EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

October 25, 2007
(House)

STATEMENT OF ADMINISTRATION POLICY

H.R. 3963 – Children's Health Insurance Program Reauthorization Act of 2007
(Rep. Dingell (D) MI)

The Administration strongly supports reauthorization of the State Children's Health Insurance Program (SCHIP) in a way that puts poor children first. However, H.R. 3963 continues to allow states to expand coverage without assuring that poor children have coverage first; continues to provide coverage for some adults through 2012; continues to allow the use of income disregards to increase eligibility levels; continues to move children from private health insurance to government programs; provides insufficient safeguards to assure that funds will not be spent on ineligible individuals; and, remarkably, actually costs more than the earlier bill, not withstanding supposed improvements in policy. Because H.R. 3963 has not addressed in a meaningful way the objections that caused the President to veto H.R. 976, the President will veto this legislation if it is presented to him without significant changes.

H.R. 3963 continues to include provisions that would move two million children from private health insurance to government programs. The new legislation does not prevent crowd-out; in fact, States with SCHIP income eligibility below 300 percent of poverty only have to submit a plan to the Secretary of Health and Human Services stating how they will address crowd-out below that income level. Only States with income eligibility above 300 of the poverty level face any sanction if they do not address crowd-out. In addition, this bill also retains the prohibition on the Centers for Medicare and Medicaid Services (CMS) enforcing its August 17, 2007 State Medicaid Directors letter addressing crowd-out.

H.R. 3963 would not provide stable funding for lower income children. The bill does not ensure that children who currently have health insurance coverage through SCHIP would continue to have access to health insurance in the future. The bill dramatically increases spending for five years, then cuts it by two-thirds, resulting in a dramatic drop in the number of insured children in 2013 and thereafter. In fact, according to the Congressional Budget Office, H.R. 3963 would enroll 400,000 fewer children in SCHIP in 2012 than were enrolled through H.R. 976.

H.R. 3963 fails to prioritize poor children. It repeals the CMS requirement that 95 percent of children below 200 percent of poverty be covered first before extending coverage to children from higher income families. Although proponents claim the legislation caps income eligibility at 300 percent of the poverty level, in fact, the legislation would not completely close the income disregard loophole. Under this loophole, States could still enroll children in families with incomes higher than $62,000 a year by ignoring part of the family's income.

H.R. 3963 misdirects funds from poor children to adults. The bill would allow childless adults to stay on SCHIP through September 30, 2009. Through creative use of waivers, States could keep parents on SCHIP through September 30, 2012. The priority of SCHIP must be poor, uninsured children. All adults should be moved off SCHIP when their State waivers come up for renewal or within one year, whichever comes sooner. In addition, H.R. 3963 does not provide sufficient safeguards to assure that funds will not be spent on ineligible individuals.

H.R. 3963 floods the system with excess, unnecessary funding. The bill has the effect of reducing States' financial responsibility by providing performance bonuses that can be used to lower the State match requirement. SCHIP has always been a Federal-State partnership—hence the reason for the 'S' in the title. The fiscal responsibility of providing children's health care should be shared. These bonus payments only serve to increase fraud and abuse by emphasizing enrollment at any cost as opposed to enrollment of *eligible* children.

H.R. 3963 also establishes a contingency fund. The contingency fund would address occasions when State estimates of spending exceed available funds. This provision is objectionable. When SCHIP was established, States were given capped allotments. It is a fundamental State responsibility to manage SCHIP responsibly and within allotted amounts of funding. Contingency funds are unwarranted, they transform the structure of this program into an entitlement, and they provide an incentive for states to overspend their allotments.

The bonus pools, contingency fund, earmarks, and excess state allocations (beyond even what States have requested) mean that the bill would be incredibly inefficient in reducing the number of poor uninsured children. The clear purpose and effect of these provisions is to flood the program with excess funding, so that eligibility can be increased even beyond the limits of this bill at a later date. The bill's drafters did not come up with a policy and then figure out how much it would cost. Rather, they came up with a revenue number; figured out how much money that raised; and then designed a policy to spend that much.

Finally, H.R. 3963 does all of this by raising taxes. Federal revenues are at an all-time high. The President's Budget offsets not only the new SCHIP spending included in the Budget but also proposed an additional $92 billion in mandatory savings over five years. These proposals represent more than enough to offset any additional spending in the context of H.R. 3963.

Additional objections to the legislation can be found in the Administration's SAP issued on July 30, 2007, August 1, 2007 and September 25, 2007.

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