Children's Health Insurance Program Extended through Fiscal Year 2027

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In this Brief

- After initially extending the Children's Health Insurance Program (CHIP) for six years as part of the short-term continuing resolution passed on January 22, Congress extended CHIP for another four years as part of the Bipartisan Budget Act of 2018, which was passed on February 9.
- Congress revisited CHIP weeks after passing the initial six-year extension because extending it for another four years generated savings that were used to pay for other provisions in the Bipartisan Budget Act.
- The 10-year CHIP extension largely mirrors provisions included in earlier House and Senate bills, including phasing out the enhanced CHIP matching funds authorized under the Affordable Care Act (ACA) (a 23 percentage point bump) beginning in fiscal year 2020, and generally continues longstanding CHIP features.
- One key difference is that beginning in FY 2024, states will be required to report pediatric quality measures for Medicaid and CHIP; this reporting is currently voluntary.

Introduction

CHIP covers nearly 9 million children and is a key contributor to record-low levels of uninsurance among children. However, Congress only provided funding for CHIP through FY 2017, which ended September 30. After a series of short-term patches that left states with a great deal of uncertainty, Congress passed a six-year extension of CHIP in January. Three weeks later, on February 9, Congress extended the program for another four years, reauthorizing the program through FY 2027. This issue brief summarizes key features of the 10-year CHIP extension.

Overview of Congressional Activity to Extend the Children's Health Insurance Program

This fall, the House and Senate advanced legislation to extend CHIP funding. Both bills would have extended CHIP funding for five years and generally maintained the current structure of CHIP. One notable exception is that both bills phased out the enhanced CHIP-matching funds authorized under the ACA (a 23 percentage point bump) beginning in FY 2020. However, neither bill advanced in Congress and, as a growing number of states faced funding shortfalls, Congress instead acted twice to authorize the Centers for Medicare & Medicaid Services (CMS) to redistribute unused prior-year CHIP funds to states facing the most pressing need for funding. In December, Congress also provided $2.85 billion for CHIP funding for the first two quarters of FY 2018 (retroactive back to October 1, 2017 through March 31, 2018). These stop-gap measures, however, left many states facing funding shortages in January and February, due to the manner by which funds were allotted and the rate of state spending.

As a result of two pieces of legislation that were passed in close succession, states now have much desired certainty to continue their programs for the next decade. On January 22, as part of a three-week continuing resolution to fund general government spending, Congress passed and the president signed into law the Helping Ensure Access for Little Ones, Toddlers, and Hopeful Youth by Keeping Insurance Delivery Stable Act (HEALTHY KIDS Act), which included a six-year extension of CHIP.[1]

In February, Congress extended CHIP for another four years as part of the Bipartisan Budget Act of 2018, a large bill that continues discretionary government funding through March 23 and adjusted statutory provisions that cap overall government spending.[2] As part of the larger Bipartisan Budget Act, Congress passed the Advancing Chronic Care,

Extenders, and Social Services Act (ACCESS Act), which included the CHIP extension and a host of other health care provisions, including relief from Medicaid disproportionate share hospital payments, an extension of community health center funding and additional Medicaid funding for Puerto Rico and the Virgin Islands in the wake of Hurricane Maria.

Below we summarize the key provisions of the 10-year CHIP extension.

Children's Health Insurance Program Funding Extension

Unlike Medicaid, CHIP is funded on an annual basis with appropriated amounts specified in statute and divided among states according to a formula. For FY 2016 and FY 2017, the annual appropriation amounts were $19.3 billion and $20.4 billion, respectively. States can use their share of appropriated CHIP funds (typically referred to as a state's "allotment") for up to two years, and, depending on circumstances, may also have access to additional federal dollars from a contingency fund or from other states that did not use their full allotments.[3]

Funding Level: The HEALTHY KIDS Act extended CHIP funding for six years, at the following levels:

- FY 2018: $21.5 billion
- FY 2019: $22.6 billion
- FY 2020: $23.7 billion
- FY 2021: $24.8 billion
- FY 2022: $25.9 billion
- FY 2023: $25.9 billion

In extending CHIP for four more years, the ACCESS Act does not include specific allotments for FY 2024 – FY 2027, instead specifying that "such sums" as necessary will be available. The language is intended to cover all CHIP expenditures during the reauthorization period.

As has been the practice in the past, the FY 2018 – FY 2023 appropriation levels are set at levels above what states are expected to actually need, ensuring that states are unlikely to run out of CHIP funds despite the capped nature of the federal funding stream.[4]

Due to the delayed reauthorization of CHIP, Congress gave CMS the authority to direct unused CHIP dollars to the states facing the most dire federal funding shortages so that they could prevent terminating their programs, capping enrollment or otherwise jeopardizing coverage.[5] In December, Congress also provided stop-gap funding of $2.85 billion for the first two quarters of FY 2018 (retroactive back to October 1, 2017, through March 31, 2018). Therefore, the HEALTHY KIDS Act includes a provision to prevent duplicate appropriations for FY 2018 in cases where states had already received a portion of the $2.85 billion made available in December.

