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SCHIP Plus a Tax Credit: A Compromise Health Insurance Plan for Kids

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President Bush is expected to veto the proposed expansion of the State Children's Health Insurance Program (SCHIP). If that happens, Congress should not engage in a protracted political contest with the White House. Rather, the proper response would be to propose a compromise that attracts broad bipartisan support. Such a compromise would aim to expand coverage for uninsured children while helping to preserve existing coverage for modest-income families who are struggling to make ends meet. The best way to achieve this goal would be to combine a reauthorized SCHIP program with a tax credit for children in families just above the basic eligibility level for SCHIP.

This dual approach has a long history and broad support. Just last January, a bipartisan coalition called the Health Coverage Coalition for the Uninsured (HCCU) endorsed an initiative along these lines. The HCCU included such groups as the American Medical Association, the American Association of Retired Persons (AARP), Families USA, the Catholic Health Association, and major hospital and insurance organizations.

A Balanced Approach to Covering Kids. The current debate has focused almost exclusively on SCHIP—as though expanding SCHIP is the only way to expand health coverage for children. However, there are drawbacks to expanding SCHIP eligibility above the original income ceiling of 200 percent of the federal poverty level (FPL). For certain family income levels, as many as 60 percent of new SCHIP enrollees would be children who already have private coverage.[1] Also, expanding SCHIP does nothing to help modest-income families who currently have private insurance for their children (typically through their place of work) but who are likely to need assistance if they are to be unable to afford their children's coverage in the future.

Members of Congress should widen the discussion to include other policy ideas that could easily bridge the divide. Senator Mel Martinez (R–FL) and other lawmakers recently started to design a balanced alternative.

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. The legislation should include provisions to increase outreach to enroll eligible children who do not have private health insurance coverage. Congress should allow for reasonable accommodation for those states that have previously obtained waivers from the Administration to increase the income eligibility.
- **Enact a child health care tax credit.** For families with incomes between 200 percent and 300 per-

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cent of the FPL (the core population targeted by supporters of the SCHIP expansion), Congress should provide assistance to help them purchase private health insurance or retain the private coverage they currently have. Congress should permit these families to claim a $1,200 tax credit that could be used to enroll their children in dependent coverage through an employer or the individual market. This credit would take two forms: a non-refundable tax credit for taxpaying families, and a refundable tax credit (in effect, a voucher) for families that do not pay enough in taxes to secure a credit. The credits would be paid for in two budget-neutral ways.

The non-refundable tax credit could be paid for by capping the current tax exclusion for employer-provided insurance (a change long supported by economists, both liberal and conservative) for upper income families. This could take the form of limiting the tax-free amount to the cost of an average plan (just over $12,000 for family coverage) for those earning above, say, $150,000. All revenue generated by this reform of the tax exclusion would be used for tax relief for taxpaying families in the 200–300 percent of FPL range.

Under the federal budget process, the refundable part of the credit is considered a federal expenditure and should be fully offset by cutting wasteful or unnecessary spending such as corporate welfare.

- **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.[2] Already enjoying broad support in both parties, this element would provide states with even stronger incentives and flexibility to find more efficient ways of using existing federal and state funds to increase insurance coverage.

Advantages to a Broader Compromise. Balancing SCHIP with other policy ideas would increase children's coverage in a more efficient and fairer way than an SCHIP expansion would do. Such an approach offers the following advantages:

- **It would ensure that SCHIP is available for low-income, uninsured children.** Most Members of Congress want to reauthorize SCHIP. The main disagreement is over whether to expand the program to children in new, higher-income populations, and to adults. A simple reauthorization of the program would keep the program in place for the core population it is intended to serve—uninsured children in lower-income, working families. Continued debate over expansion subjects states to fiscal uncertainty, leaving the program in flux for the millions of children who depend on it.
- **It would expand access to private coverage for uninsured children**. Preliminary estimates indicate that approximately 1.3 million uninsured children would gain private coverage if offered the tax credit described above.[3] This would be in addition to the children covered by a reauthorized SCHIP program. Typically, the 1.3 million children are in families that have access to coverage through one of the parents' place of work but cannot afford it. The proposed tax credit would enable children in these families (whether or not these families pay federal income tax) to sign up for their parents' coverage.
- **It would protect existing private coverage for working families.** Some 77 percent of children between 200 percent and 300 percent of the FPL already have private health insurance.[4] However, many parents are struggling to afford this coverage. When they can no longer afford coverage available through their employer, the employee's

1. Paul L. Winfree and Greg D'Angelo, "SCHIP and 'Crowd Out': The High Cost of Expanding Eligibility," The Heritage Foundation Web Memo *No.* 1627, September 20, 2007, at *www.heritage.org/Research/HealthCare/upload/wm_1627.pdf.*
2. See S. 325 and H.R 506
3. In 2009 and assumes automatic enrollment. Estimates by Lewin Group.

spouse and children often lose coverage. Adopting a tax credit for all children in this income range would help parents as well as children to stay in the coverage that the family has chosen. Moreover, survey research shows that a majority of workers prefer private coverage—whether obtained through an employer or on the individual market—over public programs.[5] Preliminary estimates show that approximately 9 million families would be eligible to receive this tax credit.[6]

- **It would encourage initiatives to broaden coverage at the state level.** Instead of using SCHIP as a vehicle for expanding health coverage, the federalism concept would give states the opportunity to develop more robust proposals to cover more people. State proposals would not be limited to public program expansions, as in the current SCHIP debate, but would include innovative approaches tailored to the needs of particular states.[7]

Conclusion. Many supporters of an SCHIP expansion have cast the debate as being either "for" or "against" children's health insurance. This false dichotomy is both disingenuous and a threat to the shared objective of covering more children. In reality, the debate is over the most efficient way to achieve that goal. Congress should aim to expand health coverage in such a way that does not disrupt families' current coverage and that helps those families who are in danger of losing private coverage. An "SCHIP-only" approach cannot achieve these goals. Congress needs to craft an alternative that combines the best policy tools for each of these goals.

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4. Congressional Budget Office, "The State Children's Health Insurance Program" May 2007, p. 12, at *www.cbo.gov/ftpdocs/80xx/doc8092/05-10-SCHIP.pdf.*
5. Jennifer N. Edwards, Michelle M. Doty, and Cathy Schoen, "The Erosion of Employer-Based Health Coverage and the Threat to Workers' Health Care," The Commonwealth Fund Issue Brief, August 2002, p. 7, at *www.commonwealthfund.org/usr_doc/edwards_erosion.pdf?section=4039.*
6. In 2009. Estimates by Lewin Group.
7. Stuart Butler, "The Voinovich-Bingaman Bill: Letting the States Take the Lead in Extending Health Insurance," Heritage Foundation *Web Memo* No. 1128, June 15, 2007, at *www.heritage.org/Research/HealthCare/upload/wm_1128.pdf* and Stuart Butler and Nina Owcharenko, "The Baldwin-Price Health Bill: Bipartisan Encouragement for State Action on the Uninsured," Heritage Foundation *Web Memo* No. 1190, August 7, 2006, at *www.heritage.org/Research/HealthCare/upload/wm_1190.pdf.*