CALIFORNIA BUDGET PROJECT

budget brief

DECEMBER 2006

SCHIP REAUTHORIZATION:
HEALTHY FAMILIES NEEDS SUFFICIENT FEDERAL FUNDING

California makes health coverage accessible to millions of children through the Healthy Families and Medi-Cal Programs using state and federal funds. Healthy Families currently provides low-cost health coverage to over 750,000 children, thereby reducing the number of children who would otherwise be uninsured. However, the federal funding that supports Healthy Families is scheduled to expire in 2007, and Congress must act to continue these funds and ensure that the funding level is sufficient to support Healthy Families' continued success. California needs an additional $2 billion to $3 billion over the next five years in order to support the current Healthy Families Program. Even more funds would be needed if eligibility is expanded to cover additional children. While California has used federal funds from prior years to support Healthy Families, these funds will soon run out.

What Is SCHIP?

Congress established the State Children's Health Insurance Program (SCHIP) in 1997 to support state efforts to expand health coverage to uninsured children (Table 1). Congress targeted SCHIP to children whose family incomes were relatively low, but above limits for Medicaid (Medi-Cal in California). However, while the federal government provides unlimited funding to match eligible Medicaid spending, the total amount of funds available for SCHIP was set for 10 years in the 1997 law. This means that the level of federal support has not responded to the actual level of program needs. The current funding for SCHIP will expire on September 30, 2007.

The federal government determines each state's share of SCHIP funding based on a formula. The formula includes each state's share of the nation's low-income children – whether or not they are insured – as well as each state's share of uninsured low-income children. However, state funding allocations do not necessarily respond to program need, since they do not reflect actual program enrollment or costs and because the data used in the formula are several years old.

States generally have three years to spend their annual SCHIP allocations, which are called allotments. If a state does not fully spend its SCHIP allotment within the required period, it may have to return any unspent funds to the federal government. California, for example, has returned approximately $1.5 billion in unspent SCHIP funds to the federal government since the program began.[1] Thus, states have limited ability to count on unused funds from prior years to support program growth.

Recognizing the fundamental connection between SCHIP and Medicaid, federal law allowed states to use SCHIP dollars to expand their current Medicaid program, to create new programs, or both. California's Healthy Families Program is separate from Medi-Cal – different departments oversee the programs – but California also uses SCHIP dollars to support some improvements to Medi-Cal. For example, California has used SCHIP dollars to support children enrolled in Medi-Cal as a result of waiving the "assets test" for children in the program.[2] California also uses a relatively small share of SCHIP funds for programs not directly tied to Medi-Cal or Healthy Families (see box).

Table 1: SCHIP Milestones in California	
August 1997	Congress creates the State Children's Health Insurance Program (SCHIP) through the Balanced Budget Act of 1997, authorizing approximately $40 billion of funding over 10 years.
October 1997	California creates the Healthy Families Program to use SCHIP and state funds to provide health coverage to children with family incomes at or below 200 percent of the federal poverty level (FPL).
July 1998	California begins enrolling children in Healthy Families.
July 1999	California increases the Healthy Families income eligibility limit to 250 percent of the FPL.
September 2000	California approves the use of SCHIP funds to cover parents of children eligible for Healthy Families. Despite federal approval, the expansion is not implemented due to a lack of state funds.
FFY 2000 through FFY 2004	California returns a total of $1.5 billion in SCHIP funds to the federal government because it did not spend them within required timelines.
FFY 2003	For the first time, California spends more in SCHIP funds than it receives, filling the gap with unused funds from prior years. This trend continues until the present.
FFY 2006	California begins using SCHIP funds to support children's health coverage through county-based programs and prenatal care.
FFY 2007	California projects spending over $300 million more in SCHIP funds than it receives.
September 30, 2007	SCHIP funding expires absent Congressional action.

How Does California Use Its SCHIP Dollars?

California uses its federal SCHIP dollars primarily to support coverage for children enrolled in Healthy Families. However, SCHIP funds also support certain expansions and changes to Medi-Cal that were enacted when California created Healthy Families. These changes include waiving the assets test for children applying for Medi-Cal and providing temporary coverage for children whose incomes are too high for Medi-Cal while they enroll in Healthy Families.[3] The Managed Risk Medical Insurance Board (MRMIB) projects that approximately four out of every five SCHIP dollars (78.1 percent) spent in federal fiscal year (FFY) 2007 will support children enrolled in Healthy Families and related Medi-Cal changes. The remainder of the SCHIP dollars support other activities, as detailed below.

