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WHEN WILL CHIP FUNDING RUN OUT?

- Funding for the Children's Health Insurance Program (CHIP) expired on September 30. Congress has not approved additional funding but provided a so-called "patch" as part of the short-term Continuing Resolution passed by Congress on December 7 and signed into law on December 8.

- The patch reallocated the $2.9 billion in redistribution funds among states giving more money to 20 states with shortfalls in the first quarter 2018 (October – December 2017). As no new money was added, the patch will actually cause 31 states to run out of money more quickly than previously estimated. This outcome underscores the need for Congress to approve a long-term CHIP extension.

- If Congress fails to approve long-term funding for CHIP, an estimated 1.9 million children in separate CHIP programs could lose coverage in January. An additional 1 million children would also be at risk of losing coverage by the end of February.

How does CHIP funding work?
CHIP is a block grant program. Congress must act periodically to extend its funding. Each state receives an allotment based on projected expenditures. States generally have two years to spend their allotment[1], and then unspent funds go into a redistribution pool.

How do CHIP programs pay for services?
Most CHIP programs contract with managed care organizations (MCOs) to deliver CHIP services. By contract, almost all states pay MCOs prospectively, one month in advance of the coverage month. This means states must pay for January services on or before January 1. However, a few states that contract with health plans make payments retrospectively, as do states with fee-for-service programs. These states may need additional time to implement a program freeze or closure.

How does the CHIP redistribution fund work?
After two years, any unspent allotments move to the redistribution fund. At the end of FY 2017, just under $3 billion was available in unused CHIP funds. This fund was earmarked for states proportionally based on their expected shortfalls.

CMS distributes funds to the states based on their projected expenditures for the upcoming month, up to a cap of the total share set aside for the state. Generally speaking, CMS has been doling out these funds in one-month increments.

How does the CHIP patch that Congress passed on December 7 work?

[1] P.L. 115-90 amending Section 2104(f)(2)(B) of the Social Security Act

States have been using carryover and redistribution funds to keep the program going. The continuing resolution (CR) passed by Congress on December 7, included a "patch" for CHIP funds because states are beginning to exhaust all available federal funding.

First, it is important to note that the patch provided NO new or additional CHIP funding. The CR patch instructs CMS to provide extra funds to states running out of funds the fastest – that is, states without sufficient leftover CHIP allotment to cover their projected expenditures in the first quarter of FY 2018 (October – December 2017).

Twenty states, which are described as emergency shortfall states, are projected to have shortfalls in the first quarter of FY18. Redistributions to these states will reduce the total redistribution fund by $1.24 billion dollars, leaving a balance of $1.73 billion.

The patch, or "special rule" as CMS describes it, then reallocates the $1.73 billion redistribution fund to all states based on projected shortfalls for January through September 2018. While this provides more money to the 20 states (including D.C.) that had shortfalls in the first quarter, it will reduce the amount of redistribution funds available for the remaining 31 states.

Does this create winners and losers?
Yes, the 20 emergency shortfall states (AZ, CA, CO, CT, DC, DE, FL, HI, ID, LA, MA, MN, MT, NV, NY, OH, OR, PA, UT, and WA) will receive redistribution funds to cover any shortfall. But, in essence, the patch robs Peter to pay Paul. The remaining 31 states will see their share of redistribution funds reduced, and thus the timeline by which they will run out of money is accelerated.

Despite the additional funds, the 20 "winner" states will only have sufficient funds to operate their programs through January. All of them will come up short for February. Given that the other 31 states will receive a smaller share of redistribution funds, five additional states (GA, KS, KY, RI, and VA) will now only have adequate funding to run their programs through January 2018.

Which children are most at risk?
States have the option of enrolling CHIP-eligible children in Medicaid, creating a separate CHIP program or a combination of these two approaches, which most states use. *Children enrolled in separate CHIP programs in states that are running out of funds the fastest are most at risk of losing coverage.* These states, in order of size of enrollment, are: NY, PA, FL, GA, CA, MA, VA, OR, CO, WA, KS, NV, KY, UT, ID, CT, DE, and LA. (See the Appendix table for enrollment estimates.)

Children enrolled in CHIP-funded Medicaid expansions are protected by the Medicaid "maintenance of effort" provision that holds children's eligibility at levels that were in place on March 23, 2010. The Appendix table lists CHIP enrollment by program type in the 34 states that will have insufficient funds to cover all children beyond January or February 2018.

