A Special Report from Families USA
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Family Coverage Under SCHIP
The State Children's Health Insurance Program

As states develop plans to expand health insurance for children, some are also looking at ways of extending insurance to the parents of those children. Most uninsured children live in families in which the parents are also uninsured. Uninsured adults, like uninsured children, have less access to health care. What?s more, the health and well-being of children is closely related to the health and well being of the adults who care for them. While no one wants to pit parents? coverage against children?s coverage, in the current economic climate, many states can afford to cover both groups.

What options do states have to extend insurance coverage to uninsured parents?The new state Children?s Health Insurance Program (CHIP) provides federal matching funds, at higher rate than the regular Medicaid program, to states that expand health insurance coverage to uninsured children under Medicaid or a separate state program. CHIP provides limited authority for states to cover families?uninsured parents as well as their uninsured children. However, the opportunities to cover parents with CHIP funds are quite limited under the law. On the other hand, states that use CHIP to expand Medicaid for children have new opportunities to use Medicaid options to cover parents at the regular federal matching rate.The Health Care Financing Administration, HCFA, the agency that administers CHIP, has not yet issued any written guidelines on the scope of what it calls the family coverage "variance" or waiver, and many questions remain unanswered.1 HCFA officials report they will soon be releasing written policy guidance for the states. So far only one state, Massachusetts, has an approved CHIP family coverage variance which it got to subsidize premium costs for families with access to employer-based coverage. Since many working families don?t have access to employer-based insurance, premium assistance programs provide only a partial solution to the problem of uninsured families.Other possibilities for covering low-income working parents that are more promising than CHIP include Medicaid options, Medicaid waivers, and state-funded programs. These non-CHIP Medicaid programs provide federal matching funds, but not at the enhanced rate of CHIP funding. States that use Medicaid to expand family coverage can get the CHIP enhanced rate for children and the regular

matching rate for their parents and the parents of other Medicaid-eligible children. States do not have the opportunity for Medicaid matching funds for parents of children covered by a non-Medicaid CHIP. However, states can use state-only funds to cover parents of children covered by a non-Medicaid CHIP. Several states are planning to cover uninsured families under a combination of CHIP and Medicaid or state funding.
Why are states expanding family coverage?Most uninsured children live with parents who work and who are uninsured themselves.

