

The Consensus Group

*A broad-based group of health policy analysts
from major market-oriented public policy research organizations*

November 14, 1997

A message to the states

Re: Title XXI of the Social Security Act, the State Children's Health Insurance Program, which provides \$48 billion over 10 years for health insurance for targeted uninsured children.

A broad-based group of leading health policy analysts from the major market-oriented think tanks has developed the attached statement to suggest options to states as they make policy decisions about implementation of the new State Children's Health Insurance Program.

This group, known as the Consensus Group, strongly encourages states to take advantage of the opportunities in the law to create market-based programs to cover targeted uninsured children and their families.

The attached statement highlights provisions, such as tax credits and vouchers, which states can use as the foundation for innovative programs. Using these options, children could get private health coverage that is better than Medicaid, and, in many cases, the money could stretch to cover whole families, as provided in the law.

This is an opportunity for states to get a fresh start with the CHIP program by setting up programs that give families greater control and choice in health insurance coverage and provide a foundation for a more stable and efficient market for medical care and health insurance in the United States.

For more information, please contact either the individuals listed on the statement or me at the Galen Institute.

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Giving States and Citizens a Choice

When Congress passed legislation to create the new state Children’s Health Insurance Program (CHIP), it provided opportunities for states to use market-based programs to cover targeted uninsured children:

- Congressional conferees encouraged the states “to consider such innovative means as vouchers and tax credits.” This means that parents could use the money to purchase private insurance for their children or provide assistance so that parents could cover their children through their health plans.
- The law says that states can choose to cover families – parents as well as the uninsured children who are the focus of the program – if that is most cost-effective. Congress is currently developing guidelines to explain this option.
- The legislation allows states to experiment with pilot programs for small groups, such as populations in rural and under-served areas. We encourage states to take advantage of this opportunity to tailor programs to specific populations and circumstances.

We encourage states to exercise the discretion the law gives them to create plans that incorporate private sector solutions through family coverage, tax credits, and vouchers.

The key to a successful expansion of health insurance for low-income children is providing families with choice. States can use the funds to create a system of direct payments to individuals, thus providing the financial means as well as the incentive for them to obtain coverage in the private health insurance market. This option leads to greater individual control and choice in health insurance coverage and provides a foundation for a more stable and efficient market for medical care and health insurance in the United States.

While Congress encouraged states to try these market-based approaches in spending their share of the CHIP money, Congress also gave states the option to expand Medicaid. Many states are leaning toward this option. Although Medicaid expansion appears to be an expedient option, it locks a state into a far more expensive set of benefits than may be appropriate for CHIP children, exacerbating existing cost pressures in the Medicaid program. Choice also is constrained, even when states contract with private or public health plans to provide coverage for Medicaid beneficiaries.

The private market provides consumers a broader range of plans, allowing them to choose the one that best fits their needs and the needs of their children without the stigma that often accompanies Medicaid programs or plans.

Implementation

We encourage states to take advantage of the provisions in the law to create a system of direct payments to individuals. Here are suggestions about approaches to deliver assistance:

Vouchers. Parents could receive an allocation in the form of a voucher and apply the money toward the purchase of a child's health insurance policy. Families also could purchase family insurance, as provided by the law. Individuals also could designate a plan and have the state pay the plan directly to provide health coverage for the targeted child or family.

Developing a system of targeted assistance to individuals involves three steps:

- 1) Identifying the portion of the population eligible for the assistance
- 2) Specifying the dollar amount of the assistance to be offered to each eligible person, and
- 3) Establishing a means by which reimbursement would be contingent on proof of purchase of health insurance that meets the specifications in the law.

States can enhance both efficiency and equity and encourage more prudent use of health care services if they take advantage of the provisions in the bill to adjust the voucher based upon income. In addition, states can permit cost-sharing for insurance premiums and co-payments for health services, with some limitations.

States could cover more children by using an income-adjusted voucher and these cost sharing arrangements.

People should be given incentives to make wise, cost-effective choices. If consumers eligible for the voucher shop around, they should be able to obtain more or better coverage for their children and their families. The voucher approach gives people a much broader range of options for coverage and avoids allegations that recipients are being driven into managed care.

Tax credits. Eligible families could be offered a tax credit against their state income taxes to use toward the purchase of their children's health coverage. The credit could be refundable so families could receive the full benefit of the credit if their income tax obligation was smaller than the credit amount.

Pilot programs. CHIP allows states to experiment with different approaches through pilot programs for selected population groups. This flexibility gives states the opportunity to learn what works best for their citizens.

Information is key

Government can play a useful role in helping to ensure that people are equipped with the information they need to make rational decisions. This is especially true when the voucher approach is used.

Guiding principles

Before the legislation was enacted, the Consensus Group offered Congress the following principles to guide its policy decisions. They were incorporated into the legislation. We now encourage the states to use these same principles in designing plans under the CHIP legislation to expand health insurance to more low-income uninsured children:

- Parents should have the opportunity to use the funds to buy private health coverage before the money is used to fund government programs.
- Government should offer vouchers or refundable tax credits to subsidize basic health coverage – giving individuals and families the choice and the right to pay for more generous coverage with their own funds if they choose.
- The government's subsidy should be limited to a fixed dollar amount.

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