

**Good for Kids,  
Good for the Economy:  
Health Coverage for  
All Kids in Illinois**



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# INTRODUCTION

In recent years, Illinois has taken substantial steps to help low-income families afford health insurance coverage, particularly for children, even as many states across the country were reducing health coverage. From 2002 through 2004, Illinois consistently demonstrated the political leadership and will to expand eligibility and to eliminate unnecessary bureaucratic enrollment barriers, extending coverage to nearly 170,000 additional children.<sup>1</sup>

In 2005, Illinois has a unique opportunity to step out in front as the first state in the nation to offer comprehensive health insurance coverage to *all* children. This opportunity comes in the form of “All Kids,” a health coverage proposal put forth by Governor Blagojevich, State Senate President Emil Jones, and House Speaker Michael J. Madigan. This proposal is designed to increase health coverage for children in two ways: 1) It will increase enrollment of children who are already eligible for Medicaid and the State Children’s Health Insurance Program (SCHIP), and 2) it will give parents with higher incomes an opportunity to buy health insurance coverage for their children. These parents will be asked to contribute to the cost of health insurance coverage, and the state will supplement the amount that parents pay with state and federal Medicaid and SCHIP dollars.

If All Kids is passed, Illinois will be the first state to create a program that extends help to all parents who want to provide health insurance to their children—including parents in working- and middle-class families who make too much to qualify for existing public programs but who cannot afford private health insurance.

Expanding coverage to all children will benefit Illinois in two important ways. First and foremost, it will improve the health of the state’s children. Extensive research proves that insured children are significantly more likely to receive timely and necessary care than uninsured children, and that improved child health has a positive impact on children’s academic and social well-being.

One component of the All Kids proposal is implementation of primary care case management for all children enrolled in Medicaid and SCHIP. This will ensure that they receive immunizations and regular checkups, thus avoiding unnecessary—and expensive—hospitalizations and emergency room care.<sup>2</sup> The money saved by this change will be invested in coverage for uninsured children through Medicaid and SCHIP. This investment will be good for Illinois’ economy.

The key to understanding this positive economic impact is understanding the structure of the All Kids program, which would bring significant federal dollars into the state’s economy. These dollars pass from one person to another in successive rounds of spending, which economists call the “multiplier effect.” To quantify the multiplier ef-

fect—the aggregate impact of expanding children’s coverage on Illinois’ economy—Families USA used the RIMS II input-output economic model created by the U.S. Department of Commerce, Bureau of Economic Analysis. The RIMS II model allowed us to capture the specific economic conditions in Illinois and then calculate the economic activity that would be generated by All Kids spending—based on the federal dollars it would pull into the state—looking at business activity and wages.

## KEY FINDINGS

- In its first year of operation, the All Kids program would generate an estimated \$87,561,000 in business activity (output of goods and services) in all sectors of the Illinois economy.
- During this time frame, employee wages in Illinois generated by the All Kids program would amount to an estimated \$30,769,000.

## DISCUSSION

### Uninsured Children in Illinois

Most insured Americans obtain health insurance coverage through the workplace. While the vast majority (an estimated 76 percent) of uninsured Illinoisans in 2002-2003 were workers and members of working families,<sup>3</sup> only 62.1 percent of all private sector firms in Illinois offer health coverage. For private establishments with fewer than 50 employees, the proportion that offers coverage drops to about half.<sup>4</sup> Even when employers do offer coverage, the lowest-paid workers may find that they cannot afford to enroll in their employers’ plan. Either way—if the employer does not offer coverage or the employee cannot afford that coverage—dependent children can be left in the lurch. The primary alternative for such families is public coverage, but more than half of the 253,000 children in Illinois without health insurance coverage come from working- and middle-class families that earn too much to qualify for existing public programs.<sup>5</sup>

Some uninsured children are eligible for public programs but are not enrolled. In fact, among Illinois children under the age of 12 who are eligible for existing public programs, more than 16 percent (more than 80,000 children) are not enrolled. More than 23 percent of Illinois children aged 12-18 who are eligible for existing public programs (more than 60,000 children) are not enrolled.<sup>6</sup>

## **ALL KIDS: Making the Most of Federal Dollars**

All Kids will cover uninsured Illinois children by increasing enrollment of children who are already eligible for Medicaid and SCHIP coverage and by giving parents with higher incomes an opportunity to buy health insurance coverage for their children. Parents will be asked to contribute to the cost of health insurance coverage, and the state will supplement the amount that parents pay with state and federal Medicaid and SCHIP dollars.

