

medicaid and the uninsured

September 2011

The Arizona KidsCare CHIP Enrollment Freeze: How Has it Impacted Enrollment and Families?

Introduction

The state of Arizona was hit especially hard by the recession. Facing a persistently severe budget shortfall, it has made broad reductions in state spending in recent years, including restricting eligibility and benefits in Medicaid and the Children's Health Insurance Program (CHIP). Most recently, the state froze enrollment in its Medicaid waiver program for adults without dependent children, a change that is estimated to result in 100,000 adults losing coverage. Prior to this cut, however, Arizona implemented an enrollment freeze in KidsCare, the state's CHIP program, and it is currently the only state in the country with a freeze in place. The CHIP enrollment freeze saved the state \$12.9 million in FY 2011, but it has also resulted in over 100,000 children being placed on a waiting list for coverage and the loss of \$41 million in federal matching funds. This paper provides an overview of how the state has implemented the CHIP enrollment freeze and its impact on enrollment and families.

Background on Enrollment Limits in CHIP

Adopted in 1997, CHIP was created as a complement to Medicaid to provide coverage to low-income uninsured children who were not eligible for the program. States can choose to use CHIP funds to expand coverage for uninsured children through Medicaid or by creating a separate state CHIP program. Like its companion program, Medicaid, the federal government matches state spending for CHIP, but at an enhanced rate—on average, the federal government's share of Medicaid spending is 57 percent, but it is 70 percent under CHIP. Unlike Medicaid, federal CHIP funds are capped nationwide and each state receives a capped allotment.

Medicaid, with its open-ended federal financing arrangement, guarantees coverage to all eligible individuals. As such, states are not allowed to impose enrollment limits or caps in their Medicaid programs. This guarantee of coverage also applies to the CHIP programs in the 13 states, including the District of Columbia, that have elected to use their CHIP funds to expand Medicaid (rather than establishing a separate CHIP program).¹ However, since federal matching funds for CHIP are capped, the CHIP statute does not require states to guarantee coverage to uninsured children in separate CHIP programs. As a result, states historically have been able to use a range of strategies to limit enrollment in separate CHIP programs. These include the following:

- **Enrollment freeze.** A state could stop enrolling new children in coverage, and, over time, attrition would result in enrollment declines. For example, children might lose CHIP coverage because a parent got a new job or the family was unable to make a premium payment. After these children were disenrolled, new children would not be added to the program.
- **Enrollment cap.** A state could establish a specific enrollment target or cap. Once that level was reached, no new children would be enrolled in coverage until enrollment levels dropped below the target as children left the program.

- **Limited open enrollment periods.** A state could allow uninsured children to enroll in coverage only during specific times of the year (e.g., children could sign up only between January 1 and February 1). Children in need of coverage outside of this period would have to wait for the next open enrollment period to sign up for CHIP.

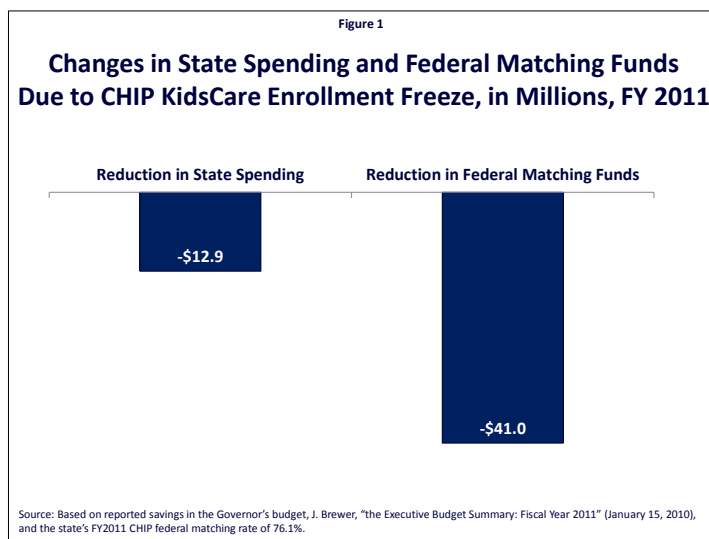
While states have historically been able to limit enrollment in their separate CHIP programs, under provisions included in the Affordable Care Act (ACA), they appear to be precluded from imposing new enrollment caps or freezes. These “stability protections” or “maintenance-of-eligibility” (MOE) provisions require states to maintain eligibility and enrollment policies that are no more restrictive than those in place at the time the ACA was enacted (March 23, 2010) until 2014 for adults and through 2019 for children.²