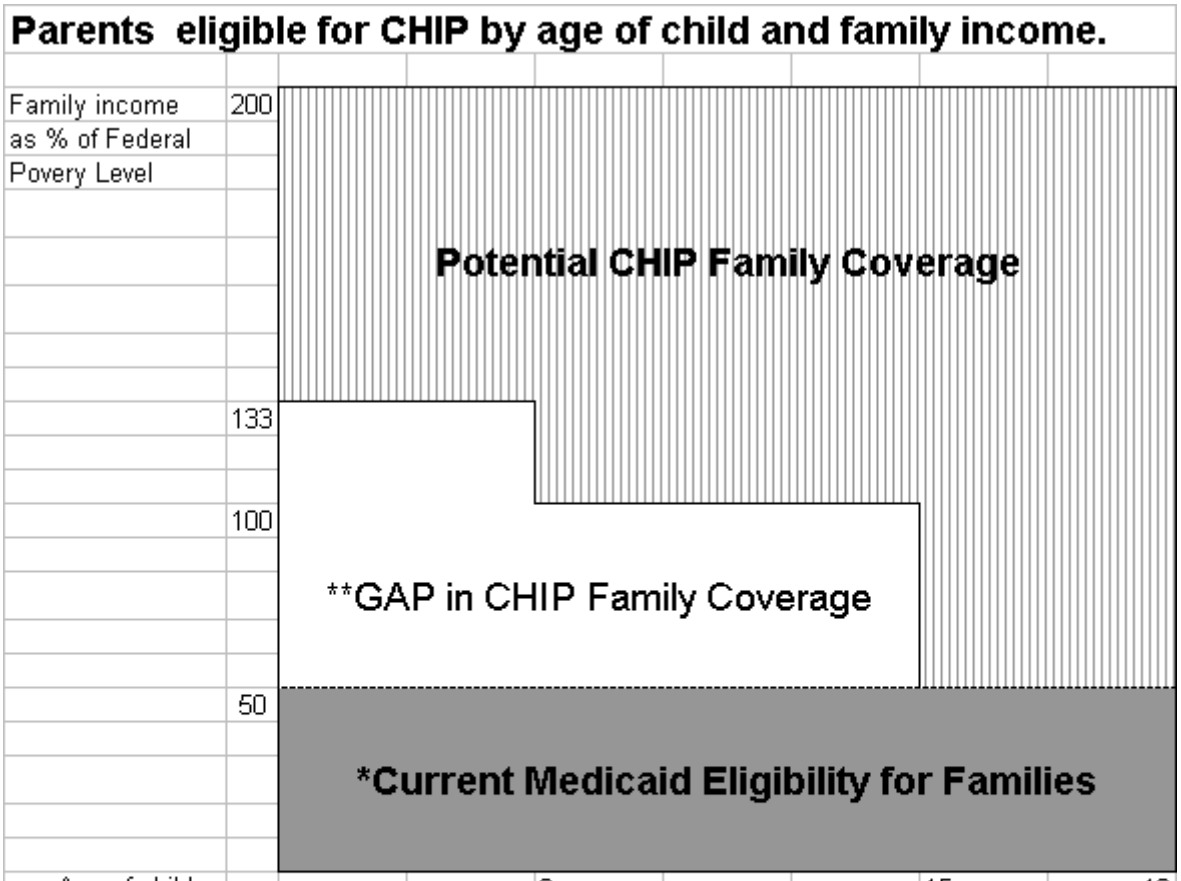
- Over three-fourths of uninsured children live with parents who are uninsured.2
- Over 90 percent of uninsured children live in families in which at least one parent works.3
- The majority of parents of uninsured children do not have access to employer-based insurance.4
- 2.8 million uninsured parents of uninsured children have incomes under 100 percent of poverty; an additional 2.3 million have incomes between the poverty line and 200 percent of poverty.5
- Uninsured adults face reduced access to health care. Working age adults without insurance have more difficulties getting needed care, are less likely to have a regular provider, and rate the care they do receive as lower quality.6
- Parents on welfare are more likely to get jobs and keep them if they can retain medical coverage. Studies show that expanding insurance coverage for working families can save states money otherwise spent on cash welfare payments.7
- Expanding coverage for parents will benefit children too.
- More children are likely to enroll if the entire family is eligible for coverage. A recent study found children are less likely to be uninsured when more family members are also eligible for Medicaid coverage.8
- Covering all family members under the same health plan is likely to improve access to and continuity of care for children.9
- The health of children is related to the health of their parents. For example, children of parents with chronic health problems are more likely to experience chronic health problems themselves.10

Is CHIP funding available for family coverage?

The Family Coverage VarianceCHIP specifically authorizes family coverage,11 but only if the state can demonstrate to HCFA that:

1. the family contains "targeted low-income children" who are eligible for coverage under CHIP,
2. family coverage will be "cost effective" compared to the costs of just covering eligible children in the family,
3. family coverage won?t substitute for private group coverage, and
4. the coverage provided to children meets minimum standard for benefits and affordability and otherwise complies with the CHIP law.

1. Targeted Low-Income ChildrenThe first requirement for coverage is that a family must include children who meet the definition of "targeted low income children" under CHIP. Insured children and children who were eligible for Medicaid under the state?s pre-CHIP rules are not eligible for CHIP.12 Medicaid covers children at higher income levels than parents, therefore the uninsured parents of children eligible to receive Medicaid prior to any CHIP expansion will not be eligible for family coverage. Unless other assistance is offered to parents with Medicaid-eligible children, a CHIP family coverage variance will leave a gap in coverage for lower income families. (See Chart below).



This gap is one reason Vermont has so far been unable to use a family coverage variance under CHIP. Vermont currently has an 1115 Medicaid waiver program that covers adults up to 150 percent of the federal poverty level, and children up to 225 percent of poverty.

Only families earning more than 225 percent of poverty can include a CHIP-eligible child?thus CHIP offers no opportunity for family coverage for uninsured parents in families earning between 150 percent of poverty and 225 percent of poverty. See below for more on Vermont?s proposal.

