RSC Republican Study Committee
Rep. Jeb Hensarling (R-TX), Chairman
Russ Vought, Executive Director
132 Cannon House Office Building
Washington, DC 20515
www.house.gov/hensarling/rsc
ph (202) 226-9717 / fax (202) 226-1633

RSC Policy Brief:
SCHIP Premium Assistance

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The RSC has prepared the following policy brief analyzing a premium assistance mechanism established as part of the State Children's Health Insurance Program (SCHIP).

Background: The State Children's Health Insurance Program, established under the Balanced Budget Act (BBA) of 1997, is a state-federal partnership originally designed to provide low-income children with health insurance—specifically, those children under age 19 from families with incomes under 200 percent of the federal poverty level (FPL), or approximately $40,000 for a family of four. States may implement SCHIP by expanding Medicaid and/or creating a new state SCHIP program. SCHIP received nearly $40 billion in funding over ten years as part of BBA, and legislation recently passed by Congress in December (P.L. 110-173) extended the program through March 2009, while providing additional SCHIP funds for states.

When originally created, the SCHIP statute included premium assistance provisions designed to encourage the enrollment of children in employer-sponsored coverage, with state and federal dollars being used to pay the employee premium share for the eligible dependent(s). Implementation of premium assistance programs would reduce crowd-out (i.e. individuals dropping private coverage to join a government health program), maintain children and parents on the same (privately-held) insurance policy, and could result in cost savings to both states and the federal government.

The statute included several tests used to determine whether premium assistance would be appropriate for SCHIP programs to implement. Chief among these tests are the following:

- Premium assistance must be cost-effective to the state (and thus the federal government);
- Plans using premium assistance dollars must meet certain benchmark guidelines, including limits on cost-sharing;
- Before becoming eligible for premium assistance, state waiting periods must apply;

- Employers must make minimum contributions to the plan for which premium assistance is being granted.

Analysis: While the premium assistance provisions were originally designed to facilitate enrollment of eligible children in employer-sponsored coverage where available, in practice the use of premium assistance remains quite limited. Conflicts between the premium assistance provisions for Medicaid and SCHIP have resulted in only nine states adopting a premium assistance model—leaving more children in public, rather than private, coverage, and potentially resulting in higher costs to the federal government.

An analysis of the provisions at issue reveals several areas where changes to the premium assistance program could encourage the enrollment of additional low-income children in private rather than public coverage. Areas for potential legislative action include the following:

Cost-Effectiveness: Under current law, the cost-effectiveness test contains a "family waiver" provision that often impedes enrollment in private coverage, and conflicts with the cost-effectiveness test established under Medicaid.[1] While the Medicaid test merely requires that the cost of covering an individual under a premium assistance program be less than the cost of public coverage for that individual, the SCHIP test requires that the cost of covering ***an entire family*** under premium assistance be less than the cost of public coverage ***for the child (or children) alone***. This lack of an "apples-to-apples" comparison for the purposes of determining cost-effectiveness can prevent employer coverage from qualifying for premium assistance—and as a result, some conservatives may believe the skewed metrics of determining cost-effectiveness actually increase costs to the federal government and should be changed.

Cost Sharing: Current law places strict limits on cost-sharing within the SCHIP program, limiting premium assistance eligibility for many employer-sponsored plans. Specifically, SCHIP plans may not impose any cost-sharing—premiums, deductibles, co-payments, or co-insurance—above a "nominal amount" (as determined by Medicaid guidelines) on children from families with incomes below 150% FPL; children from families with incomes above 150% FPL may only incur total cost-sharing of more than 5% of a family's income.[2] Some conservatives may find these cost-sharing limitations particularly onerous with regard to employer-sponsored plans, most of which have co-payments and deductibles that exceed the "nominal" amounts described in the statute.

Benchmark Guidelines: To be eligible for SCHIP premium assistance, employer-sponsored plans must be actuarially equivalent to one of three SCHIP benchmarks: 1) the Blue Cross Blue Shield Standard Option within the Federal Employee Health Benefits Program (FEHBP); 2) the health insurance plan offered to state employees in a given state; or 3) the Health Maintenance Organization (HMO) with the highest enrollment in the state.[3] However, the $431 monthly premium charged for the Blue Cross FEHBP option during 2007 exceeded by more than 15% the

[1] The Medicaid cost-effectiveness test can be found at 42 U.S.C. 1396e(e)(2), while the SCHIP cost-effectiveness test can be found at 42 U.S.C. 1397ee(c)(3).
[2] The SCHIP cost-sharing provisions are at 42 U.S.C. 1397cc(e)(3); the Medicaid guidelines can be found at 42 U.S.C. 1396o.
[3] SCHIP coverage benchmarks can be found at 42 U.S.C. 1397cc(b).

average cost of group health insurance in the same year, according to the non-partisan Kaiser Family Foundation—and many state employee plans have similarly high benefit packages.[4] Therefore, some conservatives may support efforts to create more realistic coverage benchmarks for the SCHIP program, particularly for states where low market penetration by HMOs would have the effect of limiting premium assistance participation to those few employers who could afford to match the rich health insurance coverage provided to state and federal bureaucrats.

