

SCHIP Reauthorization:

*What's at Stake for
Kentucky?*



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INTRODUCTION

Reauthorization of the State Children's Health Insurance Program (SCHIP) is likely to be the most important health care issue addressed on Capitol Hill this year. The highly successful program, which started in 1997, provides health coverage to millions of low-income children with family incomes that are too high to qualify for Medicaid but not high enough to purchase other forms of health insurance. The program's original 10-year authorization period expires on September 30, 2007. Congress must therefore pass reauthorizing legislation within the next several months.

Most members of Congress recognize the importance of strengthening SCHIP and building on the program's success. As a result, there is a reasonable likelihood that Congress will substantially increase the program's funding when it is reauthorized. This will enable states to expand health coverage to more of the 9 million children who are uninsured.

In the budget resolution passed by the Senate and the House of Representatives in March 2007, both chambers set aside \$50 billion—on top of the current funding level of \$25 billion—for SCHIP over the next five years. This amount could significantly boost states' abilities to provide high-quality, affordable health coverage to their children. Coupled with strong policy improvements, the additional \$50 billion would allow states to maintain their current SCHIP enrollment and make significant strides toward enrolling even more children.

The \$50 billion in new funding set aside in the budget resolution will be made available to states only if two things happen. First, Congress must reauthorize SCHIP—a near certainty. Second, and most importantly, Congress must “pay for” this added \$50 billion by providing new revenues and/or cutting existing federal expenditures by a commensurate amount. This will be a formidable challenge for Congress's work on SCHIP reauthorization.

In this report, Families USA estimates how much new funding Kentucky could receive for Family Choices, Kentucky's SCHIP and Medicaid program for most children (formerly called KCHIP and Medicaid) if SCHIP is reauthorized with the full \$50 billion in new federal funds. We also examine the effect this new money will have on Kentucky's economy, measured in increased business activity, jobs, and wages. We found that, for a whole host of economic reasons, fully funding SCHIP in accordance with the budget resolution will be good for Kentucky.

BACKGROUND

SCHIP, together with Medicaid, has served an extremely important role for children: Between 1998 and 2005, the number of uninsured children dropped by more than 2.7 million (Figure 1).¹ This decrease is remarkable in light of the growth in child poverty and a significant decline in the number of children whose families had job-based health insurance during that time. Experts agree that expanded coverage for children through SCHIP and Medicaid is responsible for this good news.²

SCHIP is vital to improving children's health care. Children enrolled in SCHIP or Medicaid are three times more likely to have a usual source of care than uninsured children.³ And children enrolled in SCHIP or Medicaid are one-and-a-half times more likely than uninsured children to receive well-child care, see a doctor during the year, and get dental care. SCHIP reduces the percent of children with an unmet health care need.⁴ Clearly, SCHIP and Medicaid are critical programs that allow otherwise uninsured children to get the health services they need.

THE CHALLENGE

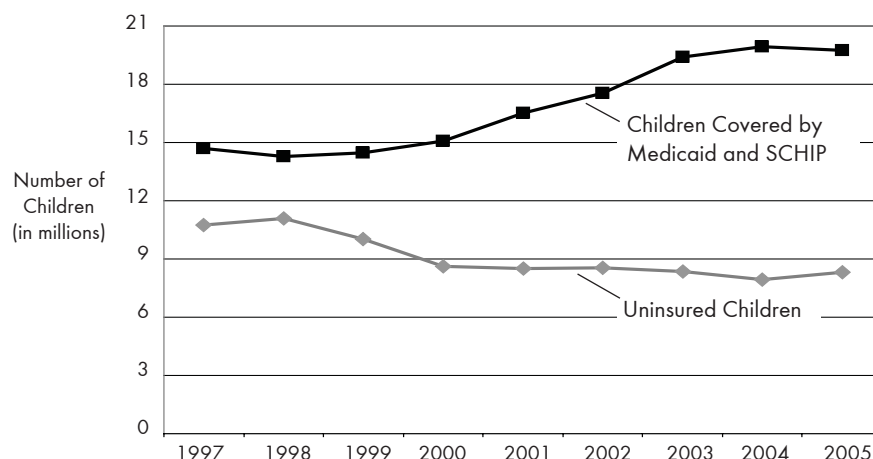
Despite these steps forward, there are still 9 million uninsured children in this country. More than 6 million of them are eligible for SCHIP or Medicaid but are not enrolled.⁵ Although states around the nation are poised to build on the success of SCHIP and Medicaid and cover more uninsured children, many states are stuck with too little SCHIP funding to continue the progress they have made. In 2007 alone, 14 states are experiencing federal SCHIP funding "shortfalls,"⁶ and the problem is only expected to get worse with each passing year. Current law assumes that the federal government will provide \$25 billion for SCHIP over the next five years. This represents a flat funding rate that does not even provide for any increases to account for inflation or population growth. Without additional funding, more than 1.5 million children could lose SCHIP coverage.

