The Children's Health Insurance Program—A Cure-All for Uninsured Kids?

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When the federal Balanced Budget Act of 1997 became law, so did the Children's Health Insurance Program (CHIP). Simply put, CHIP is the most comprehensive effort by the federal government to provide children with health insurance coverage since the creation of the Medicaid program. CHIP provides states with more than $40 billion in block-grant funds over a 10-year period so that they can provide coverage to uninsured low-income children. States have several options as to how they can provide eligible children with coverage: (1) expanding the state-level Medicaid program so that it covers children who are not eligible for traditional Medicaid but do meet the CHIP eligibility guidelines; (2) developing a unique state-based program to cover CHIP-eligible uninsured kids; or (3) taking a combined approach by covering some eligible kids under an expansion of Medicaid and others through a state-created program. All the states and territories were given up to three years to decide whether or not they would like to use their block-grant funds. As of the October 1 deadline, all have either implemented a state CHIP or have one scheduled for implementation. Politicians at all levels of government and from both major parties have heralded CHIP as a great safety net for the millions of American children who previously did not have access to health insurance coverage. During the election, Al Gore made CHIP expansion a major part of his healthcare reform agenda. He called for program expansions to cover kids with family incomes of up to 250 percent of the federal poverty level ($41,000/year for a family of four). He also proposed allowing children with higher family incomes the option of buying into their state's CHIP and/or Medicaid program. Furthermore, he supported the expansion of CHIP to cover the 7 million uninsured parents of eligible kids, and he would provide financial incentives to states that meet enrollment targets. George W. Bush also spoke highly of CHIP's potential to provide private-market insurance coverage to eligible low-income children. He pointed to the program's original flexible design, which would have encouraged more state-level program innovation, and called for an end to regulatory challenges that have hindered both enrollment and state-level creativity. But is CHIP the cure-all for our nation's uninsured children? A close examination of the program's track record reveals some challenges in enrolling eligible children, regulatory barriers for states and families and problems with crowd-out. While CHIP has certainly helped many American children, the program could stand some modifications and improvements and cannot be considered the sole solution to the problem of the uninsured. Enrollment As of June, the federal government estimated that 2.5 million children were receiving health insurance coverage through CHIP and that overall enrollment had increased by up to 50 percent over the past nine months. On September 29, President Clinton announced the release of $700,000 in grants to help states identify and enroll more eligible children, particularly in rural areas. Despite these recent advances, the CHIP program still isn't enrolling as many children as many had hoped. Children under age 18 still represent 13.9 percent of the total uninsured population. Many states are trying to simplify their application, enrollment and re-enrollment processes, as well as aggressively going after eligible children to ensure their participation in the program. A good way to attract more kids and their parents to CHIP that hasn't been tried yet in many states is the use of health insurance agents and brokers in the enrollment process. Seventy-five percent of parents of uninsured children are employed. Many of these parents have health insurance through their employer and regularly deal with a health insurance agent or broker. Allowing agents and brokers to enroll the eligible children of these employees would be an easy and natural way to increase program participation levels. Another good way to increase enrollment would be to increase the number of states that have their own private-based CHIP instead of an expansion of the Medicaid program. One of the reasons many of the people who are already eligible for Medicaid today do not enroll is that they do not want the negative stigma associated with public assistance. Private-sector programs can represent a transition from this stigma by allowing and encouraging people to embrace the concept of "self help" as opposed to the expectation of government entitlement. Regulatory Challenges Unfortunately, due to some of the inflexible federal regulations, many states have been unable to adequately implement the full range of options allowed by the legislation, and it has been particularly difficult for states to allow children to participate in private-market employer-based plans. For example, the Health Care Financing Administration has dictated that unless an employer contributes at least 60 percent of the family premium, employer plans are not eligible for CHIP participation. This mandate is unfortunate because surveys of employer plans show that other than on the East coast, very few employers pay that much of dependent premiums. Restrictions on cost sharing are another hurdle that has made it difficult for states to develop plans that include the employer-based system. The current CHIP legislation virtually prohibits cost sharing for children in families under 150 percent of the poverty level, and it is limited to five percent of family income for families with incomes that exceed 150 percent. Unfortunately, cost sharing is defined to not only include premiums, but also co-payments and co-insurance. As such, most "average" private plans would exceed the five-percent maximum for many eligible participants. This requirement, along with certain mandated benefit requirements that were also included in the legislation, virtually forces states to use a benchmark plan based on Medicaid-level benefits. Crowd-Out Crowd-out is the phenomenon that occurs when individuals who are eligible for private employer-based coverage decide to drop their private coverage in favor of a government health plan. Since many states have been unable to develop plans that encompass the employer-based system due to regulatory challenges, CHIP has been experiencing crowd-out difficulties. Many states have put strategies into place to reduce crowd-out levels, such as waiting periods to join CHIP if coverage is still accessible through an employer, but the best way to eliminate the crowd-out problem is to make CHIP more compatible with the employer-based health insurance system. Solutions CHIP has real potential to help reach an extremely vulnerable segment of our uninsured population, but it isn't perfect. Some easy ways to improve the program so that even more eligible children will have access to private health coverage include: Eliminate regulatory barriers that have made it difficult for some states to develop their own private-market based plans.

- Eliminate the cost-sharing provisions for CHIP participation and allow states to establish their own guidelines for reasonable cost sharing.
- Advise HCFA to withdraw their letter requiring a 60% employer contribution for CHIP participation in employer plans;

- Use insurance agents and brokers to increase the effectiveness of state-level outreach efforts.

It's also important to remember that CHIP alone cannot solve the problem of the uninsured. A meaningful health tax credit, like the one proposed by NAHU, would allow eligible lower- and middle-income Americans a refundable tax credit to be used to either purchase employer-sponsored coverage or buy an individual health insurance plan. Under the NAHU plan, all Americans with incomes up to $30,000, or families with an income up to $50,000, would be eligible for the health credit unless they participate in the Medicare program or a military health plan. The NAHU health credit would be particularly helpful for the employed parents of uninsured children. Since our health credit can be used in the employer market or in the individual market, some of its many advantages include: Providing a private-sector solution that will help achieve universal coverage through incentives instead of mandates. Allowing low-income individuals to either use the credit to help finance employer-based coverage or purchase individual health insurance.

- Targeting the short-term uninsured by giving them a way to afford health benefits.

Helping the unemployed finance coverage between jobs. Giving the self-employed an additional tax incentive option for the purchase of health insurance. Providing early retirees with a way to pay for health benefits until they become Medicare-eligible. Shifting low-income individuals away from the costly Medicaid program and into private market plans.

***Source: Health Insurance Underwriter magazine.**