



# BRIEF ANALYSIS

## SCHIP Expansion: Robin Hood in Reverse

by Devon Herrick and Matt Baumann

The State Children's Health Insurance Program (SCHIP), which covers 6.7 million children and adults, will expire in September. SCHIP consists of 50 different federal-state health plans for children (and in some states adults) in families that earn too much to qualify for Medicaid. Typically, families with incomes above the poverty level, but no more than 200 percent of poverty, are eligible.

The Senate Finance Committee recently voted to reauthorize the program. The Senate bill would expand eligibility to children in families with incomes up to 300 percent of the federal poverty level, or \$62,000 for a family of four. House Democrats would raise income limits even higher — to 400 percent of the poverty level (\$83,000 for a family of four) — well above the median income. [See the figure.]

SCHIP expansion would be costly. The Senate bill would increase spending by \$35 billion over five years and the House Democrats would increase spending by more than \$50 billion. However, the additional money would mainly buy insurance for children who are already insured. In fact, the families of millions of children currently in SCHIP would have otherwise had private coverage, and most of the children that would be newly eligible already have private coverage. Furthermore, the cost of expansion would be borne by poor families and seniors.

**Unnecessary Benefit.** Most uninsured children are already eligible for SCHIP or Medicaid. More than 8 million children lack coverage at some point during the year, and it is estimated that about 70 percent of these may qualify for public coverage. However, the duration of uninsured spells tends to be short, and only 4.9 million children are uninsured for the entire year. According to the Congressional Budget Office (CBO), of the children who are uninsured for an entire year:

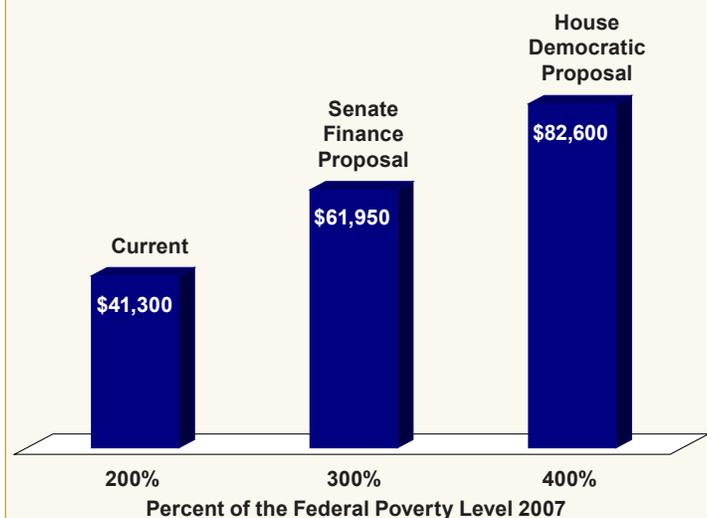
- More than one million children currently qualify for public coverage but are not enrolled.
- Another 1.1 million do not qualify because they are illegal (or temporary) immigrants.
- About 403,000 are income-eligible immigrants who have not been legal residents long enough to qualify for Medicaid benefits.

SCHIP expansion would do nothing to increase enrollment among children who are already eligible, and most of the additional children are already covered by private insurance.

**Cost: Less Private Coverage.** Estimates vary, but virtually everyone agrees that expanding “free” (or highly subsidized) public insurance crowds out private insurance. For instance:

- Between half and three-quarters of spending on Medicaid expansions in the 1990s went to people who would have been privately insured, according to economist Jonathan Gruber.

### Income Eligibility for Public Coverage (family of four; annual income)



Note: Under current policy income-eligibility for SCHIP coverage is capped at 200 percent of the federal poverty level. States are allowed to set a lower ceiling, and some states have received permission to cover children in families earning slightly more.

- Up to 60 percent of spending on SCHIP is for people who otherwise would have been privately insured, according to Gruber's research.

For the new legislation, the Congressional Budget Office (CBO) estimates 25 percent to 50 percent of new SCHIP funds will go to children in families who would otherwise have private coverage. Gruber's estimate suggests the crowd-out rate will be much higher. Also, most of the newly eligible children already have insurance:

- In families earning 200 percent to 300 percent of the poverty-level income, 77 percent of children already have private coverage, according to the CBO.
- In families earning 300 percent to 400 percent of poverty, 90 percent of children are already covered by private health insurance.

The parents of children targeted for expansion have shown they want insurance coverage for their children badly enough to pay for it. On the other hand, since millions of uninsured children who already qualify for Medicaid or SCHIP have not enrolled, it is entirely possibly most of the new spending will replace existing private coverage.

**Cost: Less Health Care for Children.** When their parents trade "free" coverage for private coverage, millions of children will have less access to care. The reason: Most SCHIP patients have less access than privately insured patients because the programs pay doctors the same, low reimbursement rates as Medicaid pays. A recent study found that two-thirds of Medicaid patients are unable to obtain an appointment for urgent ambulatory care, and in three-fourths of the cases, the reason is that the provider does not accept Medicaid. SCHIP enrollees face similar problems accessing care.

**Cost: Less Health Care for Seniors.** To offset the costs of insuring middle-class youngsters, some House Democrats have proposed cutting funds for Medicare Advantage plans in which an increasing number of seniors are enrolled — currently about one in five. These plans provide comprehensive coverage to low-income seniors who can't afford supplemental insurance to fill the gaps in traditional Medicare. On average, Medicare Advantages enrollees receive about \$1,032 per year in ad-

ditional benefits. Half of Medicare Advantage enrollees have incomes below \$20,000, and one-fourth are minorities. Reducing funding for these plans would reduce the medical benefits available to many low-income and minority seniors.

**Cost: Higher Taxes on the Poor.** The Senate Finance Committee proposes to fund SCHIP expansion by hiking the federal cigarette tax by 61 cents a pack. Lower-income people are more likely to smoke than upper-income individuals. In fact, families in the lowest fifth of the income distribution spend 10 times as much of their earnings on tobacco as families in the highest fifth. Thus, the principal source of funding for middle-class kids would be taxes on the poor.

**Cost: Higher Taxes on Future Generations.** Federal health spending is already out of control and SCHIP expansion will not help. In 2002, government spending on health care was nearly 7 percent of gross domestic product. Without significant reforms in Medicare, Medicaid and other programs, federal health outlays are on a course to increase to one-third of GDP by midcentury. The CBO estimates income taxes paid by the middle-class will reach 66 percent by 2050, and marginal tax rates for the highest earners will reach 92 percent!

Worse, the House bill would also remove a key provision of the 2003 Medicare Modernization Act that requires the president and Congress to address out-of-control spending on senior health care. The law currently contains a "trigger" that requires the president to propose an appropriate reform and Congress to consider that proposal on a fast-track when Medicare's finances deteriorates to a certain level — which has been reached.

**Conclusion.** The increase in federal spending on health insurance for kids will go largely to children who could have had private coverage anyway. Yet under SCHIP, these children will have less access to care than they currently have. Funding for this effort will come from people who have less income than the families who will benefit. And future generations are being ignored.

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