THE HENRY J. KAISER FAMILY FOUNDATION

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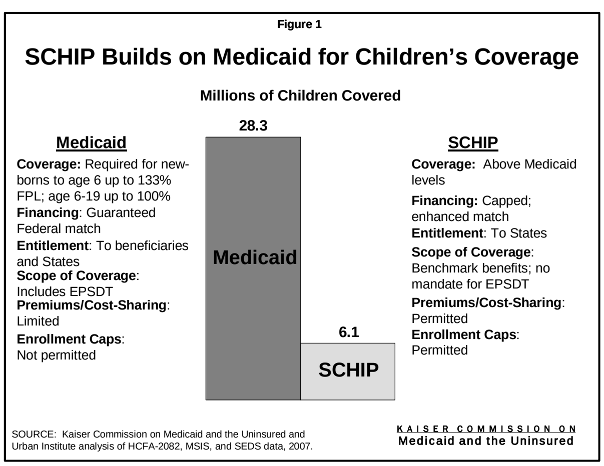
# PRESIDENT'S FY 2008 BUDGET AND THE STATE CHILDREN'S HEALTH INSURANCE PROGRAM (SCHIP)

The President's FY 2008 budget would reauthorize the State Children's Health Insurance Program (SCHIP) for the next five years. The proposal would increase federal SCHIP allotments by about $5 billion, would "re-focus" the program on low-income uninsured children below 200% of the federal poverty level (FPL)" and would change the amount of time that states have to spend SCHIP allotments from three years to one year. The total amount of federal funding for SCHIP as well as some of the specific policy changes will be determined by Congress as the reauthorization legislation is considered. Meanwhile, 14 states are likely to face federal funding shortfalls in FY 2007. Georgia hit an SCHIP funding shortfall in March and has recently stopped enrolling new children into their SCHIP program, PeachCare.

## BACKGROUND

SCHIP was established as Title XXI of the Social Security Act as part of the Balanced Budget Act of 1997 (BBA) with a ten year authorization; the program must be reauthorized by Congress in 2007 for federal financing to continue. SCHIP builds on Medicaid to provide insurance coverage to "targeted low-income children" who are uninsured and not eligible for Medicaid, typically from families with incomes up to 200% of the Federal Poverty Level (FPL) or $33,200 per year for a family of three in 2006. Forty-one states cover children at or above 200% of FPL under Medicaid and/or SCHIP. In 2005, SCHIP covered 6 million low-income children during the course of the year and about 4 million at any point in time. Underpinning SCHIP, Medicaid covered 28 million poor and low-income children in 2005. (Figure 1)

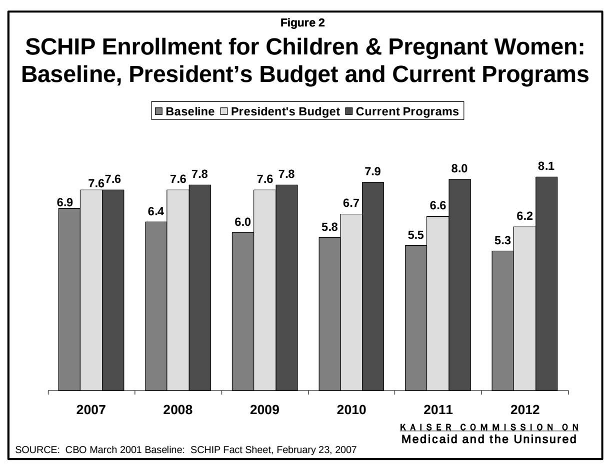



Like Medicaid, the federal government matches state spending on eligible program beneficiaries; but under SCHIP, federal funds are capped and allocated to each state. Federal funds match state spending up to each state's allotment. There are no pre-set limits on federal matching funds for Medicaid. To encourage states to participate in SCHIP, the federal government assumed a larger share of SCHIP financing by paying an enhanced (relative to Medicaid) matching rate. On average, the federal government's share of Medicaid spending is 57%, but it is 70% under SCHIP.

## SCHIP PROVISIONS IN THE PRESIDENT'S FY 2008 BUDGET

The President's budget would reauthorize the SCHIP program for the next five years with the following provisions:

***Size of Federal SCHIP Allotments.*** The President's budget would add $4.8 billion to the current SCHIP allotments of $25 billion over five years. CBO estimated about $14 billion would be needed to maintain current programs.[i] After accounting for all of the policies in the President's budget, CBO estimates that to maintain current programs states would face a shortfall of $4.6 billion over the next five years and in 2012, 37 states would face a shortfall of $2 billion. Under the President's budget proposal, enrollment for children and pregnant women would fall by 1.4 million over from FY 2007 to FY 2012. (Figure 2)




When SCHIP was established, federal SCHIP allotments were set for ten years. There has always been a mismatch between state spending and available funds. In aggregate, SCHIP spending was less than total allotment levels in the early years of the program; but, when the SCHIP programs matured and allotment levels fell from $4.2 billion to $3.1 billion in 2002, spending exceeded annual allotment levels.

