THE HENRY J. KAISER FAMILY FOUNDATION
THE KAISER COMMISSION ON
Medicaid and the Uninsured

Georgetown University Health Policy Institute
Center for Children and Families

CHIP TIPS

A new series highlighting opportunities for covering children under Medicaid and CHIP

JUNE 2009

CHIP FINANCING STRUCTURE

The recently enacted CHIP reauthorization law (known as CHIPRA) includes a number of important programmatic and financing changes that affect both Medicaid and CHIP. Some of the most important changes to CHIP's financing structure include: significant new federal funding for the CHIP program through September 30, 2013; changes in the formula for distributing CHIP funds among states; and a new option for states to decide whether to use CHIP or Medicaid funding to cover children. Taken together, the financing changes provide states with reliable federal matching funds that should be adequate to both continue and expand their CHIP programs.

WHAT HAPPENED BEFORE CHIPRA?

The original 1997 CHIP statute set aside a specified amount of federal funding each year ("national allotments") for states to use to expand Medicaid eligibility for children, establish a separate CHIP program, or adopt a combination approach. The funds were divided among the states and territories according to a statutory formula that primarily considered each state's share of the nation's uninsured children and uninsured low-income children. States had three years to use each annual allotment they received, after which any unused funds were redistributed to other states.

Over time, it became apparent that the federal funds appropriated for CHIP were insufficient to sustain states' CHIP programs. In addition, problems with the distribution of funds among the states emerged. To tide CHIP over until reauthorization could occur, Congress passed a series of short-term CHIP funding extensions.

WHAT CHANGES DOES CHIPRA MAKE?

CHIPRA makes important changes to the national allotments and the state-specific allotment formula. Most notably, it substantially increases the amount of federal funding available for CHIP.

National Allotments. In CHIPRA, Congress increased national CHIP allotments. The law specifies federal funding levels for CHIP for each year ending with fiscal year (FY) 2013 (Table 1). Between FY 2009 and FY 2013, the national allotments will total $68.9 billion.

The increased national allotments, which are distributed among the states, provide states with the funds they need for their existing CHIP programs and also support increased coverage of children. Increased coverage can involve enrolling more eligible-but-uninsured children, expanding CHIP eligibility, and/or investing more in the scope and quality of care provided to CHIP children. States continue to draw down their federal funds at the CHIP enhanced match rate.

Table 1. CHIP National Allotment Levels (FY 2009 – FY 2013)

Federal Fiscal Year	Allotment (in billions)
2009	$10.562
2010	$12.520
2011	$13.459
2012	$14.982
2013	$17.406
Total (2009-2013)	$68.929

State-Specific Allotment Formula. CHIPRA establishes a new formula for distributing federal CHIP funds among the states that is based largely on states' actual use of and projected need for CHIP funds.

As shown in Table 2, states get an essentially steady level of federal funding for two years, followed by a "re-basing year" in which a state's allotment is recalculated based on its actual use of CHIP funds in the prior year.

States that use all of their available funding are able to lock in their federal funding level for future years. In contrast, states that do not use all their available funds receive a reduced allotment, and the unused money can be redirected to states that will use it to cover children.

HOW DOES IT WORK?

Initial State Allotments. For federal FY 2009, the first year under the new financing structure, each state's allotment is 110% of the highest of:

- The state's FY 2008 spending, adjusted for health care inflation and child population growth;[1, 2]
- The state's FY 2008 allotment, adjusted for health care inflation and child population growth; or
- The state's projected spending of federal CHIP funds in FY 2009, as reflected in February 2009 projections.[3]

By allotting 110% of the highest of these three amounts, *the CHIPRA formula assures that every state can receive federal CHIP funds above current levels*. States' projected FY 2009 CHIP spending and allotments are shown in Table 3 on Page 5.

Future-Year Allotments. In future years, the allotments follow the pattern described above. To illustrate, a state's FY 2010 allotment will equal its FY 2009 allotment, adjusted for health care inflation and child population growth. In FY 2011, its allotment will be re-based to reflect its actual use of federal CHIP funds in FY 2010, adjusted again for health care inflation and child population growth. (See example in Box 1, next page.)

