



## Keeping The Promise To Children & Families In Tough Economic Times

### November 2008

#### Introduction

In recent years, the nation has continued to see the number of Americans without health insurance rise. The latest data from the Census Bureau show that 45 million Americans are now without health care coverage.<sup>1</sup> At the same time, the trend for children has moved in the opposite direction, largely as a result of the availability of Medicaid and SCHIP. Over the past decade, the nation has seen the uninsured rate of children decline by twenty-five percent.<sup>2</sup> States have been at the forefront of recognizing this need and stepping up to meet the challenge by improving access to affordable healthcare for children.

Since the last economic downturn, many states have made significant progress in restoring cuts that were made and in most cases, moving even further toward the finish line in getting children covered. Over the last four years (2005-2008), two-thirds of states made significant improvements in their children's health coverage programs.<sup>3</sup> This

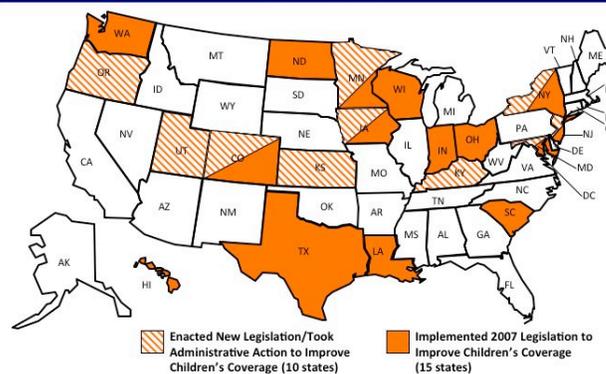
trend continued in 2007 and 2008, with nineteen states moving forward, despite the weakening economy and growing fiscal pressures faced.<sup>4</sup> (Figure 1)

Recent data show that these steps were helping to protect the health of America's children. In 2007, the U.S. Census Bureau reported that the number of uninsured children fell from the previous year by 500,000 to 8.1 million. This progress can be largely attributed to public programs, and to the continued strong support nationwide for providing health coverage to children.<sup>5</sup> Even with the weak economy, the public appears ready to continue to support these programs and help soften the impact of the economic downturn on children. For example, on Election Day, close to 70 percent of Montana voters approved a ballot initiative to cover most of the state's uninsured children.<sup>6</sup>

Now, however, this progress is threatened by increasing demand for coverage and shrinking resources. To highlight what is at stake for children's health coverage in the nation's

response to the economic downturn, this issue brief discusses 1) the expected impact of the current economic downturn on the number of uninsured Americans, enrollment in public programs, and state budgets;

Figure 1  
**State Action on Children's Health Coverage  
 2007-2008**



Source: As of September 17, 2008 based on a review by the Center for Children and Families of state initiatives in 2007 and 2008.

2), the growing affordability gap between the rising cost of health care coverage and dwindling family financial resources; and 3) the immediate policy options available to strengthen and sustain the nation's

commitment to children's health coverage during the downturn even as policymakers move toward broader health reform.

## Implications of the Economic Downturn

Americans are awakening on a daily basis to more and more grim news about the nation's economy. Since the beginning of the year, the country has lost 1.2 million jobs, with most of the losses occurring in the past three months. The unemployment rate is now at 6.5 percent, the highest level since 1994, and many analysts now expect unemployment will reach between 7.5 and 8 percent by the middle of next year.<sup>7</sup>

### *Implications for Coverage*

When people lose their jobs, they don't just lose income – they often lose their only access to affordable healthcare coverage for themselves and their children. A recent study by the Urban Institute found that a one percentage point rise in the national unemployment rate can be expected to cause the number of uninsured people to grow by 1.1 million and to increase Medicaid and SCHIP enrollment by one million (including 600,000 children and 400,000 non-elderly adults).<sup>8</sup>

The Center for Children and Families has relied on this Urban Institute research to estimate the effect of the actual increases in unemployment over the past twelve months on the health coverage status of children and adults.<sup>9</sup> These estimates indicate that the jump in the unemployment rate from 4.8 percent to 6.5 percent in October of 2008 can be expected to have resulted in 4.1 million people losing their employer-based coverage (1.2 million children and 2.9 million adults). Of the 1.2 million children losing coverage, more than a million are likely to have enrolled in Medicaid or SCHIP. In other words, the nation currently has a structure in place to “catch” many of the children who otherwise would drop into the ranks of the uninsured.<sup>10</sup>

The question now is whether the country will sustain its commitment to these programs and the children they cover as the downturn continues.

