



## Two More Years: What Does Continued CHIP Funding Mean for California?

On April 16, President Obama signed into law the Medicare Access and CHIP Reauthorization Act of 2015.<sup>1</sup> Although most attention in the media and health policy world has focused on the law's change of Medicare reimbursement methodology for physicians, the law also continues federal funding of the Children's Health Insurance Program (CHIP) for two additional years without any structural changes or rollbacks in CHIP or Medicaid.<sup>2,3</sup> The new law has significant benefits for California and the more than 1.6 million low- to moderate-income children and pregnant women who are enrolled in CHIP-funded coverage programs in the state, as well as hundreds of thousands of California children who remain uninsured.<sup>4</sup>

The law's principal benefits to California are the continued availability of federal CHIP funds to help pay for eight coverage programs for low- to moderate-income children and pregnant women, and a large increase in federal share of costs for these CHIP-funded programs. As a result, the state will gain more than \$1.1 billion in federal funds over the next two federal fiscal years (FFYs).<sup>5</sup> If CHIP funding had not been continued, California would have experienced a similar-sized reduction in federal funds and

might have faced the prospect of scaling back some of the programs that are dependent on this source of funding.

In addition, the law reauthorizes Express Lane Eligibility (ELE), a simplified eligibility determination process, through FFY 2017 and provides funds for outreach and enrollment (\$40 million) and quality improvement grants (\$30 million) for children's Medicaid and CHIP.

### Impact of Continued and Increased Federal Funding for CHIP

CHIP was created in 1997 as a federal-state program to provide affordable health insurance coverage for children in families whose incomes were too high to qualify for Medicaid but who nonetheless could not afford private insurance. States were given three options for use of these federal CHIP dollars:

1. Expand state Medicaid programs.
2. Create separate CHIP programs.

3. Do both — expand Medicaid for children in lower-income families and offer a separate program for children in higher-income families.<sup>6</sup>

In 2002, states were given the additional option of using federal CHIP funds to provide pregnancy-related services to women who were not eligible for Medicaid — the unborn child option. Subsequently, this option was expanded to provide comprehensive medical benefits for the mother and child during pregnancy and for 60 days postpartum.<sup>7</sup>

Today, California uses federal CHIP money to support eight coverage programs for children and pregnant women (see Table 1). Two are full-scope Medicaid programs (called Medi-Cal in California) for low- to moderate-income children. Six are separate CHIP programs: two for pregnant women not eligible for Medi-Cal, a related program for children under 2 with family incomes above the Medi-Cal eligibility level, and three county-based programs for children with family incomes above the Medi-Cal eligibility level.

CHIP-funded programs, including CHIP-funded Medicaid, are eligible for federal matching funds at a higher match rate than the rate for regular Medicaid. However, unlike Medicaid, which is an open-ended entitlement that does not require annual Congressional appropriations, CHIP is funded as a block grant for a specified period. When that period is over, CHIP funding must be renewed to continue federal support for the program at the higher CHIP match rate.

In 2010, the Affordable Care Act (ACA) extended federal CHIP funding until September 2015. At the

same time, the ACA also imposed a “maintenance of effort” (MOE) requirement on CHIP and Medicaid for children (including CHIP-funded Medicaid), meaning states must maintain the Medicaid and CHIP eligibility levels that were in place at the time of ACA enactment until September 2019. This mismatch in timing between funding and the MOE would have been very costly for CHIP-funded programs without an extension of CHIP funding. CHIP-funded Medicaid programs would have been bound by the

MOE requirement, but would have experienced a reduction in the federal share of their program costs from the higher CHIP rate to the regular Medicaid rate. Separate CHIP programs would have been released from the MOE, but would have received no federal funds when their CHIP funds ran out.

At present, the federal government pays 65% of the costs of California’s eight CHIP-funded programs (about \$1.4 billion annually). Under the new law,

**Table 1. California’s CHIP-Funded Programs**

**CHIP-Funded Medicaid Programs** (subject to the ACA MOE)

- ▶ **Full-scope Medi-Cal** for some children age 1-5 in families with incomes up to 142% of the federal poverty level (FPL), and for some children age 6-19 in families with incomes up to 133% FPL. This includes the CHIP-funded Medi-Cal expansion program launched in 1998 and the ACA-mandated expansion of Medicaid eligibility for children in 2014.
- ▶ **Optional Targeted Low-Income Children’s Program (OTLICP)** for children from birth to age 19 with family incomes too high to qualify for full-scope Medi-Cal but up to 266% FPL. This program is for children who would have been eligible for California’s Healthy Families Program before it was merged into Medi-Cal in 2013. It carries monthly premiums for families with incomes above 150% FPL of \$13 per child per month up to a maximum of \$39.

