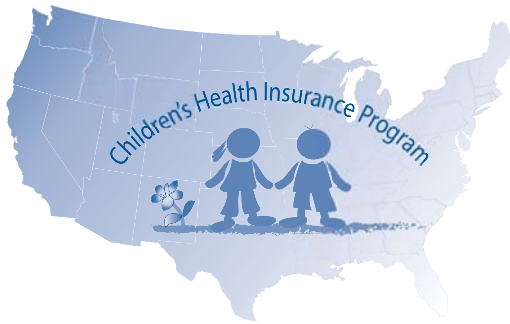


More Funding for CHIP, Different Rules: How Does CHIPRA Change CHIP Funding?

The Children's Health Insurance Program (CHIP) was created in 1997 to provide affordable health coverage to low-income children in working families who make too much money to be eligible for Medicaid but not enough to afford private coverage. The program currently covers more than 7 million children. In February 2009, after a protracted political fight, Congress enacted, and President Obama signed, legislation that renewed CHIP through the end of 2013 and expanded its scope. This series of issue briefs examines the new provisions that were included in the reauthorization and how they will affect implementation in the coming months.

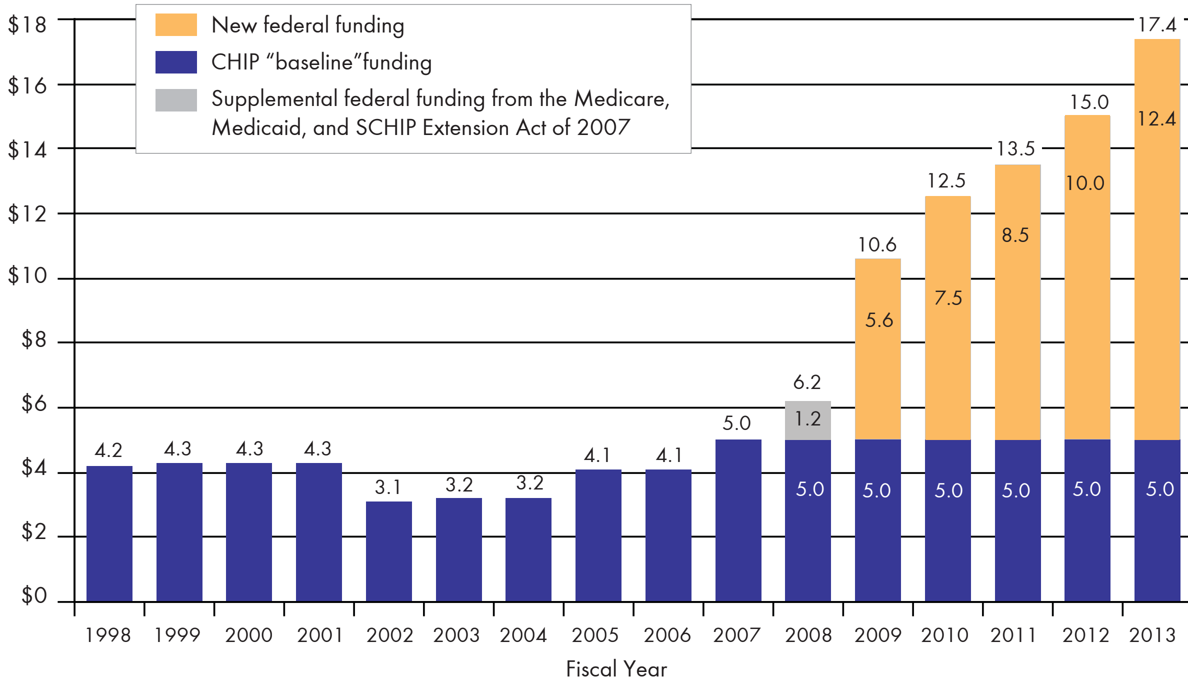
The CHIP Reauthorization Act of 2009 (CHIPRA) provides significantly more federal funding for children's health coverage and new rules for distributing these funds among the states. These provisions were developed with the wisdom gained over more than a decade of experience with CHIP, during which time two issues became clear: First, states needed significantly more funding than they were receiving to maintain and expand their CHIP programs. Second, in order to enable states to cover as many eligible children as possible, the formula that determined how funds were distributed to states needed to be changed. CHIPRA addresses both these issues.

