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SCHIP: Congress Must Stop Another State Bailout

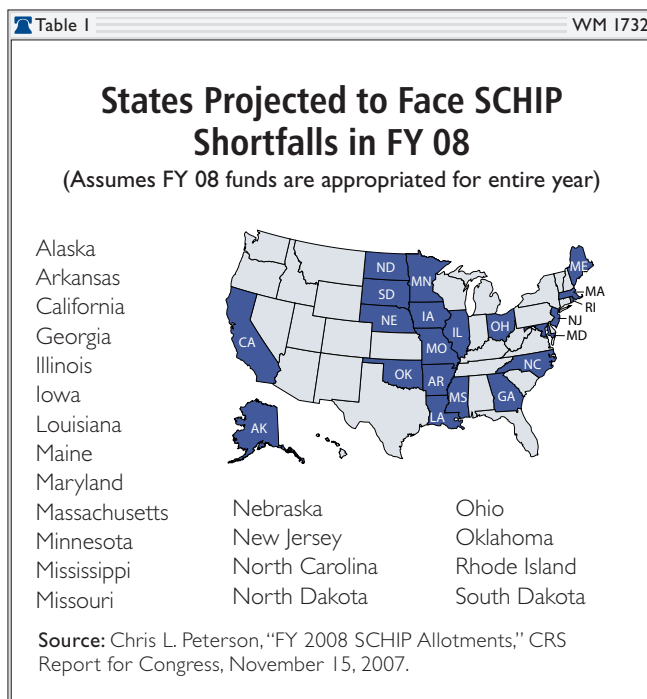
Nina Owcharenko

With Congress deadlocked over the reauthorization of the State Children's Health Insurance Program (SCHIP), policymakers should set clear criteria to avert a federal taxpayer bailout of states that have mismanaged their SCHIP programs. The current process rewards state officials who take advantage of the system and have expanded eligibility for the program beyond its original target population: children in low-income families.

Shortfalls and the Bailout Process. As negotiations continue over SCHIP, Congress has thus far passed two continuing resolutions (CRs) that provided temporary assistance to the states to maintain their programs. The latest CR is set to expire on December 14, and Congress is likely to extend the program for the rest of FY 2008 at its FY 2007 funding level of \$5 billion.

However, Congress will also provide *additional* funding to ensure that no state faces a "shortfall" in FY 2008. A shortfall occurs when a state has exhausted all available funding for its SCHIP program. The Congressional Research Service (CRS) estimates that if current FY 2008 allotments were extended for the entire year, 21 states would still face a shortfall.

Typically, states facing shortfalls are bailed out during a redistribution process, whereby unused funds from other states are redistributed after three years. However, because the pool of unused funds is diminishing, states are requesting appropriations above and beyond the \$5 billion. Although current SCHIP law gives the Secretary of Health



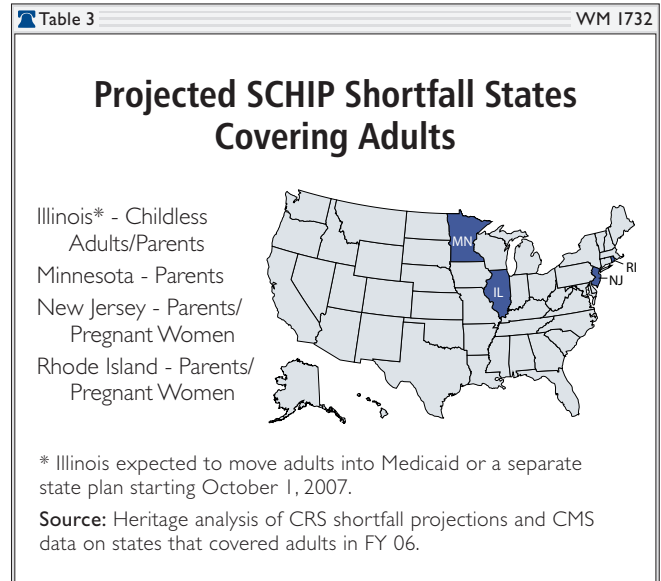
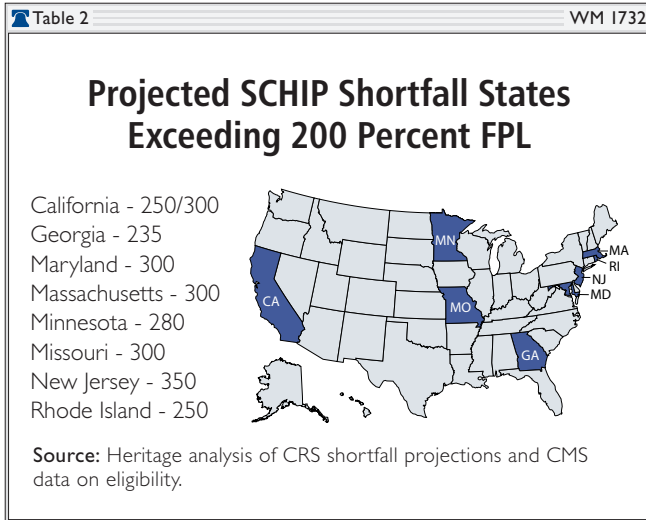
and Human Services (HHS) leeway in determining the distribution process, Congress has recently given the Secretary explicit instructions to prioritize the distribution of funds based on when a state will face its shortfall.

This paper, in its entirety, can be found at:
www.heritage.org/Research/HealthCare/wm1732.cfm

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The Need for a New Distribution System. This method of redistributing SCHIP funds is deeply flawed. In short, it is too simplistic. Congress does not take into account whether a state's shortfall is a result of exploiting the current process or meeting a genuine need. For example, of the 21 states projected to face a shortfall in FY 2008, nine have SCHIP programs that exceed the income eligibility threshold and/or cover adults. In addition, based on CRS estimates of the timing of the funding shortfalls, nearly all of these nine states would be first in line to receive a bailout.

As shown in Tables 2 and 3, the nine states with SCHIP programs that exceed the income eligibility threshold and/or cover adults are California, Georgia, Illinois, Maryland, Massachusetts, Minnesota, Missouri, New Jersey, and Rhode Island.

These overextended programs also account for the lion's share of the total shortfall. Of the \$1.6 billion shortfall projected by the CRS, close to \$1.4 billion is associated with these nine states.

Conclusion. Of course, Congress does have the power of the purse; it enjoys full authority under the Constitution to raise revenue and direct federal spending. However, Members must remain accountable for how they spend the taxpayers' money. In the case of SCHIP, the distribution of federal tax dollars is neither fair nor reasonable.

Whether the process is determined by Congress or by the HHS Secretary, policymakers must avert a bailout for states that have mismanaged their SCHIP programs. In extending SCHIP for FY 2008, priority should be given to those states that have stayed within the intent of the original SCHIP law. This common-sense, fiscally responsible approach is best for taxpayers and for the population that SCHIP was designed to serve.

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