

POLICY NOTE

Overview of the Children's Health Insurance Program

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Key Findings

1. The Children's Health Insurance Program (CHIP) is a joint federal and state insurance plan for children whose families earn too much money for Medicaid eligibility.
2. CHIP is similar to Medicaid in that it is funded through a combination of federal and state taxpayer dollars. However federal taxpayers contribute on average 70 percent of the costs of CHIP rather than the 50 percent in Medicaid.
3. CHIP is more flexible than Medicaid and states have more leeway in designing their programs.
4. Families of four that earn up to \$78,000 per year qualify for CHIP in Washington state.
5. The fundamental question is why a family that earns almost \$80,000 a year can not find private health insurance at a reasonable cost – especially to cover children.
6. Government regulations and benefit mandates have increased the price of private health insurance to unaffordable levels for millions of American families.
7. Rather than more government intrusion into our health care system, the best solution is health care reform that allows all patients, including single adults and families with children, to be active consumers, in charge of their own health care.

Introduction

The Children's Health Insurance Program (CHIP) is a joint federal and state insurance plan for children whose families earn too much money for Medicaid eligibility.¹ CHIP began with bi-partisan support as an amendment added to the federal Balanced Budget Act of 1997.²

Congress originally funded the program for ten years. CHIP was refunded and expanded significantly in 2009 under the Obama Administration and a Democratic Congress. The last funding reauthorization occurred on January 22, 2018, and will run for six years.³

Background

Universal health insurance has been a goal of the political Left for over 100 years. President Franklin Roosevelt included a single-payer health care proposal in his New Deal plan in 1935. Roosevelt's Social Security retirement proposal was acceptable, but Congress and American voters soundly rejected government-run health care at that time.⁴

President Lynden Johnson and a Democratic Congress decided on an incremental approach to enacting socialized medicine in the United States. With bipartisan support, they passed the Medicare program and the Medicaid entitlement in 1965. These government-run plans provide health insurance for seniors, children of low-income families, long-term care, and care for the disabled.

President Clinton made another attempt at enacting universal health insurance during his first term in office. This plan was rejected by Congress. CHIP is a result of Congress's inability to pass government-run, universal health care in 1993. U.S. Senate leadership, specifically Senator Kennedy (D-MA) and Senator Hatch (R-UT), strongly believed that it

1 "The Children's Health Insurance Program (CHIP)," [healthcare.gov](https://www.healthcare.gov/medicaid-chip/childrens-health-insurance-program/), at <https://www.healthcare.gov/medicaid-chip/childrens-health-insurance-program/>.

2 "Children's Health Insurance Program overview," National Conference of State Legislatures, January 2017, at <http://www.ncsl.org/research/health/childrens-health-insurance-program-overview.aspx>.

3 "Status of federal funding for CHIP and implications for states and families," Kaiser Family Foundation, January 2018, at <https://www.kff.org/medicaid/fact-sheet/status-of-federal-funding-for-chip-and-implications-for-states-and-families/>.

4 For further information see "The Patient-Centered Solution; Our Health Care Crisis, How It Happened, and How We Can Fix It," by Roger Stark, MD, 2012.

was the government's responsibility to at least provide health insurance for all children except those from wealthier families.

Fundamentals of the Children's Health Insurance Program

CHIP is set up similarly to the Medicaid program in that the funding is provided through a combination of federal and state taxpayer dollars. Unlike Medicaid where the funding is 50 percent federal money and 50 percent state money, the federal government pays on average 70 percent of the costs of CHIP. These federal funds are capped, again unlike Medicaid where the more a state spends the more the federal government matches that spending.

Patient eligibility under CHIP goes up to 19 years of age.

States have some latitude in organizing CHIP. In 36 states including Washington, the program is separate from Medicaid. In 49 states, CHIP may or may not be separate but does fund some Medicaid patients, and in 19 states CHIP covers health care for some pregnant women.⁵

CHIP is more flexible than Medicaid. States are allowed to make their own plans, can tailor the benefit packages as needed, can institute cost sharing or a monthly premium (capped at five percent of the family's yearly income), and can control the eligibility requirements. In general, well-child doctor visits and most dental procedures are "free" (funded by taxpayers) for CHIP recipients.

The Washington state CHIP website says that the program is "a non-entitlement."⁶ It is separate from Medicaid, although eligibility requirements are the same as Medicaid with the exception that income criteria are more relaxed and go up to 317 percent of the federal poverty level (FPL).⁷ This level is \$78,000 of income a year for a family of four people.⁸ Medicaid's income limit in Washington state is 215 percent of the FPL or \$53,000 in annual income for a family of four.

A total of 800,000 children in Washington state are in Medicaid. An additional 50,000 children are in CHIP.⁹ One out of every two kids in Washington state, is either in the Medicaid or the CHIP government-run health program.

