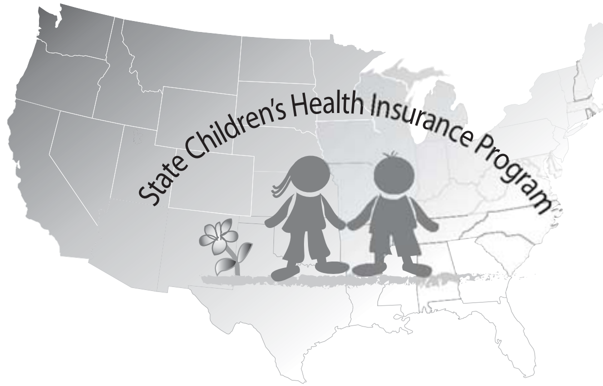


SCHIP 101: What Is the State Children's Health Insurance Program, and How Does It Work?

The SCHIP program will expire in 2007 unless it is reauthorized by Congress. Reauthorization provides an opportunity to review how SCHIP works, examine what has been learned about children's health coverage in the last 10 years, and discuss what Congress must do to continue the progress made in reducing the number of uninsured children. More information on children's health coverage through SCHIP and Medicaid is available on the Families USA Web site at www.familiesusa.org/issues/medicaid/medicaid-action/.

What Is SCHIP?

The State Children's Health Insurance Program (SCHIP) was enacted by Congress in 1997 to increase health insurance coverage for low-income children. At the time, more than 10 million children lacked health insurance. About 7 million of them lived in families with incomes below twice the federal poverty level (today, that would be $34,340 for a family of three).[1] Although 75 percent of those uninsured children lived in a family with at least one parent who worked full-time, and 90 percent had a parent who worked either full or part-time,[2] their families either were not offered job-based health insurance or could not afford to buy the insurance that was offered.[3]

The SCHIP program gave states a total of $40 billion over 10 years to provide health coverage for these children, who lived in families that earned too much to qualify for Medicaid, but not enough to afford private insurance.

Is SCHIP the Same in Every State?

No. The federal SCHIP law allows states to choose from three options:

1. Increase the current income limits so more children become eligible for Medicaid;
2. Develop a new, separate health insurance program that may have different rules and benefits from Medicaid; or
3. Do a combination of the two.

Currently, 9 states and the District of Columbia operate Medicaid expansions, 18 states operate separate SCHIP programs, and 23 states operate combination programs.[4]

Who Qualifies for SCHIP?

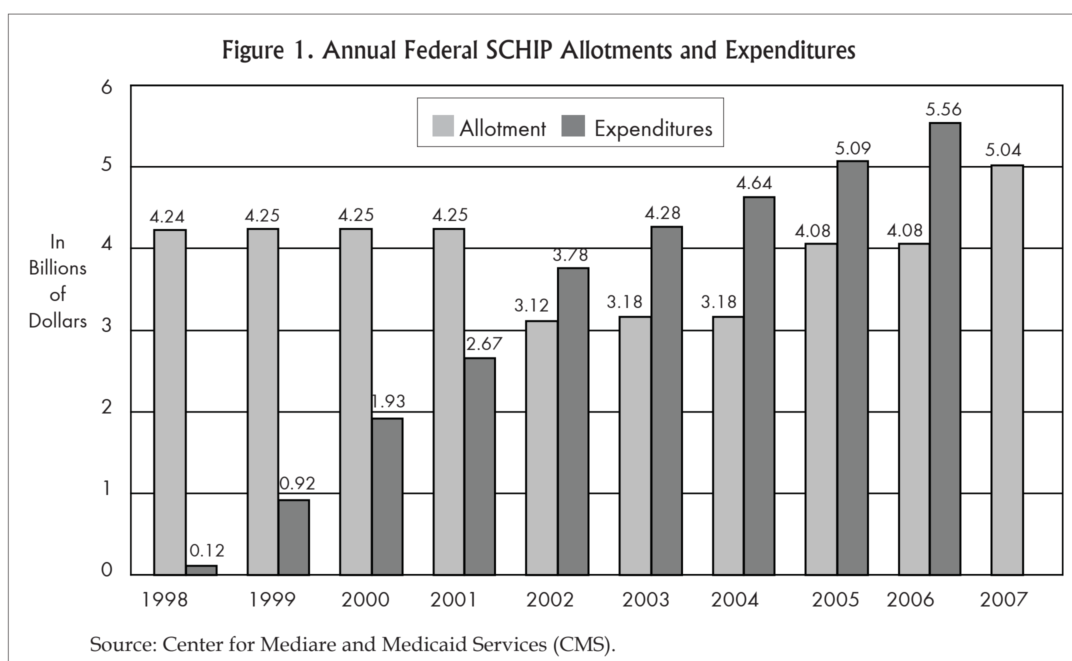
Most states provide coverage for uninsured children with family incomes up to two times the federal poverty level. However, a few states have set higher income limits, and a few states have lower income limits. New Jersey's SCHIP program, for example, covers uninsured children with family incomes up to 350 percent of the federal poverty level (an annual income of $60,095, for