WHO'S COVERED IN KENTUCKY?

Kentucky covers children with family incomes up to 200 percent of poverty (\$34,340 for a family of three in 2007). In 2006, KCHIP (now part of Family Choices) covered 64,861 children. Still, 93,135 children remain uninsured. SCHIP reauthorization offers an opportunity to get more of these children covered.

Source: Number of children in SCHIP from CMS data for federal fiscal year 2006. Number of uninsured children from a three-year merge of 2003-2005 data for children aged 0-18 from the U.S. Census Bureau's Current Population Survey.

Figure 1. Number of Uninsured Children Has Declined Since SCHIP Began



Source: U.S. Census Bureau Current Population Survey, 2006.

Note: Includes children ages 0-17.

KEY FINDINGS

In Kentucky, there are 93,135 uninsured children, and approximately two-thirds of them are currently eligible for Family Choices.

The SCHIP reauthorization process presents an opportunity to substantially increase the federal funding that goes to Kentucky.

- With \$50 billion in additional federal funding for SCHIP and Medicaid, SCHIP reauthorization could bring Kentucky approximately **\$808.1 million in new federal funding** for children's health coverage over the next five years. This would result in the state getting three times the amount it would have otherwise gotten for SCHIP.

In addition to increasing the number of children in Kentucky who would gain coverage, this new federal funding will have measurable, positive effects on Kentucky's economy. Over the next five years, \$808.1 million in new federal funding will create:

- \$320.6 million in increased business activity,
- \$114 million in increased wages, and
- 3,744 additional jobs for Kentucky.

DISCUSSION

Kentucky received \$70.1 million in federal support for the SCHIP portion of Family Choices in 2007. Based on data from the Centers for Medicare and Medicaid Services (CMS) and the current SCHIP distribution formula, Families USA estimated how much federal funding Kentucky will receive if SCHIP is reauthorized with \$50 billion in new federal funding over the next five years. Kentucky could receive approximately \$808.1 million in added federal support for Family Choices during the next five years (or \$161.6 million in added federal support per year, on average).⁷ This would result in the state getting three times the amount it would have gotten if SCHIP were funded at the 2007 level.

Programs That Keep on Giving

State funds that are spent on Medicaid and SCHIP are matched by the federal government at a rate that varies by state. The federal government gives Kentucky \$3.70 for each dollar the state spends on the SCHIP portion of Family Choices and \$2.29 for each state dollar it spends on the Medicaid portion of Family Choices. Because SCHIP is a block grant, each state receives a certain amount of federal funding to pay for the program each year, but it is up to the state to spend the money to draw down those federal dollars.

Because of their financing structures, SCHIP and Medicaid introduce new money into the state's economy, which has a positive and measurable impact on state business activity, available jobs, and overall state income. SCHIP and Medicaid payments to hospitals and other health-related businesses have a direct impact on the state's economy. These dollars then trigger successive rounds of earnings and purchases as they continue to circulate through the state's economy.

For example, health care employees spend part of their salaries on new cars, which adds to the income of employees of auto dealerships, enabling them to buy washing machines, which enables appliance store employees to spend additional money on groceries, and so on. This ripple effect of spending is called the "economic multiplier effect."

