

Health Insurance Folly

By Grace-Marie Turner

Senate Democratic leaders this week unveiled plans to dramatically expand taxpayer-funded health insurance to millions more children through the State Children's Health Insurance Program—even as 14 states are running out of money to fund coverage for children in the program now.

Eighteen governors have blamed the White House for shortchanging the program in its budget by \$10 to \$15 billion. But Schip isn't in peril because of Washington's tight purse strings. Many of the governors themselves have led the program astray.

Launched in 1997, Schip provides health insurance to more than six million enrollees, primarily children in lower-income families. Originally authorized to spend \$40 billion over 10 years, the program is set to expire this year unless Congress approves new funding.

Senate Budget Chairman Kent Conrad this week said his plan would expand coverage to 8.3 million more uninsured children and boost spending by \$50 billion over the next five years. Both Republicans and Democrats support Schip's reauthorization, and President Bush called for its renewal in his recent budget proposal. But one reason Schip is in trouble is because it has allowed states to provide taxpayer-subsidized health care for adults and middle-income families, even when poor children go without coverage.

That's right. Despite the program's name, a number of states use Schip dollars to cover adults at the expense of poor children. And most of the states that are running out of Schip money are those that cover adults in their programs. In 2005, for example, 87% of Minnesota's Schip enrollees were adults, as were 66% of those enrolled in Wisconsin's program. In Arizona—which has one of the highest rates of uninsured children in the nation—56% of those enrolled in Schip were adults. All have their hands out to Washington for more money.

Schip funds are also used, often, to insure children who are not in low-income families. In New Jersey, for example, Schip covers children whose parents earn up to three-and-a-half times the poverty line—an amount that exceeds \$72,000 a year. Sen. Hillary Clinton and Rep. John Dingell announced this week their own bill that would subsidize coverage for kids in families earning up to four times the poverty level—or nearly \$83,000 for a family of four.

States misuse their Schip dollars because the program is structurally flawed. The federal government gives states more money for those enrolled in Schip than for those covered by Medicaid, which is designed to provide health coverage to low-income Americans. A simple expansion of Schip does not address this flaw.

Moreover, Schip is crowding out private cover-

age. In a new paper, Emory University economist Jonathan Gruber says his studies “clearly show that crowd-out is significant”—on the order of 60%. In other words, Schip coverage replaces private health insurance 60% of the time, and the rate can be much higher depending on how a state's plan is structured. The proposed expansion of Schip would mean replacing even more private dollars with taxpayer money.

Many employer-provided health insurance plans allow parents to pay extra to put their kids on their own policies. Some parents—especially those with lower incomes—often can't afford it. This leaves the employer money on the table and means these kids are more likely to receive taxpayer-subsidized coverage, even though states are allowed to utilize Schip to provide subsidies to parents so they can put their children on employer policies. But the administrative process is so cumbersome that only a few states have been able to succeed in implementing this option.

So what should be done? First, adults should not be eligible for Schip. Covering adults was never the intent of the program, and states that extend coverage to adults are diverting funds from the needs of low-income children. Second, Schip should focus on America's poorest families. When the program was created, congressional leaders explicitly stated that the program should assist only families who earn up to twice the poverty line. States need to meet the law's intent.

Finally, it must be easier for states to utilize Schip as a premium-support program. It is relatively inexpensive to add children to family policies, but by making the process so bureaucratic, employer-provided plans are underutilized and families are split into private and public coverage plans.

Congress has a chance to bring some needed discipline to the program and in doing so, ensure that it fulfills Schip's core purpose of covering kids first.

Ms. Turner is president of the Galen Institute.

States are
short-changing kids
by misspending
federal funds.