to account for increased medical costs and population growth, as well as to ensure that all eligible populations, determined by each state, are able to have access to affordable health care under S-CHIP.

9.2.3 Funding Formula. Governors also believe that the funding formula that allocates federal S-CHIP dollars to states should be revisited. Without surplus funds for redistribution in the program, states have to rely on the initial allocation to fully fund their program, which puts more pressure on the accuracy of the formula. Aspects of the current formula are counterproductive and disadvantage states that have increased enrollment for children. The formula should ensure that state programs have access to adequate funds to effectively and predictably manage their state programs. An S-CHIP formula discussion could include, but not be limited to, current program expenditures, program enrollment, and accurate and most recent data sources for both population factors and cost indicators.

In the event that redistributed monies become available in the future, the distribution of such funds should be done in a fair, equitable, and predictable manner.

9.2.4 State Match. The enhanced matching rate of S-CHIP was designed to reflect the importance of enrolling children into health insurance. This enhanced rate must be maintained to ensure continued coverage of all eligible populations. Any reduction in the matching rate would simply be a shift of costs from the federal government to the states.

9.3 Providing Coverage through State Flexibility

A cornerstone of the S-CHIP program is state flexibility. Maintaining the flexibility in the program, particularly compared with Medicaid, is critical for the continued

success of S-CHIP. Reauthorization should not impose any new mandates or restrictions that would reduce states' flexibility within S-CHIP. This flexibility includes both the ability to manage coverage within the program, as well as the capability to define eligible populations. States should maintain benefit and cost-sharing authority, streamlined enrollment and administrative rules, and the ability to maintain and pursue waivers.

In addition to maintaining these current flexibilities, Governors call on Congress and the Administration to provide greater flexibility in S-CHIP for states. These new flexibilities will give states new options to provide health insurance to children, including the following.

9.3.1 Expanding Access to Employer-Sponsored Insurance. States should be provided with additional flexibility to expand access to employer-based insurance and family coverage. Reforms are necessary to allow states to help families afford employer-sponsored insurance for S-CHIP eligible children, such as reforming the actuarial equivalence and cost efficiency test for employer buy-in coverage and premium assistance.

9.3.2 Increasing Flexibility for States to Expand Coverage to Otherwise Eligible Children. States should be given the option to provide coverage to children in their state who qualify for S-CHIP based on their income, but are prevented coverage by federal law. Examples include but are not limited to legal immigrant pregnant women and children, children of state employees, and those eligible for teachers' dependent coverage.

9.3.3 Repealing Current "Crowd Out" Language that Imposes Mandatory Waiting Periods for Families Who Have Dropped Private Insurance. States should have the option of immediately enrolling families in their state who drop private insurance, without requiring a waiting period.

9.4 Outreach and Enrollment

Any new outreach program must be designed so that it does not create fiscal problems for states or create expectations that cannot be met. Any new outreach funds must be coordinated by or through the states and must be accompanied by adequate funding for coverage, since it is counterproductive to encourage eligible individuals to enroll if the resources are not available to cover the cost of health care coverage. Efforts to enroll eligible uninsured children in S-CHIP also will lead to increased enrollment in Medicaid and therefore increased costs for states. Outreach and enrollment must continue to be initiated by states to ensure that state funds are available to sustain coverage in both programs.

Highly successful national outreach programs have been proven to work with relatively few dollars, proving that the need for vastly increased funding for

outreach is unnecessary.

- If any new funds are directed towards outreach, this new spending must not disadvantage states that cannot afford further S-CHIP (or Medicaid) expansions. This is true of states that are exhausting their federal allotments, states that cannot afford the state match, and any state whose Medicaid caseload grows due to that outreach.
- Outreach efforts should be completely at state option and be coordinated by or through the states.
- Any new outreach funding should not count against the current 10 percent administrative cap.

9.5 Stand Alone Programs

To improve equity among the states, those that implemented S-CHIP through "stand-alone" programs should enjoy the advantages that are inherent in the Medicaid expansion programs, including coverage of children of state employees, participation in the Vaccines for Children program, and exemption from the Medicaid Best Price drug provision authorized for other federally sponsored health programs.

In addition, stand-alone programs have a 10 percent cap on administrative fees and expenses; expenditures related to the administration of the payment error rate measurement (PERM) program should not be included in this 10 percent cap.

9.6 Early Expansion States

S-CHIP was created to give states incentives to improve health care coverage for low- and moderate-income children. However, some states had expanded coverage broadly prior to S-CHIP's creation. S-CHIP was eventually modified to allow these states to use 20 percent of their allotments to fund the Medicaid expansions they had already undertaken. Title XXI should be amended to allow these states to use their full S-CHIP allotment to help finance services provided to these optional Medicaid children.

9.7 Commonwealths and Territories

S-CHIP funding for the commonwealths and territories should be at least sufficient to support the same number of children who are currently enrolled in their S-CHIP programs. Where technically feasible, the commonwealths and territories should be part of the regular allotment since they are also expected to meet the same regulatory requirements. Currently S-CHIP funds are allocated to commonwealths and territories from an arbitrarily established set-aside of the original allotments. These programs are dependent upon redistributions by the

Centers for Medicare and Medicaid Services. In reauthorization, the commonwealths and territories could experience substantial reductions in S-CHIP funding without a change in the statute. If funding allocations need to continue to be based upon a set-aside, then the set-aside should be based on demographics and the federal medical assistance percentage (FMAP) should be reflective of economics as opposed to arbitrary determinations.

*Time limited (effective Annual Meeting 2007–Annual Meeting 2009).
Adopted Annual Meeting 1997; revised Annual Meeting 1999, Winter Meeting 2000, Annual Meeting 2001, Annual Meeting 2002, Annual Meeting 2003, Annual Meeting 2005, and Annual Meeting 2007 (formerly Policy HR-15).*

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