

The Maine View

Published by The Maine Heritage Policy Center

Vol. 5, Issue No. 5

Maine's Near-Universal Coverage for Children Makes SCHIP Expansion Unnecessary

July 17, 2007

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As Congress debates a dramatic expansion of the State Children's Health Insurance Program (SCHIP), Maine's experience shows that SCHIP expansion is unnecessary, would dramatically raise taxpayer costs for the already expensive Maine SCHIP, further raise premiums for those with private health insurance, and reduce Maine's private sector share of personal income.

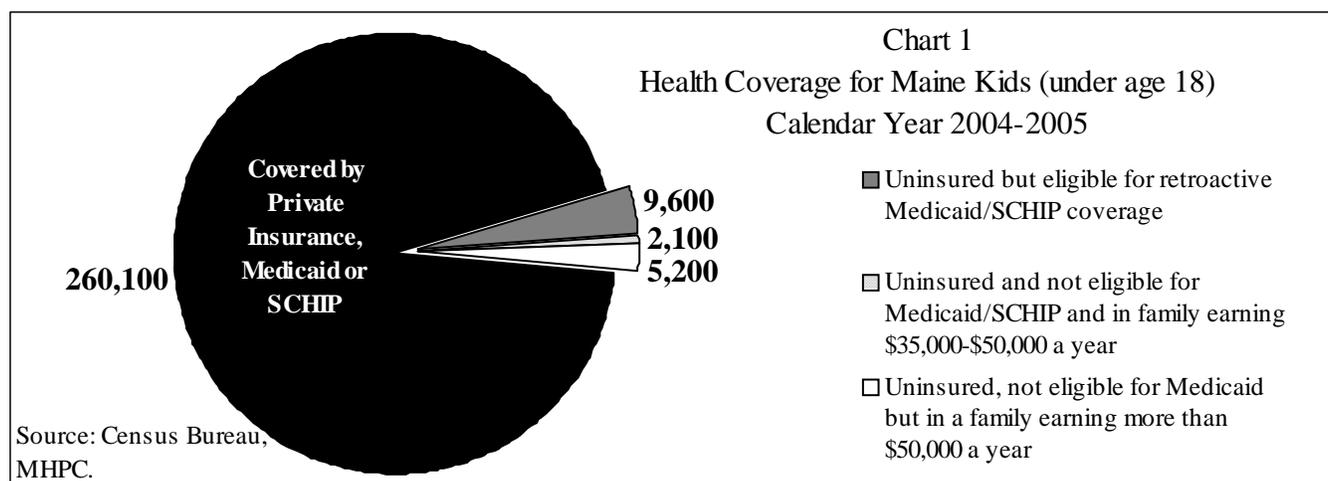
As shown in Chart 1, almost every Maine child (under age 18) has health coverage or is eligible for Medicaid/SCHIP. Of all Maine children, 16,900, 6.1 percent, are uninsured and only 7,300, 2.6 percent, are uninsured and not already eligible for retroactive Medicaid/SCHIP coverage. Three-quarters of children who become uninsured will be re-insured within a year.

Expanding Maine SCHIP to 300 percent of poverty would cost \$20 million—a 60 percent increase in SCHIP spending over current levels. Additionally, evidence shows that states with SCHIP income eligibility levels at 300 percent of poverty have similar rates of uninsured children, but many more children on Medicaid/SCHIP. Put simply, SCHIP crowds-out private sector health insurance. SCHIP/Medicaid underpayment causes a 13 percent increase in private insurance premiums.

A five-year \$75 billion federal SCHIP expansion, as some in Congress advocate, is not only unnecessary, but will likely result in higher Maine taxes. SCHIP expansion could mean up to a 294 percent increase in FY2006 Maine SCHIP spending, requiring an annual increase in state spending of \$25 million. Such a state spending increase will further erode Maine's private sector share of personal income to 65.3 percent in 2013 from 66.1 percent in 2006 (latest year of actual data).

Policy Recommendations for Maine

- Do not expand SCHIP income eligibility beyond the current 200 percent of poverty, despite any increase in federal SCHIP funds.
- Allow child-only individual health insurance plans to be sold on a non-guaranteed issue basis, such as those available in Washington, D.C. Additionally, these plans should not be community-rated with adult individual health plans.
- Institute monthly premiums at four percent of family income for all Medicaid/SCHIP recipients (children and parents) earning more than 150 percent of poverty.
- Simplify SCHIP income eligibility. Make \$42,500 the eligibility level for all Maine families, regardless of family size.
- Educate people about private health insurance availability, its costs, and facilitate enrollment in private plans if the families so desire, as part of any Medicaid/SCHIP outreach.