The story is very different for unemployed adults who often do not have the option of enrolling in a public coverage program. States cannot provide any coverage to adults without children through Medicaid unless they are disabled, pregnant, or elderly.<sup>11</sup> And, while states cover some parents through Medicaid, most only do so at income levels far below the poverty line.<sup>12</sup> As a result, only an estimated 700,000 of the 2.9 million adults losing coverage are likely to enroll in Medicaid or SCHIP. While an additional 700,000 can be expected to find non-group coverage, a significant number – some 1.9 million – will join the ranks of the uninsured.

The unemployment rate is expected to continue to rise over the next several months and, if it does, even more Americans will lose their health coverage. For example, if it reaches 7.5 percent, the estimates suggest that the number of people losing employer-based coverage will rise to 6.5 million; the number of additional people enrolling in Medicaid or SCHIP will jump to 2.7 million; and the growth in the number of newly uninsured will reach 3.0 million.<sup>13</sup>

### *Implications for Financing of Medicaid and SCHIP*

States are confronting severe fiscal problems even as more of America's families are turning to them for coverage. According to a November 12<sup>th</sup>, 2008 report by the Center on Budget and Policy Priorities, at least 42 states faced or are facing shortfalls in their budgets for this and/or next year.<sup>14</sup> (See Figure 2) Many already have been cutting spending, using state reserve funds, or raising revenues in order to reach balanced budgets, but their situation continues to deteriorate and the problems are expected to continue well into next year, if not beyond.



eligibility levels for SCHIP and Medicaid. It is adjusted each year by the federal government to account for inflation. Since 1999, it has grown by 27 percent. Over this same period, however, family health insurance premiums grew by more than 100 percent. (See Figure 3)

As a result of this affordability gap, a number of states have sought to increase their income eligibility thresholds for children, primarily using SCHIP as the vehicle. Many now will be unable to do so until they secure some relief from

their budget crises and are assured that SCHIP will be renewed and can serve as a secure, stable source of funding for such coverage.

## Policy Implications

As the nation moves ahead on a path to broader health reform this year, there are some very immediate steps that can be taken to help families weather the current economic storm and build momentum for the larger efforts. By injecting new federal funds into Medicaid and SCHIP, they not only help America's families, but also serve to stimulate the economy. A wide range of economists agrees that injecting new federal funds into the economy is a crucial strategy to combating the downward spiral the country is confronting. The federal government, in contrast to states, has the capacity to do this by increasing deficit spending on a temporary basis.

### 1. Temporarily Increasing Federal Funding to Medicaid to Prevent Health Care Cuts

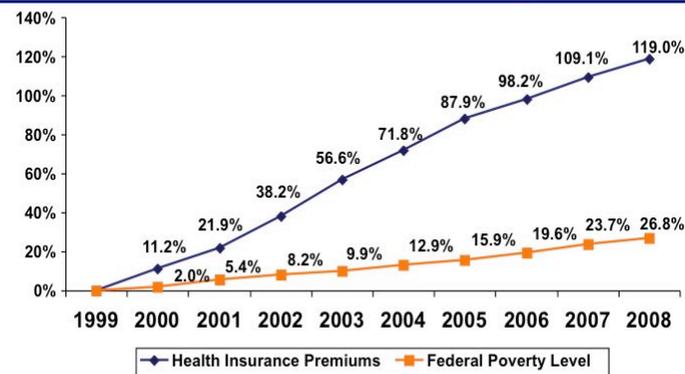
One option under consideration in Congress is to provide states with a short-term increase in federal funding for Medicaid. This can be done by temporarily adjusting the Federal Medical Assistance Percentage (known as "FMAP,"), which is the share of the

Medicaid program financed by the federal government. This share varies by state and is determined by a statutory formula that results in the federal government covering anywhere from 50 percent to

83 percent of most of the costs of a state's Medicaid program.

