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CONGRESS DELAYS SCHIP FUNDING SHORTFALLS IN 2007 BY SEVERAL MONTHS

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Just prior to adjournment, Congress approved legislation (H.R. 6164) that includes a modest provision to partially address the federal funding shortfalls projected to occur in the State Children's Health Insurance Program (SCHIP) in 17 states this fiscal year.¹

The provision will redistribute existing unspent federal SCHIP funds to some of the 17 states that face shortfalls. The provision will provide only about one-fifth of the funds needed to fully close the shortfalls for the full fiscal year; it is designed to delay the onset of the funding shortfalls for several months. Early next year, the new Congress will need to move quickly to enact further SCHIP legislation that provides additional new funding to address the remaining SCHIP shortfalls. Otherwise, the 17 states will have to scale back their SCHIP programs, placing several hundred thousand low-income children at risk of losing health care coverage, unless they can come up with new state funds to fully plug the hole.

The newly approved provision is intended to partially address the fiscal year 2007 SCHIP funding shortfalls by:

- Altering the scheduled redistribution of unspent SCHIP funds originally allocated in 2004 so that the unspent funds will be distributed to shortfall states in the order in which those states are expected to incur shortfalls.² These unspent 2004 funds will be redistributed among shortfall states on a monthly basis until the funds are exhausted.

¹ See Matt Broaddus and Edwin Park, "SCHIP Financing Update: In 2007, 17 States Will Face Federal Funding Shortfalls of \$921 Million in Their SCHIP Programs," Center on Budget and Policy Priorities, Revised November 28, 2006. The 17 states are Alaska, Georgia, Illinois, Iowa, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, North Carolina, Rhode Island, South Dakota and Wisconsin.

² Unspent 2004 funds remaining available after fiscal year 2006 were already scheduled to be redistributed in 2007. The Secretary of Health and Human Services was expected to redistribute the 2004 funds to shortfall states in proportion to each state's share of the total shortfall as had been done in 2005 and 2006. We note that the estimated \$921 million shortfall in 2007 highlighted in our November analysis assumes the redistribution of 2004 funds consistent with this prior practice. Our estimate of the total 2007 shortfall *without* this assumed redistribution of 2004 funds is \$1.03 billion. See Table 1 in Broaddus and Park, *op cit*.

H.R. 6164 Would Restrict Use of SCHIP Funds for Parents by Shortfall States in 2007

H.R. 6164 includes a restriction on the use of the unspent fiscal year 2004 and 2005 funds that are redistributed to shortfall states. Shortfall states that also cover low-income parents through SCHIP and that receive some of the reallocated 2004 and 2005 funds will be able to use such funds for coverage of parents only at the regular federal Medicaid matching rate, which, on average, is about 13 percentage points lower than the SCHIP matching rate. This will have the effect of artificially reducing the size of the shortfall in these states by reducing their projected need for *federal* SCHIP funds in the months they receive 2004 and 2005 funds by about \$18.5 million (and increasing states' contribution by the same amount).

If this restriction were not applied, four of the nine states that are projected to face shortfalls first and to have their shortfalls fully closed through early May — Illinois, Minnesota, New Jersey and Rhode Island — would still face shortfalls of \$18.5 million through early May. To the extent that these four states address their shortfalls by reducing the enrollment of parents, the loss of such coverage will not only cause many of those parents who lose coverage in these states to become uninsured, but likely also will affect children's coverage. An extensive body of research shows that covering low-income parents increases enrollment in public programs among eligible children. Scaling-back SCHIP coverage of parents would therefore be likely to result in reduced coverage for low-income children as well in these states.*

* See Leighton Ku and Matthew Broaddus, "Coverage of Parents Helps Children Too," Center on Budget and Policy Priorities, October 20, 2006.

- Recapturing a portion of the SCHIP funds originally allocated in fiscal year 2005 that remain unspent after March 31, 2007. As with the unspent 2004 funds, these funds are to be distributed to shortfall states in the order in which those states will face shortfalls.³ Here, too, the funds will be redistributed on a monthly basis until they are depleted.