2. Cost-effectivenessHCFA has not yet released any rulings on the second precondition for use of the family coverage variance, that it be cost-effective. However, the agency?s response to the applications of Wisconsin and Massachusetts, discussed below, suggest that HCFA is defining "cost effective" as "no more costly." So far, HCFA has identified only one circumstance in which it may be no more expensive to cover an entire family than the cost of covering eligible children alone, and that is when the family has access to employer-sponsored coverage in which the employer contributes to the premium costs.Another idea for demonstrating cost-effectiveness is for the state to solicit bids from managed care plans and insurance carriers for separate individual rates and family rates. For some larger families, the family rate may be less expensive than the individual rate for each child in the family. In this way too, the state can specify that the benefit package and cost-sharing comply with CHIP requirements, discussed below. Also, this is a way for states to offer direct coverage to families who do not have access to employer-based coverage. Illinois is exploring this approach for a family coverage variance as part of its Phase II CHIP amendment extending coverage to families between 134 and 185 percent of poverty.

3. Not Substituting for Private Group CoverageFamily coverage must also guard against substitution for private group coverage. Substitution can occur in two ways: insured employees may drop private coverage to enroll in the CHIP program, and employers may reduce their contribution toward the cost of dependent coverage or drop it altogether. This substitution effect is often called "crowd out" because public dollars crowd out private dollars. States generally have the flexibility to adopt a variety of different strategies to avoid "crowd out." However, if states plan to use premium assistance programs to buy coverage for families with access to employer-based insurance, HCFA is requiring more stringent safeguards against crowd out. In its February 13, 1998 letter to state officials, HCFA urged state premium assistance programs to require that employers contribute at least 60 percent of premium costs to prevent employers from lowering contributions or dropping coverage. In order to discourage families from dropping insurance, HCFA proposed that states limit eligibility to premium assistance programs to families who have been uninsured at least six months. However, as seen below, Massachusetts was able to demonstrate that another approach provided equivalent safeguards against substitution.

4. Additional RequirementsIn addition to the specific demonstration required to obtain a family coverage variance, all other requirements of the CHIP law must also be satisfied. Even if family coverage will be in the form of premium assistance for employer sponsored insurance, the state must be able to assure that coverage will be adequate and affordable. CHIP requires that all plans provide a certain minimum level of benefits, and limits costs imposed on families. States must identify the benefits and cost sharing in employer-based plans and have some way to supplement inadequate benefits or subsidize excessive costs. States must also be able to monitor quality and access in employer plans.The 1115 WaiverFinally, states may be able to use CHIP funds to cover parents by obtaining a research and demonstration waiver under Section 1115 of the Social Security

Act.13 Generally, Section 1115 authorizes the Secretary of HHS to waive statutory requirements for experimental, pilot, or demonstration projects that will assist in promoting the objectives of the Act. However, HCFA has discouraged states from pursuing 1115 proposals under CHIP until the states and HCFA have more experience in implementing the new law.14 It denied Minnesota?s application for an 1115 waiver to obtain an enhanced match for the state?s pre-existing Medicaid expansion program, MinnesotaCare. HCFA also discouraged both Wisconsin and Missouri from pursuing 1115 waivers of CHIP requirements. Missouri?s plan was approved when officials resubmitted two separate plans: an 1115 waiver applicable only to Medicaid, and a separate CHIP plan that did not need a waiver. Wisconsin?s experience is described below.

Is Medicaid funding available for family coverage?The Medicaid program is probably the best way of leveraging federal dollars to provide health insurance to working families. Further, states expanding Medicaid for families can obtain the CHIP enhanced matching rate for the newly eligible children in these families. The Medicaid program mandates coverage of certain families, and gives states the option of covering additional families at the regular federal matching rate. For example, a state must offer Medicaid to families who would have been eligible for Medicaid under the state?s former AFDC rules. In addition, a section of the 1996 welfare reform law, section 1931(b), permits states to use more liberal financial eligibility rules to provide Medicaid to families who would have qualified for Medicaid under the former AFDC rules but for income and resources.15 New York has used 1931(b) to increase income deductions and asset ceilings in order to cover families earning up to 100 percent of the federal poverty level. Section 1931(b) is a state option; states do not need a waiver to use it.On August 4, 1998 the President announced a new initiative that will give states the flexibility to offer Medicaid to more two-parent working families.16 A majority of states had 1115 waivers in effect in 1996 that enabled them to cover many low-income working two-parent families. Section 1931(b) gave these states the flexibility to raise the Medicaid income eligibility levels for these working families. Under the proposed federal rule change, all states will now be able to cover more working families regardless of what AFDC rules were in effect in the state in 1996.In addition, 1115 waivers permit states to cover additional categories of people not otherwise eligible for Medicaid and vary Medicaid program rules as part of a research and demonstration program. In Minnesota, for example, MinnesotaCare provides coverage to families under 275 percent of the federal poverty level with no access to employer coverage. Minnesota needed a waiver from Medicaid rules in order to charge premiums as well as for other aspects of its expansion program. Medicaid 1115 waivers can work in combination with CHIP Medicaid expansions as shown by Missouri?s approved plan described below.There is also an available Medicaid option that permits states to pay for the premium cost of coverage under private plans that may include, in addition to the Medicaid-eligible family member, family members who are not otherwise eligible for Medicaid.17 These Medicaid buy-in programs are called Health Insurance Premium Payment programs, or HIPPs. Under Medicaid, states have the option of paying the premium for family coverage only if they can show it is a cost-effective way of providing coverage to a Medicaid eligible family member. Medicaid continues to provide wrap-around coverage to the eligible family member for services not included in the private plan. Thus, the test of cost-effectiveness requires the state to predict the family

