The Children's Health Insurance Program:
Why CHIP is Still the Best Deal for Kids

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Background

Enacted in 1997 with bipartisan support from then-President Bill Clinton and then-Speaker of the U.S. House of Representatives Newt Gingrich, the Children's Health Insurance Program (CHIP) addresses a critical gap in health coverage for children in low-income working families. CHIP covers those who earn too much to qualify for Medicaid but not enough to be able to purchase health insurance coverage on their own. CHIP's supporters recognized the value of investing in children's coverage to make sure that all children have access to the medical care they need to grow up to become healthy and productive adults.

By every measure, CHIP has been enormously successful, helping to reduce the number of low-income uninsured children by a remarkable 67.9% since it was enacted in 1997 and spurring the enrollment of our nation's most vulnerable children into both CHIP and Medicaid. Because of these programs, today 94.2% of children in America have health insurance coverage, with approximately 40% getting their health coverage through Medicaid or CHIP.

Now that the Affordable Care Act (ACA) is fully in effect, policymakers have asked whether CHIP is still necessary in the post-ACA coverage world. The simple answer is yes. Because Medicaid and CHIP were already doing a good job covering kids, the ACA was built on top of these programs. The ACA did not end CHIP, it embedded CHIP into the reformed health system. However, CHIP is not an entitlement program – funding for CHIP is not permanent and the program is subject to reauthorization and funding renewals. While CHIP is currently authorized through September 30, 2019, its funding is set to expire on September 30, 2017. CHIP funding will need to be extended early in 2017 if CHIP is to continue to operate without disruption in the states. One thing is clear, if CHIP funding is not extended before it expires, millions of children who rely on CHIP would be left without affordable coverage and many would not have access to any coverage at all.

Why CHIP Funding is Critical

Here are some of the reasons CHIP remains an essential source of coverage for children in America and why Congress must act to extend funding for CHIP beyond FY 2017:

CHIP works for children. According to a recent report by the Urban Institute, the uninsurance rate for children age 18 and under fell by 67.9% between 1997 and the first three quarters of 2015, from 14.9% to 4.8%. In 1997, an astounding 23% of low income children in America, those at or below 200% of the Federal Poverty Level (FPL), were uninsured. In 2014, there were 4.4 million uninsured children down from 10.7 million in 1997. By 2014, the uninsured rate for children had fallen to 5.8% with a 91% participation rate for children eligible for CHIP and Medicaid. According to the Medicaid and CHIP Payment and Access Commission (MACPAC), in FY 2014 there were 8.1 million children enrolled in CHIP-funded coverage and 36.1 million children in Medicaid-funded coverage. Together these programs cover more than 40% of all children in the U.S. It is important to note recent gains in CHIP and Medicaid occurred through the 2008 recession and at a time when private, employer-sponsored coverage was in decline.

CHIP is popular among the public. The American people overwhelmingly support CHIP's continuation. In a May 2014 poll conducted by American Viewpoint, voters favored extending funding for CHIP by a 74-

14% margin, including 66-19% among Republicans. An earlier 2012 election eve poll by Lake Research Partners showed similar findings: support among voters for maintaining funding for CHIP was 83-13%, including 86-10% among women and 75-21% among Republicans.

Without funding for CHIP beyond FY 2017 the rate of uninsured kids will skyrocket. Without an extension of funding beyond FY 2017, the federal investment in CHIP would be cut from $20.4 billion in FY 2017 to $0 in FY 2018. States would only have carry-over money to spend beginning in FY 2018 and funding for CHIP would be eliminated by mid-2018, causing serious coverage disruptions for the 8.4 million children estimated by the Congressional Budget Office (CBO) to be enrolled in CHIP in FY 2017. And millions of these children who lose CHIP would have no other coverage option to turn to. This dramatic termination of CHIP would be an enormous step backwards for children, reversing a two-decade trend of significant coverage gains for kids.

States have almost two decades of experience with CHIP. CHIP is a federal-state partnership designed to give governors broad flexibility in administering their CHIP programs. In order to participate in CHIP, states must meet minimum benefit requirements. In exchange, the federal government provides enhanced matching payments to states to operate their CHIP programs. Until the end of FY 2015, the federal government, on average, picked up 70% of state CHIP costs. Beginning in FY 2016 (through FY 2019), the ACA increased each state's CHIP FMAP by 23 percentage points. With this increase, on average, the federal government is covering 93.8% of state CHIP program costs. CHIP's unique structure has enabled states to develop a strong set of child-specific benefits and robust networks of pediatric providers while at the same time helping states manage the costs of uncompensated care, reduce the numbers of uninsured kids and improve health outcomes. CHIP has been a winner for states and children alike.