In 2003, California began the Child Health and Disability Prevention (CHDP) "gateway" program, also called presumptive eligibility. Under this program, children who see a CHDP provider and appear to meet eligibility requirements are enrolled in Medi-Cal or Healthy Families for two months. Approximately 7.2 percent of SCHIP dollars spent in FFY 2007 will support enrollment of these children in Healthy Families.

California uses SCHIP funds for two additional purposes. SCHIP funds help support health coverage for children with incomes between 250 percent and 300 percent of the federal poverty level enrolled in county-based programs. In FFY 2007, California will spend approximately $2 million to cover these children. In addition, California uses SCHIP funds to support certain prenatal services provided under the Medi-Cal and Access for Infants and Mothers (AIM) Programs. Approximately 14.5 percent of SCHIP dollars spent in FFY 2007 will support these services, which became eligible for federal matching funds under regulations released in 2002.[4]

What Is Healthy Families?

Healthy Families provides comprehensive health coverage to children whose family incomes are somewhat above the maximum level for Medi-Cal.

Healthy Families Eligibility

Healthy Families covers children who:

- Are under the age of 19;
- Have family incomes below 250 percent of the federal poverty level (FPL), equivalent to $41,500 for a family of three in 2006;
- Are not eligible for Medi-Cal;
- Have not had job-based health coverage for the previous three months; and
- Meet citizenship or immigration requirements.

Healthy Families Benefits

Healthy Families provides benefits similar to those provided under the health benefit plan for state employees. These include physician services, inpatient and outpatient hospital care, prescription drugs, lab tests and x-rays, mental health services, dental care, and vision care. However, Healthy Families benefits are not as comprehensive as those provided by Medi-Cal and do not, for instance, include Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) services.[5]

Healthy Families Costs

Healthy Families provides cost-effective health coverage. The cost of covering children under Healthy Families is somewhat lower than the cost of private insurance, despite research suggesting that children eligible for Healthy Families and similar state programs are in poorer health than those covered by private insurance.[6] For example, one study found that the cost of private coverage averaged $1,004 per child in the US in 2001.[7] In comparison, combined state and federal Healthy Families spending was $973 per child in 2001-02, reflecting the state's ability to keep costs low by negotiating with the health plans that provide Healthy Families coverage.[8]

Healthy Families Financing

Healthy Families is jointly funded by the state and federal governments. The federal government pays about two-thirds of the program's costs, although the amount of funds available annually is limited. Families with children enrolled in the program also pay monthly premiums of $4 to $15 per child, up to a maximum of $45 per family. Families also pay copayments for many services, up to a maximum of $250 per year.

Healthy Families Builds on Foundation of Medi-Cal

Medi-Cal, which was created several decades before Healthy Families, is the primary provider of health coverage for low-income families and children. In addition, Medi-Cal covers seniors and persons with disabilities. Healthy Families covers children with somewhat higher incomes than allowed under Medi-Cal, although the income level at which children are no longer eligible for Medi-Cal depends on a child's age.[9] Nationally, research suggests that children eligible for SCHIP programs, such as Healthy Families, are in better health and have fewer chronic health conditions than children enrolled in Medicaid.[10]

The Medi-Cal Program covers substantially more people and has a much larger budget than Healthy Families. More than 3 million children receive health coverage through Medi-Cal, more than four times the number of children who are covered by Healthy Families (Figure 1). Since Healthy Families began, enrollment of children in Medi-Cal has also grown by more than 600,000. The 2006-07 Budget provides $13.8 billion in state funds for Medi-Cal, many times the $368 million allocated for Healthy Families. Higher Medi-Cal spending also reflects the fact that the cost per person is higher than that of Healthy Families, since Medi-Cal covers individuals with serious health conditions, such as seniors and persons with disabilities, in addition to children.[11]

