



SCHIP

Reauthorization:

*What's at Stake for
California?*



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This report was written by:

Jennifer Sullivan, Health Policy Analyst

and

Rachel Klein, Deputy Director of Health Policy

**The following Families USA staff contributed to the
preparation of this report:**

Ron Pollack, Executive Director

Kathleen Stoll, Director of Health Policy

Beth McCarthy, Health Policy Analyst

Sarabeth Zemel, Health Policy Analyst

Ella Hushagen, Villers Fellow

Nikita Barai, Emerson-Leland Hunger Fellow

Peggy Denker, Director of Publications

Ingrid VanTuinen, Writer-Editor

Jenelle Partelow, Editorial Associate

Nancy Magill, Design/Production Coordinator

Families USA

1201 New York Avenue NW, Suite 1100

Washington, DC 20005

Phone: 202-628-3030

E-mail: info@familiesusa.org

www.familiesusa.org

INTRODUCTION

Reauthorization of the State Children's Health Insurance Program (SCHIP) is likely to be the most important health care issue addressed on Capitol Hill this year. The highly successful program, which started in 1997, provides health coverage to millions of low-income children with family incomes that are too high to qualify for Medicaid but not high enough to purchase other forms of health insurance. The program's original 10-year authorization period expires on September 30, 2007. Congress must therefore pass reauthorizing legislation within the next several months.

Most members of Congress recognize the importance of strengthening SCHIP and building on the program's success. As a result, there is a reasonable likelihood that Congress will substantially increase the program's funding when it is reauthorized. This will enable states to expand health coverage to more of the 9 million children who are uninsured.

In the budget resolution passed by the Senate and the House of Representatives in March 2007, both chambers set aside \$50 billion—on top of the current funding level of \$25 billion—for SCHIP over the next five years. This amount could significantly boost states' abilities to provide high-quality, affordable health coverage to their children. Coupled with strong policy improvements, the additional \$50 billion would allow states to maintain their current SCHIP enrollment and make significant strides toward enrolling even more children.

The \$50 billion in new funding set aside in the budget resolution will be made available to states only if two things happen. First, Congress must reauthorize SCHIP—a near certainty. Second, and most importantly, Congress must “pay for” this added \$50 billion by providing new revenues and/or cutting existing federal expenditures by a commensurate amount. This will be a formidable challenge for Congress's work on SCHIP reauthorization.

In this report, Families USA estimates how much new funding California could receive for Healthy Families (California's SCHIP program) and Medi-Cal if SCHIP is reauthorized with the full \$50 billion in new federal funds. We also examine the effect this new money will have on California's economy, measured in increased business activity, jobs, and wages. We found that, for a whole host of economic reasons, fully funding SCHIP in accordance with the budget resolution will be good for California.

BACKGROUND

SCHIP, together with Medicaid, has served an extremely important role for children: Between 1998 and 2005, the number of uninsured children dropped by more than 2.7 million (Figure 1).¹ This decrease is remarkable in light of the growth in child poverty and a significant decline in the number of children whose families had job-based health insurance during that time. Experts agree that expanded coverage for children through SCHIP and Medicaid is responsible for this good news.²

SCHIP is vital to improving children's health care. Children enrolled in SCHIP or Medicaid are three times more likely to have a usual source of care than uninsured children.³ And children enrolled in SCHIP or Medicaid are one-and-a-half times more likely than uninsured children to receive well-child care, see a doctor during the year, and get dental care. SCHIP reduces the percent of children with an unmet health care need.⁴ Clearly, SCHIP and Medicaid are critical programs that allow otherwise uninsured children to get the health services they need.