Very few children are actually uninsured without available health coverage.

According to the U.S. Census Bureau, there are over 277,000 children in Maine (under age 18). Of all children, 16,900, 6.1 percent, are uninsured at any given time (see Chart 1). Of the uninsured children:

- 7,200 are eligible for Medicaid and retroactive Medicaid coverage for up to three months prior to application (43 percent of those uninsured).
- 2,400 are eligible for SCHIP and retroactive SCHIP coverage from the first of the month that the application is submitted (14 percent). [1]
- 7,300 children, 2.6 percent of all children, are uninsured and not eligible for Maine Medicaid/SCHIP. 5,200 of these children live in families that earn salaries and wages of more than \$50,000.

In general, Maine Medicaid is available to children in families earning less than 150 percent of poverty – about \$26,000 for a family of three and \$31,000 for a family of four. Maine SCHIP is available to children in families earning between 150 to 200 percent of poverty – about \$34,000 for a family of three and \$41,000 for a family of four (see Table 1).

One may wonder why 7,200 Maine children are uninsured but eligible for Medicaid/SCHIP. It is a reasonable, rational economic decision for these parents to wait until their children need health care before enrolling in Medicaid/SCHIP, as retroactive coverage is provided. Indeed, the vast majority of uninsured children will be insured within 4 to 12 months, as noted below.

Three-quarters of all children who become uninsured will be insured within a year.

Uninsured children are a very dynamic population. Parents clearly understand the importance of having health coverage for their children. Most episodes of being uninsured are very temporary and likely due to job changes and/or moving (see Chart 2). The Congressional Budget Office reports that for every 100 children who become uninsured:

- 49 will remain so for less than 4 months.
- 75 will remain so for less than a year.
- 86 will remain so for less than two years.
- Only 14 will remain so for more than two years. [2]

The U.S. Census reports those children uninsured at any moment in time.[3]

Table 1
Maine Medicaid and SCHIP Income Limits by Percent of Poverty and Size of Family
Calendar Year 2007

Size of Family (including adults)	Percent of all Maine Children	Percent of Federal Poverty Level						
		100%	150%	200%	250%	300%	350%	400%
2	8%	\$13,690	\$20,535	\$27,380	\$34,225	\$41,070	\$47,915	\$54,760
3	23%	\$17,170	\$25,755	\$34,340	\$42,925	\$51,510	\$60,095	\$68,680
4	39%	\$20,650	\$30,975	\$41,300	\$51,625	\$61,950	\$72,275	\$82,600
5	17%	\$24,130	\$36,195	\$48,260	\$60,325	\$72,390	\$84,455	\$96,520
6	7%	\$27,610	\$41,415	\$55,220	\$69,025	\$82,830	\$96,635	\$110,440
7	3%	\$31,090	\$46,635	\$62,180	\$77,725	\$93,270	\$108,815	\$124,360
Notes:			<i>Up to This Income to Qualify for Maine Medicaid</i>	<i>Up to This Income to Qualify for Maine SCHIP</i>		<i>Suggested New SCHIP Income Eligibility</i>		<i>New York's SCHIP Income Eligibility</i>

Sources: Department of Health and Human Services, Census Bureau and MHPC.

Maine Medicaid/SCHIP has aggressive outreach.

Outreach, or awareness, does not seem to be a barrier to SCHIP enrollment. Over 90 percent of all children eligible for Medicaid/SCHIP in Maine are enrolled or have private coverage. This is significantly above the U.S. average of 85 percent. [4]

Maine spends 18 percent more per SCHIP child than the U.S. average.

In 2006, there were 14,700 children in SCHIP. Maine spent about \$2,250 per child, 18 percent more than the U.S. average of \$1,920.[5] If Maine spent its SCHIP funds at the U.S. average, then the state would have saved almost \$5 million, 15 percent, in the \$33 million Maine SCHIP program. This \$5 million would be enough to cover 2,600 more Maine children at the U.S. average of \$1,920 per child.

Maine could save \$13 million annually by having Medicaid resemble private health insurance.

Maine Medicaid/SCHIP should be made to more resemble private health insurance by have reasonable premiums of four percent of family income for those earning more than 150 percent of poverty. This premium would cover all children in a family, regardless of number. Employer-based private health insurance is priced this way, one premium covers all children.

Additionally, Maine Medicaid/SCHIP should have reasonable co-payments of 10 percent for those between 100 and 150 percent of poverty and 20 percent for those earning more.

