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**THE CHILDREN'S HEALTH INSURANCE PROGRAM  
REAUTHORIZATION ACT AND THE FUTURE OF THE SCHIP PROGRAM  
IN TODAY'S ECONOMIC CLIMATE**

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Obtaining or maintaining adequate health care coverage is one of the primary concerns facing American families in today's faltering economy and job market. State legislators are faced with addressing health coverage and accessibility while state budgets will be hard to meet. Indeed, at least 46 states are facing significant budget shortfalls and those problems have the potential to continue well into the future.<sup>1</sup> The Center on Budget and Policy Priorities estimates that state budget deficits may total some \$145 billion.<sup>2</sup> Moreover, as economic conditions deteriorate and the unemployment rate increases, demand for Medicaid, the State Children's Health Insurance Program (SCHIP), and other services is expected to increase.<sup>3</sup> Each percentage point rise in the national unemployment rate, according to the Kaiser Family Foundation, may be expected to increase Medicaid and SCHIP enrollment by 1 million people: 600,000 children and 400,000 nonelderly adults.<sup>4</sup>

This article provides a brief overview of the SCHIP program and then discusses new federal SCHIP legislation aimed at addressing some of the serious healthcare concerns raised by the current economic climate. The article also examines the choices surrounding the new federal legislation that Texas legislators, and their counterparts across the country, will face in the near future when deciding how to implement the federal legislation in their state.

## **I. Background and Overview of SCHIP**

Congress originally established the SCHIP program in 1997, under title XXI of the Social Security Act, to address the significant number of uninsured children in the United States.<sup>5</sup> In 1997, SCHIP provided \$48 billion in state grants over 10 years to provide free or low-cost health insurance for uninsured children aged 18 and younger.<sup>6</sup> State health programs now cover more than 6 million children whose parents earn too much to qualify for the federal health insurance program for the poor, Medicaid, but who otherwise cannot afford private insurance.<sup>7</sup> The SCHIP program is jointly financed by federal and state governments and is administered by the states. Within federal guidelines each state determines the design of its program, eligibility groups, benefit packages, payment levels for coverage, and administrative and operating procedures. <sup>8</sup>

The SCHIP program has distinct policy differences from Medicaid. Unlike Medicaid, SCHIP is not an entitlement program, and federal funds that are available to the states through a matching arrangement are capped.<sup>9</sup> This means that states have greater flexibility to design a benefits package, require recipients to share in the cost of care, and limit enrollment. Although benefits vary from state to state, once children are insured, they generally are able to receive regular check-ups, hospital care, immunizations, eyeglasses, and prescription drug coverage.<sup>10</sup>

## **II. The Children's Health Insurance Program Reauthorization Act of 2009**

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On February 4, 2009, President Obama signed into law the Children's Health Insurance Program Reauthorization Act of 2009, reauthorizing SCHIP through 2013.<sup>11</sup> President Bush vetoed two similar bills citing a concern that the legislation unacceptably encouraged families to leave the private insurance market.<sup>12</sup> Without congressional and presidential action, SCHIP would have expired on March 31, 2009. The stated purpose of the act, which is set to take effect on April 1, 2009, is to "provide dependable and stable funding for children's health insurance under titles XXI and XIX of the Social Security Act in order to enroll all six million uninsured children who are eligible, but not enrolled, for coverage today through such titles."<sup>13</sup>

### **A. Expansion of SCHIP Eligibility**

The act not only reauthorizes SCHIP, it also expands SCHIP eligibility through a number of new measures. The most dramatic measure seeks to use a 61-cent increase in the cigarette tax to cover 4 million additional, currently uncovered, children.<sup>14</sup> The act also seeks to add more children by giving states the authority to cover children whose families have an income as high as 300 percent of the federal poverty level, or about \$66,000 for a family of four. The act provides for a lower federal match for states that cover families making more than 300 percent of the poverty limit. <sup>15</sup>The act also expands SCHIP's scope by authorizing the expenditure of an additional \$32.8 billion in federal funds on SCHIP and allowing legal immigrants to qualify for SCHIP. Previously, legal immigrants were generally barred from Medicaid and SCHIP for five years after they entered the United States. Although the act diminishes that delay for legal immigrants, it does not open the program to undocumented immigrants who remain ineligible for coverage.<sup>16</sup> Indeed, the act continues to require that states verify that people covered by the children's health programs are United States citizens or legal residents, and states now have the option of verifying eligibility by matching a person's name and Social Security number against federal records. <sup>17</sup>

