



## The Growing Health Insurance Affordability Gap For Children and Families

### Introduction

The existing flexibility in the State Children's Health Insurance Program (SCHIP) that allows states to set eligibility levels for children has been a source of contention in the ongoing Congressional debate on SCHIP reauthorization. This brief presents data showing the role this flexibility has played to permit states to address the growing health insurance affordability gap among the nation's children.

SCHIP was designed to support state efforts to cover children whose family incomes are above existing Medicaid eligibility levels but still too low to afford other sources of coverage. The original law did not impose an upper income cap but it did focus on low-income children, generally defined as having a family income at or below 200 percent of the federal poverty level (FPL). These children continue to be the appropriate focus for SCHIP coverage – 69 percent of all uninsured children fall below this income level (the equivalent to \$34,340 for a family of three).<sup>1</sup> Enrollment in SCHIP reflects this focus. In 2006, more than 90 percent of all children covered under SCHIP had incomes below 200 percent of the FPL.<sup>2</sup>

While most uninsured children are in lower income families, the health insurance affordability gap that SCHIP was designed to address has been growing. One year after SCHIP funds first became available, ten states covered children with incomes above 200 percent of the FPL. In light of growing costs and the hardships faced by families unable to afford insurance for their children, more states have moved in this direction. Currently 18 states and the District of Columbia cover children with family incomes above 200 percent of the FPL. Even in those states that cover children with moderate family incomes, however, enrollment is heavily dominated among children from families with lower incomes.<sup>3</sup>

Not all children with more moderate family incomes need SCHIP coverage; many have affordable insurance available through their parents' jobs. For those children whose families do not have alternatives – the children caught in the affordability gap that SCHIP was designed to address – SCHIP can be a lifeline.

### Meet the Chappells

The Chappells live with their two children in New Hampshire. Both parents are employed and the family's income ranges between \$40,000 and \$50,000 – just above 200 percent of the FPL for their family size.

The Chappells used to have health insurance through a high-deductible employment-based plan. When their toddler son, Nathan, developed frequent antibiotic-resistant ear infections, the Chappells found themselves with growing medical bills and a coverage plan that did not address their family's health needs or fit their family budget. For example, since their insurance did not cover their son's prescription drugs, the Chappells accumulated significant medical debt paying for medicine out-of-pocket. When their insurance, combined with the uncovered out-of-pocket costs, became unaffordable for them, the Chappells dropped their coverage and struggled to pay their bills without insurance.

A while later, the Chappells enrolled Nathan and his sister in SCHIP, which is called Healthy Kids in New Hampshire. For the Chappells, Healthy Kids has been an extremely valuable program. Nathan has long suffered from asthma, but his condition has been well managed under the care and medications he receives through Healthy Kids – he no longer needs to visit the emergency room for asthma attacks.

The Chappells have paid either \$50 or \$90 per month in premiums for their children's Healthy Kids coverage, depending on their income – a price they could afford. They now pay \$45 a month for Nathan's coverage; his sister is in college and has other coverage. While both parents remain uninsured, Healthy Kids has made the Chappells feel secure in their ability to obtain and pay for the health services their children need.

## The Cost Of Family Coverage

For some families, the cost of private coverage can be prohibitively expensive. Families with moderate incomes often must spend a large share of their income on health care in order to secure coverage for their children.

