Georgetown University
Health Policy Institute
CENTER FOR CHILDREN
AND FAMILIES

When Will States Run Out of Federal CHIP Funds? (January 2018 Update)

By: Tricia Brooks and Joan Alker

- Funding for the Children's Health Insurance Program (CHIP) expired on September 30, 2017. States were able to continue to operate their programs in the short term with leftover CHIP allotment funds from fiscal year 2017. If these funds ran out, they were supplemented by a proportional share of unused funds from prior fiscal years reserved in a "redistribution" pool.

- Just before the December recess, Congress approved $2.85 billion in CHIP funding in a so-called "patch" as part of the Continuing Resolution (CR) that expires January 19. The CR also changed the way that redistribution funds are awarded to states, *no longer guaranteeing a specific share of these emergency shortfall funds to any state.*

- If Congress fails to approve long-term funding for CHIP in January, *nearly 1.7 million children in separate CHIP programs in 24 states with shortfalls could lose coverage by the end of February.* As February 1 approaches and Congress has still not taken action, some states are likely to send notices to families alerting them that their child's coverage is in jeopardy and may begin procedures to freeze enrollment.

- Based on publicly-available data, 11 states (AZ, CT, DC, FL, HI, LA, MN, NV, NY, OH, and WA) would exhaust all of their leftover FY 2017 allotment and the partial FY 2018 allotment provided by the CR *before* the end of February. This means they would not be able to cover all children beyond January without accessing redistribution funds. In March, approximately half the states (24) will be in shortfall positions. Without sufficient funding to cover March expenditures, these states would be unable to cover all children beyond February without accessing redistribution funds.

- While the balance in the redistribution pool *may* be sufficient to cover February shortfalls enabling all states to cover children through February, it has become increasingly difficult to predict how long funds will last for any particular state. This uncertainty and the ongoing inaction by Congress increases the likelihood that states will take steps to prepare families for the worst.

Box 57144 3300 Whitehaven Street, N.W. Suite 5000 Washington, DC 20057
T 202.687.0880 F 202.687.3110 E Childhealth@georgetown.edu

How does CHIP funding work?
CHIP is a block grant program. Congress must act periodically to extend funding for the program that serves nearly 9 million children each year. 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 February services on or before February 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. Fee-for-service states may also experience more fluctuations in expenditures since costs are not fixed as they are in managed care delivery systems.

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. Initially, this reserve was earmarked for states proportionally based on their expected shortfall amount for the fiscal year.[2] The December 8 CR changed this methodology by fully covering state shortfalls in the first fiscal quarter of 2018 even if the amount exceeded the state's proportional share. Under this formula, over $1.2 billion was paid out to shortfall states. However, the December 22 CR changed the methodology yet again.

What did the CHIP patch that Congress passed on December 22 do?
The December 22 CR included $2.85 billion in federal funding for CHIP for the first half of fiscal year 2018, which began October 1, 2017.[3] Preliminary estimates of each state's share of the $2.85 billion have been posted by CMS.[4]

A significant change was also made to how remaining redistribution funds will be paid out to states. Going forward, the estimated $1.7 billion balance will be paid out to states monthly on a first-come, first-serve basis as they exhaust their allotments. No amount is reserved for any specific state. When this emergency shortfall fund cannot meet the needs of all states, it will be prorated to states based on each state's proportional share of the total shortfall in that month.

When will states run out of money?
First, it's important to emphasize that because states are no longer guaranteed any share of redistribution funds, no state can rely on additional shortfall funding in any given month.

---

[1] Section 2104(m)(2)(B)(iv) reduces the carryover of unspent allotments from FY 2017 by one-third.
[2] https://www.macpac.gov/wp-content/uploads/2017/10/CHIP_Exhaustion-of-Federal-Funding.pdf
[3] These funds were already assumed for this period in the CBO baseline hence no "offsets" were needed.
[4] https://www.medicaid.gov/chip/downloads/financing/preliminary-allotments.pdf

Whether a state may receive redistribution funds and how much is dependent on other state spending. While it is growing harder to make predictions with certainty, we estimate than *about one-fifth of states (11) will experience shortfalls in February.* It is possible, but not assured, that the balance in the redistribution pool could cover these shortfalls. However, the outlook is bleaker in March, when nearly half of states (24) would exhaust all of the guaranteed federal funding available to them.

How long will the redistribution pool last?

It is not possible with currently available data to predict with certainty how long the redistribution pool will last. First, the state expenditure data are outdated; the most recently available state expenditure projections date back to August 31, 2017. Additionally, CMS has not released the final state-by-state redistributions that were made in the first quarter of FY 2018; currently available data shows redistributions only through December 4, 2017. How these outdated or incomplete data may impact projections is described in the methods section of this report.