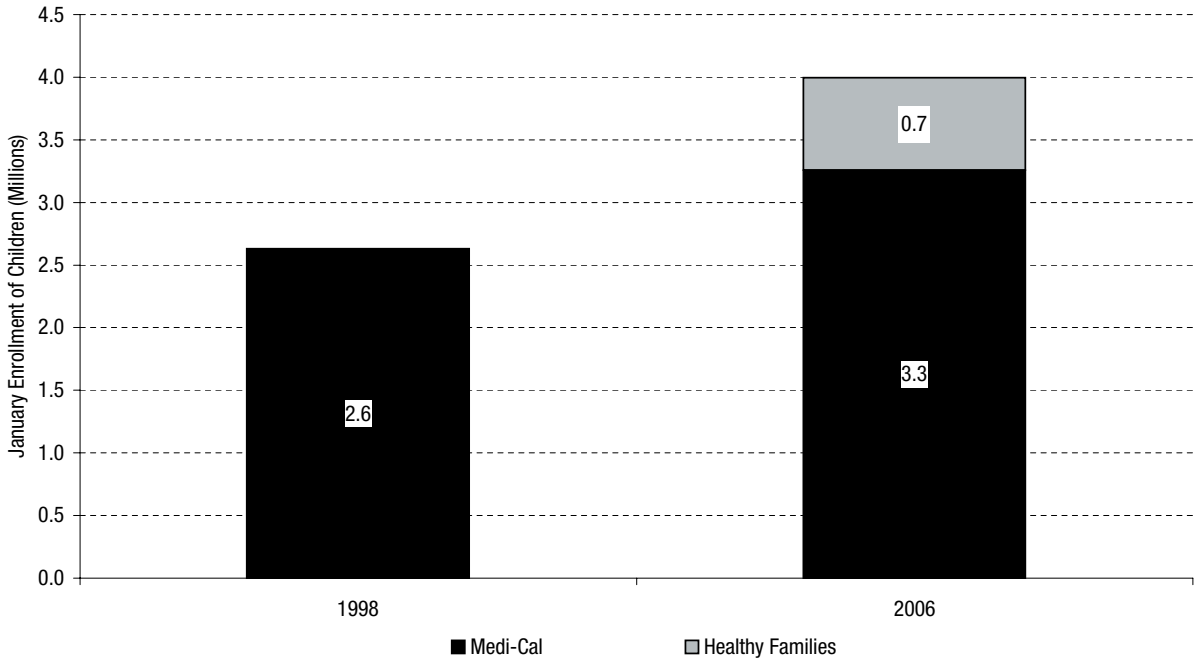
Healthy Families Has Reduced the Number of Uninsured Children

Enrollment Is High and Growing

Enrollment in Healthy Families grew steadily during the first several years, adding approximately 100,000 children or more to the program each year between 1999-00 and 2002-03 (Figure 2). Enrollment was flat in 2003-04, and then rose again in 2004-05 and 2005-06, although at a slower pace. By the end of 2005-06, Healthy Families provided health coverage to more than 750,000 children. The number of children enrolled in Healthy Families during the first three months of 2006-07 increased by 3.2 percent compared to the same period in the prior year.

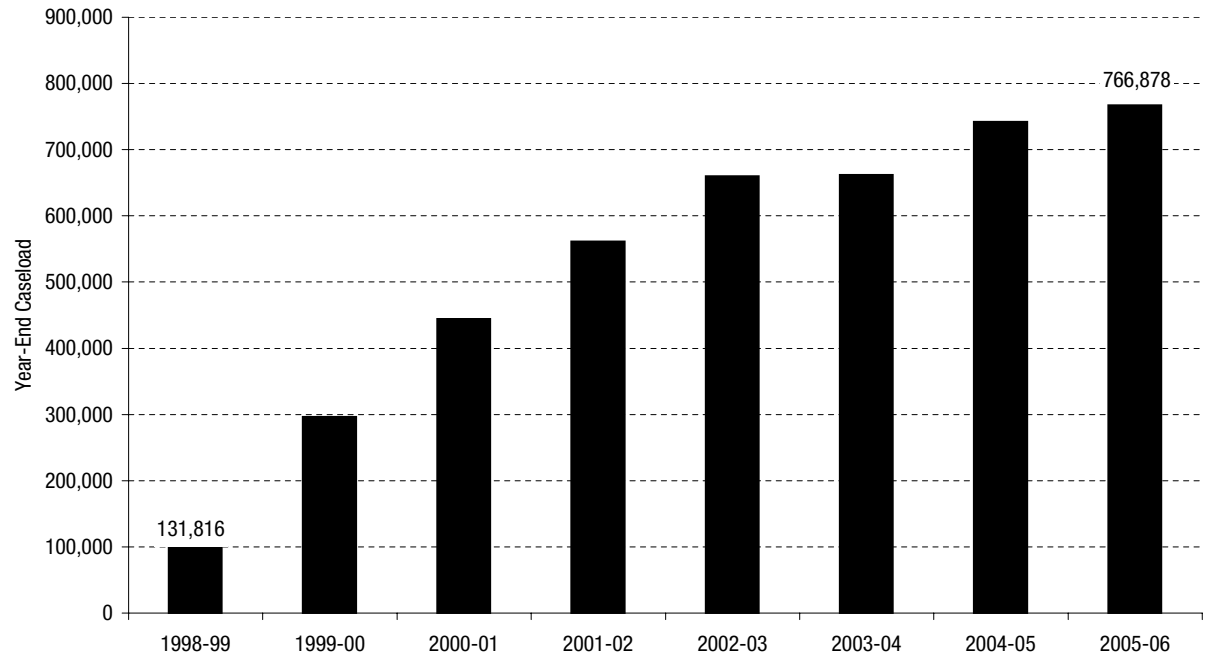
Healthy Families has helped reduce the number of low-income uninsured children, despite a shrinking share – and number – of Californians who receive job-based health coverage. Between 2000 and 2005, the share of children with family incomes below 250 percent of the FPL who were covered by Medi-Cal or Healthy Families jumped by 7.2 percentage points, from 37.3 percent to 44.5 percent (Figure 3). This increase more than offset the decrease in the share of low-income children covered by job-based health coverage. As a result, the share of California's low-income children with any health coverage increased by