These two changes would reduce the perverse incentives to drop private health insurance for Medicaid/SCHIP. The changes would allow for a more seamless transition from Medicaid/SCIP to private coverage. Additionally, Maine Medicaid/SCHIP would save up to \$13 million annually. [6]

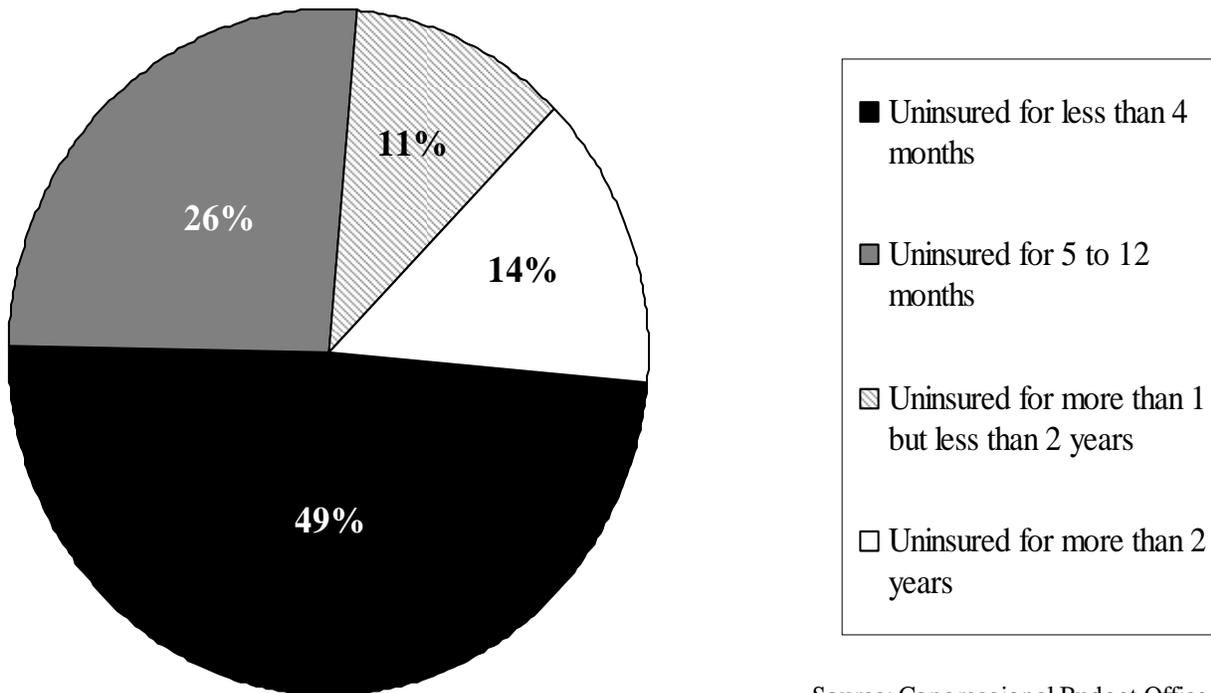
States with SCHIP income eligibility levels at 300 percent of poverty have similar rates of uninsured children with more children on Medicaid/SCHIP.

Advocates of SCHIP expansion argue that crowd-out, where individuals drop private dependent coverage so that their children can receive free or low-cost SCHIP, is not a significant problem. But the facts show otherwise.

States that allow families to earn more and still qualify for SCHIP have a similar rate of uninsured children, but many more children on Medicaid/SCHIP (see Chart 3).

Indeed, the Congressional Budget Office recently reported that for every 100 SCHIP enrollees, 25 to 50 dropped private coverage.[7] For middle income families, the crowd-out effect is much larger. For those in families earning between 200 to 300

Chart 2
Three Fourths of Uninsured Children Remain So For a Very Short Period of Time
Calendar Year 2007



Source: Congressional Budget Office, MHPC.

percent of poverty – for every 100 SCHIP enrollees, 60 dropped private coverage. For those earning 300 to 400 percent of poverty, 73 dropped private coverage.[8]

Put another way, to reach 100 uninsured children requires expanding SCHIP by 133 to 370 children.

Expanding Maine SCHIP to 300 percent of poverty could cost \$20 million more annually — a 60 percent increase.

If Maine expanded its SCHIP income eligibility to 300 percent of poverty, from the current 200 percent, at most 3,500 uninsured children could be reached (about 1.2 percent of all Maine children). As noted, for every 100 children in this middle income category who enroll in SCHIP, 60 will be from parents who dropped private coverage for SCHIP.