The cost estimate for All Kids for the first year of operation is \$81 million (\$44 million from the state and \$37 million from the federal government).<sup>7</sup> A significant portion of the state cost will be offset by savings the state can achieve by implementing a primary care case management system for children. By reinvesting these savings in children's coverage, the state will continue to take advantage of the Medicaid and SCHIP state-federal financial partnership and the positive economic impact that flows from the federal dollars the state receives when it invests in health care coverage for its residents.

States have significant flexibility in designing their Medicaid and SCHIP programs, and the federal government shares the bill with the states. To entice states to cover more people and/or services, the federal government “matches” every dollar that a state spends on health insurance coverage. Matching rates differ from state to state. In Illinois, every dollar the state spends on Medicaid brings \$1.00 into the state from the federal government. Every dollar the state spends on SCHIP brings in even more—the federal government provides \$1.86 in matching funds. As Illinois expands coverage to children within Medicaid and SCHIP, every dollar it spends will pull federal dollars into the state. The federal matching dollars that flow into the state are a powerful economic stimulus to the entire Illinois economy. By contrast, states that expand coverage using state funds only, without building on Medicaid and SCHIP, lose the benefit of federal financial help and the associated economic stimulus.

## **ALL KIDS: Understanding the Positive Economic Impact**

To generate business activity and wages, money must be received from outside the state. For example, visits by out-of-state tourists, or the sale of manufacturing products to customers outside Illinois, bring spending into the state and contribute to its economic growth. Buying health care services through Medicaid and SCHIP brings money into the state in the form of federal matching dollars. This injection of federal dollars has a positive and measurable impact on state business activity and aggregate state income.

This Medicaid and SCHIP spending helps state economies in both direct and indirect ways. Medicaid and SCHIP payments to hospitals, nursing homes, and other health-related businesses have a direct impact, paying for goods and services and supporting jobs in the state. These dollars trigger successive rounds of earnings as they circulate through the economy. They create jobs and income for individuals not directly associated with health care. 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 spend part of their salaries on washing machines, which enables appliance store employees to spend additional money on groceries, and so on. This ripple effect of spending is called the “multiplier effect.”

The magnitude of the positive impact of Medicaid and SCHIP spending varies from state to state based on *both* the size of the state’s federal matching rate and the economic conditions in the state. To quantify the aggregate impact of the All Kids program on the Illinois economy—and the federal dollars it will pull into and circulate in the state—Families USA used the RIMS II input-output economic model created by the U.S. Department of Commerce, Bureau of Economic Analysis. The RIMS II model is built on Department of Commerce data that show the specific economic conditions in each state as well as the relationships among nearly 500 industries in the economy. These relationships are adjusted and updated to reflect a state economy’s current industrial structure, trading patterns, wage and salary data, and personal income data. Using the RIMS II model allowed us to capture the specific economic conditions in Illinois and then calculate the economic activity that would be generated by All Kids spending—and the federal dollars it would pull into the state—in the following areas:

1. Business activity—the output of goods and services; and
2. Employee earnings—wage and salary income.

The table below shows the positive impact on the Illinois economy of the All Kids program during its first year of operation (assuming a start date of July 1, 2006). This table shows the significant return in business activity and wages the state would realize from the investment of dollars in the All Kids program. Illinois, in just the first year, would generate an estimated \$87,561,000 in business activity (the output of goods and services) and an estimated \$30,769,000 in wages.

Economic Return for Illinois of All Kids Program in the First Year of Operation		
Federal Dollars Pulled Into Illinois by All Kids	Business Activity	Total Earnings
\$37,000,000	\$87,561,000	\$30,769,000

## ALL KIDS: A Health Insurance Cost-Containment Strategy

Looking through a macro-economic lens at Illinois sheds light on another advantage of reducing the number of uninsured in the state by covering all children. While quantifying this number goes beyond this report, it is worth noting that a reduction in the number of uninsured in a state has been shown to directly correlate with a reduction in premiums for employer-based private health insurance.