According to our estimates,⁴ the SCHIP provision of H.R. 6164 will provide a total of \$218.7 million to the nine shortfall states — Alaska, Georgia, Illinois, Maryland, Massachusetts, Minnesota, Nebraska, New Jersey and Rhode Island — that are expected to face shortfalls first.⁵ (The other shortfall states will not receive any funds under H.R. 6164.⁶) This will generally postpone the onset of shortfalls in the states until early May 2007.⁷ But because the total amount of funds made

³ Previously, states would have had until the end of fiscal year 2007 to spend their 2005 allotments. Under H.R. 6164, any state with 2005 funds remaining unspent after March 31, 2007 will lose up to 50 percent of those funds (but no more than \$20 million) if the state's total available funding after March 31, 2007 is at least twice its projected federal SCHIP spending for fiscal year 2007.

⁴ Our estimates are derived from the Center on Budget and Policy Priorities' SCHIP financing model and incorporate states' SCHIP spending estimates from August 2006. These estimates may differ from estimates of H.R. 6164 conducted by the Congressional Research Service (CRS) that are not yet publicly available, because the CRS estimates may be using more recent state spending estimates from November 2006.

⁵ This figure includes a projected \$114.9 million in unspent 2004 funds and a projected \$103.8 million in unspent 2005 funds.

⁶ Eight shortfall states — Iowa, Louisiana, Maine, Mississippi, Missouri, North Carolina, South Dakota, and Wisconsin — are not projected to receive any assistance under H.R. 6164. We would note that in the absence of H.R. 6164, the Secretary would likely have redistributed the 2004 funds to all 17 shortfall states on a proportional basis. As a result, these eight states are projected to have slightly larger shortfalls in 2007 than were projected under prior law.

⁷ Shortfall states that provide SCHIP coverage to parents, however, will likely still experience limited shortfalls *prior* to early May. See the box on this page.

available to shortfall states under H.R. 6164 will be only about one-fifth of the amount needed to fully close the shortfalls, the bill will leave a projected shortfall of \$815.7 million for the remainder of fiscal year 2007 among all 17 affected states.⁸ This is equivalent to the cost of covering approximately 560,000 children under SCHIP.

A Stop-Gap Measure

Passage of the SCHIP provision of H.R. 6164 is a welcome development, particularly since Congress had, only the day before, appeared ready to ignore the SCHIP shortfall issue when it removed a similar SCHIP provision from the tax extenders package. H.R. 6164 is, however, only a stop-gap measure.

If the new Congress does not provide additional new funding to close the shortfall, the shortfall states will have to cut their SCHIP programs — by reducing eligibility, reducing enrollment, scaling back benefits, increasing cost-sharing and/or cutting payments to health care providers — unless these states can come up with the additional funds themselves. In states that cut their programs, significant numbers of SCHIP beneficiaries will be at risk of losing some or all of their coverage and ending up uninsured or underinsured.

In the final days of the Congressional session, some members of Congress cited the lack of offsetting savings in entitlement spending and/or of offsetting revenue increases to ensure no increase in the deficit as a reason to reject SCHIP measures that would fully close the 2007 shortfalls. This led to the scaled-back provision eventually included in H.R. 6164. The argument that a provision to fully close the shortfalls could not be included because its costs would not be offset is hard to square with Congress' actions in approving the tax extenders package. That package will cost the federal Treasury \$50 billion over ten years — with the costs not being offset — including \$1 billion for provisions making Health Savings Accounts more lucrative as tax shelters to wealthy individuals⁹ and Medicare provisions with a net cost of \$4.8 billion.

⁸ As discussed in footnote 2, the total shortfall projected for fiscal year 2007 is \$1.03 billion (not counting the previously scheduled redistribution of 2004 funds). H.R. 6164 will provide an estimated \$218.7 million, which is only 21 percent of the total shortfall. Taking into account the restriction on parents' coverage that artificially reduces the size of the shortfall by \$18.5 million in the months that states will receive 2004 and 2005 funds under H.R. 6164 (see the box on page 2), the remaining shortfall will be further reduced to \$797.3 million.

⁹ Edwin Park, Robert Greenstein, and Joel Friedman, "Last Minute Addition to Tax Package Would Make Health Savings Accounts More Attractive as Tax Shelters for High-Income Individuals," Center on Budget and Policy Priorities, Revised December 7, 2006.