CHIP has a higher actuarial value than Marketplace plans, making CHIP's out-of-pocket costs significantly lower. An actuarial value study of 35 states conducted by the Wakely Consulting Group in July 2014 found that CHIP plans have significantly lower average cost-sharing than the ACA's Marketplace plans. The average annual cost-sharing for a child in CHIP is estimated at $66 for households with incomes of 160% FPL and $97 for those at 210% FPL. In contrast, the average cost-sharing for a child in a Marketplace plan is estimated at $446 annually for households with incomes of 160% FPL and $926 for those at 210% FPL. In every state reviewed by Wakely, children in CHIP could see up to a ten-fold increase in the cost-sharing they pay if they are transitioned to a Marketplace plan. By every measure, a family's out-of-pocket costs in CHIP are significantly lower than in the Marketplace. If CHIP is not funded beyond FY 2017 and issues around affordability of Marketplace coverage are not remedied, the lack of affordable options for families will cause a significant decline in children's coverage.

Without CHIP it is estimated that the "family glitch" could cause nearly two million children to become uninsured. The U.S. Government Accountability Office (GAO) estimates that approximately 1.9 million kids would lose access to affordable coverage if CHIP funds run out because of the so-called "family glitch." The family glitch stems from an "affordability test" in the ACA, which bases coverage affordability for a family on the cost of employee-only coverage and not on how much it actually costs a family to buy coverage. Specifically, if an employee's offer of self-only coverage is less than 9.56% of family income that offer is deemed "affordable" for the entire family even if the cost of family coverage, which is typically three times as expensive as individual coverage, takes up much more than 9.56% of family income. Families that have an offer of "affordable" employer-sponsored insurance (ESI) are determined to meet the "affordability test" and are ineligible for Marketplace subsidies.

The most likely scenario for employees who have an "affordable" offer of self-only coverage is that the employee will enroll in ESI coverage for themselves but will not take up the more expensive ESI family plan. This would leave children both without affordable employer-sponsored coverage and locked out of subsidized Marketplace coverage. As long as CHIP funding continues, a large portion of the children who are likely to fall into the "family glitch" will be eligible for CHIP and have CHIP as a backstop. However, if CHIP funding is not extended by Congress, almost two million currently-insured children would face much

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higher coverage costs or become uninsured. There are no plans by Congress to address the family glitch, making CHIP a critical coverage source for children in low-income working families.

CHIP plans provide better cost-sharing and lower premiums. Under CHIP, states have broad flexibility to design their programs and set enrollment fees, premiums, deductibles, coinsurance, and copayments for children and pregnant women who are enrolled in CHIP. CHIP premiums often are determined on a sliding scale and cost-sharing is capped at 5% of total family income. Recognizing the value of covering kids, the majority of states actually have adopted coverage that is more generous than the CHIP minimum benchmark option and cost-sharing limits in most cases fall well below the 5% cap.

According to MACPAC's March 2015 Report to Congress, at 151% FPL, more than half of states do not charge any premiums for separate CHIP coverage. In the 11 states that charge premiums for separate CHIP coverage at this income level, the average monthly premium is about $18 per child per month (ranging from $3 to $40 per child per month). For families at 201% FPL, half of states with separate CHIP programs charge premiums of less than $10 per child per month. In the 22 states charging premiums at this income level, the average monthly premium is about $24 per child per month.

CHIP benefits are stronger and more comprehensive. With its pediatric-focus, CHIP goes above and beyond most private insurance plans (including ESI) in addressing the unique needs of children. In states that operate CHIP through their Medicaid program, children are guaranteed access to Early and Periodic Screening, Diagnosis and Treatment (EPSDT) services. States with separate CHIP programs must cover well-baby and well-child care; immunizations; inpatient and outpatient hospital services; physicians' surgical and medical services; and laboratory; x-ray; dental; and emergency services. In most states, CHIP services are provided through private sector managed care insurance plans. According to the Wakely study, CHIP covers more child-specific services with fewer limits than Marketplace plans. While CHIP and Marketplace plans provide similar coverage for routine care, CHIP does a better job covering services like pediatric dental, vision, hearing, autism and habilitation-related services.