Over the next four and a half years (from mid-fiscal year [FY] 2009 through FY 2013), the federal government will have a total of $69 billion in CHIP funds to distribute among states—$25 billion in existing "baseline" funding and $44 billion in new funding (see Figure 1). The Congressional Budget Office estimates that, over the next four and a half years, the additional funding and the new outreach and enrollment tools that were included in CHIPRA will enable states to maintain coverage for the 7 million currently enrolled children and cover an additional 4.1 million uninsured children.[1]

This brief summarizes the new federal financing rules for CHIP, including how funding will be distributed among the states, as well as improvements to the financing system that will help ensure that states have the funding they need—when they need it—to get more children covered. These are significant changes, and it is important that those who are working on children's coverage understand them so that they can urge states to make the best possible use of the new funding that is available to cover more children in Medicaid and CHIP.

Figure 1

Federal CHIP Allotments (in billions of dollars)



Source: Centers for Medicare and Medicaid Services. Allotment data for FY 2009 - FY 2013 are from the CHIPRA legislation (now Public Law 111-3).

The New Funding Formula

Rising health care costs and state budget crises mean that states need more money to continue providing health coverage to children who are already enrolled in CHIP and to step up their efforts to get more children covered. Therefore, the new federal funding for CHIP is extremely important. But because this federal funding is finite, the way the funds will be divided among states is nearly as important as the total amount available.

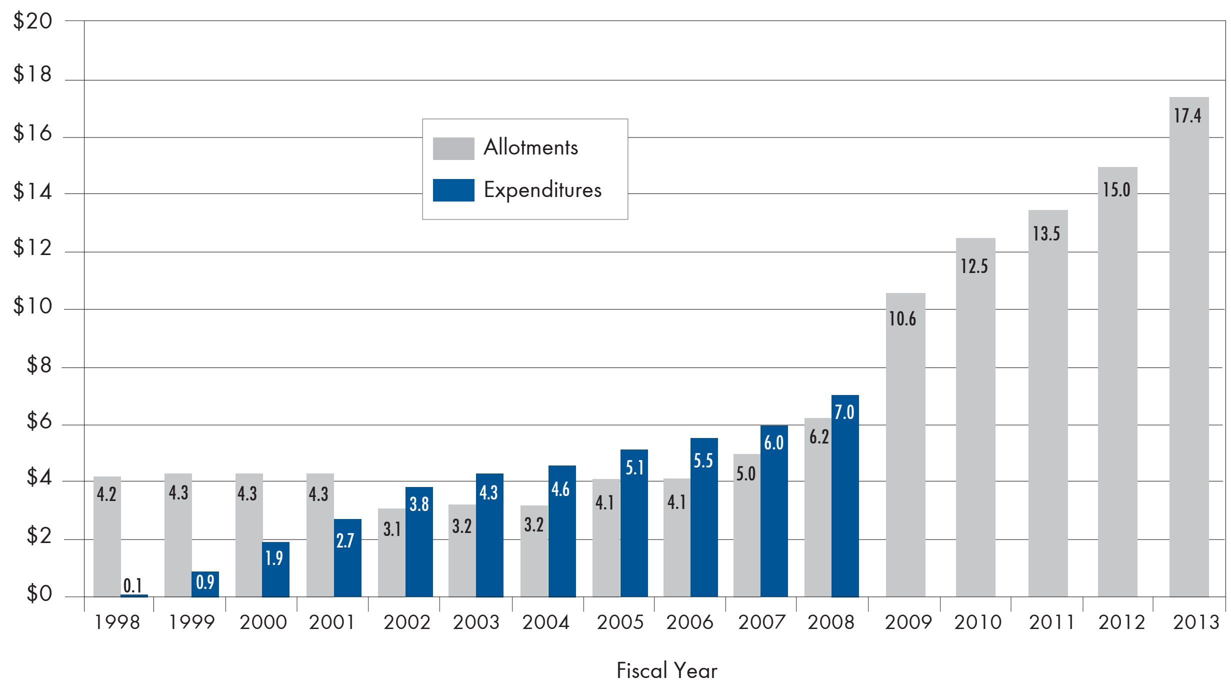
■ What Was Wrong with the Old Allotment Formula?