a family of three in 2007). North Dakota and Montana cover uninsured children with family incomes up to 150 percent of the federal poverty level (an annual income of $25,755 for a family of three in 2006).

How Is SCHIP Financed?

Congress allotted a total of $40 billion over 10 years for SCHIP, starting in fiscal year 1998. A complex formula that includes the number of low-income children, the number of low-income, uninsured children, and annual wages in the state's health care industry is used to determine each state's annual allotment. States have three years to use their allotments from any single fiscal year. There is also a mechanism for reallocating unspent SCHIP money from states that don't use their full allotments to states that do use all of their allotments and need extra SCHIP funds.

Figure 1. Annual Federal SCHIP Allotments and Expenditures



Source: Center for Mediare and Medicaid Services (CMS).

Like the Medicaid program, SCHIP is a federal-state partnership in which the federal government pays a significant share of the costs—about 72 percent on average.[5] The federal "matching rate" varies by state based on a state's per capita income and is updated annually. In 2007, SCHIP matching rates ranged from 65 percent to 83 percent.

Unlike Medicaid, however, SCHIP is a block grant. This means that the federal government has set aside a finite amount of money for the program, and it is possible to use up all the federal SCHIP money. In fact, in 2007, 14 states exhausted their federal SCHIP funds and experienced shortfalls that jeopardized coverage for thousands of children.[6] In May 2007, Congress approved supplemental payments of $650 million to fill the federal funding gaps for these states.