During the recession of the early 2000's, the federal government adopted such a strategy in May of 2003, somewhat late in the downturn. It provided states with \$20 billion in fiscal relief with the Jobs and Growth Tax Relief and Reconciliation Act (JGTRRA). JGTRRA gave states \$10 billion in block grant funding and \$10 billion in fiscal relief through a temporary 2.95 percentage points increase in their FMAPs. As a result of this action, a Kaiser Commission survey of State Budget Officers found that 22 to 25 states used these resources to avoid, lessen, or postpone Medicaid cutbacks; and five to seven states used the resource to restore previous cuts or make other program expansions.<sup>18</sup> One of the reasons this effort was effective was a prohibition on states receiving the new federal funding if they cut their Medicaid eligibility standards below those in place on September 2, 2003.

Figure 3  
**Premiums for Family Coverage Are Growing Faster than the Federal Poverty Level**



Source: Center for Children and Families analysis of Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2008; and the Federal Poverty Level for a family of three, 1999-2008, available: <http://aspe.hhs.gov/poverty/figures-fed-reg.shtml>.

In recent months, policymakers from both the Senate and the House have considered proposals that would again provide this type of fiscal relief. The House passed a \$60.8 billion package that included \$14.7 billion in additional Medicaid funds at the end of September. At the same time, a Senate bill, which would have provided \$56.2 billion to struggling states (\$19.6 billion in additional Medicaid funding) failed to pass. As the economy has continued to deteriorate since these bills were considered, it is likely that the assistance proposed for states in future economic recovery packages would be more significant. **Table 1** provides information on how much each state would receive under the earlier proposals. If adopted, such a policy holds the promise of staving off cuts in Medicaid that would be harmful to families and the economy alike.<sup>19</sup>

## 2. Quick Action to Reauthorize SCHIP

In 2007, Congress twice passed legislation to renew and strengthen the State Children's Health Insurance Program, but each time it was vetoed by President Bush.<sup>20</sup> Now, SCHIP is operating under a short-term extension that continues funding through March 31, 2009, but which does not offer states any clear guidance on the future of the program beyond this date. With the economic downturn and more families than ever turning to Medicaid and SCHIP, it is a particularly inopportune time for the future of SCHIP to remain uncertain. While there is little to no chance that this popular and well-regarded program will be allowed to completely expire, there is a risk that Congress will simply extend it temporarily. A failure to act on the overdue review of SCHIP will leave states with uncertainty as to the amount of federal funding available to them in the long-run, as well as to the "rules of the game" for the program.

A growing number of congressional leaders are calling for quick action on SCHIP, and President-elect Obama's Chief of Staff Rahm Emmanuel also has taken this position.<sup>21</sup> Speaker of the House Nancy Pelosi has said that an SCHIP expansion "will probably be one of the first bills we would put on President Obama's desk."<sup>22</sup> If Congress does move quickly, it will offer states an important opportunity to sustain and strengthen their commitment to children's coverage. If, as anticipated, Congress draws on the bills already passed to craft a reauthorization proposal, states can expect significant new funding to cover more uninsured children, as well as new tools for reaching already-eligible children. With the bad economy, these funds and new options are needed by states more than ever.

Importantly, both of the bills adopted by Congress last year included performance-based bonuses for states that experience marked increases in Medicaid and SCHIP enrollment of low-income children. If adopted in time to help combat the current downturn, these bonuses will inject new federal funding into states facing jumps in child enrollment due to the bad economy. As included in the Children's Health Insurance Program Reauthorization Act of 2007, the bonuses shift to the federal government 10 percent to 60 percent of the cost to a state of enrolling additional or "extra" children in coverage. States qualify for the bonuses if their enrollment of low-income children exceeds a target level, which is based on a state's child population growth rate plus one percentage point.<sup>23</sup> In effect, the bonuses would serve as another tool for increasing federal spending in response to the weak economy, as well as help states cover the growing number of children without other options.

In sum, both of these policy solutions would help to combat the downward spiral in the economy and offer coverage to America's

children and families as they seek to weather the economic storm.

