An Alternative to SCHIP Expansion: Free the Kids

by John C. Goodman

Is the Obama team really serious about having a public health insurance plan compete against private plans? Here's a way to try out that idea on children.

Currently there is a $1,000 tax credit for every child. Many Democrats would like to make it refundable (which means parents would get the money even if they owe no taxes). At the same time, many Republicans view the State Children's Health Insurance Program (SCHIP) as a wasteful expenditure that crowds out private insurance. So here's how to satisfy everyone in one fell swoop.

1. Use the funds now allocated (and about to be allocated) to SCHIP to make the child tax credit refundable.
2. Make the tax credit conditional on proof of any creditable insurance — employer plan, individual plan, SCHIP, Medicaid, etc.
3. Let the states charge actuarially fair premiums for children who enroll in SCHIP and/or Medicaid.

Several advantages of this plan immediately pop to mind:

1. **Universal coverage**. Children are the healthiest segment of our population and they are relatively cheap to insure; $1,000 per child should do the trick almost everywhere. (SCHIP is spending almost $2,000 per child.)
2. **Parental responsibility.** The child tax credit was originally $500 and it was a Republican idea. At the time, Gene Steuerle and I said that if (1) the government has a legitimate interest in seeing children insured and (2) parents have an obligation to insure their children, we should make the credit conditional on proof of insurance. Now that the credit is $1,000, the case is even stronger. Middle class families should not be given $1,000 per child if they have neglected to insure their children.
3. **Choice.** Parents would decide who gets the premium dollars. They could pay a premium to enroll in SCHIP, or pay a premium for private coverage or enroll in any other insurance plan for which their child qualifies. And provided their child has creditable coverage, they could keep any money they do not spend.

4. **Competition**. This proposal would allow a public plan to compete with private insurance on a level playing field. In particular, SCHIP would not get any funds other than premiums paid by parents based on competition with other insurers in the marketplace.
5. **An end to crowding out.** Estimates are that every additional dollar spent on Medicaid and/or SCHIP causes a reduction in private insurance of 50¢ to 75¢. This is especially bad because access in SCHIP and Medicaid is often much worse than with private insurance. This proposal would end the perverse incentives to drop private coverage for public coverage because the latter is free.
6. **Family friendly insurance.** This proposal would make it easier to enroll children in the same health plans their parents are enrolled in.
7. **Revenue neutrality.** Even if this proposal is not exactly revenue neutral, I'm sure it is less expensive than what the Obama administration is going to propose to spend to insure children anyway.
8. **Economic stimulus.** Consider the millions of parents who have already insured their children. For these parents, the refundable $1,000 would be a boost in aftertax income. And unlike all the stimulus package proposals, this boost in income would be permanent. So following Milton Friedman, we would expect that most of it would be spent, rather than saved — giving a spending boost to the economy.
9. **State funds.** Money currently spent by state government (and matched by federal dollars) would be used to supplement the tax credit. In particular, state funds would be used to augment the funds available for special needs children with high health care costs — thereby encouraging a market for sick children, much as there is a market for chronically ill seniors under the Medicare Advantage program. However, control over all health care dollars would initially go to people, not to SCHIP.
10. **State responsibility.** States would have the responsibility to make sure no child is left behind.