Table 2. Year-by-Year Formula For Determining State Allotments

Federal Fiscal Year	Formula for State Allotments
2009	110% of highest of: ▪ FY 2008 CHIP **spending**, with adjustments,* ▪ FY 2008 CHIP **allotment**, with adjustments, or ▪ Projected FY 2009 **spending** as of February 2009
2010	FY 2009 **allotment**, with adjustments
2011 *Re-basing year*	FY 2010 **spending**, with adjustments
2012	FY 2011 **allotment**, with adjustments
2013 *Re-basing year*	FY 2012 **spending**, with adjustments

*Adjustments for health care inflation and child population growth in the state.

Other Sources of CHIP Funding. A state's primary source of CHIP funding is its allotment, but CHIPRA also includes mechanisms for providing extra money to states that need it to cover children. These mechanisms include:

- **Expansion adjustments.** States can expand coverage or benefits in any year, but CHIPRA provides for special adjustments to state allotments for expansions that take effect in FY 2010 or FY 2012.[4] States seeking to expand coverage or benefits in these years can request an increase in their allotments from the Department of Health and Human Services (HHS). If a request is granted, any amount of the additional funds the state uses will be reflected in its future-year allotments.

Box 1. An Example of "Re-Basing" Under the CHIP Allotment Formula

For a state with a FY 2009 allotment of $100 million:

- In FY 2010, its allotment will be $100 million, adjusted by health care inflation and child population growth in the state.
- In FY 2011, its allotment will depend on the state's actual use of CHIP funds in FY 2010. *Thus:*
  - If the state spent only $70 million in FY 2010, its FY 2011 allotment would drop to this level, adjusted only for health care inflation and child population growth.
  - In contrast, if the state spent $120 million in FY 2010, drawing on additional sources of available funds described elsewhere, its FY 2011 allotment would be $120 million, adjusted for health care inflation and child population growth.[5]

- **Child enrollment contingency fund**. A state can tap this fund if it faces a funding shortfall[6] and its enrollment of children exceeds a target level.[7] For each child the state enrolls above the target level, the state can receive a per capita federal payment.[8] The contingency funds a state uses are built into its future allotments.

- **Prior year and redistributed funds.** CHIPRA shortens the period during which states can use their annual CHIP allotments from three to two years, beginning with FY 2009 allotments. For example, a state can use its FY 2010 allotment in FY 2010 and 2011, but not after.

  After two years, any unspent funds are redistributed to "shortfall" states.[9] If redistributed funds are insufficient to meet the needs of all shortfall states, each shortfall state receives a proportionate share of the available funds.

Medicaid as a "Back-Up" Source of Funding. While there is little cause to expect that the national CHIP allotments will prove inadequate, if they do, states that have used some or all of their CHIP funds to expand Medicaid can rely on Medicaid as a back-up source of funding.

CHIPRA clarifies that states can use either CHIP or Medicaid funds to finance coverage for children in a CHIP-financed Medicaid expansion. They can draw down their CHIP allotment at the enhanced match rate for such children or, instead, they can use Medicaid funds and "conserve" their CHIP funds for children at more moderate income levels. Medicaid's match rate is lower, but the funding is not capped and can supplement financing if a state exhausts its CHIP allotment.

New Access to CHIP Funds for States with Significant Pre-CHIP Medicaid Expansions ("Qualifying States")

Under CHIPRA, states that significantly expanded Medicaid for children before CHIP was enacted in 1997 have increased flexibility to use their CHIP funds to help finance these Medicaid expansions.

As of February 4, 2009, these "qualifying" states (CT, HI, MD, MN, NH, NM, RI, TN, VT, WA, and WI) can use their CHIP allotments to draw down the difference between the Medicaid match rate and the CHIP match rate, for children in Medicaid above 133% FPL. Previously, these states could use their CHIP allotments for Medicaid only for children above 150% FPL, and they could use no more than 20% of any allotment for this purpose.

