



**THE CHILDREN'S HEALTH INSURANCE PROGRAM
REAUTHORIZATION ACT:
FREQUENTLY ASKED QUESTIONS**

On July 19, the Senate Finance Committee approved the bipartisan Children's Health Insurance Program (CHIP) Reauthorization Act by an overwhelming vote of 17-4. Senators Max Baucus (D-Mont.), Chuck Grassley (R-Iowa), Jay Rockefeller (D-W.Va.) and Orrin G. Hatch (R-Utah) crafted the \$35 billion package to keep coverage for all children currently in the CHIP program, and to reach many more low-income, uninsured children with dependable health coverage. Following are the most Frequently Asked Questions about how the CHIP Reauthorization Act will work:

Effects of the CHIP Reauthorization Act

- Q: *How many additional low-income, uninsured children will be covered under this plan? Reports seem to range from 3.2 million to four million.*
- A: The CHIP Reauthorization Act protects coverage for all 6.6 million children in the program – including 800,000 kids who will lose CHIP coverage if Congress fails to make this investment. The bill will also provide 3.2 million more low-income, uninsured children with health coverage in the next five years.
- Q: *Why not just continue current law and save significant funds?*
- A: The Congressional Budget Office estimates that a continuation of the Children's Health Insurance Program with sufficient funding for states to run their programs as planned would cost \$24 billion above the baseline spending of \$25 billion. The additional funding in the Finance Committee bill provides incentives for states to cover more low-income children and provides the funding to pay for their coverage. The measured additional investment and improvements in the Finance Committee bill will allow covered children to retain coverage, and will allow additional low-income uninsured children to receive CHIP coverage as well.

Adults

- Q: *What adults will remain eligible for CHIP coverage?*
- A: Twelve states with existing HHS waivers to cover low-income parents of CHIP kids, and some childless adults – will have that coverage transitioned to Medicaid or moved to a new separate block grant program. After a transition period, states operating under existing waivers will receive a lower reimbursement rate for coverage of non-pregnant adults. Adult coverage is curbed as follows:
- This bill prohibits new HHS waivers for CHIP coverage of childless adults and low-income parents.
 - States covering childless adults must transition all childless adults out of CHIP within two years.
 - Federal funding for coverage of low-income parents in states with existing waivers will be reduced after a transition period of three to four years.

Q: *What are state options for coverage of pregnant women?*

A: States will have an additional option to cover pregnant women as a state option as well as maintaining the options to cover them through a state waiver or through regulation.

Q: *Wouldn't renewing current law do more to reduce adult coverage?*

A: Adult coverage would continue and would likely increase under an extension of current law. Additional states could apply for adult coverage waivers under current law, and Administrations could continue granting such waivers. Likewise under current law, childless adults would not be transitioned out of CHIP and lower match rates to limit parental coverage in states with existing waivers would not go into effect. CBO estimates that total spending on adults (other than pregnant women) would be \$1.1 billion higher for 2008 – 2012 than would be spent under the Senate Finance Committee bill.

Income Levels for Eligibility

Q: *Does the bill restrict or make allowances for states wishing to set higher eligibility levels?*

A: As under current rules, states will still be allowed flexibility to set eligibility levels. The target eligibility level for children remains as Congress intended: 200% of the Federal poverty level. Under this bill, any state seeking to offer new coverage to children in families above 300% of the Federal poverty level will receive a lower Medicaid funding match rate for that coverage.

Q: *Would this bill provide CHIP coverage to children in families making \$80,000 per year?*

A: No. CHIP has always been a Federal-state partnership, with states making determinations as to eligibility levels. The state of New York has a state plan amendment pending with HHS that would allow coverage of children in families at 400% of the Federal poverty level, but only the Health and Human Services Department, not the Congress, can grant permission to implement this proposal.

Offsets

Q: *Doesn't this bill use a budget "gimmick" to hide unpaid costs beginning in 2013?*

A: This bill is a five-year reauthorization proposal, and the revenues in the bill more than pay for the spending in the period. After the five-year reauthorization period, the budget rules set baseline funding for five additional years based on funding in the last year of authorization (2012). The final year amount is lowered in this bill to provide an appropriate baseline of funding going forward. The authors of this bill fully expect that Congress and the President will reauthorize CHIP in five years and necessarily revisit the funding level, hopefully as part of a larger health reform discussion. Congress must address the bigger issues of the 47 million uninsured Americans of all ages and develop proposals to rein in rising health costs.

Q: *How much will the cigar tax cost American consumers?*

A: The tax on large cigars will be 53.13 percent of the manufacturer's sale price, with a cap of \$10 per cigar. According to the Cigar Association, the average manufacturer's sale price for popular-price cigars, which make up 94% of the cigar market, is 30 cents - meaning the average tax on 94% of all cigars sold in the U.S. would be about 16 cents. The average manufacturer's sale price of premium cigars, comprising the rest of the market, is \$1.90 - meaning the average tax on a premium cigar would be about a dollar. A single cigar would have to have a manufacturer's sale price of \$19 to reach the \$10 cap. And the tax on a cigar costing more would never rise beyond \$10.

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Q: *Will the tobacco tax offset in this bill hurt America's tobacco farmers?*

A: Tobacco growers already are getting significant help to transition to the free market. The American Jobs Creation Act of 2004 (Public Law No: 108-357) eliminated Depression-era federal tobacco growing and price support programs. The law provided annual transitional payments for 10 years to eligible tobacco quota holders and producers. Payments began in 2005 and continue through 2014. Payments are funded through assessments of approximately \$10 billion on tobacco product manufacturers and importers. The structure gives tobacco growers the chance to adjust to the free market or to switch to other crops.

Public Coverage, Private Coverage, or Both?

Q: *What does the bill do to minimize how many people drop private coverage to enroll in CHIP (i.e. crowd-out)?*

A: Any option to reduce the number of uninsured inevitably results in some people who previously had coverage taking advantage of a new subsidy. This occurred with the implementation of the new Medicare prescription drug benefit and it would occur under the tax credit options for covering the uninsured. CHIP is no different and the problem was recognized when the program was created in 1997. The Congressional Budget Office does not believe that this bill results in any more crowd-out from private coverage than the original CHIP bill did when the program was created. In fact, this bill takes a number of steps to minimize crowd-out. First of all, the bill creates new options for states to subsidize employer sponsored group health coverage as an option rather than enrolling in a CHIP plan. Second, the bill directs the incentive payments only to enrollment of the lowest income children who are least likely to have access to private coverage.

Q: *Is this the first step toward government-run, single-payer public health care?*

A: Absolutely not. CHIP is a leader in combining public and private solutions to get health coverage to uninsured children. The CHIP Reauthorization Act encourages a mix of public and private solutions to cover kids, and limits the scope of the program to the low-income, uninsured children Congress meant to cover when the program was created in 1997.

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