Under the old allotment formula, some states received more funding than they needed, and other states did not receive enough funding. For example, in 2007, when Congress began debating CHIP reauthorization, 14 states faced projected CHIP shortfalls totaling $744.5 million.[2] So, when Congress began drafting legislation to reauthorize and expand CHIP, it addressed the way funding had been allocated to states and came up with a new formula that was designed to be more equitable and to reward states that actually used that money to cover more children.

Under the original CHIP law, state allotments were based on a formula that took into account the number of low-income children, the number of low-income *uninsured* children, and health sector wages in each state. This made sense during CHIP's early years, because it gave the most funding to the states with the greatest numbers of uninsured children and assured those states that federal funding would be available for their programs. However, the formula failed to account for actual state CHIP expenditures, which led to imbalances in CHIP funding among the states. Some states with large numbers of uninsured low-income children received more federal CHIP funding than they were using, while other states experienced significant federal CHIP funding shortfalls. These imbalances were exacerbated by rules that allowed states to keep federal CHIP allotments for three years before any unspent funds were redistributed to other states, and by political compromises that allowed some states to continue to keep significant amounts of unspent CHIP funding even longer.[3] In addition, because annual allotments were distributed across the 10-year span (1998-2007) unevenly, states had more money in the early years of the program, when they were still trying to get their programs up and running and get children enrolled, than they did in the middle years (see Figure 2). This created a situation in which state spending exceeded annual allotments, which also contributed to the shortfalls states experienced.

Figure 2

CHIP Spending Compared to Allotments (in billions of dollars)



Source: Centers for Medicare and Medicaid Services. Expenditure data are from Form CMS-21, revised December 1, 2008. Allotment data for FY 2009 - FY 2013 are from the CHIPRA legislation (now Public Law 111-3).

How Does CHIPRA Change the Allotment Formula?

The CHIPRA legislation restructures the formula that determines how much CHIP funding states receive each year. The new formula, effective on April 1, 2009, is designed to remedy past funding imbalances among states by basing allotments on actual CHIP *expenditures*, thus ensuring that federal funding flows to states more quickly and efficiently.

During FY 2009 and FY 2010, all states will receive larger allotments than they have in past years, even if they did not historically spend all of their allotments. However, FY 2011 allotments will be based on how much states *spend* in FY 2010. Therefore, states must take steps to ramp up enrollment, now, or risk receiving less CHIP funding in FY 2011. States will have two years (instead of three) to spend their annual allotments.[4] Their allotments will be determined using a formula that includes an "inflation factor," which is designed to take into account both the growth in per capita health care expenditures and the growth in the number of children in each state.

. . . states must take steps to ramp up enrollment now, or risk receiving less CHIP funding beginning in FY 2011.

- **FY 2009**: Because of the additional federal funding included in CHIPRA, state CHIP allotments for the second half of FY 2009 (April 1, 2009-September 30, 2009) will increase dramatically. In fact, states will receive an average of 96 percent more in their FY 2009 allotments under the new law compared to what they would have received under the original CHIP allotment formula (see Table 1). The amount of money that each state will receive for the second half of FY 2009 will be based on whichever of the following amounts is the largest: the state's FY 2008 expenditures multiplied by an inflation factor, the state's FY 2008 allotment multiplied by an inflation factor, or the amount the state projected it would spend in FY 2009. Every state will receive more federal CHIP funding than it has before, which will give every state the opportunity to enroll more eligible children.
- **FY 2010-FY 2013**: States' FY 2010 allotments will generally be based on the sum of their FY 2009 allotments plus any additional funding the states may have received to fill in shortfalls during the fiscal year, multiplied by the inflation factor. In FY 2011, states will lose any unused federal CHIP funds from FY 2009, and those funds will be added to the CHIP Contingency Fund (see page 8 for more information about the Contingency Fund). In addition, in FY 2011, state allotments will be "rebased" or recalibrated based on states' FY 2010 CHIP *spending* (rather than their FY 2010 allotments), multiplied by the inflation factor. Rebasing will take place a second time in 2013, the year CHIP must be reauthorized again. See Table 2 for these formulas.

