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SCHIP Debate Isn't About the Children: It's About Our Healthcare System's Future

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Executive Summary

Media coverage of the Congressional debate about reauthorizing the State Children's Health Insurance Program (SCHIP) has focused on the program's supposed beneficiaries: children from low-income families. Yet the debate about SCHIP has implications far beyond this one program. This debate is really about the future of America's healthcare system.

The Democratic Congressional Majority has offered legislation that would further expand the federal government's role in providing health insurance coverage to Americans. The federal role in the provision of healthcare has thus far been targeted to those (such as the poor and elderly) who would have the greatest challenges in our private system, in which most Americans obtain insurance through their employer. Democrats now seek to expand the pool of those who rely on government for health insurance to include children from middle-class families and some adults.

The President vetoed the initial legislation that was passed by Congress, and has called for a more modest increase in SCHIP funding. Yet Americans would be better served if policymakers used this opportunity to take a fresh look at our healthcare system and government's role in it. Government should not be in the business of providing health insurance coverage. Instead government should embrace policies that bolster the private marketplace, make insurance more affordable, and encourage our healthcare system to become more responsive to individual needs.

SCHIP expansion is another step toward a government take-over of the healthcare system. Policymakers need to move America in the opposite direction by reducing government's intrusion into the healthcare market and giving individuals greater ability to buy health insurance on their own.

Talking Points:

- The SCHIP debate isn't simply about a program that provides health insurance to children from moderate-income families: it's about the future of our healthcare system.
- Proposals from the Democratic Congressional Majority are costly and would crowd out private insurance, making more families—many of them from the middle-class—dependent on government for health insurance.
- Instead of expanding government-provided health insurance, policymakers should seek to bolster the private marketplace and make private health insurance more affordable for individuals.

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The SCHIP Program

The federal government has a program designed to make healthcare available to the poor: Medicaid. As of 2006, Medicaid was providing healthcare insurance to more than 60 million people at a cost of more than \$300 million.¹ Congress expanded government's role in the provision of healthcare in 1997 when it created SCHIP. SCHIP was meant to fund state efforts to provide health insurance to children from low-income families who did not qualify for Medicaid. While Congress created guidelines for SCHIP eligibility, states were given discretion over how to administer the program to reach these beneficiaries. Today, SCHIP provides benefits to more than six million children.²

The Democrats' Plan to Expand SCHIP

The current Democratic majority has sought to expand SCHIP to enable states to cover families at higher income levels and to increase funding for the program by as much as \$60 billion over five years³ (costs of the most recent legislation considered by the House of Representative are projected to be \$35 billion over five years⁴). These proposals would raise the income eligibility from 200 to 300 percent of the federal poverty line, and allow eligibility to climb even higher and include some adults.⁵ According to the *Wall Street Journal*, 300 percent of the poverty level is \$61,950 for a family of four while the median household income in the United States is \$48,201.⁶ Clearly, this program no longer targets those in need, but rather middle class American families.

Potential beneficiaries under this proposal include families who already have private health insurance. The Congressional Budget Office estimates that under this new law two million children would switch from private insurance to government insurance. The Heritage Foundation estimates that half of children who would obtain health insurance through SCHIP if eligibility is raised above 200 percent of the poverty line would have previously had private insurance.⁷

Encouraging people to switch from private insurance to government-provided insurance is not only inefficient, costing taxpayers additional money without reducing the number of uninsured, but it also can result in people receiving less quality care.⁸

SCHIP expansion would be paid for largely from a tax on cigarettes. Given that smokers tend to be disproportionately low-income (the Heritage Foundation estimates that roughly half of smokers come from families below 200 percent of the federal poverty line), this tax would be highly regressive and would burden the very families that SCHIP was intended to help.⁹ Increased taxes would also encourage more black market sales of cigarettes.¹⁰

A New Vision for America's Healthcare System

Most opposition to the Democratic plan has centered on the expanded programs costs, the use of regressive cigarette taxes for funding, and the increased crowding out of private insurance markets in favor of government insurance. The Bush Administration proposed a more modest increase in funding for SCHIP (\$5 billion over five years) to continue the existing program.

These are legitimate complaints about an expanded SCHIP program. Yet the real issue is the proper role of government in providing health insurance. Simply put, government should not be in the health insurance business. Policymakers should instead focus on how to bolster the market for private insurance, make it more affordable, and responsive to individual needs. Policies deserving consideration include:

- **Create a tax credit for children's health insurance:** Instead of encouraging families to participate in the government health insurance program, qualifying families with children could receive a refundable tax credit to purchase health insurance. This would give them the freedom to choose a plan that makes the most sense for their individual needs.
- **Reform the tax treatment of health insurance:** Currently our tax code is biased in favor of employer-provided health insurance and against those who purchase healthcare from the individual market. Congress should extend the tax treatment of employer-provided health insurance to individual health insurance. This would make individual insurance more affordable.
- **Enable individuals to purchase health insurance from any state:** State regulations can greatly raise the cost of health insurance. Instead of being limited to policies issued in their state, individuals should be able to purchase insurance from anywhere in the country.

Conclusion

Our healthcare system is in need of reform, but reform should center on improving the private health insurance market and giving individuals more options for insurance. Expanding SCHIP so that more people depend on government-provided health insurance is expensive, inefficient, and moves the United States in the wrong direction.

Carrie Lukas is the vice president for policy and economics at the Independent Women's Forum and author of [The Politically Incorrect Guide to Women, Sex, and Feminism](#).

For More Information from the Independent Women's Forum on Healthcare See:

Nina Owcharenko, "Five Ways to Improve Healthcare for Women," Independent Women's Forum Policy Paper, January 31, 2007. Available at: <http://www.iwf.org/publications/show/19592.html>

Endnote

¹ Michael F. Cannon, "Sinking SCHIP: A First Step towards Stopping the Growth of Government Health Programs," Cato Institute Briefing Papers No. 99, September 13, 2007, p. 2.

² Ibid.

³ Ibid.

⁴ Minority Leader John Boehner, Press Release, "Republican Leaders Unveil Principles for Bipartisan Reauthorization of SCHIP," October 3, 2007.

⁵ Nina Owcharenko, "The Revised SCHIP Bill: Still Bad Health Policy," Heritage Foundation Web Memo #1680.

⁶ *Wall Street Journal*, "The Children's Crusade," October 27, 2007; Page A8.

⁷ Nina Owcharenko, "The Revised SCHIP Bill: Still Bad Health Policy," Heritage Foundation Web Memo #1680.

⁸ John S. O'Shea, M.D., "SCHIP Will Not Improve Quality of Kids' Health Care," Heritage Foundation Web Memo #1687.

⁹ Michelle C. Bucci and William W. Beach, "22 Million New Smokers Needed: Funding SCHIP Expansion with a Tobacco Tax," Heritage Foundation Web Memo #1548, July 11, 2007.

¹⁰ Michael F. Cannon, p. 6.