

October 8, 2001

The Bush Administration's Health Proposals in the Economic Stimulus Package

The President's Proposal

On October 4, 2001, President Bush outlined key elements of his proposed economic stimulus package, including a provision to help newly unemployed workers maintain health coverage. The health portion of his proposal has two elements. First, \$11 billion allocated to the states for the State Children's Health Insurance Program (SCHIP) will be made available to cover newly unemployed workers. Second, \$3 billion will be made available to the states in National Emergency Grants; those grants can be used for a number of purposes, including the partial subsidization of COBRA coverage.

The President's proposal provides *no new funds* for health care coverage for people who lose jobs. The \$11 billion consists of funds that have already been allocated to the states for uninsured children in low-wage working families. In effect, the President's proposal authorizes the states to transfer the use of those funds from low-income children to newly unemployed adults, thereby reducing health coverage for needy children. Similarly, the \$3 billion for the National Emergency Grant program was already appropriated as part of the \$40 billion Emergency Supplemental Appropriations bill signed by the President on September 18, 2001.

The President's Proposal Will Reduce Health Coverage for Low-Income Children

When the President announced that he would allow states to use \$11 billion in SCHIP funds for newly unemployed workers, he implied that these funds were currently being under-used by the states. The President's assertion, however, is misleading. Under

the SCHIP statute, states have three years to spend each year's allotment. Congress purposely established this three-year timeframe for spending SCHIP funds to accommodate growth in the program as more and more families learn about it.

Although there are funds in the program that have not yet been spent, states need—and will spend—these funds to meet growth in enrollment. With each passing year, approximately one million low-income, uninsured children are being added to the SCHIP rolls—from 893,000 at the end of 1998 to 2,658,000 at the end of 2000. SCHIP enrollment will continue to increase as states reach out to more families of low-income children who are eligible for, but not yet enrolled in, the program. Of the 8.5 million uninsured children in the U.S., approximately two-thirds are eligible for SCHIP or Medicaid.

As a result, the President's proposed authorization to transfer funds from SCHIP-related purposes to help newly unemployed workers will reduce prospective health coverage for low-income children, thereby leaving them in the ranks of the uninsured.

The Proposal Will Reduce SCHIP Funding When It Is Most Needed

When SCHIP was enacted in 1997, Congress provided \$40 billion in funding over a 10-year period. However, that \$40 billion was not evenly divided over the ten years. Instead, to offset an anticipated budget shortfall in fiscal years 2002-2005, considerably fewer SCHIP funds were authorized for that period. This so-called "SCHIP funding

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dip” began October 1, 2001 (the beginning of fiscal year 2002). Thus, at the very time that the President is authorizing a transfer of funds away from children’s health coverage, the program is in greatest need of additional support.

More, rather than fewer, funds for children’s health coverage are also needed as a result of the declining economy. As unemployment grows, so will the number of uninsured children. Hence, the President’s proposal to transfer funds away from children’s health coverage comes at a most inopportune time.

The President’s SCHIP Proposal Will Be Most Harmful to New York

New York, the state hardest hit by the events of September 11, will also be the biggest loser under the President’s SCHIP proposal. Anticipating that some states would move faster than others, Congress provided that SCHIP funds be periodically reallocated—from states that were slower in reaching out to uninsured children, to states with more aggressive programs. New York was one of the first states to implement SCHIP and is among the states that have experienced the fastest program growth. New York had every reason to expect a larger reallocation of SCHIP funds than it will receive if the Administration’s proposal is implemented.

New York, therefore, will be most disadvantaged by the President’s proposal in two respects. First, since states that have been slow to reach children are now likely to use some of their funds to cover adults, New York will not receive as much of a SCHIP reallocation as expected. Second, since New York already uses all of its SCHIP funds to cover children, it will be unable to use federal funds to provide health coverage for displaced adults.

The President’s \$3 Billion Proposal Will Help Very Few People

The President’s proposed \$3 billion to fund National Emergency Grants, using funds already appropriated, is intended to cover a wide variety of alternative purposes, including: subsidization of COBRA benefits; extended unemployment compensation for people who exhausted their benefits; income support for people ineligible for unemployment coverage; and a variety of job search and training services.

The Congressional Budget Office has estimated that a 50 percent subsidy of COBRA benefits would cost considerably more than the \$3 billion allocated by the President. Even if the entire \$3 billion were dedicated solely to health coverage—an unlikely outcome—this money would only help a relatively small number of newly unemployed people pay for health coverage.

Meaningful Health Relief: What Will It Take?

The President’s proposal provides no new funding and forces states to make unpalatable choices. They will have to choose between uninsured children and unemployed adults in their SCHIP programs. And, for newly unemployed adults, states will have to pick between health coverage and other important social supports. Instead, Congress and the President should commit the additional funds needed to help unemployed Americans afford COBRA coverage and to expand Medicaid coverage so that newly unemployed people who are ineligible for COBRA (such as workers laid off from jobs in small businesses) can retain health coverage.