



**THE FEDERAL OUTLOOK FOR
CHILDREN'S HEALTH IN 2007:
Fiscal Challenges and Coverage
Opportunities in SCHIP Reauthorization**

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The Federal Budget Context: Budget Deficit in Fiscal Year 2006

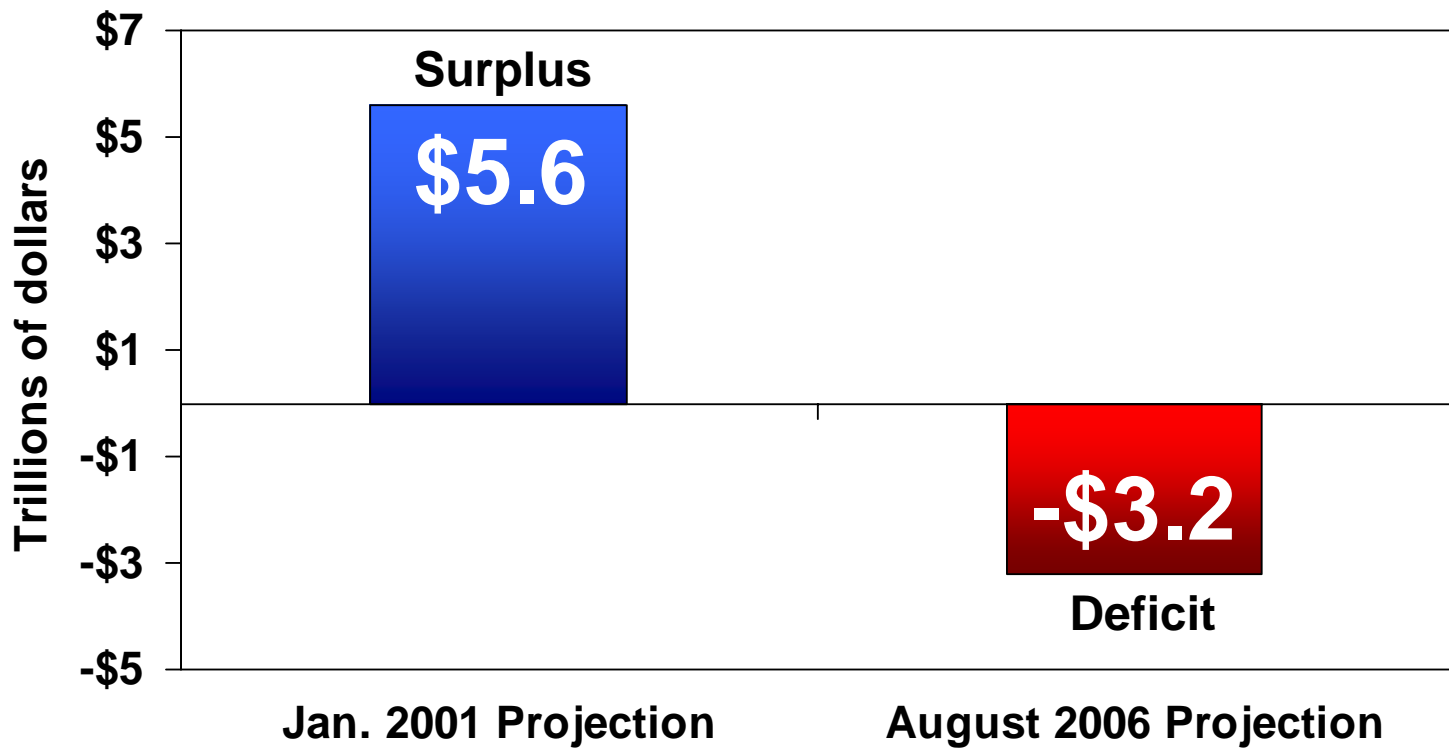
