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Opening Statement of U.S. Senator Chuck Grassley of Iowa
Ranking Member of the Committee on Finance
Hearing of the Subcommittee on Health Care
Wednesday, April 9, 2008

Thank you, Mr. Chairman. As you know, last year's effort on the reauthorization of the State Children's Health Insurance Program was a very difficult process, but it was a bipartisan process. Members from both sides of the aisle made compromises and we ended up with a bill that passed the Senate with 67 votes.

I'm surprised and disappointed that the first effort in the second half of the 110th Congress was to abandon that bipartisan approach. This is the first partisan hearing on a health issue during my tenure on the Senate Finance Committee. That is very disappointing. The Senate Finance Committee has a reputation for being a very functional and bipartisan committee. So I hope this will also be the last partisan hearing that we have.

That being said, I am certainly supportive of efforts to have Member's questions answered. I am hopeful that this hearing will result in Members getting answers to questions they have about the State Health Official Letter sent by the Center for Medicare and Medicaid Services (CMS) on August 17 of last year.

I don't have a fundamental disagreement with the goal of the August 17 directive. While I do have some questions about how the policy would work, I think the intent is laudable. Before a state can expand to cover kids with higher incomes, they have to cover their poor kids first. It makes absolutely no sense to me that a state that's not covering poorer kids should expand their programs to cover higher income kids.

States should be covering their lower income kids first. It's just common sense. And beyond just being common sense, we also know that coverage of higher income kids leads to what we call crowd-out for kids with private insurance.

Think about it for a second: if we don't require states to cover their low income kids first, a state can cover a higher income kid while lower income kids still go without coverage. And such a state would be devoting resources to finding and covering that higher income kid and then another higher income kid could lose private coverage to the crowd-out effect. And when tax dollars are spent to provide coverage to someone who was already covered, that doesn't make

any sense either. It is not an effective use of scarce federal dollars. Letting that continue makes no sense whatsoever.

I am pleased that this hearing includes witnesses who will testify on the underlying issue at the core of the August 17 directive. That is the issue of "crowd out." Crowd out occurs when families give up or do not take private health insurance in lieu of enrolling in public coverage.

As we learned from the excellent report from the Congressional Budget Office, crowd out is a particularly acute problem in SCHIP because crowd out occurs more frequently at higher income levels. The report also concludes that "in general, expanding the program to children in higher-income families is likely to generate more of an offsetting reduction in private coverage...than expanding the program to more children in low-income families."

CBO estimates that "the reduction in private coverage among children is between a quarter and a half of the increase in public coverage resulting from SCHIP. In other words, for every 100 children who enroll as a result of SCHIP, there is a corresponding reduction in private coverage of between 20 and 50 children."

This high incidence of crowd out is problematic for many reasons, it makes it more difficult for employers to offer health insurance coverage and it inappropriately uses tax payer dollars to fund coverage that could have been provided by an employer.

Concern over crowd out is not a new issue and it is certainly not a new subject of a directive letter from an Administration. I would like to put into the record, a "Dear State Health Official" letter sent out on February 13, 1998, during the Clinton Administration. I would like to read some excerpts from this letter.

The purpose of the letter is, and I quote, "To provide guidance on the standards the Department of Health and Human Services will use to evaluate State strategies to prevent this type of substitution of coverage."

The letter also states that, and quoting again from the 1998 letter, "The crowd out concerns increase at higher levels of poverty and the Department will be applying greater scrutiny in these cases." Still quoting, "After a reasonable period of time, the Department will review State's procedures to limit substitution. If this review shows that they have not adequately addressed substitution, the Department may require States to alter their plans." End quote.

Therefore, under the criteria established during the Clinton Administration, it is appropriate for issues of crowd out to be addressed by the Administration and states were put on notice that they could expect further efforts to address crowd-out, should current policies and procedures prove inadequate.

Mr. Chairman, I hope this will be a constructive and informative hearing. I hope that Members will not be drawn into a protracted discussion about what did or did not happen last

year during consideration of SCHIP. That would not be productive. I hope that Members will focus on moving forward in a positive bipartisan manner to cover eligible but uninsured children.