Table 1

Estimated State CHIP Allotments in Fiscal Year (FY) 2009

State	FY 2009 CHIP Allotments (millions)		Percent Increase
	Original CHIP Law	New Law (CHIPRA)	
Alabama	$71.1	$139.5	96%
Alaska	$10.4	$22.3	114%
Arizona	$149.1	$171.2	15%
Arkansas	$50.4	$133.5	165%
California	$799.2	$1,481.2	85%
Colorado	$71.5	$97.5	36%
Connecticut	$37.7	$45.6	21%
Delaware	$13.1	$15.0	14%
District of Columbia	$12.3	$14.2	16%
Florida	$303.0	$358.4	18%
Georgia	$175.6	$294.2	68%
Hawaii	$14.6	$20.8	42%
Idaho	$23.9	$45.3	90%
Illinois	$198.7	$344.4	73%
Indiana	$94.5	$120.4	27%
Iowa	$34.1	$68.4	101%
Kansas	$37.9	$58.5	54%
Kentucky	$67.4	$119.6	77%
Louisiana	$84.1	$207.7	147%
Maine	$14.7	$39.3	166%
Maryland	$70.2	$184.2	162%
Massachusetts	$72.4	$332.6	359%
Michigan	$146.2	$203.4	39%
Minnesota	$48.6	$84.1	73%
Mississippi	$64.1	$183.7	187%
Missouri	$81.9	$129.3	58%
Montana	$14.5	$32.4	124%
Nebraska	$22.5	$41.8	86%
Nevada	$52.1	$61.4	18%
New Hampshire	$10.6	$15.9	50%
New Jersey	$102.2	$497.8	387%
New Mexico	$52.0	$196.2	277%
New York	$318.0	$391.2	23%
North Carolina	$136.1	$245.7	81%
North Dakota	$7.9	$17.1	117%
Ohio	$157.3	$293.7	87%
Oklahoma	$70.8	$144.2	104%
Oregon	$61.3	$83.4	36%
Pennsylvania	$167.0	$312.5	87%
Rhode Island	$13.2	$69.5	426%
South Carolina	$70.8	$156.0	120%
South Dakota	$10.9	$18.4	69%
Tennessee	$99.7	$138.4	39%
Texas	$549.6	$945.6	72%
Utah	$41.5	$65.4	58%
Vermont	$5.2	$6.7	29%
Virginia	$96.9	$175.6	81%
Washington	$79.9	$94.0	18%
West Virginia	$25.0	$43.3	73%
Wisconsin	$69.6	$88.5	27%
Wyoming	$6.4	$11.2	76%
Average State Increase			**96%**

Source: Chris L. Peterson, *Projections of FY2009 Federal SCHIP Allotments under CHIPRA 2009* (Washington: Congressional Research Service, February 2, 2009).

Table 2
Annual CHIP Allotment Formulas

Federal Fiscal Year	State Allotment Formula
2009	The highest of: Federal CHIP expenditures in FY 2008 × inflation factor;[a] Federal CHIP allotment in FY 2008 × inflation factor; or Projected federal CHIP payments to the state for FY 2009
2010	(FY 2009 allotment + any additional federal payments received in FY 2009[b]) × inflation factor
2011	**Rebasing**: FY 2010 federal CHIP expenditures × inflation factor
2012	(FY 2011 allotment + any additional federal payments received in FY 2011 from the CHIP Contingency Fund[c]) × inflation factor
2013	**Rebasing**: FY 2012 federal CHIP expenditures × inflation factor

[a] The inflation factor, known in the statute as the "allotment increase factor," is calculated for each state using the following formula: (1 + the percentage increase in per capita national health expenditures over the last year) × (1 + the percentage increase in the number of children in the state over the last year).

[b] Additional payments include any remaining redistributed funds from previous years that the state spent in FY 2009, any additional federal payments the state received for the first two quarters of FY 2009 under the CHIP extension that the state spent in FY 2009, and any payments made to the state from the CHIP Contingency Fund in FY 2009.

[c] A discussion of the Contingency Fund can be found on page 8.

Source: Families USA analysis of CHIPRA (Public Law 111-3).

