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Missouri Stands to Receive Nearly \$1Billion Additional Funding To Provide Health Insurance for Low-Income Children

SCHIP Program Up for Renewal;
US Congress Considering \$50 Billion Increase Over Five Years

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Missouri would receive approximately \$966.9 million in new Federal money for children's health coverage over the next five years if the US Congress approves increased funding for the State Children's Health Insurance Program (SCHIP)¹. The current program expires September 30, 2007; Congressional committees are developing plans for SCHIP's reauthorization with a vote on the new program expected in late Summer or early Fall.

Currently, 555,000 low-income Missouri children receive their health care through SCHIP and the state's Medicaid program. According to a recent report by Families USA, there are 121,442 uninsured children in Missouri; it is estimated that two-thirds of these children are eligible for SCHIP or Medicaid.²

Funding to provide health care coverage for low-income children leverages state money with a generous match from the federal government. For every dollar the state spends in the SCHIP program, the state receives \$2.72 in Federal funds; for every dollar Missouri spends on Medicaid, the Federal government provides \$1.60.

In its current budget resolution, the US Congress has pledged \$50 billion over five years for children's health care coverage through the SCHIP reauthorization. A recent Congressional Budget Office (CBO) report indicated that the SCHIP and Medicaid programs have substantially reduced the percentage of low-income children who are uninsured since SCHIP was established

¹ "SCHIP Reauthorization: What's at Stake for Missouri?" <http://www.familiesusa.org/assets/pdfs/missouri-schip.pdf>

² IBID

in 1997.³ This success was critical given the erosion of private health insurance during that same period.⁴

SCHIP funding levels must be increased to reflect rising health care cost and inflation. If levels are not increased, the CBO estimates that the number of children covered by SCHIP would fall significantly over the next ten years.⁵

Paying for New SCHIP Investment

The newly instated “pay-as-you-go” rules require that additional expenditures be offset by commensurate savings through other program cost reductions and/or new revenues. Congress has been provided with several options in offsets to fund the \$50 billion pledged for SCHIP, on both the spending and revenue sides of the budget. The potential offsets include:

- **Reducing Medicare overpayments to private health plans.** Private plans were brought into Medicare to save the program money. Instead, the Medicare Payment Advisory Commission (MedPAC), Congress’ expert advisor on Medicare payments, has documented that private plans are costing the Treasury tens of billions of dollars because they are significantly overpaid. According to MedPAC, Medicare payment rates to private plans average 12 percent higher than the cost of providing fee-for-service Medicare to comparable beneficiaries. MedPAC recommends that Medicare level the playing field by adjusting the payment formula to essentially pay private plans the same amounts it would pay to treat the same patients under fee-for-service. **CBO estimates this would save \$54 billion over five years (and \$149.1 billion over ten years).**
- **Raising the Federal tobacco tax.** The Federal excise tax on cigarettes has remained at 39 cents per pack since 2002. Simply adjusting it for five years of inflation would justify an increase to 46 cents in 2008, which would raise close to \$4 billion over five years. In addition, it would reduce smoking, which in turn would reduce tobacco-related health costs.

Further, adding at least 61 cents to the Federal tobacco tax would result in a per-pack cigarette tax of \$1.00 and a corresponding increase in all other tobacco products’ excise taxes⁶. **CBO estimates that increasing the tax by 50 cents per pack (making it 89 cents per pack), would raise \$26.6 billion over five years (and \$53.2 billion over ten years).**

³ “*The State Children’s Health Insurance Program*”. May, 2007, Congressional Budget Office, pg. 8. <http://www.cbo.gov/ftpdocs/80xx/doc8092/05-10-SCHIP.pdf>

⁴ The Henry J. Kaiser Family Foundation, www.statehealthfacts.org

⁵ “*The State Children’s Health Insurance Program*”. May, 2007, Congressional Budget Office, pg. 25. <http://www.cbo.gov/ftpdocs/80xx/doc8092/05-10-SCHIP.pdf>

⁶ A recent proposal by Senator Gordon Smith would go further, raising the cigarette tax by 60 cents per pack.

Other potential offsets also could be considered, including additional MedPAC recommendations to curb excess Medicare payments and Joint Tax Committee recommendations to close unproductive tax breaks and improve tax compliance.

Congressional Action Can Ensure Children's Health Care Coverage

Over the next three months, Congress will be formulating the details of SCHIP and voting on its reauthorization. To ensure a successful SCHIP reauthorization it must be clean and unencumbered by provisions that would severely limit its enactment and success.

SCHIP reauthorization that includes \$50 billion in new funding and policies that will give states the needed tools to cover the majority of uninsured children.

The Missouri Budget Project is a statewide, nonprofit, nonpartisan organization that informs the public about the state's budgetary and tax policy options and their impact on low-income Missourians.