

SCHIP GUIDELINES

PRINCIPLES FOR HEALTH INSURANCE COVERAGE FOR CHILDREN AND FAMILIES

From the Health Policy Consensus Group

Members of the Health Policy Consensus Group offer the following guidelines to policymakers for consideration during debate over reauthorization of the State Children's Health Insurance Program (SCHIP). We also offer a brief summary of our larger vision of expanding access to health insurance.

COMPONENT #1: FUNDING FOR SCHIP SHOULD BE REDEPLOYED TO MORE EFFECTIVELY EXPAND COVERAGE TO CHILDREN WHO ARE MOST IN NEED AND GIVE THEM ACCESS TO PRIVATE HEALTH INSURANCE.

In order to accomplish this objective, we believe Congress should be guided by the following principles:

- **The primary focus of the State Children's Health Insurance Program should be to cover children in families with incomes at or below 200 percent of poverty.** These are children whose families make too much to qualify for Medicaid but who often cannot obtain private health coverage.
- **The program's subsidies should be re-structured to encourage the purchase of private health insurance.** SCHIP subsidies could be used to allow parents to purchase the health coverage that they believe is best for their children, including adding them to policies that may be offered at their workplaces. SCHIP funds then could be employed to create a bridge to private coverage for children and families.
- **The federal-state matching ratio for SCHIP funding should be changed to eliminate the perverse distortions that exist in today's system.** States receive a higher federal matching rate for covering SCHIP recipients (which today include many adults) than they receive for covering children eligible for Medicaid, even though these children are in families with lower incomes.
- **SCHIP must not be turned into another entitlement program modeled after Medicaid, with unlimited federal funds matching state spending on benefits.** That would add to the taxpayers' already-overwhelming burden of tens of trillions of dollars in unfunded liabilities. It also would encourage states to use accounting tricks to inappropriately increase federal payments. SCHIP must remain as a capped funding program to the states, and Congress must require states to live within their allocations. The states should, however, be given more flexibility in how they spend both SCHIP and Medicaid funds, as we describe below.

This fact sheet was jointly prepared by health policy experts from the Galen Institute, The Heritage Foundation, the American Enterprise Institute, and numerous other public policy organizations. Please see the end of the document for the full list of signatories.

A MORE COMPREHENSIVE APPROACH TO HEALTH COVERAGE:

While we believe that limits should be established to make sure that SCHIP conforms to its original intent of covering lower-income children, we fundamentally disagree with having a federal program that separates the health care of children from that of their parents. Children should be covered on their parents' policies, and lawmakers should work to expand coverage of families. Therefore, we support the following policy proposals that would expand coverage to children and their families:

COMPONENT # 2: TAX POLICY GOVERNING THE PROVISION OF HEALTH INSURANCE SHOULD BE FAIR AND EQUITABLE.

The Congress should provide equally favorable tax treatment of private health insurance for all American families, regardless of where they get their coverage.*

COMPONENT #3: EXPAND PRIVATE SECTOR COVERAGE FOR LOWER-INCOME WORKING FAMILIES THROUGH DIRECT ASSISTANCE, INCLUDING VOUCHERS OR REFUNDABLE HEALTH CARE TAX CREDITS FOR THE PURCHASE OF PRIVATE HEALTH INSURANCE.

For many low-income families, simply establishing more equitable tax treatment of health insurance would not be enough to help them afford coverage. **Therefore, we recommend additional low-income assistance, such as supplemental refundable tax credits or vouchers provided by the federal government or the states.** Refundable credits are especially valuable for lower-income families who do not owe taxes and who need additional financial assistance in order to purchase private health insurance, and credits or vouchers offer an important alternative to further expanding government-run health care programs.

Since refundable credits will be scored by the Joint Tax Committee as a spending increase, it is important that the source of funding for these credits come from spending reductions, not income tax increases.

COMPONENT # 4: ESTABLISH GREATER FLEXIBILITY IN THE USE OF SCHIP AND MEDICAID FUNDING.

Those who are eligible for assistance through SCHIP should be able to receive the benefit in the form of a subsidy for buying private coverage for their children or adding their children to their job-based policies. The same subsidies should be available to people in similar circumstances, regardless of whether or not they previously had purchased health insurance.

Similarly, states should be given much more flexibility in how their Medicaid dollars are spent, including offering defined contributions. This would give states greater freedom to match resources with the needs of their citizens.

* For more information, please see "Reforming the Tax Treatment of Employment-Based Health Insurance," a statement of the Health Policy Consensus Group presented to the President's Advisory Panel on Federal Tax Reform in 2005, and *Empowering Health Care Consumers through Tax Reform*, University of Michigan Press, 1999. Both available at www.galen.org.

Congress and the states could advance Medicaid and SCHIP flexibility as follows:

First, states should be encouraged to gear subsidies to a beneficiary's income and possibly health risk. They also should be able to establish other features, such as cost sharing, to prepare families to transition to private coverage.

Second, people should have a range of coverage options that qualify for the subsidies and not be forced to buy a policy with a government-dictated list of benefits and coverage mandates.

Third, people eligible for the subsidies should have easy access to information about the private and public health insurance coverage options that are available to them. Armed with consumer-friendly information and the financial resources needed to purchase coverage, individuals can select the insurance that best meets their needs.

In summary, we recommend a combination of more equitable tax treatment for all health insurance purchasers, additional assistance for lower-income people, and state flexibility to turn SCHIP and Medicaid benefits into defined contributions.

Redeploying these funding sources, coupled with contributions from individuals and families, would facilitate the integration of children with their parents' health insurance coverage, would allow families to have the security of health insurance, and would dramatically expand access to health coverage for American families.

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