Revenues **\$2.407 trillion**

Expenditures **\$2.654 trillion**

Deficit **\$ 248 billion**

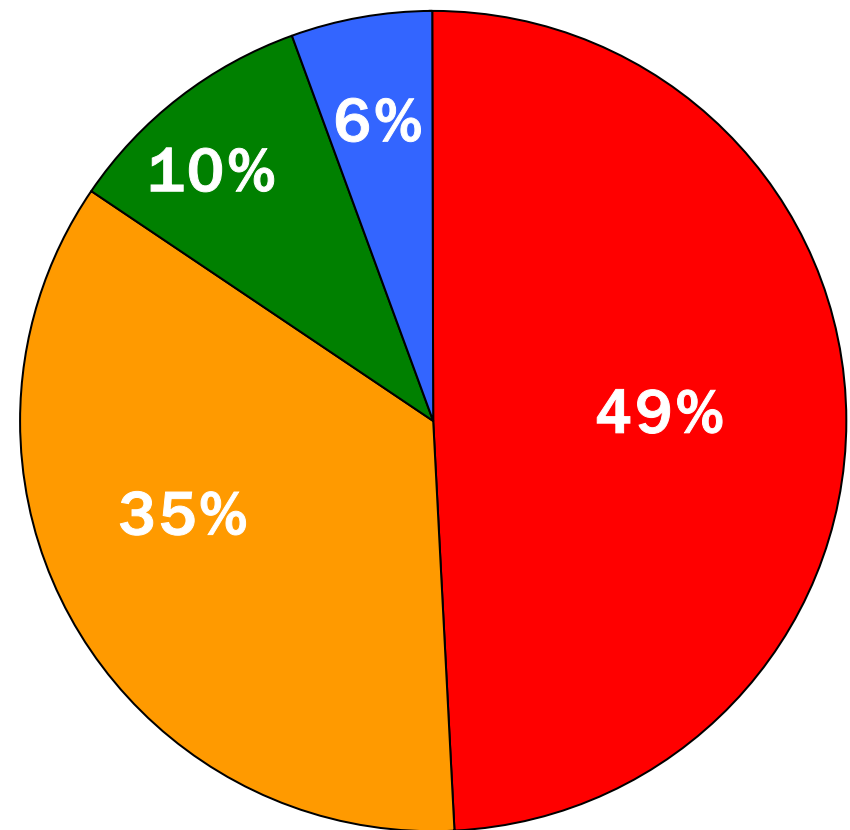
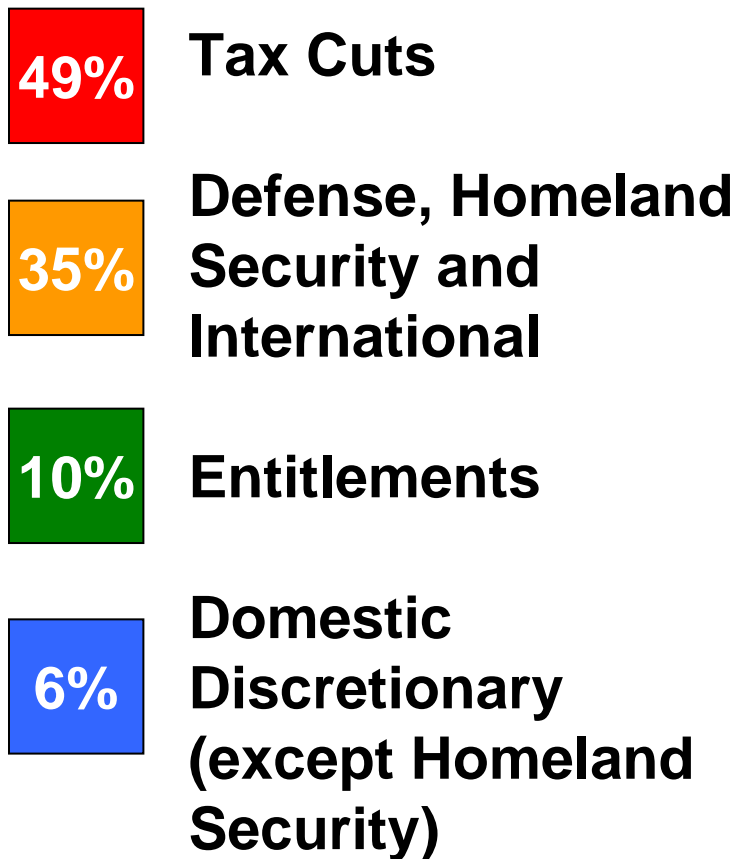
From Large Federal Budget Surpluses to Large Deficits in Just Five Years