member?s utilization of services in order to compare the expected reduction in Medicaid expenditures to the additional cost of paying for premiums and cost-sharing.18 A state combining this option with a premium assistance program under the CHIP family coverage variance, as Massachusetts has done, can provide greater equity between working parents with Medicaid eligible children and higher income parents with CHIP eligible children. (However, parents without access to cost-effective private coverage get no help under either program).

How are the states approaching family coverage under CHIP?Several states are proposing to expand family coverage in connection with CHIP. Some states, like Missouri and Rhode Island, want to cover parents under Medicaid at the regular matching rate and children under the enhanced matching rate for CHIP. Other states, like Wisconsin and Vermont have attempted (so far unsuccessfully) to use CHIP funding for direct coverage for families. Massachusetts has been approved to use CHIP to subsidize the costs of employer-based family coverage. Other states, like Oregon, have created or expanded state-funded programs for parents while using CHIP to expand children?s coverage, but are exploring the possibilities of CHIP family coverage.19 Several other states, including California, have legislative authority for premium assistance for employer-based family coverage, but have not yet filed or amended their CHIP plans to apply for a variance.

How can states use CHIP to cover children and Medicaid or state funding to cover parents?

- Missouri?s plan covers parents under an 1115 Medicaid waiver in conjunction with its children?s expansion under CHIP. Certain uninsured parents with incomes up to 100 percent of poverty will be funded under Medicaid at the usual matching rate, including non-custodial parents who are current in their child support payments. Parents making the transition from TANF to work will be eligible for premium subsidies for two more years if family gross income is under 300 percent of the federal poverty level. The additional coverage for parents is limited to two years. Children in families with gross income up to 300 percent of the federal poverty level will be covered under the Medicaid waiver at the enhanced CHIP rate. Missouri officials report that they did not seek CHIP funding for family coverage because coverage of children alone was expected to draw down the entire allotment. In April, HCFA approved Missouri?s CHIP plan and its 1115 waiver.
- Rhode Island passed legislation in 1998 authorizing an expansion of its RITECARE Medicaid 1115 waiver program to cover parents earning up to 185 percent of poverty. It also dropped the resource test for families. Rhode Island?s expansion takes advantage of the flexibility in Medicaid to define what counts as income. Earlier, the state had expanded RITECARE to cover children in families earning up to 250 percent of poverty using CHIP funds. Rhode Island is currently implementing its CHIP expansion and anticipates that the Medicaid expansion for families will begin in 1999.
- The District of Columbia will be covering both parents and children with incomes up to 200 percent of poverty. Newly eligible children will be covered under a CHIP Medicaid expansion, and parents of all Medicaid eligible children will be covered under Medicaid using Section 1931(b) discussed above.

- Michigan is expanding coverage programs for low-income families without using CHIP funds at the same time that it is expanding children-only coverage. Michigan?s program, TMA Plus, offers additional transitional Medicaid assistance to former TANF recipients. It was originally funded under a Medicaid 1115 waiver at several pilot sites, and will now be expanded statewide using only state funds. Families can buy Medicaid coverage after the 12-month transitional eligibility period expires; they will be charged a per person premium. At the same time, Michigan has expanded coverage for children in families earning up to 200 percent of poverty under its approved CHIP program, MICHILD.
- Oregon created a state-funded program called the Family Health Insurance Assistance Program, FHIAP, to subsidize the premium costs of private coverage for families earning less than 170 percent of poverty. In addition, the state expanded coverage for children up to 170 percent of poverty under its approved CHIP plan. The Third Party Administrator that screens FHIAP applications will notify families if their children may be eligible for Medicaid or CHIP. The premium assistance program receives no federal funds; it lacks the minimum standards for benefits and affordability required by CHIP. However, Oregon is exploring the possibility of future program modifications that might enable FHIAP to qualify for a family coverage variance under CHIP.

