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## **CBO ESTIMATES SHOW LARGE GAINS IN CHILDREN'S HEALTH COVERAGE UNDER SENATE SCHIP BILL**

by Edwin Park

Congressional Budget Office estimates show that 4.1 million children who otherwise would be uninsured would have health care coverage by 2012 under the bipartisan children's health legislation the Senate Finance Committee unveiled July 13. CBO estimates that 2.7 million of these children are uninsured children who would already be eligible for the program under the *current* eligibility limits that states have set in the State Children's Health Insurance Program (SCHIP) and Medicaid,<sup>1</sup> and another 800,000 are SCHIP children who would otherwise lose their coverage in coming years and end up uninsured under the "budget baseline" (because states would have insufficient federal SCHIP funding to sustain their existing programs).<sup>2</sup>

- As a result, CBO estimates that 3.5 million of these 4.1 million children — 85 percent of them — are children with incomes below the current eligibility limits that states have set.
- Only 600,000 of the 4.1 million children who would otherwise be uninsured are children who would gain SCHIP eligibility as a result of actions by states to broaden the program's eligibility criteria. (All of these figures represent CBO's estimates of the number of children covered in an average month in 2012.)

The Finance Committee is scheduled to consider this legislation on July 17. Key elements of the bill would extend the SCHIP program for five years and raise SCHIP funding levels both to enable states to sustain existing children's enrollment and to cover more children. The legislation also would provide financial incentives to states to enroll uninsured children who are already eligible for Medicaid or SCHIP. According to CBO, the various provisions to maintain and expand children's health coverage would cost \$35 billion over five years, with these costs fully offset by an increase in federal tobacco taxes.

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<sup>1</sup> Congressional Budget Office, "Preliminary CBO Estimate of Changes in SCHIP and Medicaid Enrollment of Children under the Chairman's Mark for the CHIP Reauthorization Act of 2007," July 13, 2007.

<sup>2</sup> The "baseline" assumes SCHIP funding will remain frozen at \$5 billion annually for the next five years even as health care costs continue to increase, a scenario that CBO has determined would cause the number of children covered under SCHIP to decline significantly as states faced federal funding shortfalls under their SCHIP programs. See Congressional Budget Office, "Fact Sheet for CBO's March 2007 Baseline: State Children's Health Insurance Program," February 23, 2007 and Edwin Park, "CBO Estimates That States Will Face Federal SCHIP Shortfalls of \$13.4 Billion Over Next Five Years," Center on Budget and Policy Priorities, February 26, 2007.

The Finance Committee bill provides \$15 billion less for children's health care coverage than the \$50 billion over five years the congressional budget resolution permits if the costs are offset. The legislation consequently would extend health insurance to significantly fewer uninsured low-income children than could be covered with the full \$50 billion. The legislation also scales back existing SCHIP coverage of low-income parents of children who are enrolled in SCHIP or Medicaid. Various studies have found that covering children and their parents jointly results in more of the eligible children signing up and receiving health care services.

Nevertheless, as the CBO figures cited above demonstrate, the legislation would make major progress in extending health insurance to uninsured children. Of particular note, CBO estimates that the bill would make significant progress in reaching the lowest-income uninsured children; 1.8 million children who are eligible for Medicaid but otherwise would be uninsured would gain coverage under the legislation. Most of these would likely be children living below the poverty line.

### **Claims that the Bill Would Primarily Displace Private Coverage Found to be Inaccurate**

Even before the Senate Finance Committee completed its work in crafting the legislation, the Administration and some conservative activists began castigating the bill (and the SCHIP reauthorization bill being drafted in the House) as doing relatively little to cover uninsured low-income children and as being primarily designed to shift middle-income children (and families) "with good incomes" from private insurance to "government coverage."

The CBO figures on the Finance Committee bill show that these charges are without foundation. The figures show the bill would be heavily targeted on children with low incomes and would primarily assist children who would otherwise be uninsured, not children who otherwise would have private coverage.

- CBO estimates that the legislation would increase the number of children enrolled in SCHIP or Medicaid by a total of 6.2 million by 2012. As noted above, CBO estimates that 4.1 million of these would be children who would otherwise be uninsured.
- In other words, nearly two-thirds (66 percent) of the children who would gain SCHIP or Medicaid coverage under the bill are children who would otherwise be uninsured, not children who would otherwise have private coverage.

CBO estimates that the other 34 percent of the children who would gain SCHIP or Medicaid coverage under the bill otherwise would have some type of private insurance. But as CBO director Peter Orszag and other leading health experts have explained, under the fragmented U.S. health insurance system, virtually *any* effort to cover more of the uninsured — including efforts that rely on tax deductions or credits for the purchase of insurance in the private market — would result in some crowd-out (i.e., in the substitution of one type of health insurance for another). A crowd-out effect of 34 percent is actually quite modest.

For example, analyses of various tax-based approaches have found that the large majority of the tax benefits generally would go to people who already are insured. Thus, an analysis of the health-insurance tax proposals that the Bush Administration included in the budget it submitted last year, conducted by the very economist (Jonathan Gruber of M.I.T.) whose work on SCHIP crowd-out

HHS Secretary Mike Leavitt and conservative activists have been touting in recent weeks,<sup>3</sup> found that 77 percent of the benefits under the Administration's health tax proposals would go to people who already are insured. This is more than double the crowd-out percentage under the Senate Finance Committee bill. (Professor Gruber's analysis of the Administration tax proposals also found that the net result of the proposals would be to modestly *increase* the ranks of the uninsured, because a number of employers would respond by dropping coverage.<sup>4</sup>)

Professor Gruber, who is widely considered to be one of the nation's leading health economists, has explained that although public programs suffer from crowd-out effects, they still constitute the most efficient way to cover more of the uninsured.<sup>5</sup> He has noted that "no public policy can perfectly target the uninsured, and public insurance expansions like SCHIP remain the most cost-effective means of expanding health insurance coverage. I have undertaken a number of analyses to compare the public sector costs of public sector expansions such as SCHIP to alternatives such as tax credits. I find that the public sector provides much more insurance coverage at a much lower cost under SCHIP than these alternatives. Tax subsidies mostly operate to "buy out the base" of insured without providing much new coverage."<sup>6</sup>

It also should be recognized that in a substantial number of the cases in which a family with access to private insurance enrolls its children in Medicaid or SCHIP, that decision may be beneficial to the child's health. In many such cases, particularly among the low-income families targeted by the Senate Finance Committee bill, the private insurance available to the family may contain important gaps in the coverage it provides or may require large deductibles and cost-sharing charges that the family has difficulty affording. Research has shown that when low-income families face large cost-sharing charges, they often go without (or delay obtaining) health care services that they or their children need.

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<sup>3</sup> See, for example, Mike Leavitt, "Reforming Health Care," *Washington Times*, July 9, 2007.

<sup>4</sup> Jonathan Gruber, "The Cost and Coverage Impact of the President's Health Insurance Budget Proposals," Center on Budget and Policy Priorities, February 15, 2006.

<sup>5</sup> Jonathan Gruber, "Tax Health Policy for Health Insurance," Working Paper 10977, National Bureau of Economic Research, December 2004.

<sup>6</sup> Letter from Jonathan Gruber to Representative John Dingell, Chairman of the House Energy and Commerce Committee, March 2007.