Cumulative Surpluses/Deficits, 2002-2011



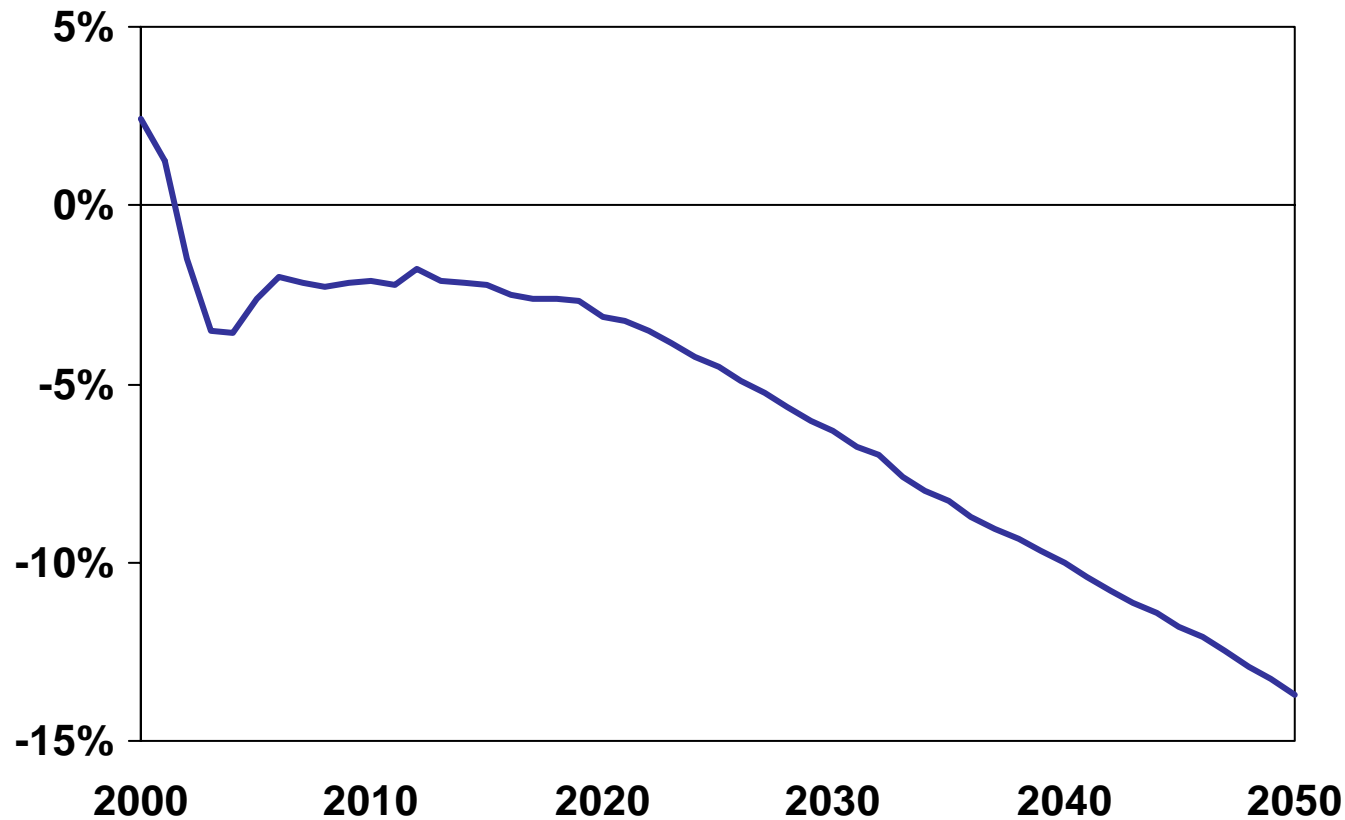
Legislation Adding to Deficits: Mostly Tax Cuts and Defense

Cost, 2002-2011, of policy changes since January 2001



Under Current Fiscal Policy, Deficits Would Grow Deeper in Future Decades

(Surplus (+)/Deficit (-) As a Percent of the Economy (GDP))