Can states use CHIP to offer public insurance coverage to families?Vermont and Wisconsin have attempted to use CHIP funds to offer direct coverage to adults. A state like Vermont, that had already expanded coverage for children to 200 percent of poverty or more, was interested in the CHIP allocation as a source of funds for other uninsured groups, like parents. In Wisconsin, state officials recognized the importance of extending insurance to parents as part of their welfare reform initiative, but political leaders, critical of the Medicaid program, wanted a federal block grant funding source like CHIP. However, neither state was able to demonstrate cost-effectiveness. HCFA has suggested to both states that Medicaid offers a more flexible basis for family coverage than CHIP. There may be other approaches to direct coverage that could satisfy the cost-effectiveness test for larger families, but HCFA has not yet addressed any other approaches.

- Vermont?s Dr. Dynosaur program was a Medicaid program that covered children up to 225 percent of poverty prior to the passage of CHIP. In addition, Vermont covers adults with incomes up to 150 percent of poverty under its Medicaid 1115 waiver, Vermont Health Access. Vermont sought a variance and a waiver to use CHIP funds to expand coverage for both groups. HCFA replied that the state must show that the family to be covered includes a newly eligible targeted low-income child?a condition Vermont?s plan did not satisfy. HCFA suggested that Vermont consider expanding its 1115 Medicaid waiver in order to accomplish its purpose of covering parents with incomes up to 185 percent of poverty. Vermont has withdrawn its CHIP application and is exploring expansion options under the regular Medicaid program.
- Wisconsin has applied for an 1115 Medicaid waiver to be combined with a CHIP family coverage variance to cover families with incomes up to 185 percent of poverty.20 Wisconsin?s BadgerCare program proposed to cover families under

150 percent of poverty through the CHIP family coverage variance; in families between 151 and 185 percent of poverty, the children would be covered under CHIP and the parents under the Medicaid waiver. Wisconsin sought to demonstrate cost effectiveness by comparing the costs of covering an average size family under the lower cost Medicaid HMO plan (the plan it actually intends to use) with the pro rata costs of covering the children under the higher cost state employee plan (a benchmark plan it could theoretically use under CHIP). However, BadgerCare did not appear to satisfy either the cost- effectiveness test for the family coverage variance or the "cost neutrality" test for a Medicaid 1115 waiver as laid out by HCFA. (Cost neutrality requires that a waiver cost the federal government no more than a Medicaid program without a waiver).

- In a letter dated August 19, 1998, HCFA offered the state an alternative approach for implementing BadgerCare.21 HCFA suggested that the state use CHIP to expand Medicaid for children. By including children in the Medicaid household, the parents of eligible children can be covered under the Medicaid 1931(b) option discussed above. Coverage of these adults would be at the regular Medicaid matching rate not the enhanced CHIP rate. The CHIP matching rate could still apply to families with access to employer-based coverage who meet the conditions of the family coverage variance. While the state would still need an 1115 waiver to charge premiums in its expanded Medicaid program, HCFA has granted Medicaid waivers like this to other states. Further, the state can control costs by adjusting income eligibility. However, HCFA has been firm in opposing enrollment caps as inconsistent with the entitlement nature of Medicaid. Wisconsin officials are dissatisfied with this alternative and the status of BadgerCare is uncertain at this point.

How are states using CHIP to subsidize premiums for employer-based family coverage?Several states are exploring ways to provide health insurance to families with access to employer-based insurance by subsidizing the employee?s share of premium costs.22 States need a variance to subsidize family coverage that includes the employee, the employee?s spouse, or other dependents who are not CHIP-eligible children. So far Massachusetts is the only state to obtain such a family coverage variance. California?s CHIP program originally included a "purchasing credit" to enable families to buy employer-based coverage. However, California has postponed submission of its "purchasing credit" because of technical problems with the authorizing legislation.

- Massachusetts is expanding Medicaid to 150 percent of poverty and creating a separate state program for children between 151 and 200 percent of poverty in addition to expanding an existing insurance program for children with disabilities and a prenatal care program. It has obtained a CHIP family coverage variance to subsidize premium costs for employer-sponsored insurance for families between 151 and 200 percent of poverty. Some aspects of the Massachusetts premium assistance program will be difficult for other states to replicate because of its relationship to a Massachusetts Medicaid 1115 waiver program that also subsidizes premiums.