### **B. Additional SCHIP Coverage**

In addition to expanding SCHIP eligibility, the act also requires states to provide additional coverage under their version of SCHIP. States now must provide dental care as part of SCHIP coverage and under the new law will be able to provide dental coverage as a supplement to private insurance.<sup>18</sup> The act generally requires states to provide equal coverage for mental and physical illnesses-mental health "parity"-under the children's health program.<sup>19</sup>

## **III. Challenges Facing the States**

The main question now facing state legislators is how to design and pay for their respective state children's health programs in light of the changes to SCHIP contained in the act. An analysis of the environment in Texas may be instructive.

### **A. The Texas SCHIP Program**

The Texas Legislature established its SCHIP program in 1999 and began enrolling children in June 2000.<sup>20</sup> Beginning in June 2000, the number of SCHIP enrollees increased steadily until it reached a peak of 529,211 children in May 2002.<sup>21</sup> Facing a projected state budget deficit, in 2003 Texas passed legislation that imposed barriers to entry into the SCHIP program and resulted in a large reduction in the number of enrollees. <sup>22</sup> The 2003 law required SCHIP enrollees to prove their continued eligibility every six months, pass an assets test, and wait 90 days before enrollment could take effect. These changes led to a decline of more than 200,000 SCHIP enrollees. By imposing those and other barriers to the SCHIP program, Texas turned away almost \$1 billion in federal matching funds.<sup>23</sup>

In 2005, Texas approved an expansion of SCHIP to include a new perinatal benefit to cover pregnant women with a family income of up to 200 percent of the federal poverty level. And, in 2007, legislative momentum

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shifted, and the Texas Legislature voted to restore the measures implemented during the 2003 budget crisis. The legislation extended SCHIP eligibility to one full year without reapplication. It also created separate periods of continuous eligibility for children's Medicaid (6 months) and SCHIP (12 months), resulting in a large expansion in the SCHIP program.<sup>24</sup>As of January 2009, 450,751 Texas children were covered by SCHIP, but the state has yet to reach the SCHIP enrollment high of more than 500,000 children in 2002.<sup>25</sup>Texas continues to have the nation's highest percentage of uninsured children.<sup>26</sup>

### **B. Legislative Decisions**

In Texas, SCHIP provides health insurance for children in families who make too much money to qualify for Medicaid but less than 200 percent of the federal poverty level (about \$44,000 for a family of four). Thus, with the option under the act of covering children whose families make up to 300 percent of the federal poverty level, Texas legislators must now decide how much to appropriate for these programs. It is estimated that if Texas allocates the full amount of the federal funding to its SCHIP program 180,000 enrollees may be added to the program. <sup>27</sup>

While the act opens the door for Texas to help more children, the issue facing Texas legislators is how much of its own money Texas will have to spend to draw down those SCHIP dollars from the federal government. The act provides that up to \$395 million of additional federal financing is available to Texas to expand the SCHIP program, which is significant considering the total current federal financing level in Texas is \$550 million. <sup>28</sup> For each dollar Texas spends on SCHIP, 72 cents comes from the federal government and the remainder comes from the state.<sup>29</sup>In essence, Texas would have to spend about \$100 million of its own money to maximize its share of federal SCHIP dollars.<sup>30</sup>

### **IV. Conclusion**

Texas, like other states, is again facing a budget deficit. Similar to the decisions facing legislators across the country, Texas legislators must make tough choices in the near future on how to allocate state funds and whether to spend the money necessary to draw down the entirety of the available SCHIP funds from the federal government. These decisions will be made even tougher by the challenging economic climate.

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### **Endnotes**

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