SCHIP Reauthorization Will Likely Be Top Health Care Issue in Next Congress

- The State Children's Health Insurance Program (SCHIP), which funds Healthy Families in California, was established in 1997 and provided \$40 billion over 10 years in new federal funds to states to help cover more uninsured low-income children.
- Unlike Medicaid, SCHIP provides states each year capped allotments available for three years. States get enhanced matching rate higher than Medicaid. In California, enhanced matching rate is 65 percent.
- Together with Medicaid, SCHIP has helped reduce the rate of uninsured children by one-third since 1997 despite large declines in employer-sponsored insurance since 2000.
- SCHIP enjoys wide-ranging bipartisan support and covered 4 million children in 2004. Healthy Families now covers nearly 800,000.
- The program, however, is only funded through federal fiscal year 2007. New Congress must consider SCHIP reauthorization in 2007.

Reauthorization Offers Significant Fiscal Challenges and Coverage Opportunities for Children's Health

- Key challenge in reauthorization will be ensuring sufficient federal financing. Due to arcane federal budget rules and the large and growing federal budget deficit, SCHIP may end up being reauthorized but only at inadequate, frozen levels.
- States would therefore not have enough federal funding to sustain their existing programs, let alone cover more uninsured children.
- Key opportunity in reauthorization, however, will be how to make further progress towards covering all children.

The Baseline Funding Levels for SCHIP

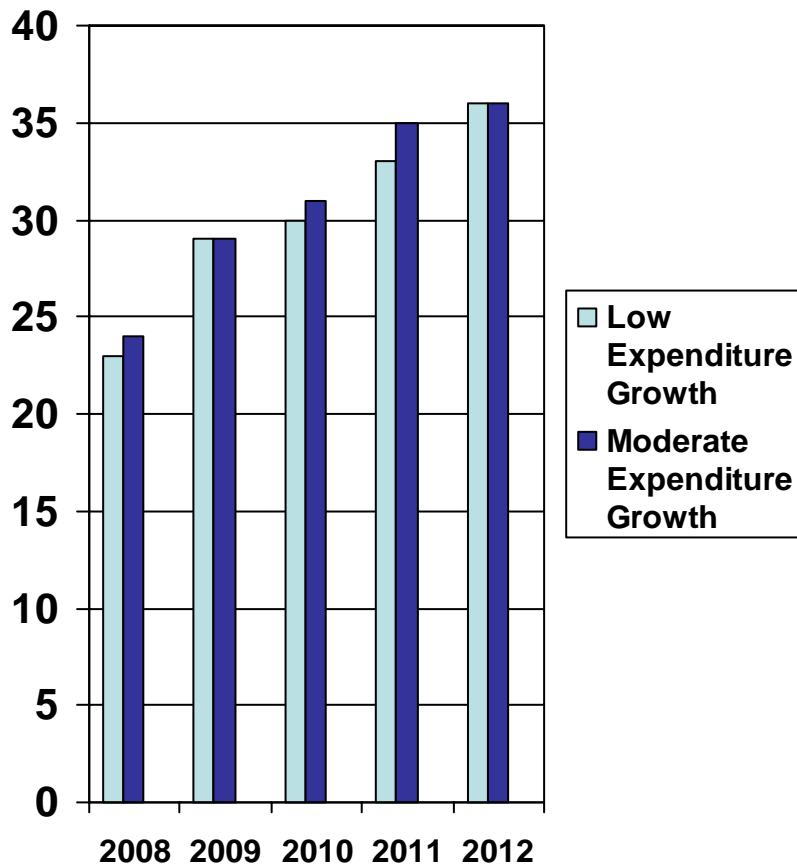
- The baseline is the amount of federal spending expected to occur in the absence of any changes in federal law.
- In its baseline, the Congressional Budget Office, which estimates the budget impact of Congressional legislation, assumes SCHIP will be reauthorized.
- CBO, *however*, assumes that annual SCHIP funding will be frozen at the FY 2007 level in perpetuity (\$5.04 billion annually).
- This means that the baseline does not assume any future federal funding increases to take into cost account factors like health care inflation or population growth.