## Conclusion

The nation is at a critical juncture in its commitment to coverage for America's families. It must decide whether it will sustain and strengthen this commitment or allow it to fall victim to the fiscal pressures confronting states and the federal government. While the fiscal pressures that governments face are immense, it is an even more difficult time for families losing jobs and access to health coverage. Taking quick action on Medicaid and SCHIP will shore up the stability of America's families and help to ease the severity of the economic downturn even as the country prepares for a larger debate over broader health reform.

## Endnotes

<sup>1</sup> Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates based on the Census Bureau's March 2007 and 2008 Current Population Survey, Annual Social and Economic Supplements.

<sup>2</sup> Congressional Budget Office, "The State Children's Health Insurance Program" (May 2007).

<sup>3</sup> M. Heberlein, *et al.*, "States Moving Forward: Children's Health Coverage in 2007-08," Center for Children and Families (September 2008).

<sup>4</sup> In Iowa, legislation includes an expansion of SCHIP to 300% of the FPL, 12-month continuous eligibility in Medicaid, and other measures to eliminate enrollment and renewal barriers. Colorado passed an expansion of SCHIP from 205% to 225% of the FPL and allocated funds to provide medical homes.

<sup>5</sup> J. Holahan and A. Cook, "The Decline in the Uninsured in 2007: Why Did it Happen and Can it Last?" Kaiser Commission on Medicaid and the Uninsured (October 2008).

<sup>6</sup> Montana Ballot Initiative I-155; and "Ballot Initiatives," KULR (November 5, 2008).

<sup>7</sup> P. Goodman, "Jobless Rate at 14-Year High After October Losses," *New York Times* (November 7, 2008); and National Association for Business Economics, "NABE Outlook: Panel Sees Prolonged Recession" (November 17, 2008).

<sup>8</sup> Center for Children and Families analysis based on estimates from S. Dorn, B. Garrett, J. Holahan, and A. Williams, "Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses," Kaiser Commission on Medicaid and the Uninsured (April 2008).

<sup>9</sup> Due to lags in the availability of data from the Census Bureau on the health coverage status of Americans, it will be another year before the government can provide actual data on the number of Americans with health coverage in 2008.

<sup>10</sup> The Urban Institute model finds that increases in unemployment do not have a statistically significant effect on the number of uninsured children.

<sup>11</sup> Under federal rules, states cannot cover adults at any income level who are neither elderly, disabled, pregnant, nor a parent (or "caretaker relative" of a dependent child), except through a waiver. Even in states with waivers, eligibility levels are quite low and there are often restrictions on eligibility (e.g. an enrollment cap), limited benefits, or both.

<sup>12</sup> The U.S. median income level for parents not including deductions or disregards (for example for work-related expenses) in programs in which parents can obtain full Medicaid benefits was 41% of the federal poverty level in 2008. Eligibility ranged from 11% of the federal poverty level in Alabama to 275% of the federal poverty level in Minnesota. D. Cohen Ross, A. Horn, & C. Marks, "Health Coverage for Children and Families in Medicaid and SCHIP: State Efforts Face New Hurdles," Kaiser Commission on Medicaid and the Uninsured (January 2008).

<sup>13</sup> *op. cit.* (8).

<sup>14</sup> E. McNichol and I. Lav, "State Budget Troubles Worsen," Center on Budget and Policy Priorities (Updated November 12, 2008).

<sup>15</sup> D. Cohen Ross and L. Cox, "Beneath the Surface: Barriers Threaten to Slow Progress on Expanding Health Coverage to Children and Families," Kaiser Commission on Medicaid and the Uninsured (October 2004); D. Cohen Ross and

L. Cox, "Preserving Recent Progress on Health Coverage for Children and Families: New Tensions Emerge," Kaiser Commission on Medicaid and the Uninsured (July 2003); and D. Cohen Ross and L. Cox, "Enrolling Children and Families in Health Coverage: The Promise of Doing More," Kaiser Commission on Medicaid and the Uninsured (June 2002).

<sup>16</sup> N. Johnson, E. Hudgins, and J. Koulisch, "Facing Deficits, Many States are Imposing Cuts that Hurt Vulnerable Residents," Center on Budget and Policy Priorities (Updated November 12, 2008).