- Massachusetts will enroll children with access to employer-based coverage in the direct coverage program for up to 60 days while engaged in the verification, comparison of benefits, and cost calculations necessary to determine if the family is eligible for the premium assistance program.
- Families with access to employer-sponsored coverage that is cost-effective and provides adequate benefits will be eligible for premium assistance under three different programs, only one of which is funded by CHIP. Families earning less than 150 percent of poverty are eligible for premium assistance under a Medicaid HIPP, described above. Families earning between 150 and 200 percent of poverty and uninsured are eligible for premium assistance under CHIP. Families earning between 150 and 200 percent of poverty and insured are eligible for premium assistance under the 1115 Medicaid waiver (incentive payments are also available for small employers under this program). Families without access to employer-sponsored insurance or without access to insurance that offers adequate benefits and is cost-effective can obtain direct coverage for their children under Medicaid or CHIP, but there is no assistance for the parents in these families.

The Massachusetts plan was approved May 29, 1998. In correspondence with the state, HCFA sought reassurance that the family coverage variance would comply with the requirements of the statute. This is how Massachusetts demonstrated compliance with four key issues.

How can the state demonstrate that coverage will be equivalent to the coverage under a CHIP benchmark plan?Massachusetts will prepare a benefit comparison chart comparing each employer-sponsored plan to benchmark coverage and only an employer plan that meets or exceeds a benchmark will be eligible for CHIP premium assistance.How will the state assure that coverage is cost effective?Massachusetts will calculate the monthly employer?s health insurance premium cost less the employer?s contribution less the family?s premium contribution under CHIP to arrive at the premium assistance amount. In Massachusetts, premium contributions under CHIP are limited to $10 per month per child up to $30 per month for three or more children. However, a family will be required to contribute an additional amount up to five percent of gross family income towards the costs of family coverage (and can pay more voluntarily). If the premium assistance amount is less than the per member per month cost of covering only the eligible children under the state?s direct coverage program, then it will be cost effective to provide family coverage.23

Example No. 1 (one adult and 2 children):

Cost of Family Coverage $500 per month
Less Employer Contribution $300 per month
Less CHIP Family Premium $ 20 per month

Premium Assistance Amount $180 per monthCost of 2 children: 2X $150 per member per month=$300Family coverage is cost effective: $180< $300

Example No. 2 (one adult and 1 child)

Cost of Family Coverage $500 per month

Less Employer Contribution $300 per month
Less CHIP Premium $ 10 per month

Premium Assistance Amount $190 per monthCost of 1 child $150 per member per monthFamily coverage is not yet cost effective: $190> $150.In order to become cost effective the family must be able to pay $40, the difference between the premium assistance amount and the cost effective amount ($190 -$150), along with the CHIP premium per child ($10) without exceeding 5 percent of gross family income.Gross Family Income $1600 per month5 percent of Gross Family Income $ 80 per monthThe needed contribution ($40 +$10) does not exceed 5 percent of gross income ($80), therefore the family will be eligible for premium assistance under the employer?s plan at a total cost of $50 per month. If the needed contribution did exceed 5 percent of income, the child would be enrolled in the direct coverage program at a cost to the family of $10 per month. (However, family coverage is still an option if the family is willing to pay more than 5 percent of income).
In its correspondence with the state, HCFA did not ask that the state add the expected cost of reimbursing the family for excess cost sharing to the premium assistance amount. (See below for a description of the reimbursement for excess cost-sharing.)

What measures will the state employ to avoid crowd out that are equivalent to requiring a 60 percent employer contribution and a six-month period without insurance?

Massachusetts is not imposing a period without insurance. However, its 1115 waiver program permits it to subsidize premium costs for insured families to the same extent that CHIP subsidizes premiums for families without insurance. Thus, families will have no incentive to drop coverage in order to get premium assistance. In addition, the state will survey a sample of enrollees to monitor changes in insurance status in the six months prior to enrollment.

Massachusetts is requiring employers to contribute only 50 percent of premium costs, not 60 percent. The Medicaid 1115 premium assistance program, which HCFA approved in 1995, requires only a 50 percent employer contribution. However, Massachusetts will monitor reported employer contributions and take further steps if contribution amounts decline.

How will the state assure that a family?s cost sharing does not exceed CHIP limits?

