

Private Markets Better Than SCHIP Expansion

One important policy debate in Washington concerns the renewal and expansion of SCHIP, the State Children's Health Insurance Program. SCHIP is a program to insure children whose parents make too much to qualify for Medicaid but too little to afford private health insurance. Known in Kansas as Health Wave it has been a popular way for politicians to insure children throughout the country.

Recently Congress agreed to expand SCHIP with the House voting 224-205 to add \$50 billion to the program. The Senate, in a 68-41 vote, added \$30 billion. The price tag will be paid for by a 680 percent increase in the tobacco tax, a tax which impacts low income Americans more than anyone else. President George W. Bush is expected to veto SCHIP expansion, having only asked for \$5 billion in this year's budget request.

As of June 2006, according to the Kaiser Foundation, 37,361 children were enrolled in Health Wave in Kansas, a nine percent increase from 2005. The Health Wave program cost \$67 billion in 2006 and covered eligible applicants up to 200 percent of the federal poverty line (FPL), or \$33,200 income per year.

State employees even have the option of placing their children on Healthy Kids, at 250 FPL or about \$40,000 in annual income. This population hardly reflects the original intent of the program to serve families who would otherwise be slipping through the cracks. And yet, the Kansas Health Policy Authority would like to make this the target goal for Health Wave as a whole should some form of SCHIP expansion occur at the federal level.

The key problem with expanding SCHIP to cover more uninsured children is the economic impact of doing so. This impact primarily results from something called the crowd out factor, a common occurrence in such government managed insurance schemes. The Congressional Budget Office has determined that for every 100 SCHIP enrollees, 25-50 will have dropped private health coverage. That raises costs not only to taxpayers who have to pay more to insure those on government health care, but also increases the costs of private insurance since it removes so many individuals from the private insurance pool.

There is also the issue of government health care by stealth—first get as many children on Health Wave and the adults will follow. That seems as much as anything to be the driving force behind SCHIP expansion. A Heritage Foundation study published in July showed that SCHIP expansion would actually provide government assistance to families considered wealthy enough under the federal tax code to pay the Alternative Minimum Tax (AMT). Certain states like New York, have proposed extending SCHIP eligibility to 400 percent of the FPL (or around \$82,000 annual income). If that's not socialized health care, what is?

What if instead of expanding SCHIP, the parents of children already receiving Health Wave benefits get a grant from the state to purchase private health insurance? They could purchase a catastrophic policy and be responsible for their

own care. If they do not use the money it rolls over to the next year. This would reduce the government bureaucracy associated with such programs, provide individual responsibility for health care decisions, and energize the private health insurance market. No additional taxes or expansion of SCHIP would be necessary. Medicaid dollars could be used for those whom they were intended to help—the needy and poor who lack the resources to pay for private health insurance.

Remember, SCHIP was meant as a program to cover children in families with incomes too low to afford private coverage and too high to qualify for Medicaid. In Kansas the typical Health Wave beneficiary receives about \$1,970 per year. What if that money were given to subsidize private insurance coverage? The state would grant up to \$1,970 to pay for a catastrophic insurance policy. If the amount used exceeded that grant for a given year, the state would pay the difference up to the point when the catastrophic deductible kicked in, around \$4,000. Then the insurance company would pay for any amount over \$4,000. Children rarely use catastrophic coverage. That's a big part of what makes SCHIP expansion so attractive—it is relatively cheap.

So why not take advantage of the private insurance market?

Rather than undermining that market by foisting more government managed health care on the public, policymakers could instead take this opportunity to energize the private health care sector in Kansas. That would be the responsible policy and one which would save the state money for other necessary priorities. We would all pay less and receive better care in the end.

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