

---

September 25, 2007

## **CBO ESTIMATES SHOW SCHIP AGREEMENT WOULD PROVIDE HEALTH INSURANCE TO 3.8 MILLION UNINSURED CHILDREN**

by Edwin Park

New Congressional Budget Office estimates show that by 2012, a total of 3.8 million children who otherwise would be uninsured would have health care coverage under the bipartisan agreement reauthorizing the State Children's Health Insurance Program (SCHIP) developed by House and Senate negotiators. The House is expected to consider the bipartisan agreement on the House floor today, with the Senate considering the agreement later this week.

The CBO estimates show that 2.5 million of these children are uninsured children who already would be eligible for SCHIP or Medicaid under the *current* eligibility rules that states have set for these programs.<sup>1</sup> Another 700,000 are SCHIP children who otherwise would lose their coverage in coming years and end up uninsured, because states would (under the "budget baseline" that CBO uses) receive insufficient federal SCHIP funding to sustain their existing programs.<sup>2</sup>

- CBO consequently estimates that a total of about 3.2 million of these 3.8 million children — or 84 percent of them — are children who have incomes below the current eligibility limits that states have set.
- Only about 600,000 of the 3.8 million children who otherwise would be uninsured are children who would gain eligibility as a result of actions their states would take to broaden their SCHIP eligibility criteria. (All of these figures represent CBO's estimates of the number of children who would be covered in an average month in 2012.)

Key elements of the bipartisan agreement would extend the SCHIP program for five years and raise SCHIP funding levels both to enable states to sustain existing children's enrollment and to cover more low-income children. The agreement also would provide financial incentives to states to enroll more uninsured children who are already eligible for Medicaid or SCHIP. According to CBO,

---

<sup>1</sup> Congressional Budget Office, "CBO's Estimate of Changes in SCHIP and Medicaid Enrollment of Children Under the House Amendments to the Senate Amendments to H.R. 976, the Children's Health Insurance Program Reauthorization Act of 2007," September 24, 2007.

<sup>2</sup> The "baseline" assumes SCHIP funding will remain frozen at \$5 billion annually for the next five years even as health care costs continue to increase, a scenario that CBO has determined would cause the number of children covered under SCHIP to decline significantly as states faced federal funding shortfalls under their SCHIP programs. See Congressional Budget Office, "Fact Sheet for CBO's March 2007 Baseline: State Children's Health Insurance Program," February 23, 2007 and Edwin Park, "CBO Estimates That States Will Face Federal SCHIP Shortfalls of \$13.4 Billion Over Next Five Years," Center on Budget and Policy Priorities, February 26, 2007.

the various provisions to maintain and expand children's health coverage would cost \$34.9 billion over five years, with these costs fully offset by an increase in federal tobacco taxes. In fact, the CBO estimates show the bill would reduce the deficit by \$1.4 billion over the next five years.

The agreement largely mirrors the SCHIP bill (H.R. 976) passed by the Senate on August 2. It consequently provides \$15 billion less for children's health care coverage than the approximately \$50 billion over five years included in the House-passed bill (H.R. 3162) and would extend health insurance to 1.2 million fewer children than the House-passed bill.

As under the Senate-passed bill, the agreement also would scale back existing SCHIP coverage of low-income parents of children who are enrolled in SCHIP or Medicaid. Various studies have found that covering children and their parents jointly results in more of the eligible children signing up and receiving health care services.<sup>3</sup>

The bipartisan agreement would make major progress in extending health insurance to uninsured children. Of particular note, CBO estimates that the bill would make significant progress in reaching the lowest-income uninsured children. The agreement would provide significantly larger financial incentives to states to enroll poor and near-poor uninsured children who are eligible for Medicaid than to enroll uninsured children who are eligible for SCHIP (and whose incomes, while generally low, are higher than those of children eligible for Medicaid). According to CBO, 1.7 million children who are eligible for Medicaid but otherwise would be uninsured would gain coverage under the agreement. Most of these would likely be children living below the poverty line.

### **Claims that the Agreement Would Primarily Extend Coverage to Middle-Income Children and Displace Private Coverage Are Not Accurate**

Even before the Senate-passed and House-passed SCHIP bills were unveiled, the Administration threatened to veto both bills, making misleading claims that instead of covering significant numbers of uninsured low-income children, the bills would primarily shift children (and families) "with good incomes" from private insurance to "government coverage."<sup>4</sup> In recent days, the President and other Administration officials have leveled the same criticisms at the bipartisan agreement, and the Administration has reiterated its veto threat.<sup>5</sup>

As with the original House and Senate bills, CBO estimates of the impacts of the bipartisan agreement show these criticisms are not valid.<sup>6</sup> The figures indicate that the agreement would be

---

<sup>3</sup> Recent research has also shown that *reducing* coverage of low-parent parents lowers participation among eligible children in public programs. (See Leighton Ku, "Collateral Damage: Children Can Lose Coverage When Their Parents Lose Health Insurance," Center on Budget and Policy Priorities, September 17, 2007.) In response to a question during the Senate Finance Committee's July mark-up of SCHIP legislation, CBO director Peter Orszag explained that "restricting eligibility to parents does have an effect on take up among children.... for every 3 or 4 parents you lose, you might lose 1 or 2 kids, for example."

