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MAKING CHILDREN & FAMILIES THE PRIORITY

What Is the "CHIP Cliff" and How Can Congress Fix It?

January 2018

On January 22, 2018, Congress included a six-year extension of the Children's Health Insurance Program (CHIP) as part of a continuing resolution (CR) to keep the federal government funded on a temporary basis. Funding for CHIP had expired 114 days before, at the close of September 2017. States were continuing to operate their programs with unspent funding from FY 2016 and FY 2017 and a $2.85 billion appropriation from Congress in the CR passed in late December.

However, by this past week, states were rapidly running out of any funding. A report by Georgetown's Center for Children and Families had estimated, "If Congress fails to approve long-term funding for CHIP in January, nearly 1.7 million children in separate CHIP programs in 21 states with shortfalls in March 2018 could lose coverage by the end of February 2018."

The latest CR is critically important in providing the funding necessary for the next six years to protect the health and well-being of the 9 million children and pregnant women who rely on CHIP for their health coverage, but leaves in place concerns among advocates and states about the long term fiscal health of the program, due to what advocates refer to as a "CHIP cliff" and is explained later.

First, it is important to highlight that the CHIP extension included the following key provisions:

- **Extends Federal Funding to CHIP for Six Years**

- **Reduction in the Federal Matching Rate**: A reduction in the 23 percentage point increase in the federal matching rate to states that had been included in the Affordable Care Act for CHIP to the regular CHIP matching rate. The "23 percentage point bump" is reduced in half, or by 11.5 percentage points, in FY 2020 and is ended in FY 2021.

- **Extension of Express Lane Eligibility:** An extension of Express Lane Eligibility authority for states to continue to use data from other agencies to help streamline and simplify eligibility determinations, enrollment, and renewals through FY 2023.

- **Extension of the MOE**: An extension of the maintenance of effort (MOE) requirements to maintain coverage of children through FY 2023 with an adjustment beginning in FY 2019 whereby the MOE would apply only to children in families with income below 300 percent of the federal poverty level (FPL).

- **Extension of Outreach and Enrollment Grants**: An extension of funding for outreach and enrollment grants with additional language that adds parent mentors as eligible for such funding and that any income or stipend that a parent were to receive through this grant would not be considered in Medicaid eligibility determinations.

CHIP Financing in the CR

Unlike the Medicaid program, CHIP's funding is capped. In contrast to Medicaid, states are given a federal allotment based on the overall capped federal appropriation and may exhaust their funding in CHIP. While that happened a few times in the program's earlier years, the Medicaid and CHIP Payment and Access Commission (MACPAC) point out "this has not occurred since the enactment of the current allotment structure" in the Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA).

The CHIP financing changes included in CHIPRA cause federal allotment to states to be based upon each state's recent CHIP spending levels increased by a growth factor. Consequently, the allotments to individual states can change dramatically from year-to-year depending on past state spending levels. To ensure sufficient flexibility, states have two years to spend their allotments, but after that, any unspent dollars are redistributed to other states. In addition to the redistributed dollars, CHIP also has contingency funding that would be available to states that exhaust their allotments and any redistributed federal CHIP dollars.

In the recently passed CR, Congress sets the overall cap in CHIP funding to states as follows:

- $21.5 billion for FY 2018
- $22.6 billion for FY 2019
- $23.7 billion for FY 2020
- $24.8 billion for FY 2021
- $25.9 billion for FY 2022
- $25.9 billion for FY 2023

Whether a drafting error or intentional, it is noteworthy that the funding cap in FY 2023 provides for no increase in case of inflation or caseload growth over the previous year.

In addition, funding in FY 2023 is made up of three separate payments: $2.85 billion for the first six months of the year, $2.85 billion for the second six months of the year, and a one-time appropriation of $20.2 billion to add up to the overall level of $25.9 billion.

CHIP's Baseline Accounting Problem – the "CHIP Cliff"

CHIP's long-term financing problems are caused by a number of factors.

First, tobacco taxes were twice enacted to help pay for the program's initial authorization in 1997 and its extension in 2009, but those revenues were not put into a Trust Fund to be used to help finance CHIP and coverage for the millions of children it serves in the long term. The largest and best-known trust funds help finance Social Security, Medicare, highways and mass transit, and pensions for government employees.

Consequently, although the tobacco taxes remain in place and continue to bring in revenue to the Federal Treasury, those revenues are no longer earmarked or remain dedicated and available to help finance CHIP.

Therefore, the CHIP baseline is critical when the program is up for an extension, as it would again at the close of FY 2023. To calculate the baseline for mandatory programs like CHIP in the out-years, the Congressional Budget Office (CBO) uses the final year of spending for the program to project future spending levels.