Figure 1: Children's Health Coverage Gains Have Come from Both Medi-Cal and Healthy Families



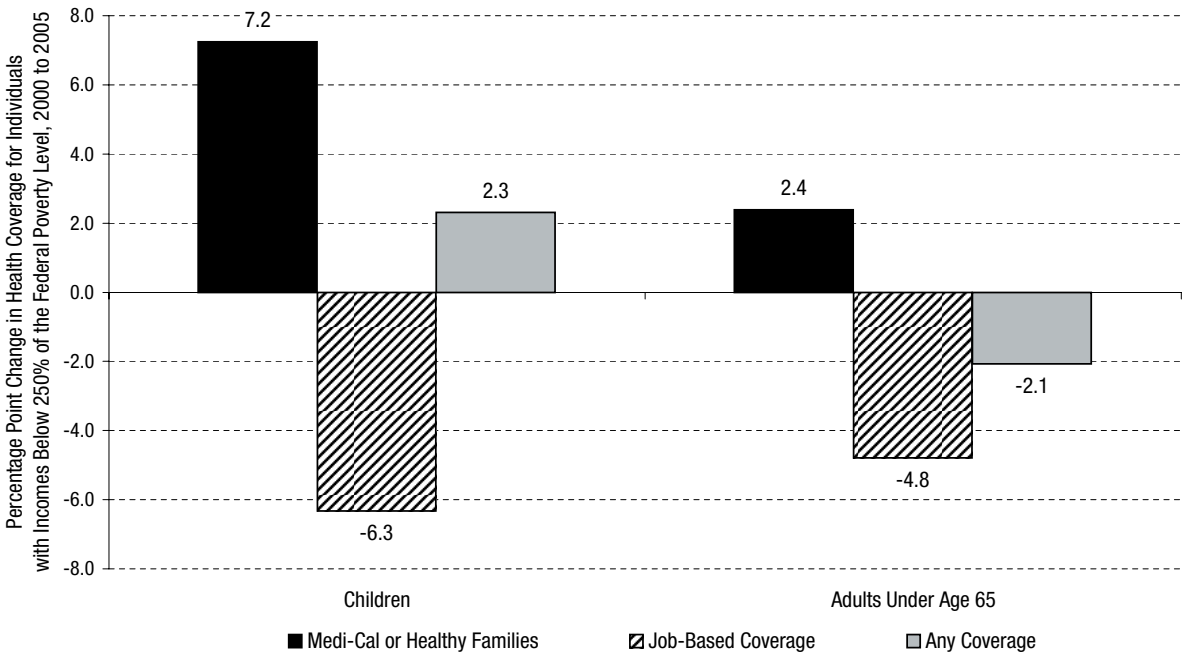
Source: Department of Health Services and Managed Risk Medical Insurance Board

Figure 2: Healthy Families Program Covers More Than 750,000 Children



Source: Department of Finance and Managed Risk Medical Insurance Board

Figure 3: SCHIP Has Helped Boost Health Coverage for Low-Income Children



Source: CBP analysis of Current Population Survey data

2.3 percentage points. On the other hand, adults with similar incomes – who are not eligible for Healthy Families coverage – experienced a decline in health coverage between 2000 and 2005, despite a somewhat smaller decline in job-based coverage.

These trends suggest that Healthy Families plays two important roles for low-income children. First, it covers uninsured children. Second, it helps buffer the impact of declining job-based health coverage on these children.[12] Moreover, the impact of Healthy Families and Medi-Cal together was more powerful for low-income children than Medi-Cal alone was for low-income adults. Increased enrollment in Medi-Cal and Healthy Families by low-income children more than offset their loss of job-based health coverage, while the enrollment increase in Medi-Cal by low-income adults only offset half the loss of job-based coverage. In future years, additional children who are currently insured may become newly eligible for Healthy Families if the erosion of job-based coverage continues.