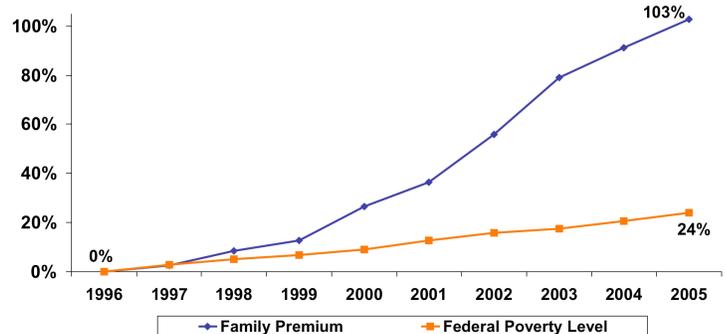
- The cost of private family coverage is high for low and moderate-income families.** In 2007, the average cost of employment-based family coverage is \$12,106.<sup>4</sup> Without an employer contribution, families must pay the full amount, which would consume 35 percent of a family's income at 200 percent of the FPL and 20 percent of a family's income at 300 percent of the FPL. Many employers do contribute toward the cost of family coverage; on average, families with employer-sponsored insurance pay \$3,281 per year for that coverage. This is considerably more affordable than the full cost of the family premium, but still more than an entire month of income for a family of three at 200 percent of the FPL. Families whose employers pay less than the average employer contribution must pay even more to secure adequate coverage for their children. As well as, families without an offer of group coverage through their employer.
- Families have other health expenses in addition to premiums.** In addition to premiums, families with private insurance must also pay deductibles, copayments, and the cost of uncovered services. A recent analysis by the Urban Institute found that families with private health insurance earning between 150 percent and 249 percent of the FPL have total out-of-pocket health costs that consume 8.4 percent of their income.<sup>5</sup> The out-of-pocket financial burden is even more pronounced for families with children who have chronic conditions.
- Cost is a key driver in uninsurance rates.** There is considerable evidence that the cost of coverage is the key factor that prevents families with uninsured children from securing insurance for their children.<sup>6</sup> The vast majority (79 percent) of parents of uninsured children in families with income between 150 percent and 300 percent of the FPL are themselves without private coverage, suggesting that these families do not have an offer of affordable coverage through their jobs.<sup>7</sup>

## Growing costs

Since SCHIP was enacted, health insurance costs have been rising; placing a growing band of children at risk and widening the affordability gap that SCHIP was designed to address.

- The rapid growth in health insurance cost is making coverage less affordable for more families.** By any number of measures, it is clear that health insurance has become less affordable for families. The growth in health insurance premium costs has far outpaced the growth in worker's earnings since 1999.<sup>8</sup> The widening affordability gap is also apparent when insurance costs are compared to changes in the federal poverty line, which is the measure states and the federal government use to set eligibility levels for SCHIP and Medicaid. The FPL is adjusted each year by the federal government to account for inflation; since 1997 it has grown by 24 percent. Health insurance family premiums, however, grew by more than 100 percent over this same period (Figure 1). The flexibility states have to raise their income eligibility levels in SCHIP to higher percentages of the FPL allows them to adjust their eligibility levels to account for the rising cost of health care.

**Figure 1: Private Premiums for Families are Growing Much Faster Than the Poverty Level**



Note: This data represents the cumulative growth in employee premium contributions for employer-sponsored family coverage and the federal poverty level for a family of three.

Source: Agency for Healthcare Research and Quality estimates of 1996-2005 Medical Expenditure Panel Survey Insurance Component Tables, generated using MEPSnet/IC (August 21, 2007); and CCF analysis of 1996-2005 Federal Poverty Guidelines.

- Most uninsured children are low-income, but a growing number have moderate incomes.** Rising private health insurance costs combined with less availability of public coverage for moderate-income children have resulted in more uninsured children from moderate-income families joining the ranks of the uninsured. Between 2005 and 2006, the growth in the number of uninsured

children was particularly concentrated among these more moderate income children – children whose families in the past could afford coverage through the workplace but increasingly do not have a source of affordable coverage (Figure 2).

### Different costs

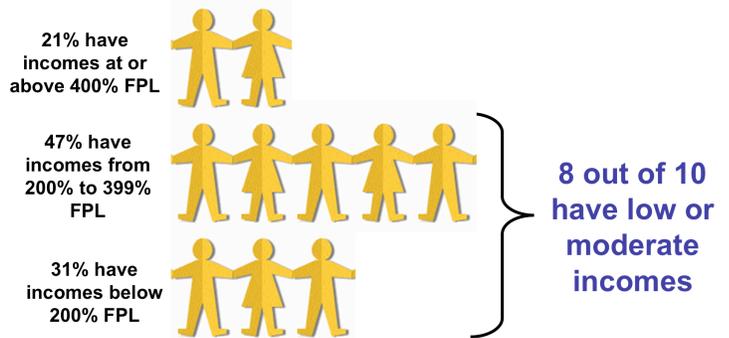
While the data above presents a national picture on costs, each state faces their own unique challenges in addressing affordability. A state’s economic conditions and job market dynamics can affect the availability of employer-based insurance in that state. Costs also vary widely across the nation. Families with the same level of income relative to the FPL experience very different financial burdens depending on local costs for housing, transportation, food, and other necessities. The cost of living in California, Connecticut, and New Jersey, for example are much higher than in Iowa, South Carolina, and Texas (Figure 3). By allowing states flexibility to set their income eligibility levels, SCHIP law has permitted states to take account of these local variations.

