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SCHIP: Crafting a Better Compromise to Cover Kids

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On September 21, House and Senate leaders announced a deal to expand the State Children's Health Insurance Program (SCHIP) by \$35 billion over five years, to \$60 billion. This "compromise" does little to bridge the differences in opinion on how best to address the needs of uninsured children. Instead, Congress should consider a bipartisan approach that is broad and balanced. Congress should reauthorize SCHIP and use innovative policy tools to expand access to private coverage for children.

The Shortcomings of the SCHIP Compromise.

The compromise reflects the less extreme bill passed by the Senate and drops the Medicare provisions found in the House bill.¹ However, based on the Senate-passed bill, the following fundamental problems remain:

- **It extends the program's scope beyond its original focus on low-income children.** SCHIP was originally targeted at covering low-income, uninsured children whose families earned an income at or below 200 percent of the federal poverty level (FPL). The compromise would raise that threshold to 300 percent of the FPL—covering families who earn \$62,000 per year. It would also encourage government coverage for other populations such as pregnant women, parents, and childless adults. Moreover, the bill extends standardized benefits, making SCHIP operate more like Medicaid than private coverage.
- **It displaces existing private coverage.** By expanding coverage further up the income scale and to new populations, the compromise will

undoubtedly erode existing private coverage. Numerous studies have attempted to measure the "crowd-out" effect. While exact findings vary, the studies generally agree that as public programs expand, private coverage declines.² Recent analysis by The Heritage Foundation finds that expanding SCHIP coverage to children in families with incomes between 200 percent and 300 percent of the FPL would lead to a 45–51 percent crowd-out effect.³ For every 100 children made newly eligible, 45 to 51 of those children would lose private coverage that they have today.

- **It depends on unsound financing.** The compromise pays for the expansion with a 61-cent increase in the tobacco tax. Although politically popular, this funding solution disproportionately burdens lower income families (the population targeted for expansion). Also, raising the tobacco tax would reduce the number of smokers, which dries up the source of funding. Ultimately, an additional 22 million new smokers would be needed to fund the SCHIP expansion through the tobacco tax hike.⁴

Needed: A More Balanced Approach to Covering Kids. The current debate over expanding health

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care coverage for children has focused exclusively on SCHIP. Members of Congress should expand the discussion to include innovative policy ideas. Specifically, a reasonable compromise could be formed around three simple concepts:

- **Reauthorize SCHIP for eligible children.** Congress should approve a straight reauthorization of the SCHIP program for uninsured children in families with incomes at or below 200 percent of the FPL. Members should include provisions to increase outreach to enroll eligible children who do not have private health insurance coverage.
- **Enact a child health care tax credit.** For families with incomes between 200 percent and 300 percent of the FPL (the core population targeted by the SCHIP expansion), Congress should provide assistance to help them purchase private health insurance, whether through their place of work or on their own. This assistance could come in two forms: 1) a non-refundable tax credit for taxpaying families; and 2) a refundable tax credit (in effect, a voucher) for families that do not pay enough in taxes to secure a credit.

The non-refundable tax credit could be paid for by capping the current employer exclusion (a change long supported by economists, both liberal and conservative).

As a direct subsidy, the cost of the refundable tax credit should be offset by cutting funding for wasteful or unnecessary programs, such as corporate welfare. This would ensure that any revenue generated would be used for tax relief, not to fund the refundable tax credit.

- **Adopt a “federalism” health care initiative.** Legislation introduced by Senators Jeff Bingaman (D–NM) and George Voinovich (R–OH) in the Senate and by Representatives Tammy Baldwin (D–WI) and Tom Price (R–GA) in the House would encourage greater experimentation at the state level to expand coverage, which complements both the reauthorization of SCHIP and the tax relief for working families.⁵

Conclusion. The compromise proposal turns SCHIP into a vehicle for incrementally expanding government-run health care and undermining the private model. With the President reaffirming his threat to veto the current proposal, it is clear that Congress will need to go back to the drawing board if it is serious about reauthorizing SCHIP and expanding coverage to more children.

A more balanced compromise would combine the approaches preferred on both sides of the political spectrum. Earlier this year, agreement on a very similar approach was reached by a wide coalition of organizations, including the U.S. Chamber of Commerce, the American Medical Association, America’s Health Insurance Plans, and Families USA.⁶ Congress should reauthorize SCHIP and use innovative policy tools to expand access to private coverage for children.

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6. See Health Coverage Coalition for the Uninsured at www.coalitionfortheuninsured.org.