**Separate CHIP Programs** (not subject to the ACA MOE if CHIP not funded)

- ▶ **Medi-Cal Expansion Program for Pregnant Women** provides pregnancy-related services for pregnant women not eligible for full-scope Medi-Cal in families with incomes above 60% FPL up to 208% FPL, at no cost to families. Uses CHIP unborn child option to draw down federal match.
- ▶ **Medi-Cal Access Program for Pregnant Women** provides pregnancy-related services for women in families with incomes above 208% FPL up to 322% FPL with no cost sharing by participants. This program is for pregnant women who would formerly have been eligible for California’s CHIP-funded Access for Infants and Mothers. Enrollment costs are 1.5% of a family’s adjusted annual income after applying standard deductions.
- ▶ **Medi-Cal Access Infant-Linked Program** for children under 2 in families with incomes from 266% up to 322% FPL born to mothers enrolled in the Medi-Cal Access Program. Like OTLICP, this program carries monthly premiums of \$13 per child up to a maximum of \$39 for families with three or more children.
- ▶ **County programs** for children under age 19 in families with incomes from 266% up to 322% FPL. Participant costs, including premiums and copayments, vary by county.
  - ▶ San Francisco County
  - ▶ San Mateo County
  - ▶ Santa Clara County

Source: State of California Health and Human Services Agency, letter to Congressional committees with jurisdiction over CHIP, October 30, 2014: 12-20, [democrats.energycommerce.house.gov](https://democrats.energycommerce.house.gov).

however, the federal share of costs for California's CHIP-funded programs will increase to 88%, an increase over current funding levels of \$578 million a year in FFYs 2016 and 2017. If CHIP funding had not been extended, the federal share of cost for California's two Medicaid expansion CHIP-funded programs would have dropped from 65% to 50%, costing the state an estimated \$388 million a year. For California's six separate CHIP programs, the federal share of cost would have declined from 65% to 0%, a loss of approximately \$145 million annually. No longer subject to the ACA MOE, California would also have had the option of ending or scaling back its separate CHIP programs, which would have negatively impacted program participants, low-income children, and pregnant women.

## Express Lane Eligibility

The new law also extends authorization for ELE for children's coverage programs for two years through September 2017. ELE is a streamlined process to enroll children in Medicaid and CHIP based on verified eligibility criteria from other means-tested programs such as the federal Supplemental Nutrition Assistance Program (CalFresh in California). ELE was included in 2009's Children's Health Insurance Program Reauthorization Act (CHIPRA) to improve enrollment and retention of children in Medicaid and CHIP, but after several extensions, was set to expire in 2015.<sup>8</sup>

California pilot tested ELE from 2003 to 2006 using school lunch participation to facilitate enrollment of eligible children in Medi-Cal, but the state does not now have a child-specific ELE program.<sup>9</sup> California is, however, engaged in a project that uses an ELE-type

process to help streamline Medi-Cal enrollment for both newly eligible adults and for children based on their participation in CalFresh.<sup>10</sup> Since it operates under a waiver, this project is not directly impacted by the extension of ELE for children's coverage. However, the extension of authorization for ELE does open other opportunities for the state to consider ELE mechanisms to facilitate enrollment and retention of children in Medi-Cal.

## Grant Programs

The new law also continues two grant programs launched with the passage of CHIPRA in 2009. One is a competitive grant program (\$40 million total nationwide for two years) to support outreach and enrollment efforts for Medicaid and CHIP. Community-based organizations, health centers, school districts, tribal organizations, and other organizations in California used almost \$11.5 million in grants from three previous cycles of these Connecting Kids to Coverage grants to support a variety of outreach and enrollment activities throughout the state.<sup>11</sup>

CHIPRA also provided money to states for demonstration projects that identified and evaluated promising strategies to improve the quality of children's health care. While California did not participate in the first round of quality improvement grants, the state may have another opportunity to do so under the new law's allocations of \$10 million for demonstration projects aimed at reducing childhood obesity and \$20 million to strengthen pediatric health care quality measures.

## Opportunities and Challenges

Although the percentage of children in California who are uninsured has continued to decline in recent years to an estimated 7.4% in 2013, over 460,000 Medi-Cal eligible children remained uninsured in that same year.<sup>12</sup> The Medicare Access and CHIP Reauthorization Act of 2015 offers a strong platform to continue growing children's coverage in California over the next two years. Not only has federal funding been renewed for eight important California programs for low- and moderate-income children and pregnant women, but also the federal matching rate for these programs has been increased by 23 percentage points — reducing the state's share of cost for each enrollee to only 12%. The extension of ELE and the additional grant funding for outreach and enrollment, combined with the reduction in the state's share of cost for new enrollees, provide an environment conducive to further growth in enrollment.

The biggest challenge facing California is that the future of federal funding for the state's eight CHIP-funded programs is uncertain after September 2017. Nonetheless, the infusion of over a billion dollars over two years in new federal funds with no new strings attached offers an opportunity to invest in improving children's coverage programs.