Prior to the MOE provisions going into effect in March of 2010, 12 states had capped or frozen CHIP enrollment at some point since the program was created in 1997. The states include Arizona, California, Georgia, and North Carolina, as well as eight states—Alabama, Colorado, Florida, Idaho, Maryland,³ Montana, Tennessee, and Utah—that adopted freezes during the 2003-2004 recession.⁴ Currently, only Arizona has a CHIP enrollment freeze in place, which the state was able to implement because it took action prior to the ACA MOE provisions going into effect. Most freezes in CHIP enrollment have a fairly short lifespan (less than one year), but research shows that they can have a long-term chilling effect on enrollment for years after they are lifted.⁵

The Arizona CHIP Enrollment Freeze Experience

Arizona was hit especially hard by the recent recession—the unemployment rate more than doubled between December 2007 and January 2010, with more than 270,000 state residents losing jobs.⁶ Revenues declined for three consecutive years, with retail sales dropping by 20 percent, home sales by 42 percent, and construction by more than 50 percent.⁷

In 2009, the state imposed the largest spending reductions in Arizona’s history, cutting over \$1 billion dollars from the budget and downsizing the state workforce by ten percent.⁸ These cuts included the elimination of coverage for nearly 10,000 parents with income between 100 and 200 percent of the federal poverty level (FPL).⁹ Further, the state subsequently froze enrollment for other adults in Medicaid, a change that is expected to lead to a loss of coverage for 100,000 people.¹⁰ In this severe fiscal environment, on December 21, 2009, Governor Jan Brewer of Arizona held an emergency cabinet meeting at which she imposed an enrollment freeze in the state’s CHIP program, KidsCare, due to inadequate state funding. Arizona estimated savings of \$12.9 million in state funds in FY 2011 as a result of the freeze. With this reduction in state spending, Arizona is expected to forego \$41 million in federal matching funds (Figure 1).¹¹



Administration of the Enrollment Freeze

Under the CHIP enrollment freeze, Arizona stopped all new enrollment of children in KidsCare. Children who were already enrolled in coverage when the freeze went into effect can continue to receive coverage as long as they remain eligible, their coverage is successfully renewed at the end of each 12-month coverage period, and their families pay their required monthly premiums. Technically, Arizona's enrollment freeze was effective January 1, 2010, but as eligibility is prospective, the state stopped processing new applications for coverage once the Governor issued the order on December 21, 2009.

When the enrollment freeze was put in place, the state posted an announcement on its website and worked closely with the Centers for Medicare and Medicaid Services (the federal agency that administers CHIP) to develop notices to send to families at application, renewal, and with premium payment reminders that explained the enrollment freeze. In its efforts to educate families about the freeze, the state utilized its relationships with community partners to spread the word. For example, application assistors at more than 200 locations, including federally-qualified health centers (FQHCs), tribal organizations, Indian health services, and many hospitals, have worked closely with families to explain the enrollment freeze as they applied for and renewed coverage.

Currently, when the family of an uninsured child applies for coverage in KidsCare, state employees review the application to see if the child is eligible for Medicaid (in addition to other public benefits, such as cash assistance or SNAP).¹² If so, the state enrolls the child in Medicaid. If the child is not determined to be eligible for Medicaid, he or she is added to the KidsCare waiting list. (Eligibility for KidsCare is not determined prior to placing the child on the waiting list.) In the past, some states have made exceptions to a freeze by allowing certain children to enroll in coverage, such as those in military families returning from active duty, children born to a family with CHIP-enrolled children, or children with special health care needs. Arizona does not allow for any exceptions to its enrollment freeze.¹³