Therefore theoretically, to reach these 3,500 uninsured children would require Medicaid/SCHIP enrollment to increase by 8,750 to 157,150 from the current 148,400 on Medicaid/SCHIP. At \$2,250 per child, this 8,750 expansion would cost almost \$20 million – a 60 percent increase in 2006 Maine SCHIP spending.

Putting more children on Medicaid/SCHIP would further increase the costs of private health insurance in Maine.

In Maine, for every 100 children, 33 are on Medicaid/SCHIP, 67 have private insurance, and six are uninsured. Medicaid/SCHIP pays an estimated \$0.75 for every \$1.00 in costs and, as noted previously, Maine spends \$2,250 per SCHIP child.[9,10] That means, minimally, each Medicaid/SCHIP child uses at least \$750 in care that Medicaid/SCHIP does not pay for. That

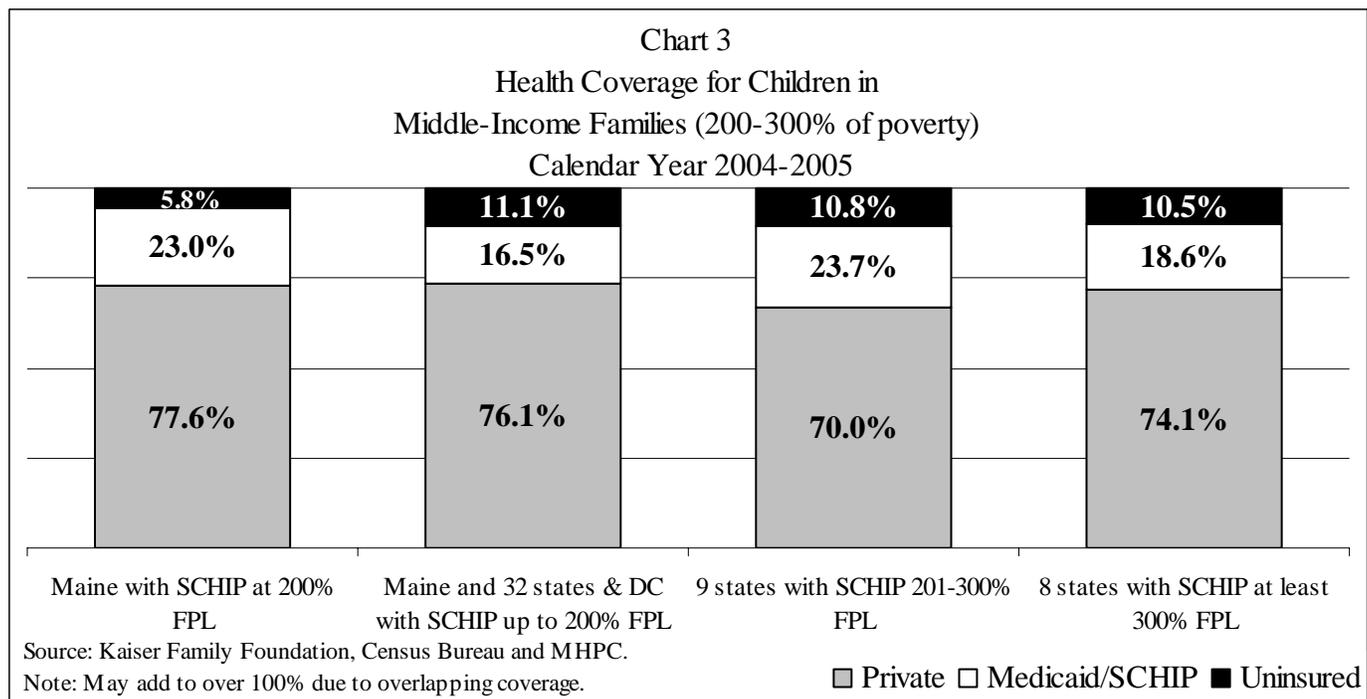
cost difference is cost shifted to those with private insurance (or \$3,000 per SCHIP child in total health care used). It is estimated that Maine children with private insurance use about \$2,800 in health care per child.[11]

Therefore, this cost-shift from children on Medicaid/SCHIP to those with private insurance increases the costs of private insurance for children by almost \$370 per child with private insurance, or about 13 percent. In contrast, the six children who are uninsured use about \$394 in uncompensated care per child per year, less than the unpaid care for each child on Medicaid/SCHIP.[12] The cost-shift from uninsured children equals \$35 per child with private health insurance, or 1.3 percent.