Healthy Families Has Improved Children's Lives

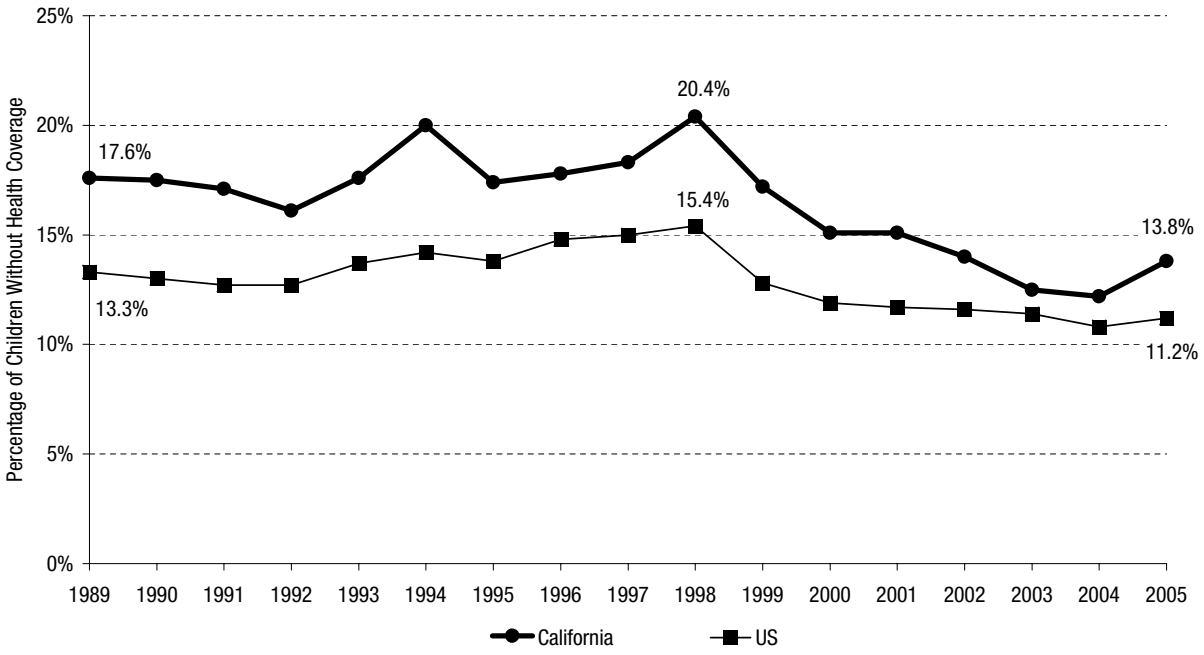
Studies document the importance of health coverage to children's well-being and life outcomes.[13] Children with health coverage are more likely to have better health outcomes than those without. Children with a regular source of care are more likely to receive cost-effective, preventive services, such as immunizations, that lead to better health outcomes.[14] Uninsured children, on the other hand, are more likely to lack a regular source of care and to have unmet needs for medical and dental care.[15] Better health status can improve educational outcomes, thereby resulting in higher wages and improved economic well-being later in life.

A recent study documents the improvements in children's health outcomes resulting from Healthy Families coverage.[16] In addition, a state evaluation found that for children in the poorest health, school attendance and performance improved after enrollment in Healthy Families. In particular, the ability of these children to pay attention in class and keep up with school activities improved significantly after enrollment in Healthy Families.[17]

Healthy Families Has Not Covered All Eligible Children

Despite the success of Healthy Families, California continues to have a substantial number of uninsured children. Historically, a greater share of children has lacked coverage in California than in the US as a whole (Figure 4). The share of uninsured children declined both in California and in the US as a whole between 2000 and 2004, although the decline was much larger in California.[18]

Figure 4: A Larger Share of California's Children Lack Health Coverage



Note: Methodological changes led to lower estimates of the number of uninsured persons beginning in 2000.
Source: US Census Bureau

One reason that California has a high rate of uninsured children is that not all children are enrolled in programs for which they are eligible. For example, approximately 200,000 children were eligible for, but not enrolled in, Healthy Families in 2005.[19] Thus, California could further decrease the number of uninsured children by enrolling additional children in Healthy Families.

California Has Outspent Its Annual SCHIP Allotment for Several Years

When Healthy Families began, the amount of SCHIP funds available exceeded the amount spent by California (Figure 5). In fact, California received the largest SCHIP allotments in FFY 1998 and FFY 1999, when Healthy Families expenditures were low, since the program was just starting up. Between FFY 1999 and FFY 2005, expenditures of federal SCHIP funds rose by approximately $100 million per year. Since California spent less than it received each year through FFY 2002, the state amassed large amounts of unused funds. However, due to the time limitation for spending SCHIP funds, California was not able to retain all of its unused funds.