The HEALTHY KIDS Act and the ACCESS Act make technical changes to the CHIP allotment rebasing formula to reflect the reauthorization period, but generally continue the key features of CHIP funding distribution, including the contingency fund to assist states that experience funding shortfalls.

Enhanced CHIP Matching Rate (or "CHIP Bump"): State spending on CHIP is matched at an enhanced matching rate, which ranges from 65 percent to 85 percent. The ACA increased this enhanced matching rate by 23 percentage points (not to exceed 100%) for most CHIP expenditures from FY 2016 through FY 2019. As enacted, the legislation would maintain the current law's 23 percentage point increase for two years (FY 2018 and FY 2019), transition to an 11.5 percentage point increase in FY 2020, and then eliminate the increase entirely after that.

Qualifying States: Certain states that expanded Medicaid eligibility for children prior to CHIP enactment in 1997 are eligible to use their CHIP allotment funds to finance the difference between their Medicaid and CHIP matching rates for the cost of covering children above 133 percent of the federal poverty level (FPL).[6] This authority will continue through FY 2027.

Medicaid and the Children's Health Insurance Program Coverage Provisions

Express Lane: Under current law, states may rely on eligibility determinations made by "express lane" agencies (e.g., Temporary Assistance for Needy Families, Supplemental Nutrition Assistance Program, CHIP and Medicaid) for initial determinations of eligibility for Medicaid or CHIP as well as for redeterminations and renewals for these programs. This authority will continue through FY 2027. Nine states currently use express lane agencies for eligibility or renewal, or both, in their Medicaid or CHIP programs.[7]

Maintenance of Effort: For children up to age 19, states are required to maintain their Medicaid and CHIP programs with the same eligibility standards, methodologies and procedures in place as of the date of enactment of the ACA (March 23, 2010) through September 30, 2019. The enacted legislation maintains the current law maintenance of effort provision through FY 2019 and then extends the provision, with revisions, through FY 2027. Specifically, from October 1, 2019, through September 30, 2027, the legislation extends the Medicaid and CHIP maintenance of effort for children in families, but states would not be obligated to maintain coverage for children with incomes above 300 percent FPL. Ninety-seven percent of children enrolled in CHIP are at or below 250 percent FPL.[8]

CHIP Look-Alike Plans and Risk Pools: Some states have established state-funded CHIP look-alike programs for children under age 19 who are not eligible for Medicaid or CHIP. Beginning in January 2018, as long as the coverage offered by these look-alike programs is at least equivalent to CHIP coverage, children enrolled in look-alike plans can be considered as part of the same risk pool as CHIP-enrolled children. This is likely to decrease the cost of such plans by improving the risk pool. The legislation also specifies that children enrolled in these plans are to be treated as having "minimum essential coverage" for purposes of satisfying the individual mandate. A qualified look-alike program must be funded exclusively through non-federal funds, which can include premiums paid by families on behalf of their children.

Additional Funding to Support Children's Health

When CHIP was reauthorized in 2009, Congress added funding to conduct various demonstration projects, grants and other activities aimed at improving children's health. These include a Childhood Obesity Demonstration Project, efforts to support Pediatric Quality Measurement, and Outreach and Enrollment grants. The HEALTHY KIDS Act and the ACCESS Act extend funding for these provisions at levels consistent with previous years' funding. In addition, the ACCESS Act newly requires states to annually report to CMS a select set of "core" pediatric quality measures starting in FY 2024 (such reporting is currently done on a voluntary basis).

Budgetary Impact of Ten-Year CHIP Extension

As noted, Congress' decision to reauthorize CHIP for six years reflected an updated CBO score finding that because the individual mandate was repealed, not only would the cost of a five-year extension be significantly lower than previously assumed, but extending CHIP for longer could actually save money.[9] This finding was significant because the CHIP extension had been delayed earlier in the year in large part due to an inability to identify bipartisan provisions that could offset the cost of a five-year extension. Therefore, in January, Congress was able to pass a six-year extension without including savings provisions; indeed, the six-year extension is projected to save nearly $1 billion dollars over 10 years.[10] By extending CHIP for an additional four years (and thereby reducing families' projected reliance on more

expensive marketplace coverage), CBO scored the further extension in the ACCESS Act as actually reducing the deficit by $4.8 billion over the next 10 years.[11]

Additional Changes to the Children's Health Insurance Program

Finally, to pay for other provisions of the ACCESS Act, Congress made several changes to Medicaid third party liability (TPL) rules and applied these rules to CHIP. Medicaid rules require that when a Medicaid beneficiary has another source of coverage, states must generally ensure that the other insurer is billed before Medicaid. In addition to extending the rules to CHIP, the ACCESS Act repealed a long-standing exception to these rules for prenatal care. The legislation made other changes to the TPL rules and also directs the Government Accountability Office to study the impact of other possible TPL changes on preventive pediatric care and on access to services for individuals on whose behalf child support enforcement orders are in effect.