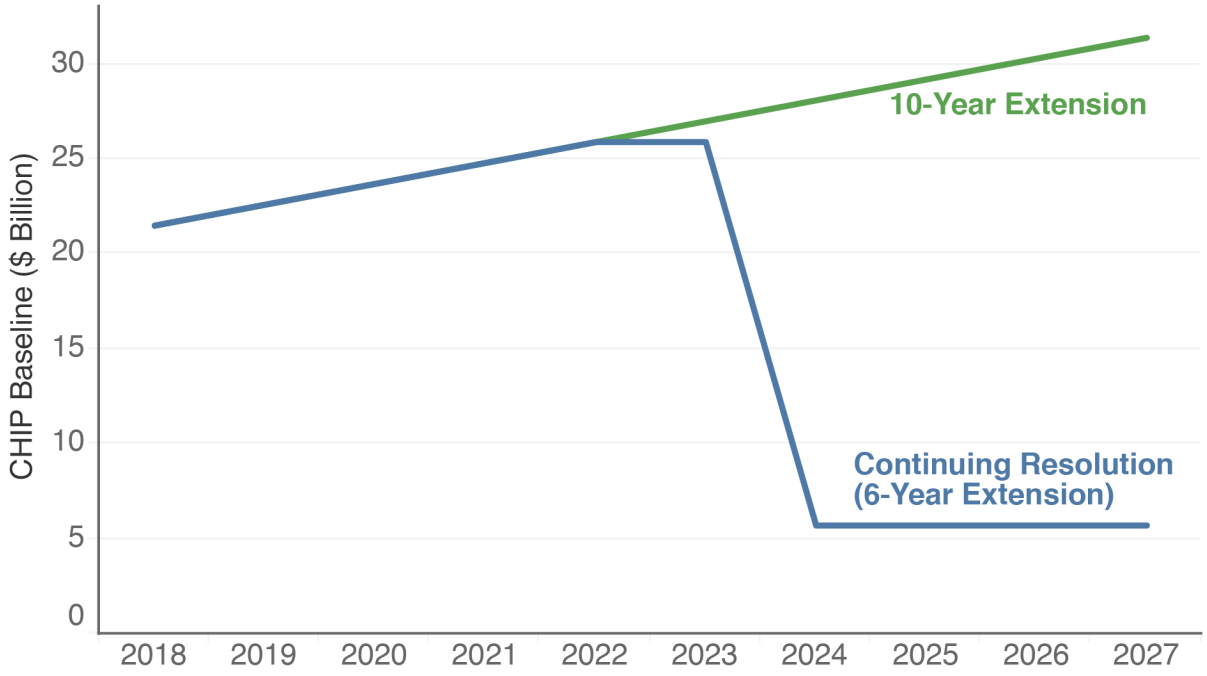
Therefore, under normal rules, CBO would take what the spending level would be in FY 2023 and project that level of spending into the CHIP baseline in the future. In this case, that would lead one to believe the CBO baseline for CHIP is $25.9 billion, but in reality, the CHIP baseline is set at an arbitrarily lower level that increases the likelihood that funding may be woefully inadequate.

This situation exists because the language in the recent CR and in previous extensions of CHIP are written to circumvent CBO scoring rules. Therefore, as has been done in the past, to avoid having to finance a $25.9 billion CHIP baseline throughout the 10-year budget window now, the most recent CR includes a one-time appropriation of $20.2 billion in FY 2023 so that the base amount appears to be just $5.7 billion in FY 2023. That has the effect of dropping CBO's baseline assumption for CHIP to just $5.7 billion from what otherwise would be a much higher level for FY 2024 and beyond.

This accounting gimmick has the effect of reducing CBO's CHIP baseline dramatically in FY 2024 (see Chart #1). Child advocates refer to this as the "CHIP cliff." Although Congress does this to avoid having to pay for the full 10 years of CHIP in this shorter, six-year extension, it leaves CHIP clearly underfunded and in a potentially severe crisis when CHIP's funding expires at the end of FY 2023 and in the future.

The "CHIP Funding Cliff"

The CR provides $25.9 billion in 2023, but a reduction in the baseline to $5.7 billion in 2024 (a 78% decrease)



Data: Congressional Budget Office, *Cost Estimate of Extending Funding for the Children's Health Insurance Program for 10 Years,* January 11, 2018.

