



SCHIP Reauthorization: *Can The Nation Move Forward Without Going Backward?*

EXECUTIVE SUMMARY

Established in 1997 with strong bipartisan support, the State Children's Health Insurance Program (SCHIP) is a popular program with a strong track record of covering uninsured children. SCHIP provides states that invest their own state funds with capped federal matching funds to cover children with incomes above regular Medicaid levels.

With SCHIP coming up on its 10-year anniversary, Congress faces the important task of reauthorizing the program. A central issue will be whether Congress will restrict the flexibility states now have to decide which children to cover. A proposal put forth by the Bush Administration would move SCHIP away from a state-determined eligibility system to one with federally imposed rules aimed at restricting coverage to children with family incomes below 200 percent of the federal poverty level (FPL).

To place this debate in context, this paper reviews the current SCHIP rules on setting income eligibility thresholds; chronicles the decisions states have made to date about their eligibility levels; and considers the issues raised if the program were to move in this direction.¹

The Original SCHIP Law Grants States the Discretion to Set SCHIP Income Eligibility.

The original SCHIP law was structured to allow states to decide where to set the income eligibility levels for their SCHIP programs based on the needs and circumstances in their state.² Through a combination of various provisions in the law, states have the discretion to set income eligibility within the context of their capped federal funding and the requirement that states share the cost of coverage. Relying on this flexibility, states have

covered children above 200 percent of the FPL since the beginning of the program.

200% OF THE FEDERAL POVERTY LEVEL (2007)

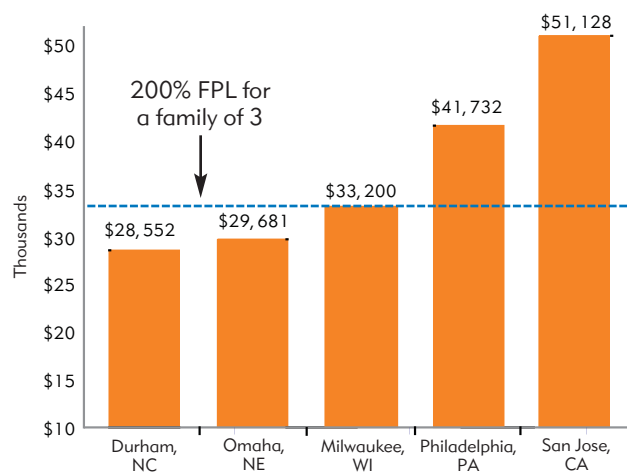
- \$34,340 a year or \$2,862 a month for a family of three
- \$41,300 a year or \$3,442 a month for a family of four.

Flexibility to Set Income Eligibility Allows States to Consider Local Costs.

The flexibility to set income eligibility allows states to consider the cost of housing, transportation, health care, and other items that can affect a family's ability to afford health insurance and vary widely across the nation. Families in rural states often face high transportation costs, while families in urban areas typically experience high housing costs. The

FIGURE 1
The Cost of Living Differs Across the Country

The cost of goods and services worth \$33,200 in the average city, adjusted for the cost of living.



Note: In 2006, 200% FPL for a family of three was \$33,200 annually.
Source: CCF analysis using 2006 ACCRA data.

same goods and services that cost a family \$33,200 (the equivalent of 200 percent of the FPL for a family of three in 2006) in a city with average costs, like Milwaukee, Wisconsin, will cost \$29,681 in Omaha, Nebraska, and \$51,128 in San Jose, California (Figure 1). The SCHIP law allows states to take these factors into account. It also offers the flexibility to charge premiums and to take steps to limit the potential substitution (“crowd out”) of private coverage.

A Federally Imposed Income Cap Would Affect Many States’ Ability to Continue to Cover Children in Need, and the List of the States Responding to that Need is Growing.

Federal restrictions on SCHIP eligibility would tie the hands of governors and other state policymakers who have placed a priority on covering uninsured children in their state. The number of states and children that would be immediately affected would depend on how a cap might be designed and on how many of the states currently considering eligibility expansions adopt those changes.

- **As of May 2007, 18 states had income eligibility thresholds above 200 percent of the federal poverty level.**³ These programs offer low-cost, but not free coverage; states generally charge premiums as family income rises.
- **An additional 16 states could be affected depending on the design of a federal income cap.** These states have SCHIP income thresholds at 200 percent of the FPL, but they effectively cover children in families with higher incomes because they consider net income when calculating eligibility. For example, Iowa has an income threshold of 200 percent of the federal poverty level but disregards 20 percent of earned income to account for work-related expenses.
- **Many states are considering plans to expand children’s coverage.** A diverse array of states, including Indiana, New York, Oklahoma and Ohio, has adopted or is now considering coverage expansions for children.⁴ Other states can be expected to follow. If every state that is currently considering an expansion adopted the change,

nearly half of all states would have income eligibility thresholds above 200 percent of the FPL.

Thousands of Children Could Lose Coverage.

A reversal of the policy allowing states to set their income eligibility rules could result in the loss of coverage for hundreds of thousands of children. Research suggests that a large portion of the children affected by a 200 percent of FPL income cap would become uninsured.⁵

- **The cost of private insurance is often beyond the reach of families with modest incomes.** A primary reason states have expanded their public coverage programs is that the cost of private insurance is often beyond the reach of families with modest incomes. In 2006, the average cost of a family’s share of employer-sponsored health insurance was \$2,973 – over \$200 more than the entire monthly income for a family of three at 200 percent of the FPL.⁶ Families often must pay additional costs through deductibles, coinsurance or copayments. SCHIP programs typically require families to pay premiums and copayments, but the costs are more affordable.

Bernadette Molina is 14 years old.

She lost her SCHIP coverage when her mother’s earnings crept above 200 percent of the poverty level; now she is uninsured.