Simply stated, this new allotment formula is designed to deliver federal CHIP funding to the states that are actually *using* this funding, instead of holding on to it, as states were allowed to do under the original law. States that enroll more children by expanding eligibility, investing in outreach, and/or simplifying enrollment and renewal processes, can expect to receive increasing amounts of federal CHIP funding. At the same time, states that have been receiving allotments that are larger than the amount they typically spend on CHIP will need to figure out how to spend more of their allotments and get more children covered. Otherwise, their allotments will be reduced to reflect how much they are actually spending. See Table 3 for state-by-state FY 2008 CHIP expenditures.

Expanding Coverage

The new allotment rules should not impede states from expanding coverage. States that receive approval from the Centers for Medicare and Medicaid Services (CMS) to enact Medicaid or CHIP expansions can request additional CHIP funding from the Secretary of Health and Human Services (HHS) above and beyond their allotments, even if their funding would not have otherwise increased. In other words, it is never too late for states to reverse old spending patterns and make a commitment to covering more children. However, the earlier states ramp up these efforts, the better, since the total pot of federal funding between now and the end of FY 2013 is limited to $69 billion.

Table 3

Federal CHIP Expenditures by State, Fiscal Year (FY) 2008

State	FY 2008 Expenditures	State	FY 2008 Expenditures
Alabama	$108,803,000	Montana	$24,946,000
Alaska	$14,387,000	Nebraska	$35,563,000
Arizona	$119,364,000	Nevada	$28,766,000
Arkansas	$113,218,000	New Hampshire	$11,249,000
California	$1,259,348,000	New Jersey	$323,057,000
Colorado	$82,481,000	New Mexico	$124,318,000
Connecticut	$26,291,000	New York	$326,890,000
Delaware	$9,664,000	North Carolina	$193,686,000
District of Columbia	$10,138,000	North Dakota	$13,453,000
Florida	$272,305,000	Ohio	$227,466,000
Georgia	$224,990,000	Oklahoma	$99,352,000
Hawaii	$17,603,000	Oregon	$66,339,000
Idaho	$35,351,000	Pennsylvania	$204,468,000
Illinois	$292,863,000	Rhode Island	$59,115,000
Indiana	$102,384,000	South Carolina	$57,787,000
Iowa	$55,308,000	South Dakota	$15,628,000
Kansas	$47,851,000	Tennessee	$77,518,000
Kentucky	$90,295,000	Texas	$697,963,000
Louisiana	$159,214,000	Utah	$50,253,000
Maine	$33,392,000	Vermont	$5,660,000
Maryland	$156,230,000	Virginia	$131,265,000
Massachusetts	$259,310,000	Washington	$43,368,000
Michigan	$172,933,000	West Virginia	$36,786,000
Minnesota	$71,389,000	Wisconsin	$75,283,000
Mississippi	$142,912,000	Wyoming	$8,741,000
Missouri	$79,645,000	**Total**	**$6,896,587,000**

Source: Centers for Medicare and Medicaid Services, Form CMS-21C, December 1, 2008.

Preventing Shortfalls

In addition to basing the amount states receive on how much they spend and improving the speed with which funding flows through the program, CHIPRA also contains a provision that establishes a Contingency Fund to provide a cushion that states can turn to in case of a funding shortfall.

■ How Will the Contingency Fund Work?

CHIPRA requires that a certain amount of federal money from the U.S. Treasury be allocated to the Contingency Fund. This money will be invested in interest-bearing securities, and the interest that is earned will help supplement the fund. At the beginning of each fiscal year starting with FY 2010, the Treasury will supply the Contingency Fund with enough money to fill any CHIP shortfalls, although the total amount available in any given year will be capped at 20 percent of that year's federal CHIP allotment. If the amount of money in the Contingency Fund ever exceeds the 20 percent cap (for example, if few states face funding shortfalls in a given year and therefore don't need to draw money from the fund), the excess funding will be put toward Medicaid performance bonuses (which are described in greater detail on page 9, as well as in a separate Families USA issue brief, *Covering More Children, Rewarding Success: State Performance Bonuses)*. For any given fiscal year, if the total amount of state CHIP shortfalls exceeds the amount of money available in the Contingency Fund, then whatever money is available in the Contingency Fund will be divided proportionately among all of the states that are facing shortfalls according to the size of each state's shortfall.

