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The Revised SCHIP Bill: Still Bad Health Policy

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On October 25, the House of Representatives passed a revised version of legislation to reauthorize the State Children's Health Insurance Program (SCHIP). The new bill (H.R. 3963) is a response to the President's veto of the original SCHIP legislation. The revised version, however, is largely the same as the original. The Administration should stand by its recent statement and veto the revised bill in its current form.

Unresolved Problems. H.R. 3963 shares the following deficiencies with the original version:

- *It raises the general federal income eligibility threshold for SCHIP from 200 percent to 300 percent of the federal poverty level (FPL).*[1] The authors of the revised bill claim to have addressed concerns over SCHIP income eligibility. Clearly, that is not the case. The revised bill has only minor changes specifically relating to expanding eligibility above 300 percent of the FPL, and even these changes do not fully close the loophole.[2]
- *It covers adults* (just in new ways). The revised bill claims to speed up the process for moving adults off SCHIP. Not only is this change negotiable, but these adults are basically moved from one government program to another. States would simply receive a less generous federal match for covering these adults. Instead of receiving the enhanced SCHIP federal match, states would receive a new funding structure for parents and traditional Medicaid federal matching rates for childless adults.[3]
- *It crowds out private coverage in favor of government coverage.* While it includes some provisions addressing the crowd out issue,[4] the Congressional Budget Office (CBO) estimates that the revised bill would shift two million children from private coverage to SCHIP and Medicaid.[5] Heritage Foundation research has estimated that when SCHIP eligibility is expanded above 200 percent of the FPL, about 50 percent of newly enrolled kids are kids who would otherwise have had private health insurance.[6]
- *It expands the program to "new" populations.* Although some proponents of the revised bill claim otherwise, the CBO predicts that 1.1 million children would enroll in Medicaid and SCHIP due to "Expansion of SCHIP and Medicaid Eligibility to New Populations."[7]
- *It micromanages the premium assistance option.* The revised bill claims to encourage states to adopt premium assistance models by offering bonus payments to states.[8] However, the bonus payments are not contingent on states offering premium assistance. States only have to select five of eight options, one of which is premium assistance, in order to qualify for the bonus payments.[9] Furthermore, the general premium

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assistance provisions in the bill leave in place the red tape that makes premium assistance less attractive to states.[10] For example, states still have to "wrap around" benefits and cost sharing, and Health Savings Accounts and other high-deductible health plan arrangements are explicitly prohibited as coverage options.

- ***It depends on an unstable funding source.*** The bill depends on 10 years of tobacco revenue to pay for a 5-year bill.[11] Therefore, in 2012, either millions of kids will be forced off SCHIP or Congress will have to inject an estimated $59.3 billion in new spending to maintain enrollment.[12] Moreover, not only does a tobacco tax disproportionately target low-income families, but Heritage Foundation analysts estimate that 22 million new smokers would be needed to fund the proposal.[13]
- ***It sets up a contingency fund to bail out overspending states.***[14] The current block grant structure of SCHIP is undermined by the establishment of a so-called contingency fund that will help offset the costs of states that overspend their federal allotment. This contingency fund removes the incentive for states to exercise fiscal discipline in designing their SCHIP programs.

Conclusion. Congress needs to craft a more balanced approach to addressing the coverage needs of children. A compromise solution has been introduced by Senators Mel Martinez (R–FL) and George Voinovich (R–OH) in the Senate (S. 2193), and by Representatives Marilyn Musgrave (R–CO), Tom Feeney (R–FL), Tom Price (R–GA), and Tim Walberg (R–MI) in the House (HR 3888). This compromise reauthorizes SCHIP for the population it was intended to serve. It does not displace existing private health insurance for children and families, which is an increasing concern of more and more Americans who have come to understand the current debate. Moreover, this legislation provides tax relief—in the form of health care tax credits—for middle-income families with children, enabling them to obtain and keep health care coverage.

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1. The Children's Health Insurance Program Reauthorization Act of 2007 (as provided on October 24, 2007), Sect. 114, at *www.rules.house.gov/110/text/110_schip2.pdf.*
2. *Ibid.,* Sect. 114.
3. *Ibid.*, Sect. 112.
4. The Children's Health Insurance Program Reauthorization Act of 2007 (as provided on October 24, 2007), Sect. 116, at *www.rules.house.gov/110/text/110_schip2.pdf.*
5. Congressional Budget Office, "Cost Estimate for Children's Health Insurance Program Reauthorization Act of 2007," October 24, 2007, at *www.cbo.gov/ftpdocs/87xx/doc8741/hr976DingellLtr10-24-2007.pdf.*
6. Paul L. Winfree and Greg D'Angelo, "SCHIP and 'Crowd Out': The High Cost of Expanding Eligibility," Heritage Foundation *WebMemo* No. 1627, September 20, 2007, at *www.heritage.org/Research/HealthCare/upload/wm_1627.pdf.*
7. Congressional Budget Office, "Cost Estimate for Children's Health Insurance Program Reauthorization Act of 2007," October 24, 2007, at *www.cbo.gov/ftpdocs/87xx/doc8741/hr976DingellLtr10-24-2007.pdf.*
8. The Children's Health Insurance Program Reauthorization Act of 2007 (as provided on October 24, 2007), Sect. 104 and 301, at *www.rules.house.gov/110/text/110_schip2.pdf.*
9. *Ibid.,* Sect. 104 and 301.
10. *Ibid.,* Sect. 104 and 301.
11. *Ibid.*, Sect. 701.
12. After increasing SCHIP funding to $13.9 billion by 2012, this bill steeply drops funding down to $3.9 billion by 2017. Assuming that 6 percent annual increases will be needed after 2012 to keep pace with rising health care costs and maintain enrollments, an additional $59.3 billion would be needed between 2013 and 2017. This increases the likely 10-year cost from the $76.3 billion listed to $135.6 billion.
13. Michelle C. Bucci and William W. Beach, "22 Million New Smokers Needed: Funding SCHIP Expansion with a Tobacco Tax," Heritage Foundation *WebMemo* No. 1548, July 11, 2007, at *www.heritage.org/Research/HealthCare/upload/wm_1548.pdf.*
14. The Children's Health Insurance Program Reauthorization Act of 2007 (as provided on October 24, 2007), Sect. 103, at *www.rules.house.gov/110/text/110_schip2.pdf.*

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