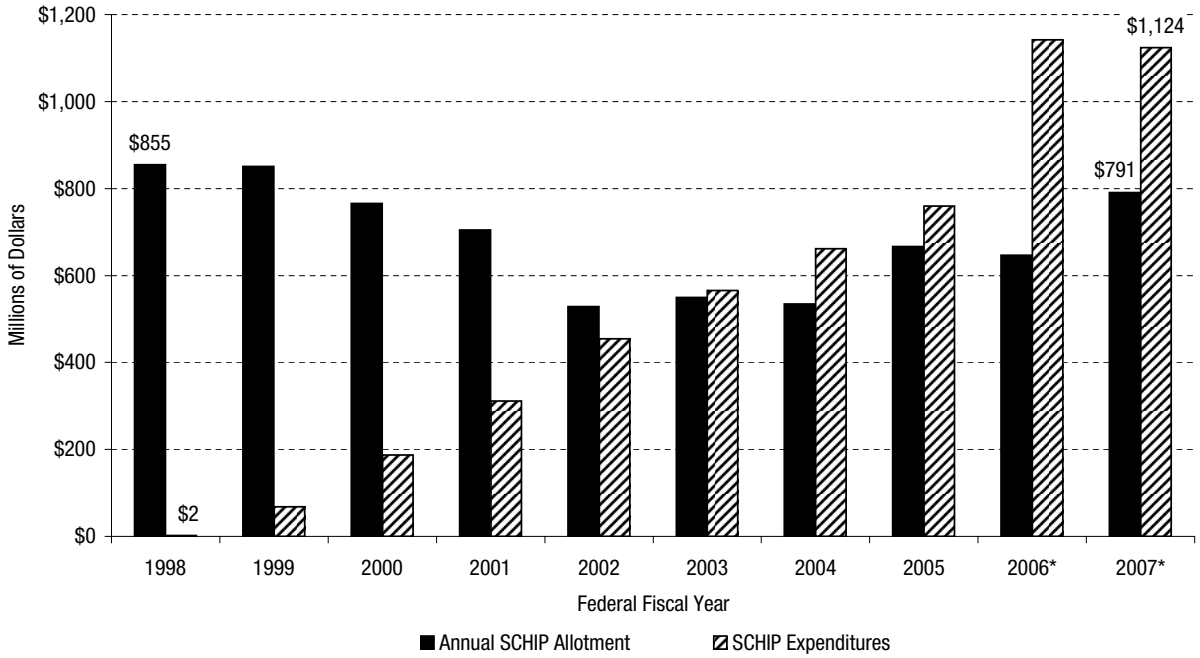
Since FFY 2003, California's SCHIP expenditures have exceeded each year's federal allotment. The state has relied on unused federal funds from prior years to bridge the gap between SCHIP expenditures and annual allotments. However, the MRMIB estimates that California will nearly exhaust all of its unused SCHIP funds in FFY 2007.

Federal SCHIP funding has not responded to California's actual need. First, California received the highest level of SCHIP funding when it had the lowest need. Four years later, SCHIP funding dropped to help meet federal deficit reduction goals, despite steady program growth.[20] Finally, although SCHIP funding increased in FFY 2007, the increase was far less than necessary to keep pace with enrollment and increases in the cost of health care.

California Faces a Potential SCHIP Shortfall Totaling $2 Billion to $3 Billion in the Next Five Years

California could face an SCHIP shortfall totaling $2 billion to $3 billion over the next five fiscal years – the period for which Congress will likely reauthorize SCHIP funding – if funding levels are not increased (Table 2). That is because California has nearly exhausted unused SCHIP funds from prior years, and California's

Figure 5: California Now Spends More SCHIP Dollars Than It Receives



* Actual allotments; projected expenditures. Approximately $135 million in FFY 2006 expenditures are for services provided in FFY 2005.
Source: Managed Risk Medical Insurance Board and Federal Register

current allotment of $791 million is far from adequate to support future needs of the program as it is currently configured. If the growth in California's SCHIP spending slows to 5 percent per year – assuming very slow growth in enrollment and health costs – the five-year shortfall would be approximately $2 billion. On the other hand, moderate growth of 10 percent per year could lead to shortfalls of $3 billion. Even more federal funds would be needed if eligibility for Healthy Families is expanded to cover children with incomes above 250 percent of the FPL.