### Families Pay Their Share

While an increasing number of children from moderate-income families are at risk of not having health insurance, these families can generally afford some share of the cost of coverage. States that have

## Figure 2: Growth in the Uninsured Driven by Low & Moderate-Income Children

Of the 710,000 Newly Uninsured Children in 2006:



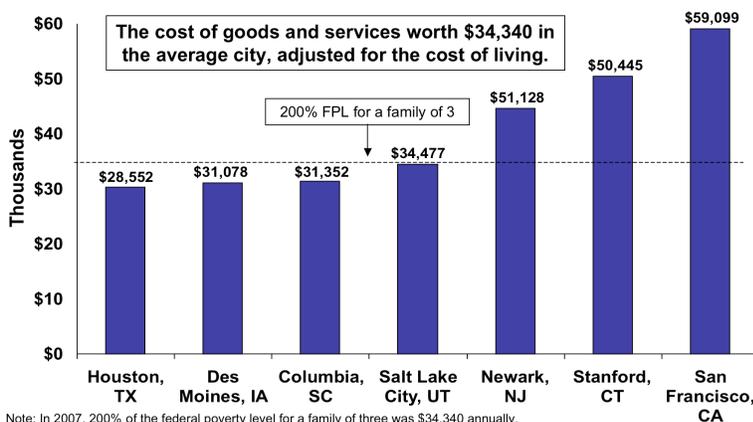
Source: Urban Institute tabulations of 2006 and 2007 Annual Social and Economic Supplement to the Current Population Survey from J. Holahan & A. Cook, "What Happened to the Insurance Coverage of Children and Adults in 2006?," Kaiser Commission on Medicaid and the Uninsured (September 2007).

extended SCHIP coverage up the income ladder charge families a share of the cost, with the charges typically rising based on income. For example, monthly SCHIP premiums for a family just above 250 percent of the FPL with two children enrolled are \$57 in Maryland, \$56 in Massachusetts, and \$80 in Ohio’s planned SCHIP expansion.<sup>9</sup> In New Jersey, the state with the highest SCHIP eligibility levels set at 350 percent of the FPL, a family with income above 300 percent of the FPL pays \$125 per month for coverage. In addition to premiums, SCHIP programs typically also charge copayments for a range of services.

### Conclusion

While most uninsured children are in families with lower incomes, children with family incomes above 200 percent of the FPL are increasingly joining the ranks of the uninsured. Continued flexibility in SCHIP to allow states to reach out to families who have no alternative, affordable source of coverage is essential if the nation is to stem the growing tide of uninsurance among our nation’s children. Allowing continued state flexibility, within the limits of available state and federal dollars, permits states to address the affordability gap by determining the eligibility levels that are appropriate for the families in their state.

Figure 3: The Cost of Living Differs Across the Country



Note: In 2007, 200% of the federal poverty level for a family of three was \$34,340 annually.

Source: CCF analysis of The Council for Community and Economic Research, "ACCRA Cost of Living Index: Data for First Quarter 2007," (May 2007).

## Endnotes

- <sup>1</sup> Center for Children and Families, “American Families Face Harsh Reality: 2,000 Children Join the Ranks of the Uninsured Each Day,” (October 2007).
- <sup>2</sup> J. Guyer, “Coverage of Uninsured Children in Moderate-Income Families Under SCHIP,” Center for Children and Families (October 2007).
- <sup>3</sup> *Op cit.* (2).
- <sup>4</sup> Kaiser Family Foundation/Health Research and Educational Trust, “Survey of Employer Health Benefits, 2007,” (September 11, 2007).
- <sup>5</sup> S. Zuckerman & C. Perry, “Concerns about Parents Dropping Employer Coverage to Enroll in SCHIP Overlook Issues of Affordability,” Urban Institute (September 2007).
- <sup>6</sup> J. Graves & S. Long, “Why Do People Lack Health Insurance?,” Urban Institute (2006).
- <sup>7</sup> L. Blumberg, "Can the President' Health Care Tax Proposal Serve as an Effective Substitute for SCHIP Expansion?," Urban Institute (October 2007).
- <sup>8</sup> *Op cit.* (4).
- <sup>9</sup> Unpublished survey information collected by the Center on Budget and Policy Priorities for the Kaiser Commission on Medicaid and the Uninsured (September 2007).

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## Acknowledgements

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