5 "Medicaid and CHIP eligibility, enrollment, renewal, and cost sharing policies as of January 2017: Findings from a 50 state survey," by T. Brooks, et. al., Kaiser Family Foundation, January 2017, at <https://www.kff.org/medicaid/report/medicaid-and-chip-eligibility-enrollment-renewal-and-cost-sharing-policies-as-of-january-2017-findings-from-a-50-state-survey/>.

6 "Washington Children's Health Insurance Program (CHIP)," BENEFITS.GOV, at <https://www.benefits.gov/benefits/benefit-details/1615>.

7 "Medicaid and CHIP income eligibility limits for children as a percent of the federal poverty level," State Health Facts, Kaiser Family Foundation, January 2017, at <https://www.kff.org/health-reform/state-indicator/medicaid-and-chip-income-eligibility-limits-for-children-as-a-percent-of-the-federal-poverty-level/?currentTimeframe=0&selectedRows=%7B%22states%22:%7B%22washington%22:%7B%7D%7D%7D&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>.

8 "Federal poverty level," HealthCare.gov, 2017, at <https://www.healthcare.gov/glossary/federal-poverty-level-FPL/>.

9 "Gov. Inslee calls for Congress to reauthorize CHIP: Facts about Apple Health (Medicaid) and children," Washington State Health Care Authority, September 2017, at <https://www.hca.wa.gov/about-hca/gov-inslee-calls-congress-reauthorize-chip-facts-about-apple-health-medicicaid-and-children>

In 2016, total spending for CHIP in Washington state was \$162 million.¹⁰ This number needs some clarification, however. The federal government has allowed 11 states, including Washington state, to transfer federal CHIP money over to their Medicaid program for children of families earning more than 133 percent of the FPL. The actual total of federal dollars that came into Washington state in 2016 for CHIP was \$219 million. State officials then transferred \$57 million over to the Medicaid program and devoted the remaining \$162 million to CHIP. In this way, Washington state officials diverted federal CHIP money to subsidize the state's Medicaid program.

Policy Analysis

The Children's Health Insurance Program is essentially an extension of the Medicaid entitlement for families that earn too much money to qualify for basic Medicaid. Advocating for children's health is politically popular and consequently CHIP has enjoyed bipartisan support since its beginning in 1997. There is no argument that taxpayer-funded health insurance has helped some children and adults.

The policy question is why a family that earns almost \$80,000 a year can not find private health insurance at a reasonable cost – especially to cover children. The answer is that government regulations and benefit mandates have increased the price of private health insurance to unaffordable levels for millions of American families. Instead of being able to purchase affordable, high-quality health insurance in a truly free and open market, families are forced to buy expensive insurance that government bureaucrats believe is best for everyone.

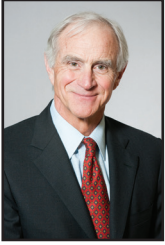
In addition, CHIP and Medicaid crowd out private insurance. If the government provides “free” or low-cost health insurance, the private market is undercut and can not compete. Such aggressive price competition would normally be illegal in the private market. Researchers do not agree on the exact amount of crowd out, but do agree that it occurs. The published range is somewhere between ten to sixty percent.¹¹

Insurance regulation is simply part of the overall problem with the high cost of the health care delivery system in the United States. The fundamental problem is that the overwhelming majority of health care in the U.S. is paid for by a third party, either the government through Medicare, Medicaid, CHIP, and Obamacare, or by employers.

This third-party payer system has grossly distorted the economics of health care. If patients could act as true consumers of health care, as they do in other vital areas of life, and spend their own dollars to meet their own needs, people would gain from more competition, lower prices, and guaranteed access within the health

10 “Total CHIP expenditures,” State Health Facts, Kaiser Family Foundation, 2016, at <https://www.kff.org/medicaid/state-indicator/total-chip-spending/?currentTimeframe=0&selectedRows=%7B%22states%22:%7B%22washington%22:%7B%7D,%22virginia%22:%7B%7D%7D%7D&sortModel=%7B%22colId%22:%22Federal%20Share%22,%22sort%22:%22desc%22%7D>.

11 “Addressing crowd out,” Georgetown University Health Policy Institute Center for Children and Families, Georgetown University, March 2009, at <http://ccf.georgetown.edu/wp-content/uploads/2012/03/Addressing-Crowd-Out.pdf>.



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care system, just as they do in other economic activities. The lack of a normal, functioning consumer market lies at the heart of the problem of families being unable to find reasonable, affordable health care coverage.

Conclusion

The Children's Health Insurance Program is simply another intrusion of government bureaucrats into the U.S. health care system. It has made the third-payer problem worse, as more families are denied access to their own choices in affordable health coverage. It is one more gradual step toward a single-payer, socialized government-run plan – a concept Americans have repeatedly rejected since the 1930s.

A safety net is needed to cover the most vulnerable children, but middle-income families should be able to access health insurance in a competitive, private market.

The best policy solution is health care reform that allows all patients, including single adults and families with children, to be active consumers, in charge of their own health care.