The Baseline and Congressional Budget Rules

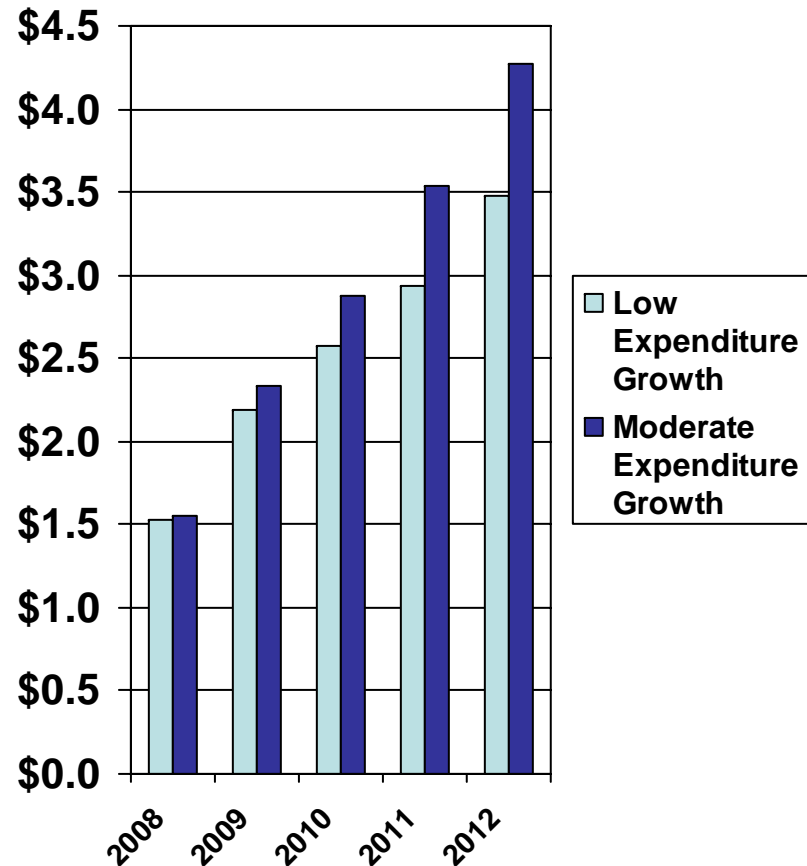
- Any federal funding increases above baseline levels that are included in reauthorization will run afoul of various Congressional budget rules because it “scores” and adds to the deficit unless offset with other savings. Creates hurdles for reauthorization.
- For example, in the Senate, you still need 60 votes to waive rules that bar legislation that:
 - Increases SCHIP spending above baseline levels if not part of the Congressional budget resolution.
 - Increases spending by \$5 billion or more in any of the next four ten-year periods from 2016-2055.
- Likely reinstatement by new Democratic majority of “pay-go” rules requiring both entitlement increases and tax cuts to be offset.
- Reconciliation legislation now unlikely. Under reconciliation, committees would have to produce net cuts to programs under their jurisdiction.
- This means that despite change in party control, the new Congress will still be under fiscal pressure to institute program savings to fully “pay for” SCHIP funding increases or provide little or no additional funding increases above current levels.

What Happens to SCHIP if Funding Remains Frozen at Baseline Levels?

Projected Number of States Facing Shortfalls



Annual Shortfall Projected (in \$ billions)



Total Estimated Annual Shortfalls for 2008-2012 Under Baseline (in \$ billions)

