Cost Estimates for Child Health Proposals
February 19, 1997

I. Summary of Estimates

Cost estimates for the Administration's child health proposals were prepared by staff at the Health Care Financing Administration's Office of the Actuary and the Department of Health and Human Service's Office of the Assistant Secretary for Planning and Evaluation. Table 1, attached, gives a summary of these estimates. Both federal costs and caseload effects are shown.

Note: In addition to the proposals shown in Table 1, the "Workers Between Jobs" proposal is expected to provide health coverage to about 700 thousand children who would receive the coverage through their parents policies at market rates. Funding for this initiative is separate from Title XIX and amounts to an estimated $9.8 billion over five years for family coverage.

II. Methodology and General Assumptions

In general, the cost for the child health provisions is estimated using the following formula:

Fed Cost = (no. covered children) × (effective cost per child)
× (state option factor) × (avg. match rate)

Before discussing assumptions for specific proposals, a few general remarks are in order concerning the factors in this formula.

A. State Options

It is always very difficult to gauge the extent to which a state will elect optional coverages under Medicaid. Much depends on the current and projected overall state financial status, the popularity of the proposed programs, and the total range of options available compared to the state's available funding. The possibility of a percapita cap on federal Medicaid funding as part of the current budget further complicates a state's decision making. For the proposals in the President's FY 1998 budget package, we have assumed that state participation in optional coverages will phase in over time, averaging 50 percent, on a dollar-weighted basis, over the five year period FY 1998-2002.

B. Effective Cost per Child

In the presence of a percapita cap on federal funding, the marginal cost of enrolling a new child in the Medicaid program may not reflect the actual cost of providing Medicaid services to the child. This would occur whenever a state incurred annual costs that exceed its federal funding limit. In this situation the marginal cost would be the indexed percapita cap for the appropriate category of enrollee (child in this case.) For estimating proposals in the FY 1998 budget, we

have used a weighted average of estimated Medicaid percapita costs and percapita cap limits, in which the weight on the percapita limit increases over time as the impact of the cap increases. Since the population of children covered by the child health proposals is assumed to be cheaper than the average for current Medicaid children, this has the effect of increasing the federal cost of the proposals, compared to the situation without a percapita cap.

C. Average Federal Matching Rate

Where applicable, the current average federal medical assistance percentage (FMAP) of 57 percent was used to determine the federal share of costs for the child health proposals.

III. Specific Assumptions

A. State Partnership Demonstrations Direct Funding

At least one million children are expected to receive health insurance coverage under this program of grants to States for coverage to uninsured, non-Medicaid eligible children. For planning purposes, a total cost of $1,000 per child from federal and state/private sources was assumed; however, the amount of federal funding is fixed in the proposal at $750 million per year. Since it may take a few years to reach the ultimate goal of one million children, not all of these amounts are likely to be needed in the early years of the program.

B. State Partnership Demonstration Outreach Effect

The State partnership demonstration funds are targeted at non-Medicaid eligible children. Thus, any children who are found to be Medicaid-eligible during the enrollment process would be enrolled in the regular Medicaid program. The "outreach" effort would be part of an overall initiative to enroll Medicaid eligible children who are not currently enrolled in the program. GAO has estimated that about 30 percent (3 million) of the 10 million uninsured children in the U.S. are in fact eligible for Medicaid. The overall goal of outreach is to enroll 2 million of these children. The number who could be enrolled as a result of the State partnership program is difficult to guess, but is was felt that 20%, or 400 thousand might be reached as a result of these demonstrations. This number is phased in over four years. For this estimate, non-institutional baseline Medicaid percapita costs were used, since children incurring institutional costs are likely to be enrolled currently by providers in order to receive payment for their services. These costs were weighted with percapita cap limits are described above.

C. Additional Outreach Proposals

The remainder of the 2 million target population of eligible non-enrolled children (1.6 million) are expected to be enrolled through the additional outreach proposals under the Administration's plan. The phase-in and percapita cost assumptions for these additional children were the same as was used for State partnership outreach estimate. This has been treated an "off-budget" proposal, since it requires no changes in current Medicaid law.

D. Twelve-Month Optional Continuous Eligibility for Children

This proposal would provide, at state option, guaranteed Medicaid coverage to children for a 12 month period following a determination of Medicaid eligibility, regardless of changes in circumstances that would otherwise terminate coverage during the period. This would apply to initial determinations as well as subsequent re-determinations.

The impact of this provision depends upon current turnover (i.e. eligibility termination) rates and the frequency with which states currently re-determine eligibility. The higher the turn-over rate and more frequent eligibility is determined under current law, the higher the cost from guaranteeing 12 consecutive months of coverage.

The potential impact of this provision on Medicaid caseloads was estimated using a model of eligibility determination to which turnover and determination rates were inputs. The model was calibrated to reproduce roughly current Medicaid length-of-enrollment statistics. The model indicated that a 12-month eligibility guarantee has the potential to increase the number of children on the rolls at any one time by about 10 percent under a mandatory benefit, or an average of about 5 percent using the state option assumption discussed above. For this estimate percapita Medicaid children costs were reduced by 25 percent, reflecting the assumption that utilization is likely to be concentrated in periods of current eligibility; e.g., enrollees who know that eligibility is going to terminate next month are likely to go the doctor this month.

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April 30, 1997, 9:15am EDT

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Table 1 - **Child Health Proposal Cost Estimates**

	Fiscal Year					
	1998	**1999**	**2000**	**2001**	**2002**	**Total**
Federal Spending Estimates in $billions						
A. State Partnership Demonstrations Direct Funding	0.75	0.75	0.75	0.75	0.75	3.75
B. State Partnership Demos - Outreach Effect	0.06	0.12	0.22	0.33	0.35	1.08
C. Additional Outreach for Eligible Non-Enrolled Children (off-budget)	0.25	0.52	0.91	1.39	1.47	4.54
D. 12-mo. Continuous Eligiblity for Children	0.29	0.47	0.73	1.04	1.19	3.72
Total Spending	1.35	1.86	2.60	3.52	3.77	13.09
Total in Budget	1.10	1.34	1.69	2.12	2.29	8.55
Caseload Effects - Estimated Increase in Covered Children in millions						
A. State Partnership Demonstrations Direct Funding	1.0	1.0	1.0	1.0	1.0	
B. State Partnership Demos - Outreach Effect	0.1	0.2	0.3	0.4	0.4	
C. Additional Outreach for Eligible Non-Enrolled Children	0.4	0.8	1.2	1.6	1.6	
D. 12-mo. Continuous Eligiblity for Children	0.5	0.7	0.9	1.2	1.3	
Total Coverage Increase	2.0	2.7	3.4	4.2	4.3	