To qualify to receive money from the Contingency Fund, a state must demonstrate that it meets the following criteria:

- Its CHIP expenditures must be greater than its CHIP allotment for the year in question,[5] and
- It will exceed its CHIP enrollment target for the year. (For FY 2009, this target is based on the number of children in the state that are enrolled in CHIP in FY 2009, increased by a factor that takes into account the growth in the state's low-income child population between FY 2008 and FY 2009. After FY 2009, it will be based on the previous year's target, increased by that same factor.)

If the state qualifies to receive funding from the Contingency Fund, the amount it receives will be based on the following factors:

- the number of children that the state is covering above its enrollment target,
- the per capita cost of CHIP coverage in the state that year, and
- the state's CHIP matching rate for that year.

Essentially, the Contingency Fund will allow states that want to expand children's

coverage to do so without the fear of facing significant federal funding shortfalls. However, it is important to note that CHIP is still a block grant with a finite amount of federal funding available over the next four and a half years—the Contingency Fund does not make CHIP an entitlement program like Medicaid. Nevertheless, this "slush fund" will help prevent states that are effectively covering low-income children from being penalized financially, or from being too conservative in their efforts for fear of succeeding and running into funding shortfalls.

Dealing with Unspent CHIP Allotments

In addition to the Contingency Fund, there is another stop-gap measure for states that spend more than their annual CHIP allotments—the process of redistribution. Redistribution essentially allows states with shortfalls to share the "leftovers" from states that do not spend their allotments within the two years allowed.

Allotments for FY 2007 will be the first to be subject to the new redistribution process, since states must spend their FY 2007 allotment by the end of FY 2009. Beginning with the FY 2007 allotments, and for all future years' allotments, once their two-year availability period has expired, the allotments will be distributed to states that are determined to have shortfalls by the Secretary of HHS. If a state's projected expenditures for a given year are greater than the sum of its allotment for that year plus any unspent allotments from previous years plus any funding it has received from the Contingency Fund, the state is considered to have a CHIP shortfall. The Secretary of HHS must redistribute the unspent CHIP allotments proportionately among states with shortfalls (although no state is allowed to receive more funding through redistribution than the total amount of its CHIP shortfall). States have to spend redistributed funding by the end of the same fiscal year in which they receive that funding. As in the past, any unspent funding from the redistribution process reverts to the Treasury.

Rewarding States that Cover More Children

One of the most novel features of the new CHIP financing provisions is a system of bonuses that are designed to reward states that are doing the best job of reaching out to and covering the lowest-income uninsured children. This feature creates a financial incentive for states to simplify their Medicaid and CHIP enrollment and renewal processes, while at the same time encouraging states to cover as many of the lowest-income (Medicaid-eligible) uninsured children in the state as possible. Experience has shown that when states "put out the welcome mat" for Medicaid and CHIP by expanding outreach and simplifying the enrollment process, more children end up qualifying for Medicaid than for CHIP.[6] Since states receive a higher federal matching rate for CHIP than for Medicaid, it costs states more to cover the lowest-income children than it does to cover their CHIP-eligible children, so states do not have a financial incentive to increase enrollment of Medicaid-eligible children. The performance bonus system helps level the playing field.

This new system sets children's Medicaid enrollment targets for every state based on past enrollment and the growth in the number of children in each state. In order to qualify for a performance bonus, states must exceed their children's Medicaid enrollment target and implement at least five of the following eight enrollment and retention practices for children:

1. **Allow 12-month continuous eligibility:** Children who enroll in Medicaid or CHIP can retain coverage for a full 12 months, regardless of changes in family circumstances over the 12-month period.
2. **Remove or simplify asset tests**: Eliminating consideration of assets from the eligibility calculation, or reducing the amount of paperwork a family must provide to document their assets, makes it easier for families to apply.
3. **Eliminate face-to-face interview requirements**: Allowing families to submit CHIP or Medicaid applications via mail or online can help families who may not be able to get time off of work or who would have a hard time getting to an interview because of transportation constraints.
4. **Use of a single application for both Medicaid and CHIP**: Requiring families to fill out only one application means less paperwork, and it eliminates confusion about which program they should apply to in the first place.
5. **Allow administrative or passive renewal**: Administrative renewal allows states to make a renewal determination by using state databases to determine whether a child is still eligible. Passive renewal allows states to send pre-populated forms to Medicaid and CHIP enrollees' families, and families need to respond only if their information has changed.
6. **Allow presumptive eligibility**: Children who appear eligible for Medicaid or CHIP will be "presumed eligible" at certain qualified locations, such as doctors' offices, hospitals, and schools.
7. **Allow Express-Lane Eligibility**: States use eligibility information from other means-tested programs, such as Food Stamps or the National School Lunch Program, to determine a child's eligibility.
8. **Provide premium assistance**: Families enroll their children in their job-based coverage, and the state pays for a portion of the premiums for that coverage using either Medicaid or CHIP funds.