The cost-shift from Medicaid/SCHIP to those with private insurance was 10 times greater than the cost shift from uninsured children. Therefore, the effect of expanding SCHIP and moving more children from private coverage to Medicaid/SCHIP would only serve to further increase the cost of private health insurance. The effect of uninsured children on the total cost of private health insurance for children is nominal.

The real problem is Maine’s lack of affordable individual insurance for children.

The real problem is that Maine parents without access to employer-based private health insurance for their children have no access to affordable child-only health coverage in Maine’s expensive individual market. A child living in Washington, D.C. can access a no deductible HMO plan for \$77 a month, or a \$1,200 deductible PPO for \$46 month. [13]



This same child living in Maine only has access to an Anthem \$1,000 deductible PPO for \$700 a month, or a \$2,250 deductible PPO for \$364 a month.[14] Maine insurance law should allow for similar affordable child-only plans as those available in other states and Washington, D.C. It is important to have this private safety net for middle to upper income families with uninsured children.

Maine should simplify SCHIP eligibility to a fixed family income of \$42,500.

Maine should simplify SCHIP income eligibility by moving away from a percent of poverty; a system that is difficult to communicate, understand, and varies by household size. Maine SCHIP income eligibility could be fixed at \$42,500 for all Maine families. This income level would reach about 40 percent of all Maine children (close to the 35 percent living at the current SCHIP income eligibility of 200 percent of poverty or below, see the shaded area of Table 1). The afore-suggested SCHIP premium of four percent of family income would cover all children, regardless of the number.

A family income of \$42,500 is approximately 67 percent of the mean family income for a Maine family with children. It is about 60 percent of mean family income for a Maine family of four or more, and about 79 percent of the mean family income for a Maine family of three. About 57 percent of Maine’s uninsured children are in families at or below 200 percent of poverty, whereas about 66 percent are living in families below \$42,500.

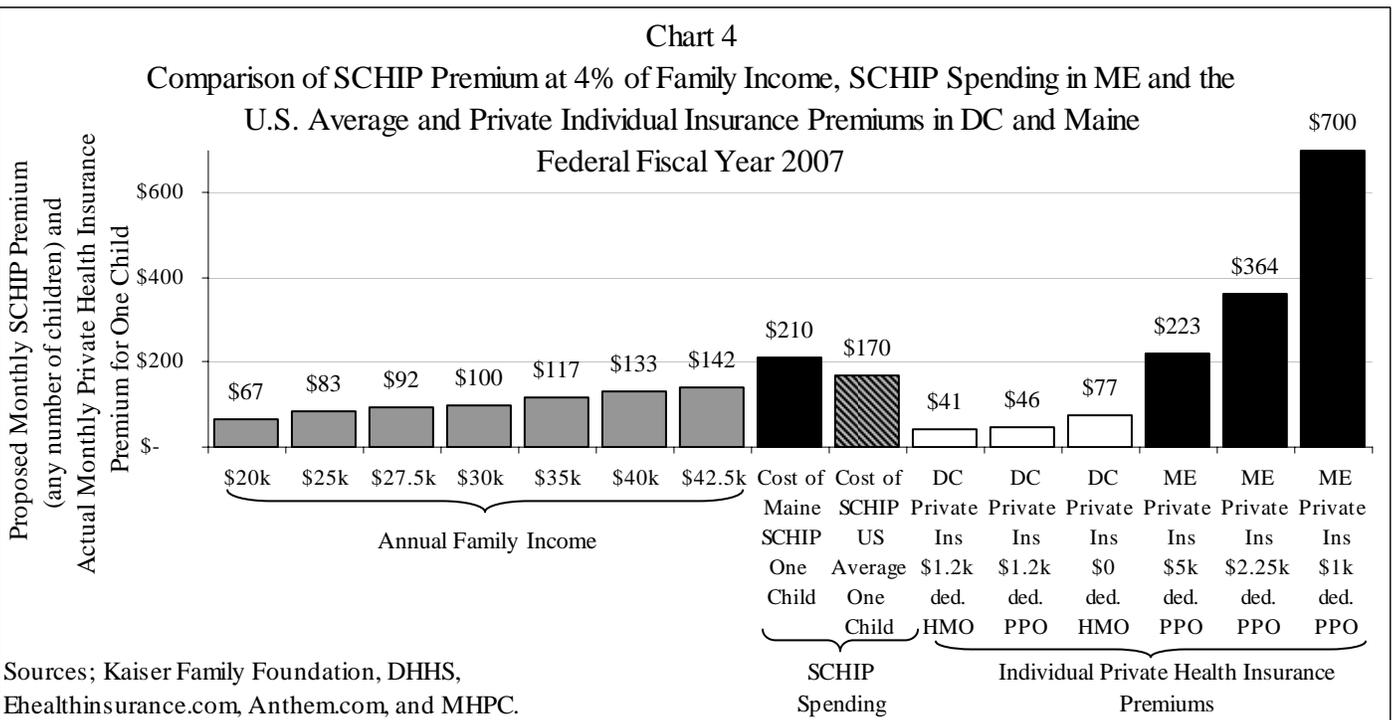
Right now a married couple with four children can earn up to \$55,000 and qualify for SCHIP (and Medicaid for the parents). But a single mom with one child earning \$27,500 earns too much for SCHIP or Medicaid (see Table 1). Maine should target SCHIP to the truly needy, not to upper middle income families.