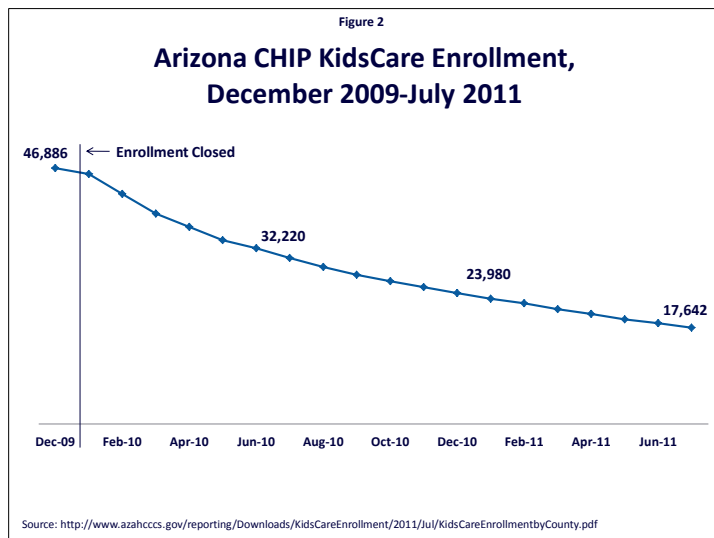
Children already enrolled in CHIP must successfully renew coverage and make timely monthly premium payments to maintain coverage. If a child is disenrolled from KidsCare because he or she becomes ineligible, the renewal process is not completed, or a premium payment is missed, the child is subject to the enrollment freeze and unable to re-enroll in coverage. The state provides families with a series of reminders, including details on the risk of losing their child's coverage should they lapse in their premium payments. Arizona also provides a 60-day grace period for non-payment of premiums during which the state provides the family a missed payment statement and a notice advising that coverage will be discontinued prior to the state taking action to terminate the child's coverage.

To date, it remains unclear when or if KidsCare enrollment will be reopened. If it does reopen, the state will likely enroll children on a "first-come, first-serve" basis, reaching out to families based on their initial application date. However, given the time that has passed since enrollment initially closed, many families would likely need to complete a new application to enroll.¹⁴

Impact of the KidsCare CHIP Enrollment Freeze on Coverage and Care

Earlier experiences in other states suggest that enrollment caps and freezes cause significant hardships for families. For example, families in North Carolina reported that their children faced uninsured periods ranging from four weeks to more than a year and that they struggled to meet their child's health care needs when enrollment in the CHIP program was capped.¹⁵ Similarly, in Arizona, the freeze has had significant impacts, resulting in large enrollment declines, limiting affordable coverage options for families, and making it more likely that children will go uninsured. Without coverage, families face challenges obtaining needed services for their children and increased financial worries and struggles.

Since the freeze was put in place, enrollment in KidsCare has fallen by more than 60 percent from 46,886 in December 2009 to 17,642 in July 2011 (Figure 2).¹⁶ These children have lost KidsCare coverage for a variety of reasons. It appears a substantial share (44 percent) was shifted to Medicaid coverage as their family income declined. An additional 22 percent were disenrolled due to unpaid premiums. The remaining share of disenrollees lost coverage due to several potential reasons, including incomplete renewals and loss of eligibility due to increased income or age.¹⁷



As of July 15, 2011, there were over 108,000 children on the waiting list for KidsCare coverage, which continues to grow at a rate of about 10,000 children per month.¹⁸ Because eligibility is not determined for applicants prior to their addition to the waiting list, this number does not imply that all the children would be eligible for KidsCare. However, it does not include any duplicate applications, children who would have aged out of the program, or children enrolled in Medicaid. The number of children on the waiting list is greater than enrollment in KidsCare enrollment has ever been since the program was implemented.¹⁹

The KidsCare enrollment freeze has limited affordable coverage options for families who may be losing jobs and employer-sponsored coverage. Nationwide, as families have lost jobs and access to employer-sponsored insurance during the recent recession, they have increasingly turned to Medicaid and CHIP programs. By filling growing gaps in private coverage these programs have prevented many more individuals, particularly children, from becoming uninsured.²⁰ However, the KidsCare enrollment freeze in Arizona limits the coverage protections available for families. Arizona families facing losses in income and access to employer-sponsored insurance due to job loss or reduced hours at work, but who still have incomes too high to qualify for Medicaid have no public coverage option for their children since they can no longer enroll in KidsCare. Further, private coverage on the individual market remains unaffordable for many of these families, and as such, they are at high risk for being uninsured.