CHIP assures a pediatric-appropriate network of providers. States have almost two decades of experience ensuring that CHIP plans offer provider networks that are pediatric-focused, including access to pediatricians, pediatric specialists, children's hospitals, community health centers, and school-based health providers – all of which have expertise in meeting the unique health care needs of children. In addition, many CHIP programs operate under the guidance of a CHIP advisory panel, comprised of an array of child health and development experts, which helps set CHIP guidelines based on the best interests of children. While Marketplace plans must meet important criteria to ensure patients have access to high quality care, they are simply not designed with the needs of children in mind like CHIP is.

Termination of CHIP will move millions of children into Marketplace plans before comparable coverage is available to meet their needs. The transition of kids from CHIP into Marketplace plans would not only be a major disruption for children, families would have to pay more (even when taking subsidies and tax credits into account) and their children would have access to a much less robust set of benefits and fewer pediatric providers. In September 2015, MACPAC projected that if funding for separate CHIP programs was to end, 36% of kids (1.4 million) previously covered by CHIP would have their coverage shifted to Marketplace plans where they would face increased cost-sharing and fewer benefits; 33% of children (1.2 million) would get covered through their parent's employer-sponsored insurance (with significantly higher out-of-pocket costs and an adult-focused benefit), and 31% (1.1 million) would become uninsured. This means that 100% of children currently covered in CHIP would be worse off. It is important to note that coverage affordability will be a key issue for all of the children who move from CHIP to the Marketplace or ESI and is likely to cause significant churn between private coverage and uninsurance. Children should not be moved from CHIP until it is clear that the Marketplace can provide coverage that is at least comparable to what children get in CHIP. Children should not be worse off in the transition from CHIP to Marketplace plans.

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No other insurance is available for low-income families that protects children like CHIP does. Recognizing the significant gap in benefits and cost-sharing between coverage for children in CHIP and coverage offered through the Marketplace, Congress included language in the ACA requiring the HHS Secretary to review Marketplace plan benefits and cost-sharing and to certify those plans which are comparable to CHIP. This language was designed to prevent the premature transition of children from CHIP to the Marketplace. This HHS review was released May 27, 2016 when Secretary Sylvia Burwell issued findings indicating that there are currently no Marketplace plans that are comparable to CHIP. With CHIP funded through FY 2017, allotments provided to the states at this time are sufficient to provide coverage for all targeted-low income children but if CHIP funding expires on September 30, 2017, families covered by CHIP will face significantly less generous coverage for their children in terms of both benefits and affordability.

Extending CHIP is a sound budgetary decision becaue Marketplace plans are more costly than CHIP plans to the federal government. According to CBO and MACPAC, the federal portion of future CHIP funding would be offset by reductions in federal spending for Medicaid and subsidized Marketplace coverage because children would not enroll in those programs if CHIP is available. In fact, some cost estimates show that a CHIP extension could even score savings because per capita CHIP expenditures are less than per capita Marketplace costs. Therefore, if CHIP funding is not extended and children are moved to coverage in the Marketplace the cost to the federal government would be greater than if children continued to be covered in CHIP. It does not make sense for children to move into more expensive Marketplace plans if it means fewer benefits and greater out-of-pocket costs for the family. CHIP must continue to be available in the states so that children will not lose ground in a transition to the Marketplace in terms of affordability and benefits, especially if Marketplace coverage means a greater cost to the federal government.

Congress Must Take Action Early in 2017 to Extend CHIP Funding

CHIP is good for kids, good for families, good for states, and good for taxpayers. CHIP is a model program that has reduced the numbers of uninsured children to record lows, even during the downturn in the economy that began in 2008. CHIP has a long history of bipartisan support from lawmakers on both sides of the aisle who recognize that providing health coverage for our nation's children is a critical investment in America and its future. If funding for CHIP is not extended beyond FY 2017, the remarkable trend toward universal coverage for children would most certainly be reversed and significant numbers of children would become uninsured.

While the ACA has been successful in moving millions of previously uninsured Americans into coverage, especially uninsured adults, Marketplace plans are not designed for kids and provide fewer child-specific benefits, narrower networks, and higher cost-sharing than what children currently get in CHIP. Without notable improvements to the ACA to ensure comparability in between CHIP and Marketplace plans in terms of benefits and affordability, children would be significantly worse off if CHIP were to end and children were moved into Marketplace plans.

The bottom line is that CHIP is proven to be a cost-effective, evidence-based program that works for children. Ending CHIP would be a mistake for the millions of children and families who rely on CHIP for their coverage. Now is not the time to tamper with the program that has been so successful in covering children. Congress has a duty to protect children. In considering CHIP's future, Congress must ensure that CHIP continues to be available in the states since there is no alternative that will protect children and families from a ten-fold increase in out-of-pocket costs with fewer benefits. Children must not be left worse off.

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