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In 2007, 37 states are supporting their current programs with roll-over funding drawing on unused portions of prior year allotments.

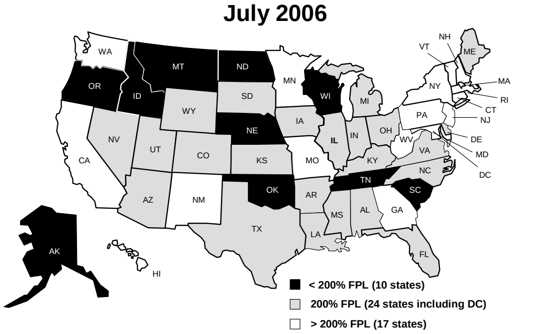
***Time States Have to Spend Allotments.*** The President's budget proposes to "target funds more efficiently to states" by changing the time that states have to spend their allotments from three years to one year. While this change might eliminate some of the problems associated with redistributing funds, states will face some new challenges managing funds and absorbing unexpected enrollment increases if they cannot carry funds from one year to the next.

The original SCHIP law gave the Secretary of HHS authority to redistribute funds from states that did not spend their full SCHIP allotment within three years to other states that did spend their entire allotment. There have been a number of legislative changes related to how long states have to spend their allotments and to the system for redistributing unexpended funds. Even with legislative changes, over $1 billion in SCHIP funds reverted to the federal treasury in October 2004 although millions of children remained uninsured. Most recently, the National Institutes of Health Reform Act of 2006 called for another round of redistributing funds in an effort to delay federal SCHIP funding shortfalls in 14 states. All of these changes illustrate how complicated it is to design an appropriate allocation formula.

***Groups Eligible for SCHIP.*** The President's budget would limit the enhanced SCHIP match to children and pregnant women with incomes at or below 200% FPL. States would receive the lower Medicaid match rate for children and pregnant women with incomes above 200% FPL and for parents covered under SCHIP. CBO estimates that without the changes to the SCHIP match rates for certain populations, they would need an additional $2.9 billion (on top of the $4.6 billion mentioned above) to maintain current programs. Seventeen states currently cover children in families with income above 200% FPL.[ii] (Figure 3)

**Figure 3**

**Children's Eligibility for Medicaid/SCHIP by Income, July 2006**




*The Federal Poverty Line (FPL) for a family of three in 2006 is $16,600 per year.
**IL uses state only funds to cover children above 200% FPL
***PA and WV expanded coverage in 2007
SOURCE: Based on a national survey conducted by the Center on Budget and Policy Priorities for KCMU, 2006.

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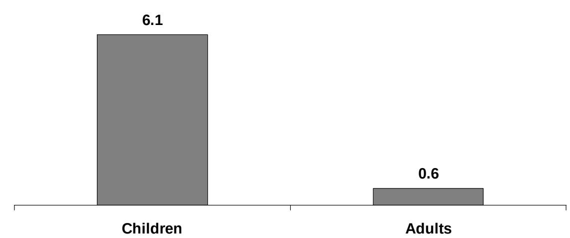
The original SCHIP legislation permitted the Secretary of HHS to allow Section 1115 demonstration waivers for alternative uses of SCHIP funds. In January of 2007, eleven states had implemented waivers to cover parents of children enrolled in SCHIP or Medicaid, although some have very limited enrollment. Five states have implemented waivers to cover childless adults, but the Deficit Reduction Act (DRA) enacted in February 2006 prohibits any new SCHIP waivers for this purpose. The SCHIP program currently covers approximately 600,000 adults. (Figure 4)

**Figure 4**

**SCHIP Coverage for Children and Adults, Millions Enrolled**




SOURCE: CMS Statistical Enrollment Data System (SEDS) data for ever-on SCHIP enrollment, 2006.

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Five states cover pregnant women through waivers and eleven states use SCHIP funds to cover pregnant women through the option to define a fetus as an unborn child. It is unclear how the President's proposal would affect pregnant women in either of these categories.

## OUTLOOK

Together Medicaid and SCHIP have proven to be successful at reducing the number of low-income uninsured children despite continuing declines in private insurance coverage. The President's FY 2008 budget marked the beginning of the SCHIP reauthorization debate that now shifts to the Congress. SCHIP has enjoyed bi-partisan support, but living within the current budget rules, where new spending needs to be offset by savings or increased revenue, will be a major challenge. In this context, Congress is developing a budget resolution that will set aside funding for SCHIP. Ultimately the Senate Finance and House Energy and Commerce Committees will be responsible for developing reauthorization legislation. There is also pending legislation to address the FY 2007 SCHIP funding shortfalls and other bills that would expand SCHIP to cover more uninsured children, particularly those who are eligible but not enrolled in public programs.

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[i] CBO assumed that increases in SCHIP funding would offset some projected Medicaid spending, so net federal costs over the period would be $8.3 billion.

[ii] An additional 19 states have income eligibility levels set at 200% FPL but apply income disregards that allow them to effectively cover some children in families with incomes above 200% FPL. Center for Children and Families: States Affected by Proposals to Reduce SCHIP Coverage Options. Feb. 7, 2007

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