Importantly, there are a number of variables that will affect the timing and amount of state shortfalls, which will in turn impact how quickly the redistribution pool will be depleted:

- States may have underestimated or overestimated their projected spending under the best of circumstances.
- Events such as the fall hurricanes or successful back-to-school enrollment campaigns may have accelerated enrollment of eligible children and increased spending.
- States that have come close to closing their separate CHIP programs have encouraged enrollees to access preventive health care services before they lose coverage. Doing so may boost spending in states that pay for CHIP services on a fee-for-service basis.
- In small, fee-for-service CHIP programs, one catastrophic health event such as a child in need of a transplant or receiving cancer treatment can accelerate state spending beyond expectations.
- States with separate CHIP programs that are running out of funds the fastest have also been taking steps to close down their programs, including making costly eligibility system changes and sending notices to families with enrolled children. These administrative expenses are depleting available funds faster than expenditure projections. On the other hand, enrollment may slow down as word that the program may close could have a chilling effect.

When do states need to take action?

Although there is no federal requirement for the amount of notice a state must give, families whose children would lose coverage should be given as much advance notice as possible so they can explore other options for accessing affordable health care. Given the lack of certainty that the redistribution fund will last through March, states that are anticipating shortfalls in March will need to take action by February 1 if they are to give families at least a 30-day notice before children lose coverage.

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 CHIP-funded Medicaid expansions are protected by the Medicaid "maintenance of effort" provision that holds children's eligibility at income levels that were in place on March 23, 2010. Children enrolled in separate CHIP programs in states that are running out of funds the fastest are most at risk of losing coverage. The appendix table lists CHIP enrollment by program type in states that will have insufficient funds to cover all children beyond February 2018.

What's the bottom line?

At least 24 states are projected to have insufficient funds to fully cover all children beyond February. In these states, some children may be protected by the maintenance of effort provision in Medicaid, and the immediate impact would be on the state budget. However, nearly 1.7 million children enrolled in separate CHIP programs are at risk of losing coverage in February. These states, in order of size of enrollment, are: NY, PA, FL, GA, CA, VA, AL, CO, WA, NV, MO, KY, MT, UT, ID, CT, AZ, LA, SD, MN, and DC.

Program differences, including how states pay for services, provider contract provisions, and state laws regarding funding, notices, or other programmatic elements may impact the amount of lead-time a state needs to plan and implement needed program changes.

The Methodology Behind Our Analysis

In preparing this report, the Georgetown University Center for Children and Families reviewed the statutory language from continuing resolutions passed on December 8 and December 22 and conferred with CHIP experts in assessing the impact of the laws. No official guidance has been provided by the Centers for Medicare & Medicaid Services on its interpretation of either special rule dealing with the redistribution fund. We use data 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." This source includes state-level data on leftover FY 2017 allotments, 1st quarter FY 2018 projected expenditures, and redistributions made as of December 4, 2017. We also used the preliminary allotments for each state of the $2.85 billion appropriation posted by CMS. We then calculate the month in which a state's projected expenditures exceed the state's total allocated funding. We assume that projected expenditures are consistent across months; actual expenditures may vary.

As noted, our projections are based on most recent public data, which is outdated and incomplete. State expenditure data are based on August 31, 2017 projections. These preliminary estimates were to be updated as of November 30, 2017 but CMS has not publicly released any new figures. Updated projections could show that states have higher than originally projected expenditures, as well as lower leftover FY 2017 allotments. Projections could also impact the share each state receives of the new $2.85 billion short-term appropriation. Even up-to-date projections may prove inadequate in states that incur higher actual expenditures than projected. Additionally, CMS has not released state-level data on the final list of redistributions made in the 1st quarter of FY 2018. Any additional redistribution may stretch the availability of funding for a particular state but reduce the balance in the redistribution pool available to other states.

Appendix Table

CHIP Enrollment in States with Insufficient Funds to Cover Expenditures Beyond February 2018

	Medicaid expansion	Separate CHIP	Total
Alabama	53,390	96,650	150,040
Alaska	15,662	–	15,662
Arizona[1]	85,017	22,389	88,224
California	1,904,197	118,016	2,022,213
Colorado	90,998	76,229	167,227
Connecticut	–	25,551	25,551
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
Kentucky	54,692	38,036	92,728
Louisiana	147,894	13,671	161,565
Minnesota	555	3,321	3,876
Missouri	49,586	38,204	87,790
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
Pennsylvania	103,951	238,317	342,268
South Dakota	14,080	4,427	18,507
Utah	29,143	29,267	58,410
Virginia	89,856	102,975	192,831
Washington	–	66,517	66,517
	3,377,365	1,673,992	5,032,175

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

[1]Arizona's CHIP program, KidsCare, re-opened enrollment in July 2016. To more accurately reflect enrollment growth since the program re-opened, the separate CHIP enrollment figure was retrieved from the Arizona Health Care Cost Containment System (AHCCCS), September 2017.