What's the bottom line?
By accelerating the redistribution through the patch, January becomes the last possible month that ALL states can cover their CHIP expenditures. Twenty-five states are projected to have insufficient funds to cover children beyond January 2018. In these states, some children may be protected by the Maintenance of Effort provision in Medicaid. However, 1.9 million children enrolled in separate CHIP

programs are at risk of losing coverage in January 2018. By the end of February, this number grows by another million children.

While there is no federal requirement for the amount of advance notice that CHIP programs must give before terminating coverage, most states believe that a minimum of 30 days is needed to give families time to explore other options*. This means that half of the states in the country should be notifying families by January 1 in order to give families at least a month's notice that their children may lose CHIP coverage at the end of January. States may choose to transfer the children to Medicaid if they have legislative authority to pick up the considerable increase in cost this would entail. But it is unlikely that on such short notice that many states could effectuate a successful transfer of all the children in its separate CHIP program.*

The Methodology Behind Our Analysis:
In preparing this explainer, the Georgetown Center for Children and Families reviewed the statutory language implementing the CHIP 'patch' and had discussions with CHIP experts in national organizations. No official guidance has been provided by CMS on its interpretation of the special rule or what it means going forward. Our purpose was to determine how the CHIP patch would impact the redistribution fund going forward. Based on our research, we understand the 'patch' will cover shortfalls for any state with insufficient carryover allotment to cover 1st quarter expenditures. Payments to emergency shortfall states are deducted from the overall redistribution pool. Before providing redistribution funds for shortfalls beyond the first quarter, the balance in the redistribution fund is reallocated proportionally across the states based on each state's share of the total funding shortfall for the remainder of the fiscal year (January - September 2018). All states receive a new share, including those that received emergency shortfall funds in the 1st quarter. We apply this conceptual model to the data obtained from an HHS spreadsheet entitled: "CHILDREN'S HEALTH INSURANCE PROGRAM – FY 2018 Emergency Shortfall Redistribution Payments determined under "Redistribution Special Rule during 1st quarter of FY 2019" Methodology". In doing so, we assume that projected expenditures are consistent across months. Actual expenditures may vary, and program differences, may impact the amount of lead-time a state needs to plan and implement needed program changes.

Appendix Table
Enrollment in CHIP in States with Insufficient Funds to Cover Expenditures Beyond January or February 2018

	Medicaid Expansion	Separate CHIP	Total CHIP
States with Shortfalls after January 2018			
Arizona	85,017	3,207	88,224
California	1,904,197	118,016	2,022,213
Colorado	90,998	76,229	167,227
Connecticut	–	25,551	25,551
Delaware	162	17,622	17,784
District of Columbia	13,893	50	13,943
Florida	173,181	201,703	374,884
Georgia	65,102	166,948	232,050
Hawaii	25,780	–	25,780
Idaho	7,946	28,018	35,964
Kansas	16,013	63,306	79,319
Kentucky	54,692	38,036	92,728
Louisiana	147,894	13,671	161,565
Massachusetts	71,841	113,737	185,578
Minnesota	555	3,321	3,876
Montana	14,158	30,530	44,688
Nevada	24,104	44,847	68,951
New York	259,649	424,976	684,625
Ohio	223,583	–	223,583
Oregon	42,311	98,475	140,786
Pennsylvania	103,951	238,317	342,268
Rhode Island	34,815	1,447	36,262
Utah	29,143	29,267	58,410
Virginia	89,856	102,975	192,831
Washington	–	66,517	66,517
Subtotal January	3,478,841	1,906,766	5,385,607
States with Shortfalls after February 2018			
Alabama	53,390	96,650	150,040
Alaska	15,662	–	15,662
Iowa	21,911	63,078	84,989
Maryland	137,592	–	137,592
Mississippi	32,953	55,578	88,531
Missouri	49,586	38,204	87,790
Oklahoma	177,157	10,814	187,971
Texas	355,600	719,612	1,075,212
Vermont	5,305	–	5,305
Subtotal February	849,156	983,936	1,833,092
Total January & February	4,327,997	2,890,702	7,218,699

Enrollment based on FY 2016. Source: https://www.macpac.gov/publication/child-enrollment-in-chip-and-medicaid-by-state/