WHAT ARE THE CHOICES FOR STATES?

The new CHIP financing structure is designed to provide states with stable federal matching funds adequate to sustain as well strengthen their CHIP programs. (See Box 2 on next page for key dates.) It includes strong base allotments and also establishes supplemental funding sources that states can tap if needed, including an enrollment-driven contingency fund.

In addition to increasing federal support for CHIP, the new structure more quickly redirects CHIP funds away from states that do not use them and toward states that will. States that capitalize on the financing opportunities to cover more children will have increased future allotments to reflect their spending, ensuring them a reliable stream of funding in subsequent years. States that do not use their full allotments may forfeit a share of them, missing out on the support of federal funds to cover more children.

States' choices about how aggressively to cover children will help determine how many uninsured children gain coverage in the coming years. It will also affect states' access to CHIP funds for the longer term.

Box 2. Key Dates for CHIP Financing

- **February 4, 2009**: "Qualifying states" (see text box, previous page) can begin to claim additional match for children 133%-150% FPL.
- **February 2009**: States are expected to submit to HHS their projected CHIP spending for FY 2009; qualifying states have unspecified additional time to submit.
- **April 1, 2009**: Most financing provisions, including FY 2009 allotments, take effect.
- **August 31, 2009**: States seeking an adjustment to their fiscal year 2010 allotment for an expansion must submit the request by this date.
- **August 31, 2011**: States seeking an adjustment to their fiscal year 2012 allotment for an expansion must submit the request by this date.
- **September 30, 2013**: Funding authorization for CHIP ends.

WHERE CAN I FIND MORE INFORMATION?

- For other topics in the CHIP Tips series, visit http://www.kff.org or http://ccf.georgetown.edu/index/chip-law.
- The financing provisions of CHIPRA can be found in Title 1 of Public Law 111-3.
- For a detailed discussion of issues concerning the original CHIP financing structure, see *Financing Health Coverage: The State Children's Health Insurance Program Experience*, by the Kaiser Commission on Medicaid and the Uninsured http://www.kff.org/medicaid/7252.cfm.
- A summary of CHIPRA and related resources are available at the CCF website at http://ccf.georgetown.edu/index/chip-law.
- A fact sheet on CHIPRA and other resources on children's coverage can be found at the Kaiser Family Foundation website at http://www.kff.org/medicaid/childrenscoverageresources.cfm

TABLE 3: STATES' PROJECTED FY 2009 SPENDING & ALLOTMENTS (in millions of dollars)

State	Projected Federal CHIP Spending for All of FY 2009	Projected Allotments under CHIPRA 2009
Alabama	$126.9	$139.5
Alaska	$20.3	$22.3
Arizona	$122.9	$171.2
Arkansas	$94.2	$133.5
California	$1,297.3	$1,481.2
Colorado	$82.8	$97.5
Connecticut	$29.0	$45.6
Delaware	$10.9	$15.0
District of Columbia	$10.0	$14.2
Florida	$319.4	$358.4
Georgia	$267.5	$294.2
Hawaii	$13.9	$20.8
Idaho	$41.2	$45.3
Illinois	$262.1	$344.4
Indiana	$98.3	$120.4
Iowa	$62.2	$68.4
Kansas	$53.2	$58.5
Kentucky	$108.7	$119.6
Louisiana	$188.8	$207.7
Maine	$33.1	$39.3
Maryland	$165.8	$184.2
Massachusetts	$302.4	$332.6
Michigan	$86.5	$203.4
Minnesota	$45.6	$84.1
Mississippi	$167.0	$183.7
Missouri	$117.6	$129.3
Montana	$29.5	$32.4
Nebraska	$38.0	$41.8
Nevada	$29.6	$61.4
New Hampshire	$14.5	$15.9
New Jersey	$452.5	$497.8
New Mexico	$178.4	$196.2
New York	$355.6	$391.2
North Carolina	$223.4	$245.7
North Dakota	$15.5	$17.1
Ohio	$267.0	$293.7
Oklahoma	$131.1	$144.2
Oregon	$75.8	$83.4
Pennsylvania	$284.1	$312.5
Rhode Island	$58.8	$69.5
South Carolina	$141.8	$156.0
South Dakota	$15.4	$18.4
Tennessee	$125.8	$138.4
Texas	$859.7	$945.6
Utah	$59.5	$65.4
Vermont	$4.8	$6.7
Virginia	$159.7	$175.6
Washington	$40.6	$94.0
West Virginia	$36.9	$43.3
Wisconsin	$71.7	$88.5
Wyoming	$10.2	$11.2
TOTAL	**$7,807.5**	**$9,060.2**

