



The Impact of CHIP Reauthorization on Washington's Apple Health for Kids

Federal approval of the Children's Health Insurance Program Reauthorization Act (CHIPRA) and passage of the federal stimulus package have important implications for Washington's efforts to cover children. As Washington's leaders work to fully implement additional coverage options for uninsured children, this report provides information on how the provisions of the CHIP law and the health provisions of the economic recovery package affect federal funding, incentives, and program structure.

In 2007, lawmakers in Washington State passed a comprehensive bill to provide affordable health coverage options to all uninsured children in the state by 2010, through a program called Apple Health for Kids. At the time the legislation was passed, Washington was one of a handful of states including Illinois, Massachusetts and Pennsylvania leading the way in efforts to get all children covered.

Washington's plans, like those in a number of states, were stalled due to a federal directive issued in August 2007, which in essence restricted CHIP eligibility to children in families with income of less than 250 percent of the federal poverty level (FPL). President Obama rescinded the so-called "August 17 Directive" by executive order on February 4, 2009, the same day that he signed the CHIP reauthorization bill into law, thereby providing Washington with CHIP funding and the go-ahead to cover uninsured children up to 300 percent FPL.

By renewing CHIP early on, the new Congress and the Obama administration have signaled their commitment to covering the nation's children. In doing so they have given Washington lawmakers the support they need not only to maintain the state's efforts but also to fulfill Washington's promise to expand coverage to more uninsured children. Moreover, by quickly passing an economic recovery package that sets aside \$87 billion to assist states in paying for health care services provided through the Medicaid program, federal leaders have affirmed a commitment to help provide stability to America's families during this economic crisis. This federal support comes at a critical moment for Washington as the state struggles with the recession and as increasing numbers of Washington families find themselves one illness or injury away from bankruptcy. This brief explains the new federal funds available to Washington as a result of CHIPRA and passage of the American Recovery and Reinvestment Act and highlights important program changes that may help inform decisions at the state level.

Key Findings

- **Washington now has a guaranteed source of federal funding** for children's health coverage through 2013. The first CHIP allotment for federal fiscal year (FFY) 2009 the state is estimated to receive will be at least \$94 million.¹
- **In addition to its CHIP allotment**, Washington will be able to access more than an estimated \$140 million² from April 2009 – June 2011 due to a special provision included in the CHIP reauthorization bill for states that had expanded Medicaid prior to CHIP. Moreover, the state can receive at least an estimated \$10 million in new federal dollars³ for the same time period under a

new state option authorized by CHIPRA for providing coverage to lawfully residing immigrant children currently enrolled in Apple Health for Kids.

- **Washington is likely to gain an estimated \$2 billion dollars⁴** from October 2008 - December 2010 as a result of the Medicaid provisions in the American Recovery and Reinvestment Act from an increase in the amount the federal government pays for providing Medicaid coverage.
- **The CHIP reauthorization bill** includes provisions that create other possible opportunities for Washington to receive further financial support for its efforts to cover all kids through enrollment bonuses for enrolling more eligible children and outreach grants.

CHIP Reauthorization: A Sustained Partnership with the Federal Government

First and foremost, CHIP reauthorization provides Washington a reliable federal funding stream for maintaining and strengthening the CHIP-funded portion of Apple Health for Kids. The length of the reauthorization also assures Washington policymakers that program changes made in response to the bill's new incentives will continue to be supported for several years.

CHIP allocates a capped amount of federal dollars (known as an allotment) to states, which must be matched with state dollars for the purpose of covering children. After the required monthly family premium payment is made, for every dollar spent providing health coverage through CHIP, the federal government contributes 66 cents, and the remaining 34 cents is paid by the state.

The capped matching structure is maintained under CHIP reauthorization, but the formula that determines how much each state gets per year has been revised to provide greater support and to target dollars more effectively. The formula provides every state with new funds that can be used to reach a greater share of already-eligible children, improve benefits, and/or expand coverage.⁵

The Congressional Research Service estimates that Washington's 2009 allotment would be at least \$94 million under the bill signed by President Obama representing an approximately 18 percent increase over the FFY 08 year allotment.⁶ What is more notable is that under the old CHIP rules, Washington was able to use only \$40.6 million⁷ of its \$79.9 million⁸ dollar allotment due to restrictions that limited Washington from being able to access the higher CHIP match; the new CHIP rules now offer a significant opportunity for Washington to more fully utilize its allotment.

New Opportunities for Washington: CHIP Fix

Washington was one of eleven states that expanded Medicaid eligibility levels for children prior to enactment of the original CHIP legislation in 1997. Provisions in the original law prevented these states from receiving the enhanced federal match for the coverage costs of children already enrolled in Medicaid. This provision was included at the time in order to ensure that the new money available through CHIP was used to cover uninsured children, rather than for children already covered by Medicaid. However, this turned out to be a significant economic disadvantage for states that had led the way to advance children's coverage. Instead of being recognized for their efforts, these states received significantly less federal support for covering children at similar income levels as other states because of the lower federal match rate for Medicaid compared to CHIP.