The state will notify families of the maximum amount they are required to contribute (5 percent of gross income less the annualized premium contribution), and describe the well child care for which CHIP prohibits cost sharing. Massachusetts will reimburse the family for well child costs or costs in excess of the 5 percent cap. The burden is on families to bring in their receipts to verify that they have incurred costs for well-child care or exceeded the 5 percent cap. Costs applied against the cap and costs subject to reimbursement are limited to costs incurred by the eligible children, not other family members.

Families will be required to pay the full employee share of premium costs as well as the cost-sharing for well child care, subject to later reimbursement from the state. In example two, above, a family would have to pay over 12 percent of gross family income in order to cover the employee premium share. It is likely that many families will not be able to afford such large payments even with the promise of prompt reimbursement. State advocates are urging the state to adopt a better system.

What are the limitations on family coverage programs under CHIP?CHIP was created for the purpose of increasing insurance coverage among children. It cannot help the significant number of uninsured parents whose children were already eligible for Medicaid before CHIP. Further, the cost-effectiveness requirement of the family coverage variance may limit CHIP family coverage to employer-based premium assistance programs. Such programs have the potential to cover fewer uninsured families than public insurance programs because only families with access to employer-based plans can benefit. Most of the parents of uninsured children do not have access to employer-based group plans at all. Many other workers may have access to group coverage, but their share of the premium cost for family coverage may be so high that a state will be unable to demonstrate that a premium assistance program is cost effective. Administration will also be complicated if enrollment in an employer?s plan is limited to annual open enrollment periods. In addition, assuring that employer-based coverage is cost-effective, affordable, offers adequate benefits, and does not encourage substitution of coverage entails labor-intensive administration, as the Massachusetts plan demonstrates.Thus, the traditional Medicaid program and state-funded programs appear to be more promising funding sources for covering the parents of Medicaid-eligible children and families without access to insurance. Optional Medicaid expansions for families will now cost states less because of the enhanced CHIP matching rate for targeted low-income children in those families. Also, CHIP can play a small role in supplementing Medicaid and state-funded family coverage, particularly for those families with incomes over 200 percent of poverty who are more likely to have access to employer-based insurance. CHIP family coverage may also be cost-effective for some larger families.Prepared by Vicky Pulos, Associate Director of Health Policy, Families USA

ENDNOTES1Section 2105(c)(3) is entitled the "Waiver for Purchase of Family Coverage," but HCFA refers to this provision as a "variance" to distinguish it from an 1115 waiver.
2 One Out of Three: Kids Without Health Insurance, Families USA, Washington DC, March 1997.
3One Out of Three, op. cit.
440 percent of parents of uninsured children work for employers who do not offer health insurance; an additional 15 percent are ineligible for the employer's plan; a further 21 percent of these parents are not employed. Reschovsky, James D., and Peter J. Cunningham, Issue Brief, Center for Studying Health System Change, Washington, D.C. August 1998.
5Thorpe, Kenneth E. and Curtis S. Florence, Covering Uninsured Children and Their

Parents: Estimated Costs and Number of Newly Insured, Commonwealth Fund, New York, NY, July 1998.

6Shoen, Cathy, Barbara Lyons, Diane Rowland, Karen Davis and Elaine Puleo, "Insurance Matters for Low-Income Adults: Results from a Five-State Survey," Health Affairs, September/October 1997.

7Analyses by Minnesota Department of Human Services cited in Vermont's March 1998 CHIP state plan. See also, Moffitt, R., and Wolfe, B., "The effect of the Medicaid program on welfare participation and labor supply," Review of Economics and Statistics, (November 1992) 74,4:615-26; Wolfe, B., and Hill, S., "The effect of health on the work effort of single mothers," Journal of Human Resources (Winter 1995) 30, 1:42-62; Yelowitz, A., "The Medicaid notch, labor supply and welfare participation: Evidence from eligibility expansions," Quarterly Journal of Economics (November 1995) 110, 4:909-39.

8Thorpe, Kenneth and Curtis Florence, Tulane University, Changes in Medicaid Eligibility Among Children and Enrollment, 1990-1995, January 1998, unpublished paper cited in Wisconsin's January 1998 1115 Medicaid waiver request. The study finds that Medicaid participation rates in 1995 were 79 percent where eligibility was linked to AFDC cash assistance, but only 43 percent for non-cash eligibility. Table 4. The study then explores factors that may account for the difference in participation rates. It finds that the likelihood of a child being uninsured is substantially less if the parents or all the children in a family are eligible for non-cash Medicaid. Table 5

9Thorpe, op. cit. Commonwealth Fund.