Employer Contribution: Although the existing statute remains silent on this provision, SCHIP regulations require states to set minimum percentage contribution levels for employer-sponsored insurance. Some conservatives may find this provision unnecessary and redundant, as group health insurance coverage must already be considered cost-effective to the state in order for the plan to qualify for premium assistance.

Waiting Periods: SCHIP regulations require children eligible for premium assistance to have lacked group health insurance coverage for at least six months prior to enrolling in the program, unless the child had previously been enrolled in Medicaid or the state had received approval from the Centers for Medicare and Medicaid Services (CMS) to shorten its waiting period.[5] While these provisions were designed to guard against crowd-out, some conservatives may question whether the waiting periods to join a subsidized private plan may instead encourage individuals to join a government-run plan, and whether states should seek to amend their SCHIP plans to reflect that possible scenario.

Enrollment and Outreach: Particularly because premium assistance relies on private, rather than public, insurance coverage, many conservatives may support efforts to make participation easy for employers, and encourage eligible families to enroll. Such steps would maintain private health insurance coverage while saving taxpayer dollars, and minimize the perverse cost-shifting that results from unrealistically low reimbursement levels in some SCHIP programs.

Legislative History: Title III of SCHIP legislation (H.R. 3963), whose Presidential veto was sustained by the House by a 260-152 vote in January, included several provisions designed to streamline premium assistance programs. Specifically, the bill modifies the cost-effectiveness language to provide equivalent comparisons between the cost of employer-sponsored and government-run SCHIP coverage, while giving premium assistance programs some flexibility by allowing states to "wrap-around" employer coverage with respect to cost-sharing and employer benefit packages not meeting one of the SCHIP benchmark levels (although it does not address the issue of whether these mandated benefit levels are too high). However, some conservatives may find the prohibition on using premium assistance subsidies for any high-deductible or Health Savings Account (HSA) option contained in Section 301(a)(1) of the bill an attempt by Congressional Democrats to inhibit the growth of consumer-directed health options that have slowed the growth of health care costs since their introduction.

More fundamentally, Title III did not address the question of whether states should be required to make premium assistance programs available as a condition of receiving federal SCHIP funds—

[4] Kaiser Family Foundation, "Employer Health Benefits: 2007 Annual Survey," available online at http://kff.org/insurance/7672/upload/76723.pdf (accessed March 15, 2008), p. 2.
[5] The language can be found at 42 C.F.R. 457.810.

and it explicitly stated that eligible children must retain the option of enrolling in a public program and may not be compelled to participate in a premium assistance plan if available. Moreover, some conservatives may also support additional provisions designed further to extend SCHIP premium assistance to individual (as opposed to group) health insurance purchased by eligible families, so long as this private insurance is cost-effective from the state and federal perspective.

Conclusion: Most conservatives support enrollment and funding of the SCHIP program *for the populations for whom the SCHIP program was created*. That is why in December the House passed, by a 411-3 vote, legislation reauthorizing and extending the SCHIP program through March 2009. That legislation included an additional $800 million in funding for states to ensure that all currently eligible children will continue to have access to state-based SCHIP coverage.

However, many conservatives retain concerns about actions by states or the federal government that would reduce private health insurance coverage while increasing reliance on a government-funded program. To that end, conservatives may be inclined to support a more robust premium assistance mechanism for low-income children that keeps children (and their parents) enrolled in private coverage rather than joining a public program. While the provisions of H.R. 3963 did make some modest changes to encourage this goal, some conservatives may support additional modifications to the premium assistance provisions to ensure that children with access to employer-sponsored insurance are not permitted to decline group coverage in order to join the SCHIP rolls.

For further information on this issue see:

- *United States Code: State Children's Health Insurance Program*
- *Code of Federal Regulations: State Children's Health Insurance Program*
- *August 2007 CMS Letter to State Health Officials on Crowd-Out*
- *May 2008 CMS Letter to State Health Officials on Crowd-Out*
- *RSC Policy Brief on SCHIP Crowd-Out*
- *RSC Policy Brief: SCHIP Proposals in FY09 Budget*
- *RSC Policy Brief: Q&A on SCHIP Legislation (HR 3963)*

RSC Staff Contact: Chris Jacobs, christopher.jacobs@mail.house.gov, (202) 226-8585

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