The Juhlin family struggles to maintain stable coverage for their two boys amidst their fluctuating income from their family landscaping business. Michelle Juhlin's husband Ben has been self-employed for the past 17 years, running his own landscaping business. They have two children, both boys, ages 15 and 11. Ben's income fluctuates significantly. In the past this wasn't a concern as the family could move between KidsCare and Medicaid coverage relatively easily, but now the family is on the waiting list for KidsCare and has been unable to enroll due to the freeze. One of the boys recently broke both arms and, without coverage, they are struggling to pay the hospital bill.

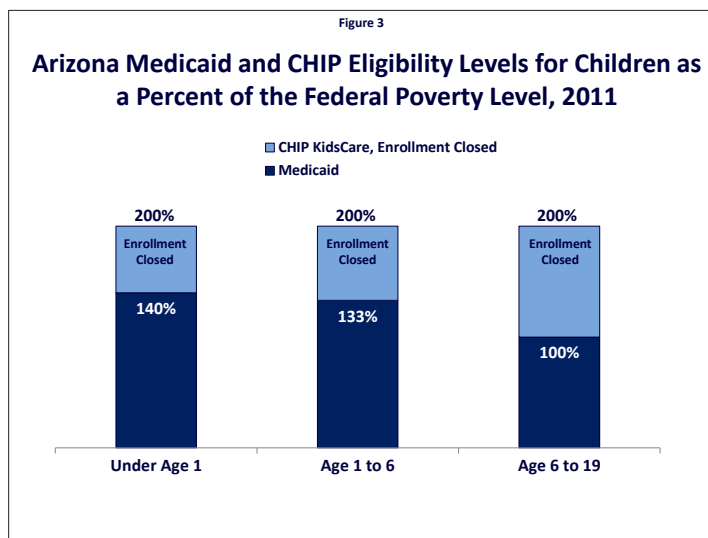
Similarly, the KidsCare enrollment freeze created a new coverage gap for children moving off of Medicaid due to increases in income. Prior to the enrollment freeze, a child enrolled in Medicaid whose parents got a new or higher-paying job would often move to KidsCare coverage as family income rose. This provided an important coverage bridge for families who may have been gaining employment, but who still lacked access to or could not afford their share of premiums for employer-sponsored coverage. Now, however, children in these families are unable to enroll in KidsCare due to the enrollment freeze, leaving them with no affordable coverage options and making it likely that they will become uninsured. Further, many families have fluctuating incomes that cause them to move back-and-forth between Medicaid and KidsCare eligibility. While some states provide 12-month continuous eligibility, keeping children enrolled in one program for a full year regardless of income fluctuations, Arizona does not. Therefore, even a small change in income during the year can result in a child losing coverage, as those losing Medicaid due to an increase in income are no longer able to enroll in KidsCare.

Valarie Klein, worries about losing Medicaid coverage for her son, Gaites, if she successfully finds a new job. When Valarie Klein's son Gaites was 12, he was diagnosed with a brain tumor. Fortunately, he was enrolled in KidsCare and able to get the surgery he needed to remove his tumor. Valarie's job was dependent on the real estate market and, like many other Arizonans, she found herself unemployed when the recession hit. When her unemployment benefits ran out, Gaites became eligible for the state's Medicaid program and was automatically enrolled. However, the freeze in KidsCare has created a catch-22 for the Klein family – if Valarie finds work and earns too much for Gaites to continue to receive coverage through Medicaid, she will be unable to re-enroll him in KidsCare. Valarie would love to return to work but is concerned about losing the security of knowing her son's high cost medical needs will be met.

Gaites himself recognizes the importance of his health coverage, noting, "Health can change in a split second. It can change in a car accident, sports injury or unpreventable health condition. For me, I went into an MRI as a healthy child without any physical problems before in my life other than a couple of recent migraines and came out as a brain tumor victim. Even after major surgery, I am still not well. I suffer every day with the loss of all hormones and have to take quite expensive hormone replacement medication for the rest of my days I am allotted. If I don't have the proper insurance to pay for my medications, I could possibly die."