Conclusion

Passage of a 10-year CHIP extension gives states certainty about running their CHIP programs for the foreseeable future. Extending the program with only minor modifications relative to the 2015 reauthorization will ensure that states can continue coverage for children without having to undertake complicated implementation tasks. Over time, the newly required pediatric quality measure reporting also will generate important information about both Medicaid and CHIP.

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Endnotes

1. P.L. 115-120, available at: https://www.congress.gov/115/bills/hr195/BILLS-115hr195enr.pdf.

2. P.L. 115-123, available at: https://www.congress.gov/115/bills/hr1892/BILLS-115hr1892enr.pdf. The Budget Control Act of 2011 set overall caps on spending and, without adjustment, would have resulted to automatic cuts to both discretionary and entitlement spending (i.e., "sequester"). The Bipartisan Budget Act lifted these caps for discretionary spending, which will facilitate completion of FY 2018 appropriations bills next month. Other provisions of the major legislation include funding for disaster recovery, responding to the opioid epidemic, and a host of health care provisions that affect providers, payers and drug manufacturers.

3. The formula (as most recently adjusted) takes into account prior year spending as well as growth in per capita National Health Expenditures and child population in the state; the allotments are "rebased" every other year to reflect spending in the prior year.

4. Congress sometimes takes advantage of the gap between appropriated CHIP funds and the dollars actually needed by states to finance appropriations in other areas via a technical budgeting practice known as Changes in Mandatory Programs, or "CHIMPs." During the Senate markup of the CHIP bill, this practice was identified by some senators as one that should be changed.

5. The CHIP statute lays out a standard redistribution method to reallocated unused prior-year CHIP dollars among states. Because CHIP reauthorization was delayed, and numerous states faced severe funding shortfalls, Congress twice passed (as part of short-term continuing resolutions) provisions that authorized CMS to prioritize redistribution of funds to "emergency shortfall states."

6. The "qualifying states" are: Connecticut, Hawaii, Maryland, Minnesota, New Hampshire, New Mexico, Rhode Island, Tennessee, Vermont, Washington and Wisconsin.

7. These states are: Alabama, Colorado, Iowa, Louisiana, Massachusetts, New York, Pennsylvania, South Carolina and South Dakota. Medicaid and CHIP Eligibility, Enrollment, Renewal, and Cost Sharing Policies as of January 2017: Findings from a 50-State Survey, Kaiser Family Foundation, January 2017, available at: http://files.kff.org/attachment/Report-Medicaid-and-CHIP-Eligibility-as-of-Jan-2017.

8. The Future of CHIP and Children's Coverage, Medicaid and CHIP Payment and Access Commission (MACPAC), March 2017, available at: https://www.macpac.gov/wp-content/uploads/2017/03/The-Future-of-CHIP-and-Childrens-Coverage.pdf.

9. CBO did not release a separate score of the HEALTHY KIDS Act, but rescored the nearly identical Senate bill, S. 1827, to account for the enactment of tax reform legislation, which repealed the penalties related to the individual health insurance mandate starting in 2019, and to account for administrative action. Congressional Budget Office, Updated Cost Estimate for S. 1827, the Keep Kids' Insurance Dependable and Secure Act of 2017, January 5, 2018, available at: https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/s1827_0.pdf. CBO also issued a preliminary score of a 10-year extension showing long-term savings. Congressional Budget Office, Cost Estimate of Extending Funding for the Children's Health Insurance Program for 10 Years, January 11, 2018, https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/extendingfundingforthechildrenshealthinsuranceprogramfor10years.pdf.

10. To capture these savings, the HEALTHY KIDS Act redirected $980 million to the Medicaid Improvement Fund to increase the matching rate for the design, development, installation and operation of mechanized claims systems, including for the efficient collection and reporting on child health measures. The matching rates for these activities already range from 75 percent to 90 percent; matching expenditures at 100 percent is a way to ensure that savings from the CHIP extension are redirected to state Medicaid programs (and not used for other, non-health-related purposes). The increased matching rates were to begin in FY 2023 and were to continue until the funding was expended. This provision was essentially nullified by the ACCESS Act, which "zeroed out" this pot of money in the Medicaid Improvement Fund so that the savings could be used to pay for other parts of the ACCESS Act health care package.

11. Congressional Budget Office, Estimated Direct Spending and Revenue Effects of Division E of Senate Amendment 1930, the Bipartisan Budget Act of 2018, February 8, 2018, available at: https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/divisione.pdf.