In recent years, but only on a temporary basis, these states received federal approval to use up to 20 percent of their CHIP allotment to claim the higher CHIP match for children enrolled in Medicaid whose family income was between 150 percent and 200 percent FPL. This temporary provision allowed Washington to claim an additional \$17 million⁹ in CHIP funds in 2008, but the 20 percent cap limited

Washington's ability to receive the full amount of funding at the enhanced CHIP match for all of the children in this income group.

The new law includes three key differences in how states like Washington are treated including:

- The fix is permanent--it is no longer temporary;
- The 20 percent cap has been removed; and
- Washington can now claim the enhanced CHIP match for children starting at 133 percent FPL and up to 200 percent FPL (the state already receives this enhanced match for children between 200 and 300 percent FPL).

Based on these changes, it is expected that this new provision will allow Washington to access more than more than \$140 million of its allotment over the next two years.¹⁰

State Fiscal Year (SFY)	Amount
2009 ¹¹	\$28,148,493
2010	\$55,190,065
2011	\$58,162,322
Total	\$141,500,880

Unused Funds Result in Reduced Future Allotments

One important difference in how CHIP funds will be allocated under the new law is a new emphasis on targeting dollars in states that are successful in covering more eligible children. Beginning in 2011 and every two years after that, a state's actual use of CHIP funds will serve as the basis for its new allotment. For example, when allotments are recalculated in 2011, a state that used only \$10 million of a \$20 million allotment in the prior year will receive an allotment of \$10 million plus adjustments for inflation and population growth. This new feature is in place to effectively target CHIP dollars to states where they are being used.

This provision makes Washington's 2010-2011 budget decisions especially important, because what the state chooses to spend over the next two years will help determine how much federal support the state receives in the future to cover children. Washington has the opportunity to establish itself as an effective user of CHIP funding and thus retain its eligibility for strong federal support in the future. Failing to claim CHIP funds over the next two years, on the other hand, could lead to the funds being sent to other states.

Federal Match Newly Available to Cover Lawfully Residing Immigrant Children

Washington is one of nineteen states using state-only funds to provide Medicaid or CHIP-like coverage to lawfully residing immigrant children and pregnant women who have been in the country for less than five years.¹² As a result of CHIPRA, states have the option to claim federal match for covering these children and pregnant women in Medicaid and CHIP. Using state caseload and cost data, Washington is likely to receive at least an estimated \$10 million¹³ over the next two years to provide the full range of Apple Health benefits for children who currently receive a more limited set of services paid for solely with state dollars.

Enrollment Incentive Bonuses

CHIP reauthorization includes a number of tools to assist states in reaching eligible but unenrolled children, who make up as much as 70 percent of uninsured children nationally.¹⁴ One such tool is funding to help states with the coverage costs they incur if they succeed in significantly increasing their enrollment of already eligible children. CHIPRA provides for performance bonus payments when states substantially increase enrollment of low-income children in Medicaid. The bill sets aggressive goals for states—to earn a performance bonus; states must both adopt at least five out of eight enrollment and retention simplification measures and successfully enroll an increasing number of children in Medicaid each year.

Washington appears to meet at least four of the eight simplification provisions as required by CHIPRA, including 12-month continuous coverage, no asset test, no in-person interviews, and use of a joint application subject to the same verification process for both Medicaid and CHIP. The state also has implemented activities that may meet the administrative renewal requirement, but whether or not these activities qualify will be determined when guidance is issued by the federal Centers for Medicaid and Medicare Services.

The Medicaid enrollment targets are based on a state's enrollment in 2007, increased by a growth factor that changes over time and adjusted by any increase in child population. The growth factor was set so that the bonus is paid only for enrollment increases that are beyond national projected caseload growth, which, given the recession, is pegged at a fairly high rate. States that exceed the target enrollment will receive performance bonuses that are calculated as an enhanced federal match on average Medicaid expenditures for the number of children above the enrollment target.

The performance bonus serves two purposes—it gives states a financial incentive to streamline enrollment and retention processes and make other efforts to increase enrollment of the lowest income children who are eligible but not enrolled while also offering some additional protection to states that experience substantial enrollment growth due to the economic downturn.

Outreach and Enrollment Investments

Another provision of the bill focused on reaching eligible low-income children provides aid for outreach efforts. CHIP reauthorization allocates \$80 million over five years for outreach and enrollment grants. These grants will be available to states, local governments, and other organizations—such as safety net providers, community-based organizations, or schools—to conduct outreach campaigns. When awarded to states, the grants may not supplant current state outreach and enrollment funding. However, no matching funds are required regardless of whether the grantee is the state, a local government or a community-based organization. In distributing outreach funding, the Department of Health and Human Services is directed to give priority to geographic areas with high rates of uninsured, eligible children (including rural areas) and underserved racial and ethnic populations. The legislation also provides an enhanced CHIP and Medicaid matching of rate of 75 percent for translation and interpretation services used for outreach and enrollment and while accessing services for families for whom English is not the primary language.

