



## SB 841 BY AVERITT:

### CHIP “BUY-IN” PROGRAM FOR UNINSURED CHILDREN ABOVE 200 PERCENT FPL

More than half a million uninsured Texas children have incomes above the current limits for CHIP. In addition, children often fall off of the “CHIP cliff,” losing their CHIP coverage when their parents’ incomes increase by a small amount, even though those earnings are still too little to purchase private coverage. Texas families turn down raises and cut back work hours just to keep their children covered. Through a CHIP buy-in option, SB 841 by Averitt keeps families from having to choose between slightly more income or their children’s health care. **SB 841 has a first hearing today, April 2, in the Senate Finance Committee.** This Policy Page describes the bill, including important details of the expected Committee Substitute.

- **SB 841 would establish two new types of CHIP coverage available to uninsured Texas children above the current upper income limit of 200 percent of the federal poverty income limit (FPL).**
- **More than half a million uninsured children in Texas fall below this current limit.**
- **Nationwide, more than two-thirds of newly-uninsured children in 2006 were in families above 200 percent FPL**
- **SB 841 has a first hearing today, April 2, in the Senate Finance Committee.**

#### What SB 841 Would Do

SB 841 would establish two new types of CHIP coverage available to uninsured Texas children above the current upper income limit of 200 percent of the federal poverty income limit (FPL). For children in families from 200 to 300 percent of the FPL (\$44,150 to \$66,150 in pre-tax income for a family of four), SB 841 would allow families to buy coverage for their children with an affordable monthly premium that increases as their income increases. The income at which an asset test is applied would increase to 250 percent of poverty and the current six month income checks would be applied to children above 285 percent of poverty. Families above 300 percent FPL could purchase CHIP coverage at full cost; that is, that part of the program would have no cost to the state budget. This full-cost coverage option would target children who lack access to employer-sponsored group insurance through a parent’s job.

**Monthly premiums.** Federal CHIP law requires that the combined cost of monthly premiums plus co-payments to health care providers cannot exceed five percent of family income. For this bill, costs are expected to be estimated (for calculating the official fiscal note) based on a premium that would not exceed 2.5 percent of family income, to allow “room” for families to make co-payments without exceeding the federal limit. To illustrate, for children in a family of four just above 200 percent FPL, premiums set at 2.5 percent of income would be less than \$90 per month, and for the same-sized family just below 300 percent FPL the premium would be less than \$125 per month.

For families above 300 percent FPL, no federal cap would apply, and coverage would be available at the state's full cost, which is currently about \$148 per month per child (medical benefit \$88.21; dental \$16.19; vaccines \$1.54; medications \$24.41, and administration \$17.21).

Because collecting monthly premiums can cause headaches for both the program and the families, SB 841 provides optional monthly debits to bank accounts or credit cards.

**Discouraging "Crowd-Out".** Federal CHIP law prohibits enrolling an insured child in CHIP, and requires states to include policies designed to discourage employers and workers from dropping private coverage. For children in Texas' current CHIP program below 200 percent FPL, a child may not have had insurance in the last three months (exceptions are provided for children losing Medicaid due to income increases, or private insurance for involuntary reasons). For the new coverage from 200-300 percent FPL, SB 841 would impose a longer six-month waiting period. While access to private coverage is quite low for children below 200 percent FPL, at the somewhat higher incomes proposed families have greater likelihood of being offered employer health benefits, and a greater ability to afford that coverage.

The strongest crowd-out preventions apply to children in the full-cost buy-in above 300 percent FPL. The six-month waiting period would also apply to them, but the exceptions applicable for children below 300 percent FPL would not. These children will be subject to an additional requirement that employer-sponsored coverage not be available to them.

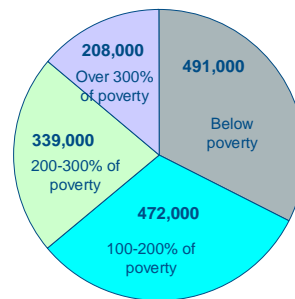
**Avoiding "Adverse Selection":** SB 841 includes several incentives to enroll children while they are healthy, instead of waiting until they get sick. Health insurance works best when pools are large and include a balance between low and high consumers of care. Policies included in SB 841 to reduce adverse selection include:

- Open enrollment periods (i.e., specific times of year when new applicants can join),

- Balancing cost-sharing between monthly premiums and co-payments to health providers,
- Keeping premiums as affordable as possible, so that they appeal to parents with healthy children, not just those anticipating high medical costs, and
- "Lock-out" policies that prevent parents from dropping coverage or stopping premiums when their children are healthy and re-enrolling when they have health care needs.

**Expected Enrollment Impact.** "Take-up" enrollment rates for insurance with monthly premiums is significantly lower than in programs with no premiums like children's Medicaid, or those with annual enrollment fees, like Texas' CHIP program for children below 200 percent FPL. The

**Uninsured Texas Children, 2007**  
Total: 1.53 million Children



Source: U.S. Census

CHIP coverage created by SB 841 is expected to attract modest but significant enrollment. The Legislative Budget Board's (LBB) fiscal note on the original filed version of SB 841 projected 29,368 average monthly children enrolled in 2010, growing to 79,081 in 2011. LBB will update this estimate soon to reflect changes made by the author in the Committee Substitute.