“When I had SCHIP, I used to get regular check-ups but because my mom tried to better our family by earning more money, we lost our health insurance. Now, we are sharing a doctor in the emergency room. Instead of focusing on my grades and friends, I find myself thinking about the stress I would put on my family if one of us got sick. My mom is the hardest working single mother I know but as many hours as she works she still can’t pay for one emergency room bill.”

■ **Lower-income children could also be affected.**

An important but often overlooked benefit of SCHIP coverage expansions and related outreach efforts is that they help to bring previously eligible, lower-income, children into coverage. For example, about three-quarters of the enrollment gains achieved following Illinois' expansion above 200 percent of the FPL were attributable to children who had been eligible before the expansion.⁷

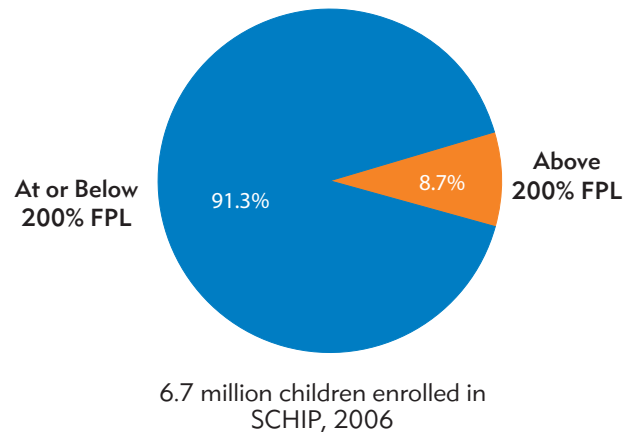
Federal Savings Would be Relatively Small

Although a federally imposed income cap could adversely affect thousands of children, these children represent a small portion of the children covered by SCHIP. Because SCHIP enrollment is heavily concentrated among children with incomes below 200 percent of the FPL, the federal savings from an income cap would be modest. According to the Congressional Research Service, less than nine percent of all SCHIP-covered children nationwide have incomes above 200 percent of the FPL (Figure 2).

A Federally Imposed Income Cap Could Lead to An Array Of Federal Program Rules With Unintended Consequences.

If the federal government were to impose an income cap, it may also need to mandate an array of other federal rules having to do with how income is calculated. Currently, these matters are left to the states; for example states decide whose income is counted (e.g., a grandparent's income or a sibling's income), and what types of income are counted (e.g., whether to count child support or disability payments). Federal rules addressing these issues would represent an additional, significant level of intrusion on the flexibility that always has been accorded states in SCHIP. These changes would result in new administrative burdens for states and could make it more difficult for states to coordinate enrollment between SCHIP and Medicaid.

FIGURE 2
Most Children Covered by SCHIP
Have Family Incomes Below 200% FPL



Note: The reporting classification of a child with family income above 200% FPL who is determined to be eligible at or below 200% FPL due to deductions or disregards (i.e., a net income test) is up to the discretion of the state and constrained by their reporting systems.

Source: CCF analysis using enrollment data from C. Peterson & E. Herz, *Estimates of SCHIP Child Enrollees Up to 200% of Poverty, Above 200% of Poverty, and of SCHIP Adult Enrollees*, Congressional Research Service (March 13, 2007).

Conclusion

Assuring that children have health insurance coverage is a national priority that enjoys strong bipartisan and public support. The nation has made considerable progress covering children over the past ten years, and SCHIP reauthorization presents an important opportunity to build on that progress. New federally imposed restrictions on states' ability to cover children, however, would slow or reverse the coverage gains that have been achieved and move the program far from its original design. Children in a diverse array of states would lose coverage, including children with modest family incomes as well as those with much lower family incomes.

Endnotes

- 1 The full paper upon which this Executive Summary is based was written by Cindy Mann and Michael Odeh and can be found on the CCF website, www.ccfgeorgetown.org.
- 2 The law provides states some discretion to set their income eligibility thresholds (states with higher Medicaid income eligibility levels before SCHIP was enacted can set their SCHIP thresholds up to 50 percentage points above their Medicaid levels), and considerable discretion to set other rules that determine income eligibility. It is the combination of these different rules that accord states the flexibility to cover children above 200% of the FPL.
- 3 Among the 18 states that currently cover children above 200% of poverty, 14 states have income eligibility levels more than 50 percentage points above their pre-SCHIP Medicaid levels.
- 4 See Center for Children and Families, *Children's Health Coverage: States Moving Forward* (May 2007).
- 5 For example, one study found that 73 percent of all children who lose SCHIP coverage and are ineligible for Medicaid become uninsured. See J. Wooldridge, et al., *Congressionally Mandated Evaluation of the State Children's Health Insurance Program: Final Report to Congress*, Mathematica Policy Inc. and Urban Institute (October 2005).
- 6 Kaiser Family Foundation/HRET, *Survey of Employer Health Benefits 2006* (September 2006). In 2006, a family of three at 200 percent of the federal poverty level has monthly income of \$2,767.
- 7 See D. Cohen Ross, L. Cox, & C. Marks, *Resuming the Path to Health Coverage for Children and Parents*, Kaiser Commission on Medicaid and the Uninsured (January 2007).

The full report by Cindy Mann and Michael Odeh can be accessed at <http://www.ccfgeorgetown.org>



GEORGETOWN UNIVERSITY HEALTH POLICY INSTITUTE
CENTER FOR CHILDREN AND FAMILIES

BOX 571444 ■ 3300 WHITEHAVEN STREET, N.W., SUITE 5000

WASHINGTON, DC 20057-1485

(202) 687-0880 ■ FAX (202) 687-3110 ■ WWW.CCFGEORGETOWN.ORG