A program aimed at expanding children's coverage would reach children who are currently uninsured. Some children who do not have health insurance coverage go without care, and the consequences of this can be deadly.<sup>8</sup> Other children eventually receive care from emergency rooms or other safety net providers, where the cost of care is often greater than it would have been if these children had received preventive care or early treatment for a health problem.<sup>9</sup>

The health care that uninsured children do receive is paid for through a combination of payments by their parents, government programs, and philanthropy. The remainder of the cost is considered "uncompensated care" and is built into the cost base of physician and hospital revenue. One way physicians and hospitals recover this revenue is by charging more for health services paid for by private insurance. Private insurers then pass these costs along to employers by charging higher premiums for employer-sponsored coverage.<sup>10</sup> This triggers a vicious cycle in which increases in premiums cause fewer employers to offer coverage or to pass on additional costs to workers who then cannot afford the cost of dependent coverage. The resulting increase in the number of uninsured further drives up the cost of health care and thus health insurance premiums. A recent Families USA report found that health insurance premiums for Illinois families who have insurance through their private employers, on average, are \$1,059 higher due to the cost of health care for the uninsured. If Illinois acts to cover all children, it will reduce premiums for employer-based insurance in the state.<sup>11</sup>

While we know that allowing children to go without insurance profoundly affects their physical well-being and the financial well-being of their families, it is also evident that when Americans go without health coverage, everyone—regardless of insurance status—is affected. Covering more children in Illinois can stop the cycle of shifting costs to every worker with health insurance (many of whom are low-income and struggle to buy coverage themselves) and replace it with a more equitable and fair way of providing health care coverage to all children.

## **ALL KIDS: Peace of Mind for Workers When the Future of Employer-Based Coverage Is Uncertain**

Most Americans who have health insurance receive that coverage through the workplace, but employer-based coverage is not necessarily secure. Workers who are lucky enough to have health insurance today may some day run out of luck—some will lose their jobs, others may find their employer charging more than they can afford for dependent coverage, and others will have an employer who drops dependent coverage altogether.

Coverage through employer-based plans has steadily declined over the past five years.<sup>12</sup> Nationally, among children under the age of 19 with employer-based health insurance coverage, 2,911,251 (4.8 percent) lost that coverage between 2000 and 2003.<sup>13</sup> In Illinois, about 64 percent of children under the age of 19 were enrolled in employer-based coverage in 2003, a decline of 2.4 percent (or about 28,600 children) from 2000.<sup>14</sup> Current projections suggest that this trend is likely to continue.<sup>15</sup>

As premiums increase and drive employer-based coverage out of financial reach for ever more families, children in these families are at high risk for becoming uninsured. If the trend of declining employer coverage continues at its current rate, it will be increasingly important to ensure that Illinois has programs in place to absorb children who lose coverage. All Kids provides peace of mind for all parents who want to be sure their children never have to go without health insurance coverage.

## **CONCLUSION**

The All Kids program offers benefits for everyone in Illinois. It will offer immediate help to children in the state who are uninsured today and will protect children in jeopardy of losing employer-based coverage. At the same time, reducing the number of uninsured in Illinois will reduce the premiums paid by workers lucky enough to have coverage now. And finally, All Kids will provide a valuable economic stimulus to the state's economy.



## WHY INSURANCE MATTERS FOR KIDS

### To Keep Kids Healthy

When compared to uninsured children, insured children are:

- eight times more likely to have a regular source of care,<sup>16</sup> have a “medical home,” and receive preventive and primary medical care,<sup>17</sup>
- five times less likely to use the emergency room as a regular place of care,<sup>18</sup>
- three times more likely to have health care needs met than uninsured children who are eligible for, but not enrolled in, Medicaid,<sup>19</sup> and
- ten times more likely to have received all needed medical care.<sup>20</sup>

Compared to families with health coverage, families without any health coverage are:

- several times more likely to postpone or forgo necessary medical care,<sup>21</sup> and
- almost three times less likely to fill a prescription due to cost.<sup>22</sup>

### To Help Kids Succeed in School

Having health insurance allows children to get necessary medical care, stay healthy, focus on their schoolwork, and not miss school.<sup>23, 24, 25</sup> For example:

- The California Health Status Assessment Project found that children who were enrolled in health insurance improved their school performance (“paying attention in class” and “keeping up with school activities”) by 68 percent.<sup>26</sup>
- The Missouri MC+ program found that Missouri’s Children’s Health Coverage Program decreased school absences by 39 percent.<sup>27</sup>

## ENDNOTES

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