Harvard University saw an increase of 20 percent when their institutional financial aid policy was changed and simplified – families earning less than \$40,000 would pay no tuition costs out of pocket.[15] SCHIP eligibility should be likewise simplified and standardized.

In addition, Maine should standardize the income calculation for Medicaid with that for SCHIP. Currently, the formula artificially puts more children and parents on free Medicaid over the low cost SCHIP.[16] Maine should also conform to the majority of states and change the Medicaid/SCHIP coverage period to six months (from the current 12 months), given that half of uninsured children remain so for less than four months.[17]

Maine should institute an asset test for children’s Medicaid/SCHIP identical the one used for adult Medicaid.[18] Although automobile assets currently are exempt from Medicaid, Maine should limit this exemption of no more than \$15,000. Additionally, Maine should ensure that SCHIP spending is targeted to the truly poor by verifying income and assets using a third party credit agency and income tax filings.

A \$50 billion federal increase in SCHIP will increase Maine SCHIP spending annually by \$25 million.



Some in Congress have advocated for a \$50 billion increase (or \$75 billion total) in SCHIP spending over the next 5 years. Such an increase would be a 200 percent increase over the \$25 billion baseline five-year SCHIP budget. In his budget, President Bush already proposed a 20 percent increase to \$30 billion.

Families USA calculates that this increase would give Maine \$72.5 million more in federal SCHIP funding per year (in addition to the \$24.5 million Maine currently receives). This increase would require \$25 million in additional state SCHIP spending per year.[19] The result would be almost \$100 million more a year in SCHIP spending in addition to the \$33 million spent in FY 2006. Presumably, the increase would be meant to reach the 11,800 uninsured children in families earning less than \$35,000 a year at a cost of \$8,260 per uninsured child.

The extra \$25 million that Maine lawmakers would have to annually raise would be especially destructive to the economy if it were to come from higher taxes. It would also further shrink Maine’s private sector.

Maine’s private sector share of personal income would be negatively impacted by increased SCHIP funding.