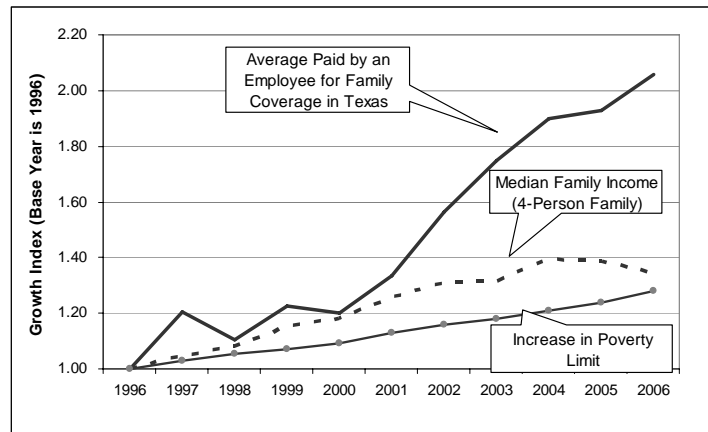
Enrollment at this level will clearly not reach all the uninsured Texas children above 200 percent of the FPL. In fact, nothing short of mandating that all children be insured will have that effect. Some parents of uninsured children above 200 percent FPL can afford to insure their

children, but not all of them will take that step as long as leaving children uninsured is a lawful option. If SB 841 becomes law, however, all Texas parents will have access to comprehensive coverage designed specifically for children, and families below 300 percent of the FPL are guaranteed that that coverage will not exceed five percent of the family income, significantly increasing financial security while requiring a reasonable family contribution.

**Other States.** Enrollment in other states' CHIP programs covering children above 200 percent FPL with comparable monthly premiums has been modest. Twenty-six (26) other states make affordable coverage available to children at or above 250 percent of FPL, and 18 of these cover children above 300 percent FPL. These programs employ various structures, the most common including sliding scale premiums, parental cost-sharing, and contracting with private insurers. States with similar-cost coverage to the SB 841 program have current enrollment of children between 200 percent and 300 percent of the FPL as follows: Pennsylvania 21,661; Wisconsin 7,540; Illinois 10,315; Washington 27,344; New Jersey 26,461; New Hampshire 8,331; and Missouri 21,892. Importantly, these states have much smaller child populations, far lower uninsured rates, and much higher access to employer-sponsored insurance (ESI; Texas has one of the lowest rates nationwide). Based on the take-up rates in these states and Texas' unique set of barriers to private coverage, CPPP believes that the enrollment projected by LBB is realistic, and that demand for children's coverage between 200 percent and 300 percent of the FPL may be even higher than projected.

**The Cost.** The official LBB fiscal note projects a state-dollar cost (GR) of \$32.6 million for the program in 2010 and 2011, with program costs reaching just more than \$24 million GR per year at full implementation (like

## Growth of Health Insurance Costs



Source: Georgetown University Center for Children and Families; Medical Expenditure Panel Survey Insurance Component Tables; U.S. Census Bureau; and U.S. Dept. of Health and Human Services.

enrollment estimates, this will be updated by LBB for the Committee Substitute). This contrasts with an overall annual state-dollar cost for Texas CHIP in 2008 of \$267 million. The significant family contribution through premiums and co-payments will reduce state costs by roughly 50 percent. The combination of modest enrollment (about 80,000, compared to traditional CHIP enrollment of 456,000 in March 2009) and the generous 72 percent federal CHIP match limit the additional costs to the state budget.

**The Need.** Nationwide, more than two-thirds of newly-uninsured children in 2006 were in families above 200 percent FPL, the current limit for Texas CHIP. Latest census reports for 2007 indicate that the number of uninsured Texas children from 200-300 percent of poverty is growing, while the number below 200 percent FPL is declining. From 1996-2006, the cost of family coverage in Texas increased 85.7 percent. Over the same time, our incomes increased just 8.6 percent. With premiums growing 10 times faster than incomes, coverage becomes less affordable for more and more Texans every year.<sup>1</sup> While parents of children below 200 percent FPL can turn to CHIP to deal with these trends, many Texas families just above that income limit lack affordable alternatives.

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Most of the estimated 547,000 uninsured Texas children in moderate-income families above the current 200 percent CHIP upper income limit lack access to coverage through an employer. A recent study found that only 8 percent of families with income between 200 percent and 400 percent FPL have declined an offer of employer-sponsored insurance, and another reported that about 80 percent of uninsured children between 200-300 percent FPL live in a family where their parent lacks access to an employer-based plan that covers children.<sup>2</sup>

SB 841 would make affordable comprehensive, child-appropriate coverage available to the one-third of Texas children with incomes above the current CHIP limit of 200 percent FPL. It will focus help on those families least able to shoulder the full cost of private coverage, protecting their financial survival while still requiring a significant family contribution. For families above 300 percent, it will ensure that children who lack access to employer group health insurance benefits can access a comprehensive health care program at a fair and predictable price. This bill, if enacted, will represent a key step toward making affordable health insurance available for every Texas child.

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<sup>1</sup> Source: Robert Wood Johnson Foundation, "At the Brink: Trends in America's Uninsured," March 2009, [http://covertheuninsured.org/files/u15/State\\_by\\_State\\_Analysis\\_2009.pdf](http://covertheuninsured.org/files/u15/State_by_State_Analysis_2009.pdf)

<sup>2</sup> Center on Budget and Policy Priorities, November 5, 2007, "Martinez Bill Would Weaken Children's Health Coverage Bill;" Lisa Clemans-Cope, Bowen Garrett, and Catherine Hoffman, "Changes in Employees' Health Insurance Coverage, 2001-2005," Kaiser Commission on Medicaid and the Uninsured, October 2006; Linda Blumberg and Genevieve Kenney, "Can a Child Health Insurance Tax Credit Serve as an Effective Substitute for SCHIP Expansion?," Urban Institute, October 2007.

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