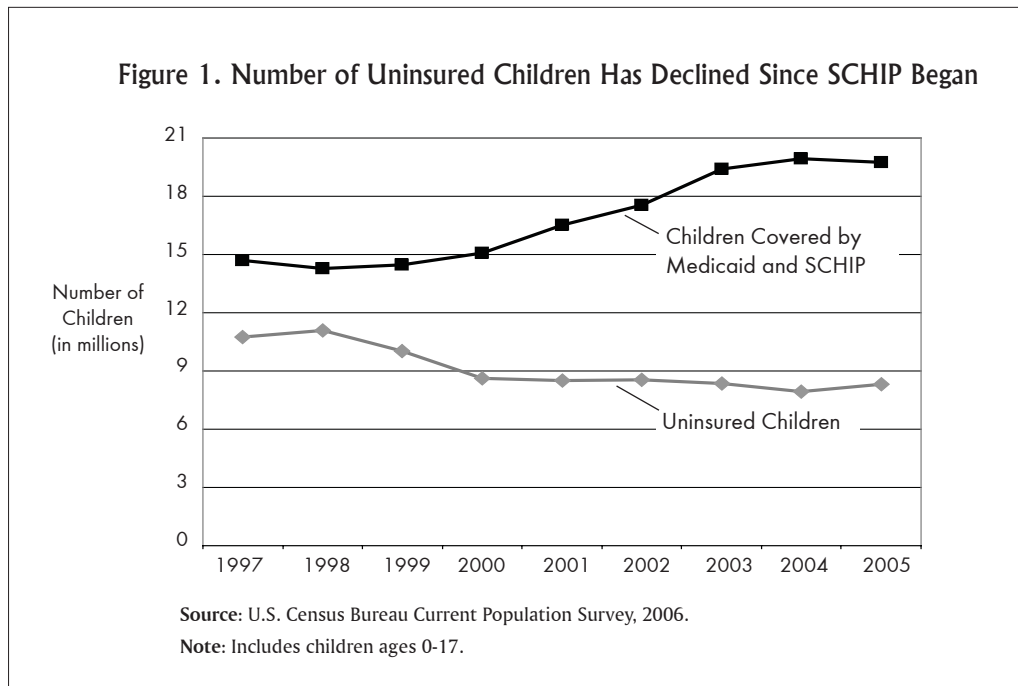
THE CHALLENGE

Despite these steps forward, there are still 9 million uninsured children in this country. More than 6 million of them are eligible for SCHIP or Medicaid but are not enrolled.⁵ Although states around the nation are poised to build on the success of SCHIP and Medicaid and cover more uninsured children, many states are stuck with too little SCHIP funding to continue the progress they have made. In 2007 alone, 14 states are experiencing federal SCHIP funding "shortfalls,"⁶ and the problem is only expected to get worse with each passing year. Current law assumes that the federal government will provide \$25 billion for SCHIP over the next five years. This represents a flat funding rate that does not even provide for any increases to account for inflation or population growth. Without additional funding, more than 1.5 million children could lose SCHIP coverage.

WHO'S COVERED IN CALIFORNIA?

California covers children with family incomes up to 250 percent of poverty (\$42,925 for a family of three in 2007). In 2006, Healthy Families covered 1,391,405 children. Still, 1,368,999 children remain uninsured. SCHIP reauthorization offers an opportunity to bolster California's efforts to get more of these children covered.

Source: Number of children in SCHIP from CMS data for federal fiscal year 2006. Number of uninsured children from a three-year merge of 2003-2005 data for children aged 0-18 from the U.S. Census Bureau's Current Population Survey.



KEY FINDINGS

In California, there are **1,368,999 uninsured children**, and approximately two-thirds of them are currently eligible for either Healthy Families or Medi-Cal.

The SCHIP reauthorization process presents an opportunity to substantially increase the federal funding that goes to California.

- With \$50 billion in additional federal funding for SCHIP and Medicaid, SCHIP reauthorization could bring California approximately **\$6.9 billion in new federal funding** for children's health coverage over the next five years. This would result in the state getting three times the amount it would have otherwise gotten for SCHIP.

In addition to increasing the number of children in California who would gain coverage, this new federal funding will have measurable, positive effects on California's economy. Over the next five years, \$6.9 billion in new federal funding will create:

- \$3.1 billion in increased business activity,
- \$1.1 billion in increased wages, and
- 28,800 additional jobs for California.

DISCUSSION

California received \$790.8 million in federal support for Healthy Families in 2007. Based on data from the Centers for Medicare and Medicaid Services (CMS) and the current SCHIP distribution formula, Families USA estimated how much federal funding California will receive if SCHIP is reauthorized with \$50 billion in new federal funding over the next five years. California could receive approximately \$6.9 billion in added federal support for Healthy Families and Medi-Cal during the next five years (or \$1.3 billion in added federal support per year, on average).⁷ This would result in the state getting three times the amount it would have gotten if SCHIP were funded at the 2007 level.

Programs That Keep on Giving

State funds that are spent on Medicaid and SCHIP are matched by the federal government at a rate that varies by state. The federal government gives California \$1.86 for each dollar the state spends on Healthy Families and \$1.00 for each state dollar it spends on Medi-Cal. Because SCHIP is a block grant, each state receives a certain amount of federal funding to pay for the program each year, but it is up to the state to spend the money to draw down those federal dollars.