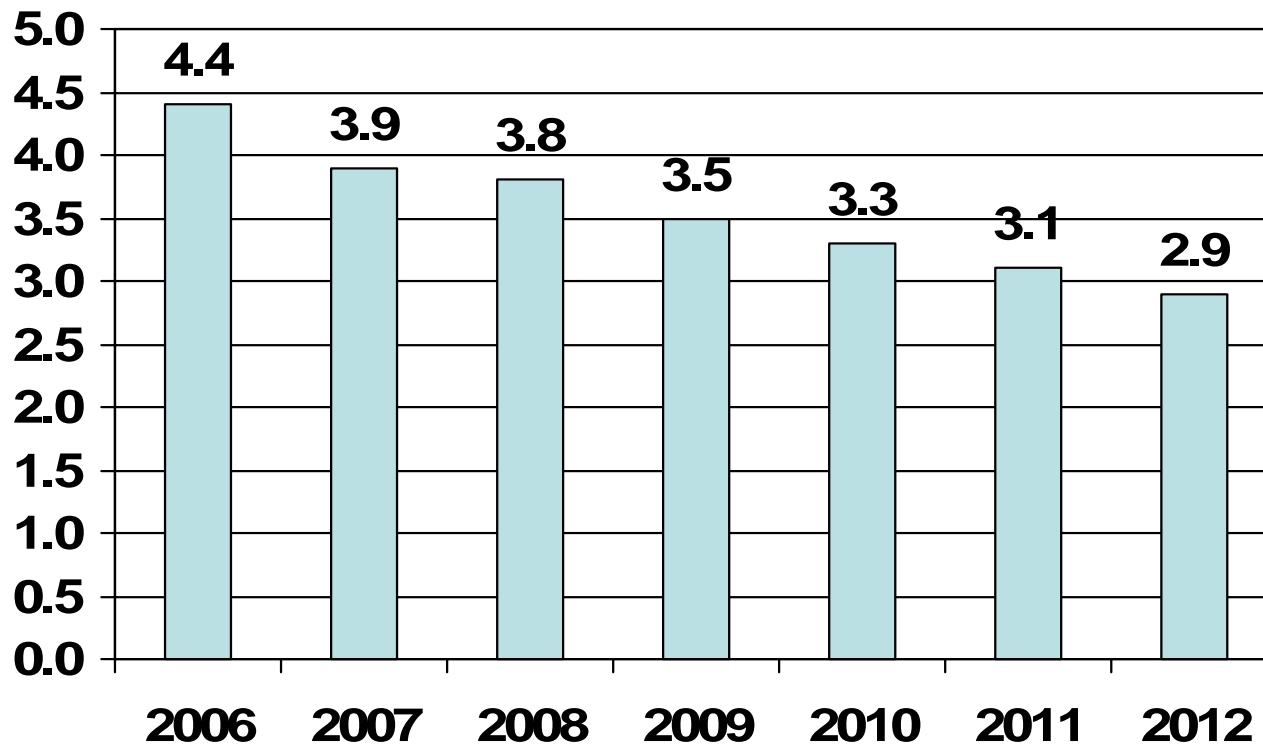
	2008	2009	2010	2011	2012	TOTAL
Low Expenditure Growth	\$1.522	\$2.194	\$2.572	\$2.940	\$3.476	\$12.705
Moderate Expenditure Growth	\$1.558	\$2.335	\$2.873	\$3.536	\$4.272	\$14.575

What Will Happen to Children's Health Care in a State Facing a Funding Shortfall?

- A projected federal funding shortfall is the difference between the amount of federal SCHIP funding needed to sustain an existing program and the amount of federal SCHIP funding the state is projected to actually have available.
- A state facing a shortfall can compensate by doing one or more of the following:
 - Increase state funding. State pays greater share of the cost of SCHIP coverage.
 - Reduce SCHIP eligibility.
 - Cap SCHIP enrollment or impose waiting list..
 - Increase cost-sharing or reduce benefits for SCHIP beneficiaries.
 - Reduce SCHIP provider/plan payments.

CMS Estimates of SCHIP Children's Enrollment by Fiscal Year (2006-2012)

Children's Enrollment in SCHIP by Fiscal Year (in millions)



Some in Congress, the Administration May Oppose Funding Increases and Instead Propose SCHIP, Medicaid Cuts

- In light of poor fiscal outlook and the budget rules, some in Congress may oppose funding increases and instead propose to fix SCHIP baseline funding problem by cutting SCHIP.
 - Already some discussion of limiting the use of SCHIP funds to “core” populations. Could be defined as only children below 200% of the poverty line. Would affect states that have expanded SCHIP coverage to children above 200% of the poverty line, pregnant women, and/or parents. Some states below 200% for children are sympathetic.
 - However, unlikely to significantly reduce shortfalls but would lead to increases in the number of uninsured.
- Alternatively, some in Congress may argue that other vital health insurance programs should be cut to pay for SCHIP reauthorization.
 - Possible target for these cuts/offsets could be Medicaid.
 - Recommendations of President’s hand-picked Medicaid Commission are due at the end of 2006.
 - Less likely due to election results but danger remains.
- Administration likely to claim no need for additional federal SCHIP funds above baseline levels. Argues you could make up difference with accelerated redistribution of unspent SCHIP funds. Budget likely to include entitlement cuts and could include the Medicaid Commission recommendations.