<sup>17</sup> *op cit.* (8), S. Dorn, *et al.*; and G. Benson and A. Greenblatt, "Strapped States Seek A Lifeline," *CQ Weekly* (November 3, 2008).

<sup>18</sup> V. Wachino, M. O'Malley, and R. Rudowitz, "Financing Health Coverage: The Fiscal Relief Experience," Kaiser Commission on Medicaid and the Uninsured (November 2005).

<sup>19</sup> *op cit.* (8), S. Dorn, *et al.*

<sup>20</sup> Center for Children and Families, "Looking Back/Looking Forward: SCHIP in 2007 and 2008" (July 2008).

<sup>21</sup> J. Riley, "Rahm Emanuel – 'Do What You Got Elected to Do,'" *The Wall Street Journal* (November 8, 2008); and A. Wayne, "Democrats to Make Children's Health Program a Top Priority," *CQ Politics* (November 6, 2008).

<sup>22</sup> "Pelosi Pledges to Work with House GOP," *National Public Radio – All Things Considered* (November 5, 2008).

<sup>23</sup> Center for Children and Families, "Summary of the Children's Health Insurance Program Reauthorization Act of 2007" (September 2007); performance bonuses are discussed on page 4.

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## Acknowledgements

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*CCF is an independent, nonpartisan research and policy center based at Georgetown University's Health Policy Institute whose mission is to expand and improve health coverage for America's children and families.*

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**Estimated Federal Fiscal Assistance to States Through Increased Medicaid Matching Funds to States (in thousands of dollars)**

| State                | House Proposal<br>10/1/08-11/30/09 | Senate Proposal<br>10/1/08-12/31/09 |
|----------------------|------------------------------------|-------------------------------------|
| Alabama              | 97,370                             | 211,126                             |
| Alaska               | 52,025                             | 85,463                              |
| Arizona              | 450,813                            | 485,888                             |
| Arkansas             | 54,435                             | 218,036                             |
| California           | 1,950,013                          | 2,114,088                           |
| Colorado             | 39,464                             | 171,138                             |
| Connecticut          | 226,464                            | 245,519                             |
| Delaware             | 59,579                             | 64,592                              |
| District of Columbia | 38,768                             | 84,060                              |
| Florida              | 990,940                            | 1,060,622                           |
| Georgia              | 329,719                            | 357,462                             |
| Hawaii               | 75,379                             | 81,394                              |
| Idaho                | 32,541                             | 69,019                              |
| Illinois             | 605,627                            | 656,585                             |
| Indiana              | 146,428                            | 317,496                             |
| Iowa                 | 70,363                             | 152,567                             |
| Kansas               | 29,983                             | 124,552                             |
| Kentucky             | 121,005                            | 262,373                             |
| Louisiana            | 169,973                            | 425,790                             |
| Maine                | 106,472                            | 115,431                             |
| Maryland             | 293,692                            | 318,404                             |
| Massachusetts        | 592,647                            | 642,513                             |
| Michigan             | 435,030                            | 471,633                             |
| Minnesota            | 362,601                            | 393,111                             |
| Mississippi          | 113,970                            | 224,519                             |
| Missouri             | 375,717                            | 407,330                             |
| Montana              | 13,065                             | 43,874                              |
| Nebraska             | 20,972                             | 90,944                              |
| Nevada               | 100,727                            | 106,462                             |
| New Hampshire        | 58,082                             | 62,969                              |
| New Jersey           | 393,008                            | 426,076                             |
| New Mexico           | 51,533                             | 192,640                             |
| New York             | 2,440,194                          | 2,645,513                           |
| North Carolina       | 130,704                            | 566,805                             |
| North Dakota         | 11,093                             | 35,636                              |
| Ohio                 | 659,058                            | 714,512                             |
| Oklahoma             | 98,019                             | 255,646                             |
| Oregon               | 173,318                            | 187,901                             |
| Pennsylvania         | 425,672                            | 922,977                             |
| Rhode Island         | 89,933                             | 97,500                              |
| South Carolina       | 46,986                             | 203,759                             |
| South Dakota         | 7,726                              | 33,503                              |
| Tennessee            | 379,241                            | 411,151                             |
| Texas                | 569,653                            | 1,515,338                           |
| Utah                 | 33,253                             | 95,643                              |
| Vermont              | 54,841                             | 59,455                              |
| Virginia             | 278,812                            | 302,271                             |
| Washington           | 180,209                            | 349,416                             |
| West Virginia        | 73,256                             | 143,263                             |
| Wisconsin            | 264,384                            | 286,629                             |
| Wyoming              | 5,993                              | 25,989                              |
| <b>U.S.</b>          | <b>14,410,000</b>                  | <b>19,600,000</b>                   |