While the future enrollment growth of Healthy Families is uncertain, these growth rates are likely conservative. Underlying growth – after adjusting for major policy changes – was 16.0 percent in FFY 2005 and is projected at 11.3 percent in FFY 2006.[21] These rates are likely to slow somewhat as the share of eligible children enrolled in Healthy Families increases. However, the MRMIB forecasts that expanded outreach efforts and simplified enrollment procedures that were included as part of the 2006-07 Budget will accelerate the number of children enrolled in Healthy Families.[22]

How Can Congress Build on SCHIP's Success?

The current funding for SCHIP will expire on September 30, 2007 absent Congressional action. The President and Congress can use the reauthorization of federal SCHIP funding to ensure that California's Healthy Families Program continues to provide comprehensive health coverage to those low-income children who need it.

Federal funding should be increased to keep pace with program needs. Nationally, 1.5 million children could lose health coverage if SCHIP funding is not increased.[23] Without additional federal funds, California faces substantial annual SCHIP shortfalls as soon as FFY 2008, and the five-year shortfall could reach $3 billion. Additional funding would enable California to continue reducing the number of uninsured children by enrolling children who are eligible for, but not yet enrolled in, Healthy Families.

If Congress does not provide additional funding, California will face difficult decisions. For example, California could stop enrolling children, reduce Healthy Families benefits, or freeze payments to health plans that provide Healthy Families coverage. The shortfall could result in more than 700,000 California children losing health coverage in FFY 2012. Since California faces projected annual budget deficits of over $4 billion through 2009-10, it will have limited resources to replace federal funding with additional state dollars.[24]

Congress should protect and strengthen Medicaid. Medicaid is the primary public program that provides health coverage to

Table 2: California Faces Potential Five-Year SCHIP Shortfall of $2 Billion to $3 Billion (Dollars in Millions)						
Program Growth	FFY 2008	FFY 2009	FFY 2010	FFY 2011	FFY 2012	**Total**
Very Low	$101	$386	$445	$507	$572	**$2,012**
Low	$128	$443	$536	$635	$742	**$2,484**
Moderate	$155	$501	$630	$773	$929	**$2,988**

Notes: Assumes no increase in federal SCHIP funds from FFY 2007. Annual growth rates are 5.0% (very low), 7.5% (low), and 10.0% (moderate).
Source: CBP analysis of Managed Risk Medical Insurance Board data

low-income individuals, including individuals with much higher health costs than children enrolled in Healthy Families. Research suggests that Medicaid is much less costly than private coverage, and Medi-Cal is the least costly Medicaid program per enrollee in the country, suggesting that reducing federal Medicaid funding would likely place individuals at risk of losing needed health care services.[25] Funding increases for SCHIP should not come at the expense of reduced support for Medicaid, which covers many more people, including many with serious health conditions.

Congress could cover more immigrant children. Federal law prevents states from covering legal immigrant children during their first five years in the US with federal SCHIP funds. California covers such children through Healthy Families using state funds. Congress could allow states to use federal matching funds to cover these children. However, California would need sufficient federal funds to expand coverage.

Congress could improve outreach and enrollment. Healthy Families successfully provides health coverage to more than 750,000 children. However, approximately 200,000 children are eligible for, but not enrolled in, the program. When reauthorizing SCHIP funding, Congress could include fiscal incentives to encourage states to increase enrollment of eligible children. Similar to allowing states to use federal funds to cover more immigrant children, states would need sufficient federal funds to provide coverage to children enrolled through increased outreach and enrollment efforts.

Conclusion

SCHIP reauthorization provides an opportunity to ensure adequate federal support to provide health coverage to low-income children in California and other states. In California, SCHIP funds support low-cost health coverage to over 750,000 children in Healthy Families and has helped reduce the number of uninsured children. While SCHIP has had successes over the last 10 years, more funding is needed to maintain coverage for children currently enrolled, as well as to cover additional children who are uninsured.

David Carroll prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

[1] California returned a portion of allotments from federal fiscal years 1998 through 2002 because the state did not fully spend these funds in the required time periods as Healthy Families was ramping up.

[2] The assets test requires families to document the value of savings accounts, vehicles, and other assets, even if they are below allowable levels. Adults who apply for Medi-Cal are still subject to an assets test.

[3] Original California SCHIP State Plan (approved March 24, 1998).

[4] 67 Federal Register 61956 (October 2, 2002).

[5] The federal EPSDT program requires states to provide medically necessary health services to children and youth under age 21 who are enrolled in Medicaid, even if the state does not designate that such services are generally available under their Medicaid program. These services include medical screenings, vision and dental care, and any necessary health services to correct or ameliorate health conditions that are identified during screenings.