Already Ongoing Efforts to Get Needed Funding Increases for SCHIP in Next Year's Budget

- Top priority for SCHIP reauthorization will be ensuring states, at a minimum, have enough federal funding to sustain their existing programs as well as additional funds needed to cover more of the uninsured. Also, top priority that Medicaid not be cut to pay for the needed funding increases.
- Coalitions already forming at the national and state levels. Governors, children's advocates, pediatricians, hospitals and insurers already working on SCHIP reauthorization.
- Builds on the current effort to address the \$921 million in federal funding shortfalls projected to occur in 17 states this year.
- Reauthorization timing:
 - President's budget released in February 2007 but already being constructed. President's SCHIP reauthorization proposal often sets a marker for Congress.
 - Congressional budget resolution debated and enacted in spring 2007: sets Congressional budget priorities for year including SCHIP.
 - Actual SCHIP reauthorization legislation will likely be debated during the summer and fall of 2007.

Despite Funding Issues, Reauthorization Could Serve as Vehicle for Coverage Opportunities

- Substantial interest in using SCHIP reauthorization as a vehicle to achieve significant improvements in Medicaid and SCHIP coverage for children. New Congressional leadership likely to want to expand coverage.
- These improvements, however, require sufficient federal funding to be successful, above and beyond the large, new investment of federal funds needed above baseline levels just to sustain existing SCHIP programs.

Improving Outreach and Enrollment

- Nearly 70% of all uninsured children are currently eligible but unenrolled in Medicaid and SCHIP.
- Among low-income children with incomes below 200% of the poverty line, 84% are already eligible for Medicaid and SCHIP.
- Strong bipartisan interest in outreach. Ironically, some members of Congress interested in outreach also seem most opposed to more funding above baseline levels.
- Congress may consider new fiscal incentives to encourage states to increase participation in Medicaid and SCHIP among eligible children.
- Congress may also consider further streamlining of enrollment procedures and better coordination with other public programs.
- However, again, requires states have sufficient federal funding to actually cover the children found through such efforts.

Covering More Immigrant Children

- Welfare law bars federally-funded Medicaid and SCHIP coverage for legal immigrant children within first five years in the U.S.
- Some states like California have provided state-funded coverage instead.
- Give states option to use federal matching funds for Medicaid and SCHIP coverage for legal immigrant children and pregnant women within 5-year bar.
- Other initiatives for immigrant children could also be considered.

Addressing the Medicaid Citizenship Documentation Requirement

- Recently enacted Deficit Reduction Act imposed new citizenship documentation requirement for Medicaid. Includes new applicants and current beneficiaries upon redetermination.
- Huge step backwards in making it easier for eligible children to enroll in Medicaid.
- Some states are already experiencing significant enrollment declines among children in their Medicaid programs, despite usual enrollment uptick in the fall as children return to school.
- Easing this requirement could be considered during SCHIP reauthorization debate.

Improving the Quality of Children's Health Care

- Significant interest in developing quality benchmarks and/or measurements for children's coverage generally.
- Current initiatives at the federal level like pay-for-performance and better information technology are focused on seniors in Medicare and on workers in private insurance, not on children.
- What should be the quality benchmarks or measurements for children? What should be in an electronic health record?
- How to provide financial support for state collection of quality data, development of electronic health record for children?

Conclusion

- If SCHIP is reauthorized but funded only at baseline levels, it would constitute a substantial cut to children's coverage and a significant step back in the progress we have made to ensure that all children have health insurance coverage.
- The challenge for the new Congress will be to ensure a sufficiently funded SCHIP program -- within the context of a poor federal fiscal outlook -- that not only allows states to sustain their existing programs but also to cover more uninsured children, and importantly, does not cut Medicaid to pay for it.
- The opportunity for the new Congress will be to provide new coverage tools and options for states to provide quality health insurance under Medicaid and SCHIP to more uninsured children.