Additional Sources of Federal Assistance

While not part of the CHIP legislation, Congress recently passed the American Recovery and Reinvestment Act, which provides states with \$87 billion in additional funding for providing Medicaid

coverage. Available to states in the form of an increase in the amount the federal government contributes for Medicaid, it is available from October 2008 through December 2010. As a result of this provision, Washington is estimated to receive an additional \$2 billion over this time period (\$540 million in SFY 09, \$1 billion in SFY 10 and \$520 million in SFY 11) to assist the state with the costs of continuing to provide health coverage through Medicaid. This amount is determined in a twofold manner that combines an across the board increase that all states receive with a targeted amount for Washington that is reflective of the economic situation in the state as measured by the unemployment rate.¹⁵

Conclusion

As a result of CHIP Reauthorization and the American Recovery and Reinvestment Act, Washington now has a stable source of federal funds to support its efforts to cover all kids and maintain the vital health care services it provides to its residents. These new resources come at a time when the budget pressures facing Washington are severe. They include:

- An increased CHIP allotment of \$94 million (\$14 million more than the previous allotment) for the first year of CHIP reauthorization FFY 2009;
- More than \$141 million of its allotment through the CHIP fix provision and \$10 million for covering lawfully residing immigrant children between April 2009 and July 2011;¹⁶ and
- An estimated \$2 billion through the Medicaid provisions of the economic recovery package between October 2008 and December 2010.¹⁷

Washington has been a leader with respect to its commitment to cover all children. With CHIP Reauthorization and the withdrawal of the August 17 Directive, the federal government has renewed its financial partnership with states in these efforts, giving Washington new tools and substantial new resources to fulfill the promise of covering all kids by 2010.

Endnotes

¹ C. Peterson, "Projections of FY2009 Federal SCHIP Allotments Under CHIPRA 2009," Congressional Research Service (January 15, 2009). Allotments under CHIPRA 2009 could be based on updated projections submitted in February 2009. As a result, Washington's actual allotment may differ from this estimate.

² Georgetown Center for Children and Families estimate. Source for Medicaid and SCHIP Match - Kaiser State Health Facts; Enrollment estimate and per capita rates: Email communication from Roger Gantz, Washington State Department of Health and Recovery Services Administration, January 22, 2009. The effective date for this provision is February 4, 2009 and the calculation is based on that effective date through June 30, 2011.

³ Georgetown Center for Children and Families estimate. Source for caseload data received via communication from Roger Gantz, Washington State Department of Health and Recovery Services Administration, January 22, 2009 and applying the enhanced FMAP that the state will receive for covering children through Medicaid as a result of the American Recovery and Reinvestment Act. The effective date for this provision is April 1, 2009 and the calculation is based on that effective date through June 30, 2011.

⁴ I. Lav, E. Park, Levitis J and Broaddus, M. "Recovery Act Provides Much Needed Targeted Medicaid Assistance to States." Center on Budget and Policy Priorities (February 2009).

⁵ Under CHIPRA, instead of relying on Census Bureau data, the formula is based on a state's actual use of and need for CHIP funds. In general, a state's allotment level for fiscal year 2009 is set at 110 percent of the greatest of the following three figures: 1) a state's fiscal year 2008 CHIP spending (adjusted for inflation and population growth); 2) its fiscal year 2008 allotment (adjusted for inflation and population growth); or 3) its February 2008 projected need for funds in fiscal year 2009. By including 10 percent more than a state likely needs to simply sustain its existing program, the formula provides every state with new funds that can be used to reach a greater share of already-eligible children, improve benefits, or expand coverage.

⁶ *op. cit.* (1).

⁷ C. Peterson, "What Happens to SCHIP After March 31, 2009," Congressional Research Service (December 19, 2008)

⁸ *op. cit.* (1).

⁹ Georgetown Center for Children and Families estimate.

¹⁰ *op. cit.* (2)

¹¹ Georgetown University Center for Children and Families estimate for state fiscal year 2009 is calculated using the former rules for the period October 2008 – February 3, 2009, with the new rules under CHIPRA being in effect February 4, 2009 – September 2009.

¹² Prior to 1996, states were given an option to cover these children and were able to obtain federal matching dollars for doing so. After this option was eliminated in 1996, some states dropped this coverage while Washington and others continued to provide health care to these children using state-only dollars.

¹³ *op.cit.*(3). It may be possible that this amount could be greater as there is some likelihood based on historical precedent in CHIP that Washington could receive the enhanced CHIP match for covering these children through Medicaid.

¹⁴ L. Dubay analysis of March 2005 Current Population Survey using July 2004 state eligibility rules.

¹⁵ *op. cit.* (4).

¹⁶ The effective date of the CHIP fix provision is from February 4, 2009 since that provision took effect on the date the bill was signed by President Obama while the effective date of the provision allowing states to claim federal match for covering lawfully present immigrant children is April 1, 2009.

¹⁷ *op.cit.*(4)

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