10Steele R.G., Forehand R., Armistead L., "The Role of Family Processes and Coping Strategies in the Relationship Between Parental Chronic Illness and Childhood Internalizing Problems," Journal of Abnormal Child Psychology, 25:83-94, 1997; Drucker P.M., Greco-Vigority C., Coil G., Moore-Russell M., Avaltroni J., "Depression and Anxiety in Children of Substance Abusers," Psychological Reports, 80:723-732, 1997; Garley D., Gallop R., Johnson N., Pipitone J., "Children of the Mentally Ill: A Qualitative Focus Group Approach," Journal of Psychiatric and Mental Health Nursing, 4:97-103, 1997. Journal articles cited in "Eligibility Options Under CHIP," Maternal and Child Health Policy Research Center, Washington, D.C., December 1997.

11Section 2105(c)(3) provides:

Payment may be made to a State under subsection (a)(1) for the purchase of family coverage under a group health plan or health insurance coverage that includes coverage of targeted low-income children only if the State establishes to the satisfaction of the Secretary that-(A) purchase of such coverage is cost-effective relative to the amounts that the State would have paid to obtain comparable coverage only of the targeted low-income children involved, and (B) such coverage shall not be provided if it would otherwise substitute for health insurance coverage that would be provided to such children but for the purchase of family coverage.

12States can use CHIP for expanding Medicaid eligibility beyond the standards in effect on March 31, 1997.

13Section 2107(e)(2) provides that Section 1115 is applicable to the CHIP program.

14Question and Answer 14 (b), September 11, 1997, "The Administration's Responses to Questions about the State Children's Health Insurance Program."
15Section 1931(b)(2)(C) of the Social Security Act. For more information on Medicaid options for covering families, see Mann, Cindy, and Jocelyn Guyer, Taking the Next Step: States Can Now Take Advantage of Federal Medicaid Matching Funds To Expand Health Care Coverage To Low-Income Working Parents, Center on Budget and Policy Priorities, Washington DC, 1998. (A summary of this paper is available on-line at www.cbpp.org).
16Medicaid is linked to the former AFDC rules in effect in a state in 1996. The former AFDC rules required that a child be deprived of parental support by virtue of the absence, incapacity, or unemployment of at least one parent. Most, but not all states had a waiver in place in 1996 permitting them to offer Medicaid coverage to two-parent families under the unemployment standard even though one parent worked more than 100 hours per month. The President's initiative will extend the option to cover two-parent working families to those states that did not have a waiver of the so-called "100-hour rule" in 1996.
17Beginning in 1990 Medicaid required states to purchase available private coverage for Medicaid recipients when it was cost-effective to do so. In 1997, the Balanced Budget Act converted this requirement into a state option. (Section 1906 of the Social Security Act as amended by Section 4741of the Balanced Budget Act). For more information on HIPPs, see: U.S. General Accounting Office, "Medicaid: Three States' Experiences in Buying Employer-Based Health Insurance," GAO/HEHS-97-159, July 1997.
18§1906(e) of the Social Security Act.
19The Institute for Health Policy Solutions in Washington D.C. is providing technical assistance to states interested in using CHIP to provide premium assistance for employer-sponsored plans. See their website at www.ihps.org.
20Wisconsin has filed a Phase I CHIP plan that raises Medicaid to 100 percent of poverty for children 15 to 19. It has also filed a Medicaid 1115 waiver that describes its proposal to file an amended Phase 2 CHIP plan that will seek the family coverage variance. It has not actually applied for a family coverage variance in its CHIP plan.
21Letter from Nancy -Ann Min DeParle, Administrator, HCFA, Washington DC to Joseph Leean, Secretary of Health and Social Services, Madison WI, dated August 19, 1998.
22States do not need a variance to subsidize premiums for child-only coverage. See, the HCFA "Dear State Health Official" letter dated February 13, 1998.
23Massachusetts is contracting with the same managed care plans, and paying the same per member per month rate for children in its CHIP program that it pays for adults and children in its Medicaid program. Therefore, the costs of covering eligible children in Massachusetts is likely to be higher than the costs of covering children in states that are paying plans based on a child-only rate. This is because Massachusetts is using a blended rate that includes adults who cost more on average than children do.
23Reschovsky, James D., and Peter J. Cunningham, op.cit.