In a recent letter to state legislative leaders, six advocacy groups offered suggestions for the use of the new funds:

- ▶ Improve access in Medi-Cal to providers in known areas of scarcity (dental, primary, and specialty care).
- ▶ Monitor children's access to care in Medi-Cal, and address newly identified shortage areas.
- ▶ Increase outreach and enrollment efforts for Medi-Cal particularly focused on children of color, who have lower enrollment rates than other groups.<sup>13</sup>

In addition, funds could be used to expand coverage to children in low- and moderate-income families who are not now eligible for Medi-Cal. It's up to California to make the most of these two years of funding to improve the lives of children.

### About the Author

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### About the Foundation

The California HealthCare Foundation (CHCF) is leading the way to better health care for all Californians, particularly those whose needs are not well served by the status quo. We work to ensure that people have access to the care they need, when they need it, at a price they can afford.

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## Endnotes

1. Jeff Mason, "Obama Signs Bill Fixing Medicare Doctors' Pay," Reuters, April 16, 2015, [www.reuters.com](http://www.reuters.com).
2. In 1997, Congress created a new Medicare funding formula called the Medicare Sustainable Growth Rate (SGR). Using Medicare spending in the 1990s as a baseline, the formula factored in overall economic growth to create the annual Medicare budget. The goal was to control Medicare spending by linking it to the rest of the economy's growth. As health care costs outpaced the economy, the formula restricted physician reimbursement levels and threatened patient access to necessary services.
3. "H.R.2 - Medicare Access and CHIP Reauthorization Act of 2015," 114th Congress (2015-2016), [www.congress.gov](http://www.congress.gov).
4. "Number of Children Ever Enrolled FY 2013: Table 3. CHIP Enrollment by State FY 2014," Medicaid and CHIP Payment and Access Commission, *Report to the Congress on Medicaid and CHIP*, March 2014.
5. State of California Health and Human Services Agency, letter to Congressional committees with jurisdiction over CHIP, October 30, 2014: 12-20 (PDF), [democrats.energycommerce.house.gov](http://democrats.energycommerce.house.gov).
6. Eugene Lewit, *The Potential Impact on Children and Families of Ending Federal Funding for CHIP in 2015*, First Focus, February 6, 2015, [www.firstfocus.org](http://www.firstfocus.org).
7. Since 1984, states have been required to cover citizen and certain "qualified non-citizen" pregnant women with incomes up to 133% FPL in Medicaid, with an option to expand this coverage to women with incomes up to 185% FPL. In 2002, the federal government provided another means for covering pregnant women through the unborn child option that allow states to use CHIP funds to provide pregnancy-related services for pregnant women regardless of their immigration status. California used this option to cover pregnant women not eligible for Medi-Cal. CHIP reauthorization legislation passed in 2009 allowed states to use CHIP funds to cover a more comprehensive set of services for pregnant women not eligible for Medicaid. California has taken advantage of this program too through the Medi-Cal Access Program.  
  
(Source: *Covering Pregnant Women: CHIPRA Offers a New Option*, Families USA, July 2010, [www.familiesusa.org](http://www.familiesusa.org)).
8. A generally favorable federally mandated evaluation of ELE, released in December 2013, found that ELE increased enrollment of eligible children and yielded administrative savings compared with standard processes, and that ELE had its greatest impact when used to renew enrollment rather than for new enrollment. (Source: Sheila Hoag et al., *CHIPRA Mandated Evaluation of Express Lane Eligibility: Final Findings*, Mathematica Policy Research [December 2013], [PDF] [www.mathematica-mpr.com](http://www.mathematica-mpr.com)).
9. Michael R. Cousineau, Eriko O. Wada, and Laura Hogan, "Enrolling in Medicaid through the National School Lunch Program: Outcome of a Pilot Project in California Schools," *Public Health Reports* 122, no. 4 (July-August 2007): 452-60, [www.ncbi.nlm.nih.gov](http://www.ncbi.nlm.nih.gov).
10. "Express Lane," California Department of Health Care Services, [www.dhcs.ca.gov](http://www.dhcs.ca.gov).
11. Calculations by author from data retrieved from Connecting Kids to Coverage Outreach and Enrollment Grants, July 2, 2013, [www.cms.gov](http://www.cms.gov) and CHIPRA Grants – Cycles 1 and 2, [medicaid.gov/chip](http://medicaid.gov/chip).
12. Calculations by author from data retrieved from Georgetown University Health Policy Institute, Center for Children and Families, *Health Insurance Coverage of Children, by State, 2013* (PDF), [ccf.georgetown.edu](http://ccf.georgetown.edu) and *Children Medicaid/CHIP Participations Rates by State FY 2008-2013* (PDF), [ccf.georgetown.edu](http://ccf.georgetown.edu).
13. California Children's Health Coverage Coalition (California Coverage and Care Health Initiatives, Children Now, United Ways of California, PICO California, The Children's Partnership, and Children's Defense Fund-California), letter to California Legislature RE: Reinvesting Children's Health Insurance Program Funds to Improve Medi-Cal for Children, April 8, 2015.