Chart 5 shows that Maine’s private sector share of personal

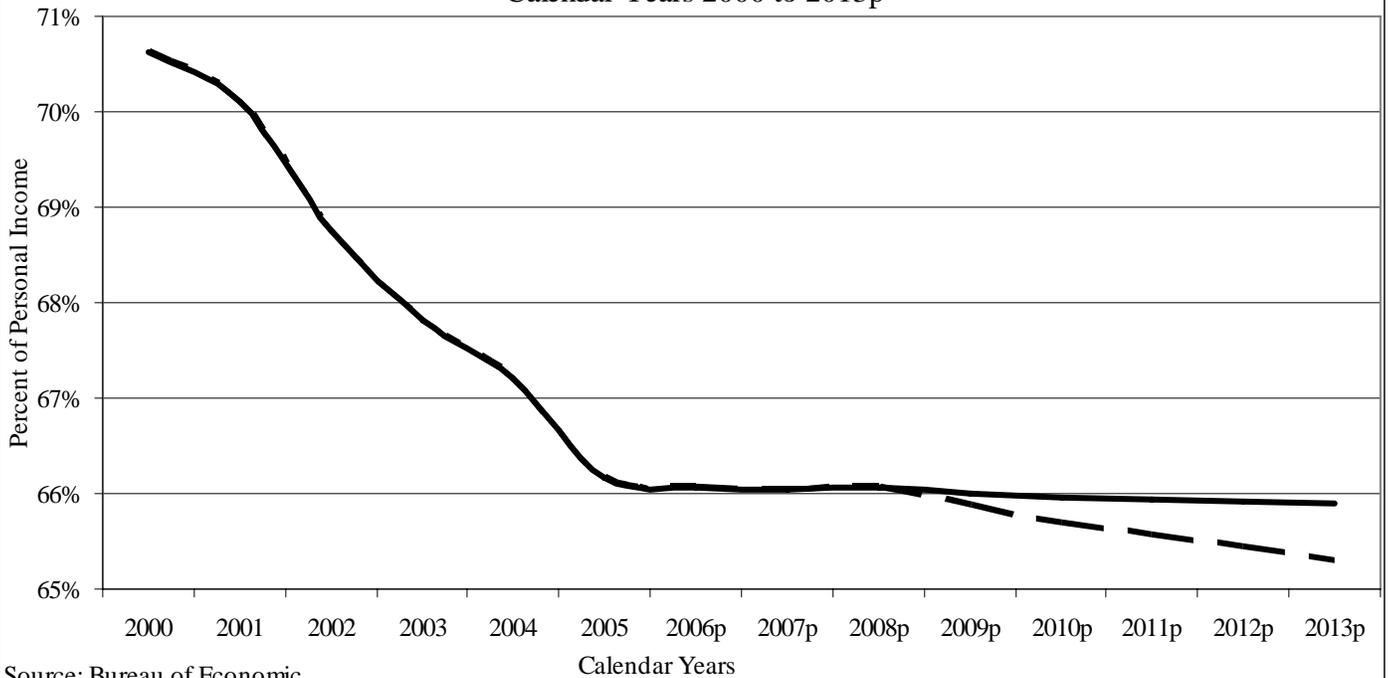
income would shrink in the face of this nearly \$100 million in new SCHIP funding. The private sector would fall to 65.3 percent of personal income by 2013 from 66.1 percent in 2006 (the latest year of actual data). [20]

In 2006, Maine’s private sector share ranked as only the 42nd largest in the country. While rankings can not be estimated into the future, it is safe to assume that a continuing decline in the private sector share will not lead to a rise in future rankings. In comparison, three other New England states ranked in the top ten in 2006—New Hampshire (one), Connecticut (two), and Massachusetts (six).

Conclusion

Maine SCHIP needs to be reformed, but not expanded. SCHIP expansion would mean higher Maine taxes and likely very little reduction in Maine’s already low rate of uninsured children. Medicaid/SCHIP should be more like private insurance with reasonable with reasonable premiums and co-payments. Maine families should have access to affordable health insurance plans like those available in other states. Additionally, Maine’s private sector share of personal income would be negatively impacted by increased SCHIP funding.

Chart 5
Maine's Private Sector Share of Personal Income
Calendar Years 2000 to 2013p



Source: Bureau of Economic Analysis, MHPC.

— Private Sector (CEFC Forecast) - - Private Sector (SCHIP Expansion)

Notes and Sources:

- [1] "A Guide to MaineCare for Maine Families" Maine Equal Justice Partners. Available at: <http://www.mejp.org/medicaid.htm>
- [2] "How Many People Lack Health Insurance and For How Long?". Congressional Budget Office. May 2003. Table 3 - Distribution of Uninsured Spells by Duration and Age. Available at: <http://www.cbo.gov/ftpdoc.cfm?index=4210&type=0&sequence=0>
- [3] Congressional Budget Office. Table 3.
- [4] U.S. Census Bureau, Current Population Survey for 2004-2005 for children below 200 percent of poverty in all states with a Medicaid/SCHIP eligibility limit of 200 percent of poverty or higher.
- [5] Kaiser Family Foundation for FY2006 spending and June 2006 SCHIP enrollment. Available at: www.StateHealthFacts.org
- [6] Author's calculations based on Maine Legislature's Office of Fiscal and Program Review information.
- [7] "The State Children's Health Insurance Program." Congressional Budget Office. May 2007. Page 12. Available at: <https://gushare.georgetown.edu/HealthPolicyInstitute/CCF/Web%20Site/SCHIP%20Site%20Documents%20%28Public%29/Research/crowd%20out/CBO5-10-SCHIP.pdf>
- [8] Gruber, Jonathan and Kosali Simon. "Crowd-Out Ten Years Later: Have Recent Public Insurance Expansions Crowded Out Private Insurance?" National Bureau of Economic Research. January 2007. Table 4. Available at: <http://www.nber.org/papers/w12858>
- [9] Author's estimate based on Maine Medicaid reimbursement as a percent of hospital costs.
- [10] Maine Medicaid spends much more per child than Maine SCHIP. As noted in another MHPC report—"Maine Medicaid Check Up Series - Part II: Child Medicaid Spending." April 5, 2007. Available at: [http://www.mainepolicy.org/Portals/0/Medicaid%20Watch%20Vol.%204.%20No.%202%20\(final\).pdf](http://www.mainepolicy.org/Portals/0/Medicaid%20Watch%20Vol.%204.%20No.%202%20(final).pdf)
- [11] Zuckerman, Stephen et al. "Cost of Caring for Uninsured People in Maine." Urban Institute and the Maine Health Access Foundation. Table 5, Page 13. Available at: http://www.mehaf.org/pictures/final_urban2.pdf. 2005 figures inflated by 7 percent to an estimated 2006 figure.
- [12] IBID. 2005 figures inflated by 7 percent to an estimated 2006 figure.
- [13] From [Ehealthinsurance.com](http://ehealthinsurance.com) for a 10-year-old boy living in DC as of July 2007.
- [14] From Anthem.com for a 10-year-old boy living in Kennebec County, Maine as of July 2007.
- [15] Capriccioso, Rob. "An Approach that Works." Inside Higher Ed. February 24, 2006. Available at: <http://www.insidehighered.com/news/2006/02/24/harvard>
- [16] Current Maine Medicaid rules allows a family to disregard up to \$200 per child in monthly child care expenses (\$175 for child over 2), any child support payments (regardless of the amount) and \$90 in income from work. These amounts are not disregarded for SCHIP eligibility. Source: Maine Equal Justice Project, available at: www.mejp.org/medicaid.htm
- [17] Kaiser Family Foundation. Based on 2006 survey data. Available at: www.StateHealthFacts.org
- [18] From the Maine Equal Justice website, Maine's SCHIP has no asset limit but Medicaid generously limits assets:
- "There is a \$2,000 asset limit. This means a family cannot have property or other valuable items worth more than \$2,000. But, many assets are not counted in the \$2,000 limit.
- Assets that do not count against the \$2,000 limit:
- The family's home and surrounding lot.
 - Basic items used in day to day living, such as furniture, tools and equipment.
 - Two cars or trucks (the second vehicle must be necessary for employment, medical treatment, essential daily activities or modified for operation by a person with a disability or for the transportation of a person with a disability).
 - Property used to produce income such as boats, trucks, machinery.
 - Money in a savings account, CD, pension plan, IRA - up to \$8,000 for a single person, \$12,000 for a family of two or more.
 - Real property that is up for sale.
 - Loans that must be repaid.
 - The cash value of life insurance the family has purchased.
 - Up to \$10,000 in a Family Development Account (FDA) that can be spent only for education, home repair, a car or truck needed for work or school, small business start up, health care, or to use for an emergency or other family need approved by DHHS.
 - Other less common assets listed in DHHS rules."
- [19] "SCHIP Reauthorization: What's At Stake for Maine?" Families USA. May 2007. Page 4. Available at: <http://www.familiesusa.org/assets/pdfs/maineschip.pdf>
- [20] See methodology.

Methodology

U.S. Census Bureau Current Population Survey averages for the 2005 and 2006 surveys were used. Both years were averaged to achieve a valid sample size for Maine as well as all other states.

For Chart 3, all states populations of children uninsured, with private insurance or with Medicaid coverage were totaled to calculate average percentage for Maine and other groupings of states for families between 200 and 300 percent of poverty.

The Kaiser Family Foundation provided information for each state child Medicaid/SCHIP income eligibility as of 2006, coinciding with the Census data, as well as information on state SCHIP spending in Federal Fiscal Year 2006 and enrollment as of June 2006.

U.S. Department of Health and Human Services figures were used for income as a percent of the poverty level for 2007 by household size. Figures used were for the 48 continental states and Washington, D.C.

Ehealthinsurance and Anthem.com were used for individual health insurance premiums for a representative ten-year-old boy living in Maine and Washington, D.C.

The private and public sector share of personal income was projected based on the Maine Consensus Economic Forecasting Commission (CEFC) estimate to 2011. This is not an endorsement of the CEFC forecast. The projection for the years 2012 and 2013 are based on a linear extrapolation of the CEFC forecast. Projection assumes that increased state spending is funded from either higher taxes or decreases in non-public sector personal income (personal current transfer receipts and government employment). The increased Medicaid/SCHIP spending is based on estimates from Families USA—see Note 10. CEFC forecast can be found here: <http://www.maine.gov/spo/economics/projections/>

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