Additionally, the KidsCare enrollment freeze has created a coverage gap for children aging out of Medicaid, leading to situations in which some children within a family may be enrolled in Medicaid, while others go uninsured. This issue arises because, in Arizona, children’s eligibility for Medicaid is linked to age. Specifically, Medicaid covers children under age one up to 140 percent of the federal poverty level (FPL), children under age six up to 133 percent of the FPL, and children age six to 19 up to 100 percent of the FPL (Figure 3). Prior to the enrollment freeze, children up to age 19 with incomes up to 200 percent FPL could enroll in KidsCare. Thus, Medicaid-covered children normally would transition into KidsCare as they “aged-out” of Medicaid on their 1st or 6th birthday. However, as a result of the freeze, these children are now disenrolled from Medicaid, but no longer able to enroll in KidsCare and, as such, likely to become uninsured.²¹



Heather Bennett’s two-and-a-half-year-old daughter, Isabelle, lost Medicaid on her first birthday. When Isabelle turned one, she lost Medicaid coverage due to the differing income eligibility limits based on age, and her application for KidsCare was not processed due to the enrollment freeze. Fortunately, Isabelle, who has asthma and allergies, was able to temporarily re-enroll in Medicaid through the Medical Expense Deduction (MED) or “spend down” program, which allows families with incomes above the normal Medicaid limits to obtain coverage if they have extremely high medical bills. However, this program, also a victim of state budget cuts, is ending in October 2011, meaning Isabelle will soon be left without any affordable coverage options.

Children who remain uninsured because of the KidsCare enrollment freeze may postpone or go without important care and their families may face financial burdens obtaining needed services. Some uninsured children may continue to receive primary and preventive care through a community health center or other provider. Arizona’s community health centers view it as their mission to provide care to the underserved and uninsured and have long served as an important source of affordable health care for low-income children and families. For those affected by the enrollment freeze in KidsCare, the role of community health centers in delivering care has only grown. However, there are limitations to what community health centers can do, especially as the ongoing fiscal problems in Arizona prompt further cuts in the programs that support their work. Moreover, even in better fiscal times, they generally do not provide any specialty care, such as inpatient treatment for a child with cancer. As the economy has worsened and coverage options have become more limited, community health centers are facing an increased need for services. However, their ability to respond to those in need of care may be unsustainable as a result of the competing demands on their limited resources. Overall, given the limited resources for affordable care, some uninsured children may go without important primary and preventive services and be unable to access specialty services. Families may also face unaffordable costs for obtaining needed services, such as urgent or emergency care.

The Silvain family faces new financial pressures since their 13-year-old son Elijah lost Medicaid and was placed on the waitlist for KidsCare.

Elijah Silvain of Tucson was born with a heart condition and also has asthma. His parents were able to secure health care coverage for him through Medicaid until his father's income rose slightly and he became ineligible. His parents tried to sign him up for KidsCare, but enrollment was frozen so he has been on the waiting list with very little hope of getting coverage. He recently visited Urgent Care and the family had to borrow money from relatives to pay the \$400 medical bill. "We pray every day that my son won't get sick because we could end up on the street if we have a setback like that," said Ann Silvain.



Conclusion

The freeze in Arizona's KidsCare program has had a significant impact on enrollment. Since January 2010, the number of children covered through the program has declined by more than 60 percent and over 100,000 children are on the waiting list. Though a sizeable share of disenrollees transitioned to Medicaid as a result of declining family income, based on the experience in other states, it is likely that many of the disenrolled children and children on the waiting list have not been able to secure another source of coverage and are uninsured. Some of these uninsured children may continue to receive some care, either through a community health center or other provider, but it can be expected that a number of them are going without needed services. Moreover, when these children receive urgent or emergency services, their families often face a significant financial hardship to pay for these services.

Arizona is currently the only state in the country with an enrollment freeze in its CHIP program. Under the MOE provisions in the ACA, it appears that other states currently are precluded from implementing enrollment freezes or caps, or otherwise restricting eligibility or enrollment in their Medicaid and CHIP programs. Without the MOE requirement, additional states could make such cutbacks to address ongoing budget challenges. Some states have requested flexibility to make eligibility and enrollment reductions not currently allowed under the MOE and there is pending federal legislation to repeal the MOE. The experience in Arizona highlights the importance of the CHIP program in providing a coverage bridge between Medicaid and private coverage for a broad range of families and the significant impacts of limiting families' access to this coverage.