Because of their financing structures, SCHIP and Medicaid introduce new money into the state's economy, which has a positive and measurable impact on state business activity, available jobs, and overall state income. SCHIP and Medicaid payments to hospitals and other health-related businesses have a direct impact on the state's economy. These dollars then trigger successive rounds of earnings and purchases as they continue to circulate through the state's economy.

For example, health care employees spend part of their salaries on new cars, which adds to the income of employees of auto dealerships, enabling them to buy washing machines, which enables appliance store employees to spend additional money on groceries, and so on. This ripple effect of spending is called the "economic multiplier effect."

This is why California will reap so many economic benefits from additional SCHIP and Medicaid spending, above and beyond expanded coverage for children. If SCHIP is reauthorized with the full \$50 billion in additional five-year funding promised in the budget resolution, the \$6.9 billion in additional federal dollars injected in California's economy will generate:

- \$3.1 billion in new business activity (output of goods and services),
- \$1.1 billion in new wages, and
- 28,800 new jobs.

A Key Issue That Is Likely to Be Debated

Some in Congress and the Administration would like to roll back SCHIP, limiting it to children whose family incomes are below twice the poverty level. The cost of living varies considerably across the country, and state officials often find it helpful to have the ability to set eligibility for SCHIP at the level that makes sense for their state. In California, limiting eligibility to children whose family incomes are below twice the poverty level would jeopardize the coverage of 330,696 children. The outcome of the debate in Congress could have a profound impact on California's ability to retain coverage for these children, who would otherwise be at risk of joining the ranks of the uninsured.

CONCLUSION

California will have a much greater ability to provide health coverage to its uninsured children if Congress provides \$50 billion in additional funding for SCHIP and Medicaid over the next five years, as made possible by the recently passed budget resolution. State leaders have demonstrated a strong desire to expand coverage to more uninsured children, but without federal support, they cannot even continue to cover the children who are already enrolled in SCHIP, much less cover more uninsured children. The SCHIP reauthorization process is an opportunity to invest new federal funding in programs that have proven to be successful at providing affordable health care to otherwise uninsured children. This additional federal funding will also create several added bonuses for the state's economy. Thus, California has a huge stake in securing the \$50 billion in new federal funds that Congress has set aside.

ENDNOTES

¹ Carmen DeNavas-Walt, Bernadette D. Proctor, and Cheryl Hill Lee, *Income, Poverty, and Health Insurance Coverage in the United States: 2005* (Washington: U.S. Census Bureau, August 2006).

² Ibid.

³ Genevieve Kenney, Jennifer Haley, and Alexandra Tebay, *Children's Insurance Coverage and Service Use Improve* (Washington: The Urban Institute, July 2003).

⁴ Emily Feinberg, Kathy Swartz, Alan Zaslavsky, Jane Gardner, and Deborah Klein Walker, "Family Income and the Impact of a Children's Health Insurance Program on Reported Need for Health Services and Unmet Health Need," *Pediatrics* 109, no. 2 (February 2002): e29.

⁵ Lisa Dubay, John Holahan, and Allison Cook, "The Uninsured and the Affordability of Health Insurance Coverage," *Health Affairs* Web exclusive, November 28, 2006.

⁶ Elicia J. Herz and Chris L. Peterson, *State Children's Health Insurance Program (SCHIP): A Brief Overview* (Washington: Congressional Research Service, updated October 12, 2006).

⁷ This estimate is based on the current SCHIP allotment formula and assumes that the state would receive a similar portion of the total federal SCHIP allotment over the next five years as it did in 2007. The calculation does not attempt to predict changes in the state's coverage rate, eligibility level, or potential changes in the federal SCHIP allotment formula that may be made in the reauthorizing legislation, all of which would have a significant effect on the amount of federal funding available to the state. This estimate also assumes that a portion of the new federal funding goes to cover children in Medicaid. We assumed that states would receive additional Medicaid funds in proportion to their share of total Medicaid expenditures for children as of 2003, which is the most recent year for which national data are available. In order to calculate new business activity, wages, and jobs created by the new federal funding, we ran one year's worth of new funding through the 2004 Regional Input-Output Modeling System (RIMS II). RIMS II is produced by the U.S. Department of Commerce, Bureau of Economic Analysis.



1201 New York Avenue NW, Suite 1100 ■ Washington, DC 20005

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