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# IWF Policy Brief

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## **Expanding SCHIP Doesn't Fix Real Problems in U.S. Healthcare System**

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### **Executive Summary**

Proponents of expanding the State Children's Health Insurance Program (SCHIP) claim that it is necessary to make sure that every child in the country has health insurance and access to quality medical care. As Congresswoman Diana DeGette, one of the bill's sponsors, said, "The great majority of American people believe we should give kids health insurance."<sup>1</sup>

While, of course, everyone recognizes that children need healthcare and support the goal of all children having quality health insurance, the fundamental issue at stake in the debate over SCHIP expansion is government's role in our healthcare system. Indeed, a primary effect of this bill would be to greatly expand government's role in acting as a health insurance provider.

Thus far, the federal role in the provision of healthcare has focused on those (such as the poor and elderly) who have the greatest challenges in our private system, in which most Americans obtain insurance through their employer. The legislation recently passed by the House of Representatives (H.R. 2, "Children's Health Insurance Program Reauthorization Act of 2009," passed by a vote of 289-139) and similar legislation which will soon be considered by the Senate, would expand the pool of those who rely on government for health insurance to include children from middle-class families and some adults.

If policymakers want to make it easier for more Americans to obtain health insurance or to receive quality healthcare, then instead of just focusing on expanding the government run system, they should take a fresh

### **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.
- Current proposals to expand SCHIP 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.

look at our healthcare system as a whole and government's role in it. Instead of moving toward a single-payer system with government at healthcare's center, policymakers should pursue policies that bolster the private marketplace, make insurance more affordable, and encourage our healthcare system to become more responsive to individual needs.

## **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 billion.<sup>2</sup> In 1997, Congress expanded government's role in the provision of healthcare when it created the State Children's Health Insurance Program (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.<sup>3</sup>

## **Proposals to Expand SCHIP**

Current proposals to expand SCHIP have several flaws and unintended consequences.

*Expanded SCHIP Moves Program from Targeting Those with Low-Incomes to Making the Middleclass More Dependent on Government*

The legislation recently passed the House of Representatives would expand SCHIP by enabling states to cover families at higher income levels and by increasing the program's funding by an estimated \$33 billion over the next four and a half years.<sup>4</sup> The proposal would raise give states the latitude to provide coverage to families of four earning as much as \$80,000 per year.<sup>5</sup> As the *Wall Street Journal* notes, the median family in the U.S. earns \$50,233, which means that SCHIP would no longer be about government assistance for the poor, but would instead be the beginning of a new entitlement for the middleclass.<sup>6</sup>

Incentives provided to states for increasing enrollments may also encourage states to focus on expanding eligibility and enrollment among this higher income population, instead of focusing on enrolling the uninsured with lower incomes who are currently eligible, but have failed to participate in the program.

*Expanded SCHIP Would Crowd Out Private Insurance*

While supporters of expanded SCHIP highlight expected gains in the number of families with health insurance coverage, many of those who would move into an expanded SCHIP program would be those who currently have private insurance but give it up in order to take advantage of the publicly subsidized option. This dynamic led Hawaii, the first state to offer a universal child health insurance program, to scale back the program just seven months after it went "universal." According to news reports, state officials explained:

*...families were dropping private coverage so their children would be eligible for the subsidized plan. "People who were already able to afford health care began to stop paying for it so they could get it for free," said Dr. Kenny Fink, the administrator for Med-QUEST at the Department of Human Services. "I don't believe that was the intent of the program."<sup>7</sup>*

Indeed a similar dynamic would be the expected result of expanding SCHIP eligibility. The Heritage Foundation estimated 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.<sup>8</sup> 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.<sup>9</sup>

#### *Expanded SCHIP Would Be Funded By Regressive Cigarette Tax Increase*

To pay the costs of expanding SCHIP, the House of Representatives' legislation would increase the federal tax on cigarettes from 39 cents per pack to one dollar per pack (an increase of 156 percent).<sup>10</sup> 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.<sup>11</sup> As the Tax Foundation notes, "a cigarette tax increase hurts the poor more than virtually any other way of raising money." Increased taxes would also encourage more black market sales of cigarettes.<sup>12</sup>

### **A New Vision for America's Healthcare System**

Something should be done to help make health insurance more readily available and affordable for American families of all income levels. Yet increase government's role as America's defacto health insurance provider would take our healthcare system in the wrong direction. 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 healthcare system in the wrong direction.

## 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>

## Endnotes

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<sup>1</sup> Shailagh Murray and Ceci Connolly, “House Set to Pass Child Health Bill,” Washington Post, January 14, 2009, p. A15.

<sup>2</sup> 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.

<sup>3</sup> Ibid.

<sup>4</sup> Shailagh Murray and Ceci Connolly, “House Set to Pass Child Health Bill,” Washington Post, January 14, 2009, p. A15.

<sup>5</sup> “H.R. 2, “Children’s Health Insurance Program Reauthorization Act of 2009,” Statement of Republican Policy, January 14, 2009.

<sup>6</sup> “The Latest Entitlement,” The Wall Street Journal, January 21, 2009, available at: <http://online.wsj.com/article/SB123249769747600423.html#printMode>.

<sup>7</sup> Mark Niese, “Hawaii ending universal child health care,” Friday, October 17, 2008, Associated Press. Available at: <http://www.foxnews.com/wires/2008Oct17/0,4670,ChildHealthHawaii,00.html>.

<sup>8</sup> Nina Owcharenko, “The Revised SCHIP Bill: Still Bad Health Policy,” Heritage Foundation Web Memo #1680.

<sup>9</sup> John S. O’Shea, M.D., “SCHIP Will Not Improve Quality of Kids’ Health Care,” Heritage Foundation Web Memo #1687.

<sup>10</sup> Gerald Prante and Joseph Henchman, “Funding S-CHIP with Federal Cigarette Tax Increase Is Poor Tax Policy,” Tax Foundation Fiscal Fact No. 158, January 15, 2009.

<sup>11</sup> 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.

<sup>12</sup> Michael F. Cannon, p. 6.