

Pennsylvania's Medicaid Course: Children's Health Coverage

Briefing Paper

July 2003

Proposed Medicaid revisions could affect children

Potential impact on funding levels and CHIP enrollees

President Bush has proposed shifting Medicaid from a per-person entitlement to a capped block grant, and as the plan seeks a congressional sponsor, lawmakers and Pennsylvanians should consider two ramifications affecting children: The proposal could strand states with unfunded health care costs while blurring the boundaries that protect enrollees in the Children's Health Insurance Program.

The president has proposed that states have an option to receive a block grant, essentially capping funding but broadening states' flexibility to spend it. The change would be a substantial shift from the current system that reimburses states as costs and enrollment rise. States would, instead, be enticed to choose the block grant by the power to tailor coverage for non-mandatory populations and make their own spending decisions. But the federal matching funds that cushion enrollment increases would disappear, replaced by the capped block grant, and funds would not be indexed for inflation, eating into their buying power for costs that are expected to rise by 8 percent a year through 2012.

The proposal would also create new State Health Care Partnership Allotments, lumping Medicaid and SCHIP

dollars into one new block grant and possibly pitting children in CHIP against Medicaid recipients. Currently, Pennsylvania's SCHIP dollars can only be used for the Children's Health Insurance Program, now covering 122,928

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The benefits of children's health insurance

Children's health insurance matters because:

- Children with health insurance have fewer unmet health needs and fewer delays in getting care that they need.
- Children with health insurance are less likely to miss school.
- Medicaid and CHIP reduce emergency room use and preventable hospitalizations.
- Children with publicly funded health coverage are likelier to enjoy the normal sports and activities of childhood.
- Medicaid growth has been associated with reductions in infant mortality rates.
- Medicaid families spend much less of their own money on their children's health than other low-income families must spend.

Pennsylvania Partnerships for Children is a strong, effective, and trusted voice to improve the the health, early education, and well-being of the Commonwealth's children. Joan L. Benso, President and CEO.

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Pennsylvania children at no cost to the family. Under the president's proposal, states constrained by fixed Medicaid funding could shift SCHIP dollars to meet their Medicaid obligations, without filing for a federal waiver. The diversion could diminish funds now used for CHIP enrollment and the high-quality benefits that keep children healthy.

Under the president's plan, mandatory populations and their benefits would not change. States would have to preserve comprehensive Medicaid coverage for children ages birth to 6 and pregnant women with incomes up to 133 percent of poverty (\$24,472, family of four), children ages 6 to 19 in families with incomes up to 100 percent of poverty (\$18,400, family of four), and certain disabled and elderly citizens. Children in the mandatory populations now receive all medically necessary care, including primary care, prescription drugs, mental health services, and a variety of rehabilitative services.

However, participating states would lose money in the long run, and children could be caught in the cross currents of shrinking benefits and eligibility:

- The proposal could open the door to allowing co-pays and restrictions on pregnancy-related services. Currently, states may not impose co-pays on pregnancy services and must provide for all pregnancy-related services, such as ultrasounds, planned periodic appointments, and delivery and recovery. Since Medicaid pays for 40 percent of all U.S. births, co-pays and service restrictions could impose hardships on low-income, expectant mothers and raise the risk of more newborns off to an unhealthy start.
- Currently, states may elect to cover non-mandated populations, and Pennsylvania now extends non-mandated Medicaid eligibility to infants ages birth to 1 and pregnant women between 133 percent

and 185 percent of poverty (\$34,040, family of four). Current law requires the same services for all Medicaid recipients — mandated and non-mandated — but uniformity is difficult to assure because insurance contractors can contract differently with different providers. The president's plan could exacerbate the situation by eliminating the requirement for identical Medicaid coverage statewide, allowing variation, for instance, on the basis of geography. Participating states would not have to provide coverage to all children in the optional eligibility category.

The funding factor

Initially, states would get short-term increases under the 10-year proposal, which would allocate \$12.7 billion through 2010, but any new funds would be "budget-neutral" — a congressional term requiring states to pay back early increases in later years.

For state fiscal year 2002-03, Pennsylvania's funding covered all services rendered. The state's enacted federal and state Medicaid spending totaled \$10.63 billion, down 4.8 percent from the previous year, and the actual dollars spent will be even less, due to two mid-year funding freezes. In the meantime, total enacted federal dollars for Pennsylvania were \$7.22 billion, \$509 million or 6.6 percent less than the previous year.

Medicaid costs, which account for about 30 percent of state expenditures of their state and federal dollars, increased by 13 percent in fiscal 2002, the largest increase in a decade, caused largely by rising prescription drug and long-term care costs. Costs are expected to continue rising by about 8 percent a year.

Next steps

Under the proposal, states that decline to participate would continue to administer Medicaid and CHIP under existing rules, with

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no additional funding. The lures of additional dollars upfront and flexibility in spending could seem irresistible in fiscally difficult times, but short-term help could fuel long-term distress. Pennsylvania's children need continued federal matching dollars and payments that reflect rising costs, and CHIP dollars should stay devoted to children — not in competition with other populations.

The president has floated his proposal but has not yet found a congressional sponsor. In the meantime, the recently enacted federal tax

cut legislation included a temporary 2.95 percent increase in the federal matching rate for five quarters, beginning April 1, 2003. The relief will provide Pennsylvania an estimated \$479.2 million and could lessen the appeal of the block grant funding idea. With the proposal in search of a sponsor and not actively on Congress' agenda, Governor Rendell has said he would consider the long-term consequences of accepting a block grant. In the interim, Pennsylvania should continue with the current Medicaid and CHIP system to make children's health coverage available to improve outcomes for children.

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