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ENDNOTES

¹ States using CHIP funds to expand Medicaid are Alaska, Arkansas, the District of Columbia, Hawaii, Maryland, Minnesota, Nebraska, New Mexico, Ohio, Oklahoma, Rhode Island, South Carolina, and Wisconsin. M. Heberlein, *et al.*, “Holding Steady, Looking Ahead: Annual Findings of a 50-State Survey of Eligibility Rules, Enrollment and Renewal Procedures and Cost-Sharing Practices in Medicaid and CHIP, 2010-2011,” Kaiser Commission on Medicaid and the Uninsured (January 2011).

² Prior to the Affordable Care Act (ACA), states also could shut down enrollment if they ran out of state funds. However, it appears that instituting an enrollment cap, unless already in place as in Arizona, may be considered a violation of the stability protections (or maintenance-of-effort provisions). CMS, however, has not yet directly addressed this issue.

³ Maryland had a separate CHIP program during its enrollment freeze, but merged the program into Medicaid in 2007.

⁴ Note that Tennessee has two CHIP-funded programs, both of which have been closed and re-opened at various times, including during the last recession. Between 2001 and 2007, Utah’s CHIP program was only accepting new applicants during specific open enrollment periods.

⁵ P. Silberman, *et al.*, “The North Carolina Health Choice Enrollment Freeze of 2001,” Kaiser Commission on Medicaid and the Uninsured (January 2003).

⁶ J. Brewer, “The Executive Budget Summary: Fiscal Year 2011” (January 15, 2010).

⁷ *Ibid.*

⁸ *Ibid.*

⁹ The state eliminated KidsCare (CHIP) coverage for adults with income between 100 and 200 percent of the FPL; eligibility through Medicaid up to 100 percent of the FPL remains in place for parents. C. Newton, “10,000 Working Parents in Arizona to Lose Health Insurance: State is Unable to Provide Matching Funds for Federal Program,” Arizona Republic (September 8, 2009).

¹⁰ H. Fischer, “Arizona Partial Medicaid Freeze to Begin July 8,” East Valley Tribune (July 1, 2011).

¹¹ Georgetown University Center for Children and Families based on reported savings in the Governor’s budget and the state’s FY2011 federal matching rate of 76.1 percent. *op. cit.* (6).

¹² When the freeze was first implemented, KidsCare staff were processing applications to determine eligibility for Medicaid. In addition, the majority of applications were sent to the Department of Economic Security (DES) to determine eligibility for other public benefits, such as cash assistance or food stamps. As of April 2011, applications are no longer received or processed by the KidsCare office; all applications, including those submitted online, are sent to the DES for processing. KidsCare staff are maintaining the cases of those currently enrolled in the program.

¹³ D. Cohen Ross & L. Cox, “Enrollment Freezes in Six State Children’s Health Insurance Programs Withhold Coverage from Eligible Children,” Kaiser Commission on Medicaid and the Uninsured (December 2003).

¹⁴ If applications are more than 60 days old, the family would need to reapply for coverage.

¹⁵ *op. cit.* (5).

¹⁶ Georgetown University Center for Children and Families analysis of state enrollment data, available:

<http://www.azahcccs.gov/reporting/enrollment/KidsCare.aspx>.

¹⁷ Note that data represent disenrollments between January 2010 and June 2011, excluding November 2010 as the state made operational changes during that month which resulted in the data being skewed. The available data include KidsCare and Medicaid children. Therefore definitive data are only available for movement to Medicaid and failure to pay premiums as such changes could only occur for KidsCare children; the other disenrollment data would include a mixture of KidsCare and Medicaid children. AHCCCS, “KidsCare & Medicaid Renewal” (August 2011).

¹⁸ Arizona Health Care Cost Containment System (AHCCCS), “KidsCare Wait List,” Press Release (July 15, 2011).

¹⁹ Enrollment in KidsCare reached its peak of 66,317 in May of 2008. Georgetown University Center for Children and Families analysis of state enrollment data, available: <http://www.azahcccs.gov/reporting/enrollment/archiveKidsCare.aspx>.

²⁰ J. Holahan, “The 2007-09 Recession and Health Insurance Coverage,” *Health Affairs* (December 6, 2010).

²¹ Children who turn 19 and “age-out” of Medicaid/KidsCare and have income under 100 percent of the FPL are eligible for the state’s childless adult program. While enrollment in this program is also frozen, an exception is made for these individuals.

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