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The SCHIP Bill: Why the Premium Assistance Provisions Won't Work

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Skeptics of the latest version of legislation (H.R. 3963) to expand the State Children's Health Insurance Program (SCHIP) should not be swayed by claims that substantial changes were made to improve premium assistance for private insurance. Key obstacles remain. Until those problems are solved, the proposed premium assistance provisions in SCHIP will fall short, and efforts to maintain or expand private health insurance coverage will be undermined.

Major Problems. Premium assistance is an excellent policy. The purpose of premium assistance is to empower families to enroll their children in private health insurance. In the case of SCHIP, premium assistance is intended to allow a state to use SCHIP funds to help families with children in SCHIP enroll in private health insurance, typically as part of family coverage.

There are numerous benefits to a premium assistance approach. However, the current level of bureaucracy involved in implementing premium assistance through SCHIP makes it an unattractive and impractical option for states. While congressional advocates tout "improvements" to the premium assistance option, the latest "compromise" bill maintains a heavy-handed bureaucratic approach.

The current bill undermines the goal of securing private coverage in the following four ways.

First, the bill limits coverage options. The bill only allows premium assistance for employer-sponsored coverage. Parents are denied the choice of any other option. While enrolling a child as a dependent

in an employer-based plan is common, there may be instances where employer-sponsored coverage is not available or not preferred. Therefore, the bill should not exclude other coverage options, such as family or child-only coverage purchased on the non-group market.

Second, the bill explicitly denies parents the right to access consumer-directed products, such as Health Savings Accounts (HSAs), for their children. High-deductible health plans (HDHPs) are a wise and affordable option for many families since children typically have less demand for medical services than adults. Additionally, recent survey analysis by America's Health Insurance Plans found that the vast majority of HDHPs provide important preventive benefits, such as well-baby and well-child services, and do not require any cost-sharing. Therefore, most families would face few, if any, costs outside of the remaining premium. In denying parents the option of an HSA, the language of the bill is pointlessly punitive.

Third, the bill paves the way toward a government-regulated benefit package in the private health insurance market for SCHIP enrollees. While the bill does not require that employer plans meet the SCHIP standard, it does require the state govern-

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ment to fill in any missing services and cost-sharing obligations. This subtle requirement is not only an administrative burden for states and employers but also possibly a dangerous step toward a federally “approved” standard for health insurance for all Americans.

Fourth, the bill adds to states’ administrative burdens. Besides the general troubles with wrap-around requirements, the cost-sharing rules in the bill require states to notify families when they have reached cost-sharing limits. This will require states to monitor individual transactions, an administrative hassle that will discourage states from adopting premium assistance. The bill also allows enrollees to shift back and forth between premium assistance and traditional SCHIP. This creates a level of unpredictability that will dissuade states from moving toward premium assistance.

Conclusion. Despite the so-called improvements made to the SCHIP compromise, the complexity and limitations of the premium assistance provisions will continue to deter greater adoption of private coverage options. It will stifle the potential for

SCHIP as a vehicle to help lower-income working families obtain private coverage for children. Until these features are removed, the premium assistance option will remain burdened by regulatory red tape and unnecessary bureaucracy. It is designed, in other words, to hinder any robust provision of private health options for children.

Congress should change course. Congress should create a premium assistance program that would allow private health insurance to flourish. It should not insist on a policy that deliberately undermines the basic right of parents to make choices for their children. Serious premium assistance provisions would empower parents, not bureaucrats, to make decisions for their children with regard to health care coverage. Congress needs to respect American parents and trust that they—more so than government bureaucrats—have their children’s best interests at heart.

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