CRS Report for Congress

Medicaid and the State Children's Health Insurance Program (SCHIP): FY2009 Budget Issues

Updated February 13, 2008

Cliff Binder, Evelyne P. Baumrucker, April Grady,
Jean Hearne, Elicia J. Herz, and Julie Stone
Domestic Social Policy Division

Prepared for Members and
Committees of Congress

Congressional
Research
Service

SCHIP Legislative Proposals

SCHIP: SCHIP Reauthorization

Background. The Balanced Budget Act of 1997 (BBA, P.L.105-33) established SCHIP. In general, this program allows states to cover targeted low-income children with no health insurance in families with income that is above

Medicaid eligibility levels. States may choose among three benefit options when designing their SCHIP programs. They may enroll targeted low-income children in Medicaid, create a separate state program, or devise a combination of both approaches. All states, the District of Columbia, and five territories have SCHIP programs.

BBA appropriated nearly $40 billion SCHIP for FY1998 through FY2007, with annual state allotments determined by a formula using a combination of the estimated number of low-income children and low-income uninsured children in the state, adjusted by a state health cost factor. Four continuing resolutions provided appropriations through December 31, 2007. For SCHIP allotments in FY2008, The Medicare, Medicaid, and SCHIP Extension Act of 2007 (MMSEA, P.L. 110-173, enacted December 29, 2007, appropriated funds to ensure no state's SCHIP program runs out of federal SCHIP funds before March 31, 2009, but did not make other changes to the program.

States that set up an SCHIP program are entitled to federal reimbursement, up to a cap, for a percentage of the incurred costs of covering enrolled individuals. This percentage, which varies by state, is called the enhanced federal medical assistance percentage (E-FMAP). It is based on the FMAP used for the Medicaid program but is higher in SCHIP. In other words, the federal government contributes more toward the coverage of individuals in SCHIP (65% to 83.09% in FY2009) than it does for those covered under Medicaid (50% to 75.4% in FY2009).[10]

States have three years to spend each annual allotment (e.g., states have until the end of FY2007 to spend their FY2005 allotments). At the end of the applicable three-year period, unspent funds are reallocated among states based on year-specific rules. In the early years of the SCHIP, both states that did and did not fully exhaust their original allotments received unspent funds. For more recent years, only those states that fully exhaust their original allotments receive unspent funds. Some states have experienced shortfalls in SCHIP funds, meaning at the end of a given fiscal year, they have spent all federal SCHIP funds available to them at that point in time, including original allotments and reallocations of unspent funds from other states.

Proposal. Through a legislative proposal, the President's FY2009 Budget would increase SCHIP state allotments by $19.7 billion through FY2013, on top of the assumed $5 billion per year in the baseline.

As reported at the Health and Human Services (HHS) press conference on the budget, a CMS FY2009 budget briefing for House staff on February 4, 2008, and discussions with HHS' staff, the Administration proposes to target SCHIP funds at children and pregnant women with annual family income under 200% FPL. The SCHIP proposal also sets a "hard cap" upper income eligibility threshold at 250%

---

[10] Department of Health and Human Services, "Federal Financial Participation in State Assistance Expenditures; Federal Matching Shares for Medicaid, the State Children's Health Insurance Program, and Aid to Needy Aged, Blind, or Disabled Persons for October 1, 2008 through September 30, 2009," *Federal Register,* Vol. 72, No. 228 / Wednesday, November 28, 2007 / Notices.

FPL based on families' gross annual incomes. HHS estimates that the proposed SCHIP allotments will cover eligible children below 200% FPL as well as enrollees with income between 200 - 250% FPL.[11] The enhanced SCHIP matching rate would apply to children in families with income below 250% FPL.

The Administration's policy assumes no new children would be enrolled in SCHIP if their annual family income exceeds the 250% "hard cap." However, children currently enrolled in SCHIP whose annual family income exceeds 250% FPL would be "grandfathered in" under current eligibility rules, and state expenditures on their behalf would be matched at the regular Medicaid FMAP. Under the SCHIP budget proposal, children in higher income families (above 250% FPL) who lose eligibility based on current eligibility policies, but later wish to re-enroll in SCHIP would, after a continuous year off of SCHIP, be subject to the new 250% FPL hard-cap based on gross family income.

Under the SCHIP budget proposal, HHS also plans to continue efforts to prevent the substitution of SCHIP for private insurance. The proposed "crowd-out" policy would apply to states seeking to exceed 200% FPL for SCHIP eligibility, rather than 250% FPL as stipulated in an August 17, 2007 letter from the Center for Medicare and Medicaid Services to state health officials. States would be required to have the crowd-out strategies in place and meet the assurances listed in the August 17 letter, and face penalties for non-compliance. For example, states with SCHIP income eligibility thresholds greater than 200% FPL would be required to enroll 95% of their eligible Medicaid and SCHIP child populations with annual family income less than 200% FPL. States that do not comply with the 95% enrollment target would be subject to a one percentage point reduction in their federal matching rate (i.e., enhanced SCHIP FMAP for children in families with income between 200-250% FPL, and regular Medicaid FMAP for "grandfathered" children in families with income above 250% FPL), subject to annual matching rate changes, but capped at 5 percentage points. States that enroll 95% or more of the SCHIP eligible population below the 200% FPL target would be permitted to expand their SCHIP income eligibility threshold up to 250% FPL.

In addition, the Administration proposes to transition adults out of SCHIP into the Medicaid program by December 31, 2008. Finally, the administration proposes to work with Congress to create a new allotment distribution formula that emphasizes enrollment of children in families with income under 200% FPL. HHS estimates that the proposal would increase SCHIP outlays by $2.1 billion in FY2009, and $18.7 billion over the FY2009-FY2013 period, and will also increase Medicaid outlays by $130 million in FY2009 and $235 million over the FY2009-FY2013 period.

Through a separate grant initiative, annual outreach grants in the amount of $50 million in FY2009, and $100 million in each of FY2010 through FY2013, would be

---

[11] HHS estimates that the proposed federal SCHIP allotments would also be adequate to cover eligible but not enrolled children in families with annual income between 200%-250% FPL in the states that also meet the criteria of the Administration's proposed "crowd-out" policy (described below).

available to states to identify and enroll uninsured children who are eligible for Medicaid and SCHIP.

Reports. For more information on the SCHIP, see CRS Report RL30473, *State Children's Health Insurance Program (SCHIP): A Brief Overview* by Elicia J. Herz, Chris L. Peterson, and Evelyne P. Baumrucker, and CRS Report RS22738, *FY2008 Federal SCHIP Financing*, by Chris L. Peterson.