This is why Kentucky will reap so many economic benefits from additional SCHIP and Medicaid spending, above and beyond expanded coverage for children. If SCHIP is reauthorized with the full \$50 billion in additional five-year funding promised in the budget resolution, the \$808.1 million in additional federal dollars injected in Kentucky's economy will generate:

- \$320.6 million in new business activity (output of goods and services),
- \$114 million in new wages, and
- 3,744 new jobs.

A Key Issue That Is Likely to Be Debated

Some in Congress and the Administration would like to roll back SCHIP, limiting it to children whose family incomes are below twice the poverty level. Although Kentucky does not currently cover children with incomes above this level or parents, 24 states provide such coverage. The cost of living varies considerably across the country, and state officials often find it helpful to have the ability to set eligibility for SCHIP at the level that makes sense for their state. In addition, offering SCHIP coverage to parents has proven to be a particularly effective strategy because it results in coverage for entire families who are otherwise hard to reach, and whose children might otherwise remain uninsured.⁸ Fully funding SCHIP will bring significant new federal dollars to Kentucky, and the outcome of this debate will determine whether the state has the flexibility it needs to expand health coverage in the future.

CONCLUSION

Kentucky will have a much greater ability to provide health coverage to its uninsured children if Congress provides \$50 billion in additional funding for SCHIP and Medicaid over the next five years, as made possible by the recently passed budget resolution. State leaders have demonstrated a strong desire to expand coverage to more uninsured children, but without federal support, they cannot even continue to cover the children who are already enrolled in SCHIP, much less cover more uninsured children. The SCHIP reauthorization process is an opportunity to invest new federal funding in programs that have proven to be successful at providing affordable health care to otherwise uninsured children. This additional federal funding will also create several added bonuses for the state's economy. Thus, Kentucky has a huge stake in securing the \$50 billion in new federal funds that Congress has set aside.

ENDNOTES

¹ Carmen DeNavas-Walt, Bernadette D. Proctor, and Cheryl Hill Lee, *Income, Poverty, and Health Insurance Coverage in the United States: 2005* (Washington: U.S. Census Bureau, August 2006).

² Ibid.

³ Genevieve Kenney, Jennifer Haley, and Alexandra Tebay, *Children's Insurance Coverage and Service Use Improve* (Washington: The Urban Institute, July 2003).

⁴ Emily Feinberg, Kathy Swartz, Alan Zaslavsky, Jane Gardner, and Deborah Klein Walker, "Family Income and the Impact of a Children's Health Insurance Program on Reported Need for Health Services and Unmet Health Need," *Pediatrics* 109, no. 2 (February 2002): e29.

⁵ Lisa Dubay, John Holahan, and Allison Cook, "The Uninsured and the Affordability of Health Insurance Coverage," *Health Affairs* Web exclusive, November 28, 2006.

⁶ Elicia J. Herz and Chris L. Peterson, *State Children's Health Insurance Program (SCHIP): A Brief Overview* (Washington: Congressional Research Service, updated October 12, 2006).

⁷ This estimate is based on the current SCHIP allotment formula and assumes that the state would receive a similar portion of the total federal SCHIP allotment over the next five years as it did in 2007. The calculation does not attempt to predict changes in the state's coverage rate, eligibility level, or potential changes in the federal SCHIP allotment formula that may be made in the reauthorizing legislation, all of which would have a significant effect on the amount of federal funding available to the state. This estimate also assumes that a portion of the new federal funding goes to cover children in Medicaid. We assumed that states would receive additional Medicaid funds in proportion to their share of total Medicaid expenditures for children as of 2003, which is the most recent year for which national data are available. In order to calculate new business activity, wages, and jobs created by the new federal funding, we ran one year's worth of new funding through the 2004 Regional Input-Output Modeling System (RIMS II). RIMS II is produced by the U.S. Department of Commerce, Bureau of Economic Analysis.

⁸ Lisa Dubay and Genevieve Kenney, "Expanding Public Health Insurance to Parents: Effects on Children's Coverage under Medicaid," *Health Services Research* 38, no. 5 (October 2003): 1,283-1,302.



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