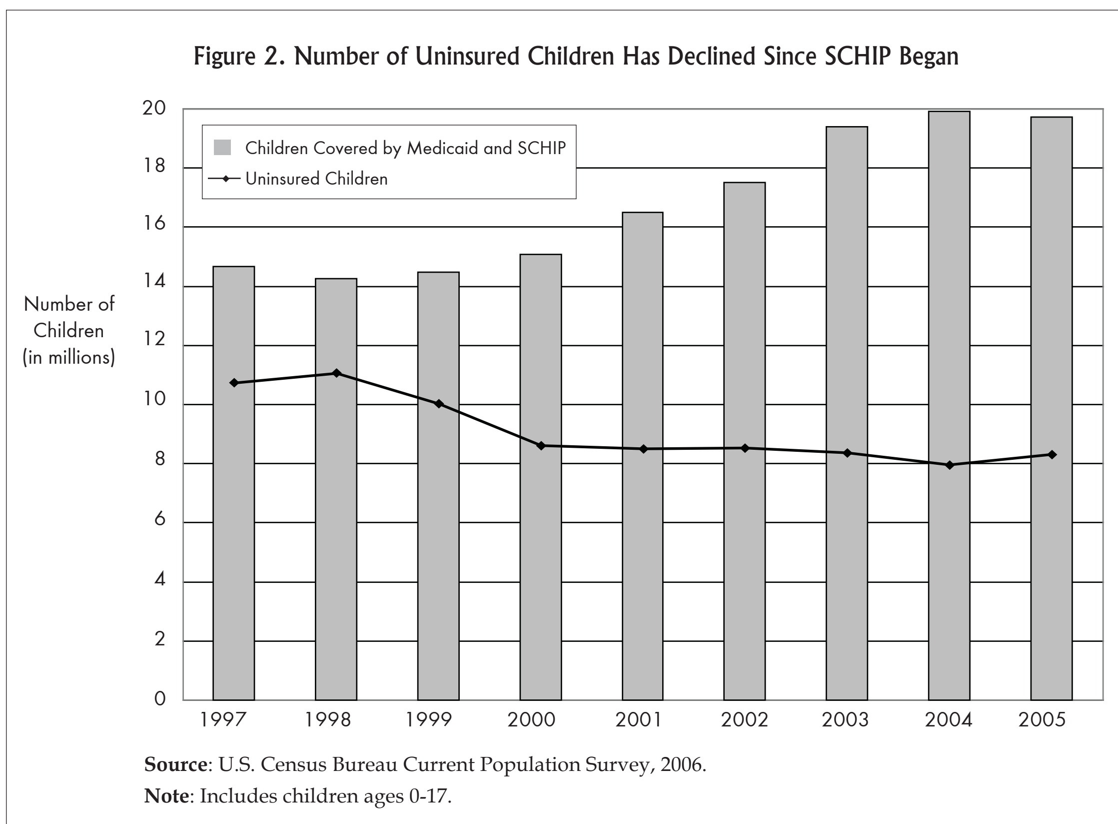
Ensuring that federal SCHIP funds are targeted when and where they are needed most to maximize the number of children who are covered has proven problematic over the years. Because of the peculiar way in which SCHIP funds were appropriated, there was too much money in the system in the early years of the program and too little in later years. Perhaps the most important discussion related to reauthorizing SCHIP will address how much federal money will be devoted to children's health coverage after 2007.

Are Eligible Children Getting Enrolled?

States and private groups have done extensive outreach to inform low-income families about SCHIP. States have also generally made it easy for children to enroll. As a result, enrollment in the program increased steadily from year to year. Now, SCHIP is providing coverage to a significant number of children—6.6 million children in 2006.[7]

SCHIP, together with Medicaid, has served a vitally important role for children: Between 1998 and 2005, the number of uninsured children dropped by more than 2.7 million (Figure 2).[8] This is remarkable in light of the growth in child poverty and a significant decline in the number of children whose families have job-based health insurance. Experts agree that expanded coverage for children through SCHIP and Medicaid is responsible for this good news.[9]

Figure 2. Number of Uninsured Children Has Declined Since SCHIP Began



Source: U.S. Census Bureau Current Population Survey, 2006.

Note: Includes children ages 0-17.

Does SCHIP Improve Health and Access to Care?

SCHIP is vital to improving children's health care. Children enrolled in SCHIP or Medicaid are three times more likely to have a usual source of care than are uninsured children.[10] And children enrolled in SCHIP or Medicaid are one-and-a-half times more likely than uninsured children to receive well-child care, see a doctor during the year, and get dental care. SCHIP reduces the percent of children with an unmet health care need.[11] Clearly, SCHIP and Medicaid are critical programs that allow otherwise uninsured children to get the health services they need.

Conclusion

Reauthorizing the SCHIP program will be one of the more important tasks before Congress in 2007. Together, SCHIP and Medicaid have significantly expanded children's health coverage and improved the health care they receive. Reauthorization offers Congress the opportunity to strengthen and build on the success of these important health coverage programs for children.

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[7] Centers for Medicare and Medicaid Services, *SCHIP Ever Enrolled Year Graph*, available online at: http://www.cms.hhs.gov/NationalSCHIPPolicy/downloads/SCHIPEverEnrolledYearGraph.pdf

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