<sup>4</sup> For an analysis of these and other Administration claims about the SCHIP bills and why they do not withstand scrutiny, see Robert Greenstein, "The Administration's Dubious Claims about the Emerging Children's Health Insurance Legislation: Myths and Realities," Revised July 20, 2007.

<sup>5</sup> See "The President's Comments on Congress' SCHIP Plan," Center on Budget and Policy Priorities, September 20, 2007.

<sup>6</sup> For an analysis of the CBO estimates of the Senate-passed SCHIP bill and the House-passed SCHIP bill, see Edwin Park, "CBO Estimates Show Large Gains in Children's Health Coverage under Senate SCHIP Bill," Center on Budget

heavily targeted to children with low incomes and would primarily assist children who otherwise would be uninsured, not middle-income children who otherwise would have private coverage.

- As noted above, 84 percent of the 3.8 million otherwise-uninsured children who would gain coverage under the bill are eligible under states' *current* eligibility criteria. A large share of these children is under the poverty line.
- CBO also estimates that a total of 5.8 million children would gain SCHIP or Medicaid coverage under the bill by 2012; the other 2 million children would otherwise have some form of private coverage.
- In other words, nearly two-thirds of the children who would gain SCHIP or Medicaid coverage under the bill (3.8 million out of 5.8 million) would be children who would otherwise be uninsured in 2012, and slightly more than one-third would be children who otherwise would have some form of private coverage.
- As CBO director Peter Orszag and other leading health experts have explained, under the fragmented U.S. health insurance system, virtually *any* effort to cover more of the uninsured — including efforts that rely on tax deductions or credits for the purchase of insurance in the private market — would result in some “crowd-out” (i.e., in the substitution of one type of health insurance for another). A crowd-out effect of about one-third is regarded by many experts as modest.
- For example, in describing the crowd-out levels under the House-passed bill, which also had a crowd-out effect of about one-third, CBO director Peter Orszag has stated that he “has not seen another plan that adds 5 million kids to SCHIP with a 33 percent crowd-out rate. This is pretty much as good as it is going to get.”<sup>7</sup>

Moreover, analyses of various tax-based approaches promoted by the Administration have found that the large majority of the tax benefits under those approaches generally would go to people who already are insured. An analysis of the health-insurance tax proposals that the Bush Administration included in its budget last year — conducted by the economist (Jonathan Gruber of M.I.T.) whose work on SCHIP crowd-out has been touted by HHS Secretary Mike Leavitt and conservative activists in their criticisms of the SCHIP bills<sup>8</sup> — found that *77 percent* of the benefits under the Administration's health tax proposals would go to people who already are insured. This is more than double the “crowd-out percentage” under the bipartisan SCHIP agreement. (Professor Gruber's analysis of the Administration tax proposals also found that the net result of those proposals would be to modestly *increase* the ranks of the uninsured, because a number of employers would respond by dropping coverage.<sup>9</sup>)

---

and Policy Priorities, Revised August 7, 2007 and Edwin Park, “CBO Estimates Show House Bill Would Provide Health Insurance to 5 Million Uninsured Children,” Center on Budget and Policy Priorities, Revised August 1, 2007.

<sup>7</sup> “SCHIP: Governors, Health Officials, Seek Withdrawal of CMS Rules Targeting ‘Crowd-Out’ by SCHIP,” *BNA Health Care Daily*, August 31, 2007.

<sup>8</sup> See, for example, Mike Leavitt, “Reforming Health Care,” *Washington Times*, July 9, 2007.

<sup>9</sup> Jonathan Gruber, “The Cost and Coverage Impact of the President's Health Insurance Budget Proposals,” Center on Budget and Policy Priorities, February 15, 2006.

Professor Gruber, who is widely considered to be one of the nation's leading health economists, has explained that although public programs suffer from significant crowd-out effects, they constitute the most efficient way to cover more of the uninsured.<sup>10</sup> He has noted that "no public policy can perfectly target the uninsured, and public insurance expansions like SCHIP remain the most cost-effective means of expanding health insurance coverage. I have undertaken a number of analyses to compare the public sector costs of public sector expansions such as SCHIP to alternatives such as tax credits. I find that the public sector provides much more insurance coverage at a much lower cost under SCHIP than these alternatives. Tax subsidies mostly operate to "buy out the base" of insured without providing much new coverage."<sup>11</sup>

It should also be recognized that in a substantial number of the cases in which a family with access to private insurance instead enrolls its children in Medicaid or SCHIP, that decision may be beneficial to the child's health. In many such cases, particularly among the low-income families that the bipartisan agreement targets, the private insurance that is available to the family may contain significant gaps in the coverage it provides or may require large deductibles and cost-sharing charges that the family has difficulty affording. Research has shown that when low-income families face large cost-sharing charges, they often go without (or delay obtaining) health care services that they or their children may need.

---

<sup>10</sup> Jonathan Gruber, "Tax Policy for Health Insurance," Working Paper 10977, National Bureau of Economic Research, December 2004.

<sup>11</sup> Letter from Jonathan Gruber to Representative John Dingell, Chairman of the House Energy and Commerce Committee, March 2007.