If a state exceeds its children's Medicaid enrollment target and implements at least five of the eight practices listed above, it qualifies for per-child bonuses for all children enrolled in Medicaid above the Medicaid enrollment target.

- States that exceed their enrollment target by 10 percent or less ("Tier I") receive a performance bonus of 10 percent of the per capita cost of children's Medicaid coverage in that state for each child enrolled above the target.

- States that exceed their enrollment target by more than 10 percent ("Tier II") receive a bonus of 62.5 percent of the per capita cost of children's Medicaid coverage in the state for each child enrolled above Tier I.

A separate Families USA issue brief describes performance bonuses in much greater depth: *Covering More Children, Rewarding Success: State Performance Bonuses* is available on our Web site at www.familiesusa.org/issues/childrens-health/chipra-implementation-series.html.

What Should States Do?

The clear goal of CHIPRA is to expand health coverage to more than 4 million uninsured children. The new funding formula rewards states that work to fulfill this goal, but that funding will not spend itself. State advocates will play a key role in educating their policy makers about the availability of new funding and the imperative to simplify enrollment and retention practices and expand eligibility in order to get more uninsured children enrolled in Medicaid and CHIP. Perhaps most importantly, advocates must make state policy makers aware that if they do not develop ways to spend their increased allotments this year and next, they will not continue to receive that amount of money in the future.

States that need to find new ways to spend more of their CHIP allotments should consider the following policy changes:

- Simplify the Medicaid and CHIP application and renewal processes,
- Raise the income eligibility level for CHIP,
- Expand CHIP coverage for pregnant women,
- Expand Medicaid and CHIP coverage for legal immigrant children and pregnant women, and
- Conduct targeted outreach campaigns.

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[1] Congressional Budget Office, *CBO's Estimate of Changes in SCHIP and Medicaid Enrollment in Fiscal Year 2013 under H.R. 2 (Public Law 111-3), the Children's Health Insurance Program Reauthorization Act of 2009* (Washington: CBO, February 11, 2009).

[2] Chris L. Peterson, *SCHIP Financing: Funding Projections and State Redistribution Issues* (Washington: Congressional Research Service, January 30, 2007).

[3] *State Children's Health Insurance Program Allotments Extension Act*, Public Law 108-74, August 15, 2003, available online at: http://bulk.resource.org/gpo.gov/laws/108/publ074.108.pdf.

[4] CHIPRA shortens the length of time that states have to spend each year's allotment from three years to two. As before, though, at the end of this time period, any unspent CHIP funds will be recycled through the system to states that need them. States still have three years to spend any FY 2006, FY 2007, or FY 2008 allotments they might have, but beginning with their FY 2009 allotment, they will have only until the end of the following year to spend the allotment.

[5] Any unspent CHIP funds the state has from previous years are counted first, before the state can qualify for funding from the Contingency Fund. However, funding that the state is entitled to receive through the redistribution process is not counted as available to the state for purposes of determining whether the state can receive funding from the Contingency Fund.

[6] Lisa Dubay, Jocelyn Guyer, Cindy Mann, and Michael Odeh, "Medicaid at the Ten-Year Anniversary of SCHIP: Looking Back and Moving Forward," *Health Affairs* 26, no. 2 (March/April 2007): 370-381.

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Rachel Klein, Deputy Director of Health Policy

Peggy Denker, Director of Publications

Ingrid VanTuinen, Senior Editor

Tara Bostock, Editorial Associate

Nancy Magill, Senior Graphic Designer

This brief is part of a series of issue briefs that examines the new provisions that were included in the reauthorization of CHIP in February 2009. The series is available online at http://www.familiesusa.org/issues/childrens-health/chipra-implementation-series.html.

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