Chart by First Focus

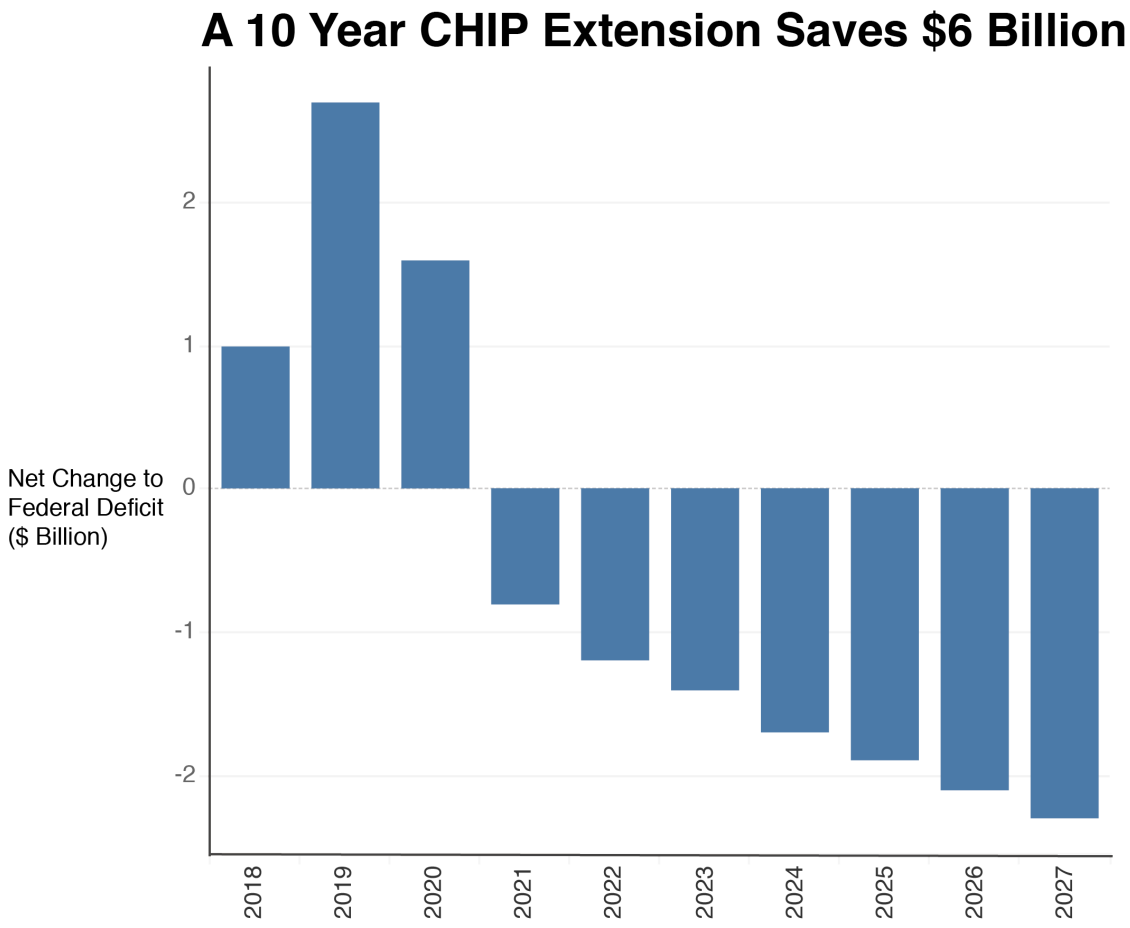
Other federal health care programs are not subjected to frequent extensions or funding shortfalls like CHIP because other programs have their full spending levels built into the federal budget. In contrast, Congress and child advocates are forced to repeatedly find offsets just to extend the current level of coverage to the millions of children and pregnant women that rely on CHIP for their health coverage. This is a special burden that is unique to CHIP, and it stands in sharp juxtaposition to the long-term stability that Congress provides to programs like Medicare, Medicaid, TRICARE, the Federal Employees Health Benefits Program (FEHBP), and health coverage for themselves and their staff.

The Unique Opportunity to Fix the "CHIP Cliff"

On January 11, 2018, CBO and the JCT provided Congress with an updated analysis of the estimated cost of S. 1827, the KIDS Act ("Extending Funding for the Children's Health Insurance Program for 10 Years") that provides Congress with a unique opportunity to end the "CHIP cliff" and help protect and stabilize funding for the health coverage of millions of children and pregnant women for the long term.

Although previous analysis in 2017 had estimated that an extension of CHIP would cost between $800 million and $8 billion over five years, the new CBO and JCT estimate found that the recently passed tax bill's elimination of the individual mandate in the ACA would increase the cost of ACA marketplace plans and reduce the cost of extending CHIP. In other words, retaining health coverage for the millions of children enrolled in CHIP would be even more cost effective against the alternative of children receiving coverage in the ACA marketplaces.

According to the updated estimate by CBO and JCT, "The agencies estimate that enacting such legislation [to extend CHIP for 10 years] would decrease the deficit by $6.0 billion over the 2018-2027 period." This important change in the CBO and JCT presents Congress with a unique opportunity to either make CHIP permanent or to extend CHIP for at least 10 years at a savings of $6 billion to the federal deficit. It is also likely temporary, as other legislative changes made by Congress or regulatory changes made by the Trump Administration, could have a dramatic impact on future CBO and JCT cost estimates.



Data: Congressional Budget Office, Cost Estimate of Extending Funding for the Children's Health Insurance Program for 10 Years, January 11, 2018.

Chart by First Focus

In short, the new CBO and JCT score on extending CHIP funding permanently or for 10 years presents Congress with the unique opportunity to simultaneously:

1) protect and stabilize coverage for children in the long term;
2) reduce the federal deficit by $6 billion or allow the CHIP extension to help pay for extending expiring programs such as funding for community health centers, the Maternal Infant Early Childhood Home Visiting (MIECHV) program, and the Special Diabetes Program (SDP) for children;
3) eliminate the "CHIP cliff";
4) allow CHIP to be treated more like all other federal health coverage programs, as none of the others are subjected to repeated short-term extensions and funding shortfalls; and,
5) dramatically reduce the problem that CBO and JCT cost estimates for CHIP, and thereby, the program's future being so contingent upon changes in the scoring of other programs, such as Medicaid and the ACA.