[6] Gayle R. Byck, "A Comparison of the Socioeconomic and Health Status Characteristics of Uninsured, State Children's Health Insurance Program-Eligible Children in the United States With Those of Other Groups of Insured Children: Implications for Policy," *Pediatrics* 106 (2000), pp. 14-21.

[7] Jack Hadley and John Holahan, "Is Health Care Spending Higher under Medicaid or Private Insurance?" *Inquiry* 40 (Winter 2003/2004), pp. 323-342.

[8] Department of Finance data.

[9] Healthy Families covers children under the age of 1 with incomes between 200 percent and 250 percent of the FPL; children ages 1 through 5 with incomes between 133 percent and 250 percent of the FPL; and children ages 6 through 18 with incomes between 100 percent and 250 percent of the FPL.

[10] Gayle R. Byck, "A Comparison of the Socioeconomic and Health Status Characteristics of Uninsured, State Children's Health Insurance Program-Eligible Children in the United States With Those of Other Groups of Insured Children: Implications for Policy," *Pediatrics* 106 (2000), pp. 14-21. See also Jennifer N. Edwards, Janet Bronstein, and David B. Rein, "Do Enrollees In 'Look-Alike' Medicaid and SCHIP Programs Really Look Alike?" *Health Affairs* 21, No. 3 (2002), pp. 240-248.

[11] High state Medi-Cal spending also reflects a lower federal match for Medi-Cal spending than for Healthy Families spending.

[12] However, children who lose job-based coverage must wait three months before they may receive Healthy Families coverage.

[13] Kaiser Commission on Medicaid and the Uninsured, *Children's Health – Why Health Insurance Matters* (May 2002); Kaiser Commission on Medicaid and the Uninsured, *Sicker and Poorer: The Consequences of Being Uninsured* (May 2002); American College of Physicians, *No Health Insurance? It's Enough to Make You Sick – Scientific Research Linking the Lack of Health Coverage to Poor Health* (2000); and US Department of Health and Human Services, *Access to Health Care Part 1: Children* (National Center for Health Statistics: Series 10, No. 196: July 1997).

[14] See, for example, Christopher Trenholm, et al., *The Santa Clara County Healthy Kids Program: Impacts on Children's Medical, Dental, and Vision Care Final Report* (Mathematica Policy Research, Inc.: July 2005), p. 16.

[15] See, for example, Lisa Dubay and Genevieve M. Kenney, "Health Care Access and Use Among Low-Income Children: Who Fares Best?" *Health Affairs* 20 (Jan/Feb 2001), pp. 112-121.

[16] Michael Seid, PhD, et al., "The Impact of Realized Access to Care on Health-Related Quality of Life: A Two-Year Prospective Cohort Study of Children in the California State Children's Health Insurance Program," *Journal of Pediatrics* 149 (2006), pp. 354-361.

[17] Managed Risk Medical Insurance Board, *The Healthy Families Program Health Status Assessment (PedsQL™) Final Report* (Revised September 2004), p. 10.

[18] It is unclear whether the abrupt increase in the number of California uninsured children in 2005 was an anomaly or the beginning of a new trend.

[19] In addition, approximately 250,000 uninsured children were eligible for, but not enrolled in, Medi-Cal. Shana Alex Lavarreda, et al., *More than Half of California's Uninsured Children Eligible for Public Programs But Not Enrolled* (UCLA Center for Health Policy Research: October 2006).

[20] The funding authorized by Congress when it approved SCHIP as part of the Balanced Budget Act of 1997 included substantially lower allotments in FFY 2002 through FFY 2004.

[21] CBP analysis of Managed Risk Medical Insurance Board data.

[22] Managed Risk Medical Insurance Board, minutes from July 19, 2006 meeting (September 20, 2006). In addition, the Legislature passed SB 437 (Escutia, Chapter 328 of 2006), which provides additional simplification and other changes that could further accelerate enrollment.

[23] Matt Broaddus and Edwin Park, *Freezing SCHIP Funding in SCHIP Reauthorization Would Threaten Recent Gains in Health Coverage* (Center on Budget and Policy Priorities: June 5, 2006).

[24] Legislative Analyst's Office, *California's Fiscal Outlook* (November 2006).

[25] Jack Hadley and John Holahan, "Is Health Care Spending Higher under Medicaid or Private Insurance?" *Inquiry* 40 (Winter 2003/2004), pp. 323-342 and The Henry J. Kaiser Family Foundation, *Medicaid Payments per Enrollee, FY2003*, downloaded from www.statehealthfacts.org on December 7, 2006.