Source: Center on budget and Policy Priorities' estimates based on states' projections of FFY 2009 Medicaid expenditures, adjusted to reflect CBO cost estimates of House and Senate proposals.

Notes:

These estimates reflect the amount each state is estimated to receive under the bills passed by the House and the Senate, respectively, earlier this year. Now, however, news reports indicate that Congress may be considering a larger package of fiscal relief for states given the economic situation continues to worsen.



## The Secret Family Martinsville, Virginia

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Gregory Secret worked for ten years at American of Martinsville, a Virginia-based furniture manufacturer, earning \$14.67 per hour. On August 29, the plant he worked in was closed and the manufacturing operations were moved overseas. He not only lost his job, he lost his only access to affordable healthcare coverage for his family.

“When I gave the bad news to my family, my 9-year old son handed me his piggy bank with \$4 inside and said ‘daddy, if you need it, you take it,’” said Mr. Secret.

One of the most difficult aspects of being unemployed and uninsured is the struggle to fulfill his duty to keep his kids safe, healthy and protected from the burden of adult worries, according to Mr. Secret.

“Kids look at us and think ‘they’ll take care of us,’” said Mr. Secret. “That is our job – to keep them safe and healthy. They have enough to worry about in this world.”

While his step-daughter, Lacey Faith, has coverage and his wife, Rileen, is temporarily covered under worker’s comp benefits, he and his sons Samuel, 14, and Christopher, 9, are uninsured. His wife is unable to work due to a back injury so the family has to get by on Mr. Secret’s unemployment check and her worker’s comp check for now.

The family is struggling to pay the bills and put food on the table. They managed to avoid eviction by paying the rent with savings. The one bill they simply cannot afford is health insurance. In order to continue the plan offered under COBRA, Mr. Secret would have to pay about \$1,200 per month.

Mr. Secret said before becoming uninsured, he didn’t realize how vital it was to his family’s well-being. Now that they have lost their health care coverage, he has discovered that being uninsured impacts every aspect of his family’s life.

He had to tell his sons that they couldn’t play football or basketball because he couldn’t afford the healthcare costs if they were injured. Samuel injured his leg during an ROTC physical training exercise that set the family back \$1,200 in medical expenses. The family is contemplating whether or not they can take the risk of allowing Sam to continue his ROTC activities. Mr. Secret said that being forced to stop extracurricular activities and sports will have a devastating impact on his children. He is also concerned about the children missing school or being unable to do their best when they are ill if he cannot afford to take them to the doctor.

"If the kids don't have a chance to do well in school and shine outside of school, they are not going to develop - they're not going to grow into successful adults," said Mr. Secret.

Hope came to the Secret family at a meeting for unemployed workers at the Martinsville courthouse. That is where Mr. Secret learned about FAMIS, Virginia’s State Children’s Health Insurance Program (SCHIP). The program is a successful federal-state partnership that helps provide affordable healthcare coverage to uninsured children.

“It was an answer to my prayers,” said Mr. Secret. “It was as if God closed one door but opened up another one.”

With the help of the Martinsville Henry County Coalition for Health and Wellness, he filled out the application and is waiting to hear whether or not his children qualify for coverage. FAMIS does not cover adults so Mr. Secrest will remain uninsured for now.

“Once I hear my kids have health care coverage, it will be a load off my mind,” said Mr. Secrest. “Making sure the boys are healthy and happy can make the rest of my family’s problems seem small. Everything we have can be replaced with time and hard work but they cannot.”

Mr. Secrest is trying to prepare for better times. He’s taking classes at the local Community College and is interested in becoming certified as a respiratory therapist, a program that takes two years to complete. The local hospital has already told him they would like to hire him once he is certified.