Source: C. Peterson, "Projections of FY2009 Federal SCHIP Allotments Under CHIPRA 2009," Congressional Research Service (January 15, 2009) and C. Peterson, "What Happens to SCHIP After March 31, 2009?" Congressional Research Service (December 19, 2009). The estimates reported are based on CRS's analysis, including projections provided by the states in November 2008. Allotments under CHIPRA 2009 could be based on updated projections submitted in February 2009, for those states whose allotments are based on projected need, the actual allotments may differ from those presented here. Total allotments shown include state and District of Columbia allotments only; allotments for Territories are not shown.

ENDNOTES

[1] The health care inflation adjustment is the projected rate of increase in the amount of national health care expenditures per capita during the preceding calendar year, as measured by the National Health Expenditures Survey. For example, the inflation adjustment for FY 2010 is the projected rate of increase in national per capita expenditures on health care between calendar years 2008 and 2009.

[2] The adjustment for child population growth is the projected percentage increase, if any, in a state's child population from July 1 of the preceding fiscal year to July 1 of the specified fiscal year, according to Census Bureau data. For example, the adjustment used to determine FY 2010 allotments will be a state's projected child population growth between July 1, 2009 and July 1, 2010.

[3] Under the statute, these spending needs are based on states' February 2009 projections and certified by the Secretary of HHS by March 31, 2009. CHIPRA also includes a provision specifically allowing a group of "qualifying" states to submit revised projections after February 2009 to reflect any additional need for CHIP funding based on changes in CHIPRA that allow these states to receive CHIP funding for certain Medicaid-eligible children.

[4] It is not clear why Congress opted to allow expansion adjustment requests to be submitted only for expansions going into effect in these two fiscal years. States that implement expansions in other years can finance them with unused allotment dollars, the child enrollment contingency fund, or redistributed funds from other states.

[5] If national allotments are not high enough to provide each state with the allotment it otherwise would receive, each state will receive a pro-rata share of the available funds.

[6] For purposes of the child enrollment contingency fund, a state is considered to be in shortfall if it does not have enough federal matching funds—excluding redistributed funds—to finance its CHIP program.

[7] In FY 2009, the target enrollment level for the child enrollment contingency fund is a state's average monthly enrollment of children in CHIP in FY 2008, increased by the state's child population growth plus one percentage point. In subsequent years, the target enrollment level is the state's target enrollment level in the previous fiscal year, adjusted by the state's child population growth plus one percentage point.

[8] The federal per capita payment level is set at average per capita spending for children in CHIP in FY 2008, adjusted over time for health care inflation and changes in a state's CHIP matching rate.

[9] Shortfall states are those with projected CHIP spending that exceeds the funds available to them from all other sources – i.e., current year allotment, unspent funds from the prior year's allotment, and contingency funds.

This publication (#7910) is available on the Kaiser Family Foundation's website at www.kff.org and on the Center for Children and Families' website at ccf.georgetown.edu.

The Henry J. Kaiser Family Foundation
The Kaiser Commission on Medicaid and the Uninsured
1330 G Street, NW • Washington, DC 20005
phone (202) 347-5270 • fax (202) 347-5274 • www.kff.org

Georgetown University Center for Children and Families
Health Policy Institute
3300 Whitehaven Street, NW, Suite 5000 • Washington, DC 20057
phone (202) 687-0880 • fax (202) 687-3110 • http://ccf.georgetown.edu