



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

JUL 31 2007

The Honorable Charles Grassley
Committee on Finance
U.S. Senate
Washington, DC 20510

Dear Senator Grassley:

Thank you for your letters to the President and myself urging that no further waivers for adult coverage under the State Children's Health Insurance Program (SCHIP) be granted or renewed. I appreciate knowing of your concerns; the Administration completely agrees with how important it is to clearly "return SCHIP to the original focus of covering low income children." I want to assure you that we are taking appropriate steps to meet this objective.

With regard to states that have waivers coming up for renewal, we are currently working with them to move their adult populations into Medicaid. In FY 2006, approximately 700,000 adults were served in SCHIP waivers, of which 500,000 were parents of Medicaid or SCHIP children and 200,000 were childless adults. As waivers have come up for renewal this year, we have moved adult populations out of SCHIP and into Medicaid. We anticipate that, by October 1 of this year, 296,000 of these parents and 86,500 childless adults - or 55 percent of all adults ever enrolled in SCHIP in 2006 - will be moved out of SCHIP. Moving adults out of SCHIP and into regular Medicaid will significantly lower the funds projected for SCHIP in FY 2008.

I am concerned that the reauthorization legislation reported by the Senate Finance Committee will reverse the progress we have made with states. The bill would allow states to keep their adults in SCHIP for a longer period of time than would be allowable under the Administration's approach. Under the Senate bill, there may still be approximately 600,000 adults in SCHIP in 2012 according to the Congressional Budget Office (CBO).

This is not, of course, a new issue to Congress as the model waiver was introduced in August 2001, a time when states had substantial reserves in their allotments. Under the terms and conditions of these waivers, serving an adult could never result in a child being denied coverage. States also agreed to take appropriate actions if they were to exhaust their SCHIP allotments, a situation states have now faced in recent years as SCHIP has matured and enrollment of children increased.

States such as Illinois, New Jersey, and Wisconsin have provided data to support the original rationale for these waivers -- that family coverage would increase enrollment of children and that more flexibility in public programs would allow for more effective coverage of low-income individuals. States led by Democratic and Republican governors alike wanted alternatives to traditional Medicaid. These waivers proved to provide valuable lessons to support Medicaid reforms such as benefit flexibility and appropriate cost sharing that Congress adopted under your leadership, Senator Grassley, in the Deficit Reduction Act of 2005 (DRA).

Because of the important reforms in the DRA, Medicaid is now a more viable option for states to use to serve parents who are low-income but in the workforce and we are directing states to that option rather than to SCHIP. We do not intend to approve any new waivers that cover adults under SCHIP or renew any waivers for adults.

Under your leadership, Congress has previously taken action on the issue of adults in SCHIP in the DRA and in the National Institutes of Health Reform Act of 2006. The Senate bill is a step back from that progress. As you acknowledge, Congress also continued to fund shortfalls in states that were attributed in part to adult coverage.

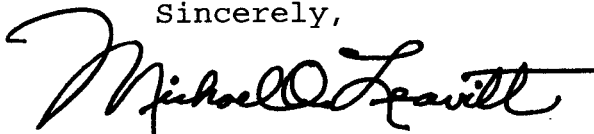
Another issue that has developed in the current debate is that states have been allowed to increase eligibility beyond the definition of a targeted low-income child. These expansions have been made through State Plan Amendments, not waivers. These expansions have been accomplished because the law gives states great flexibility to define income. Through income disregards, states effectively raise the income eligibility threshold. Under current regulations, we have no authority to disapprove amendments solely based on income disregards. We support closing this loophole.

I look forward to working with you on the important task of reauthorizing SCHIP as it was originally intended. This should receive broad bipartisan support as it did when SCHIP was created 10 years ago. It is urgent that Congress complete its work and send the President a bill he can sign before the program expires September 30, 2007. In fact, the President would sign reasonable legislation to reauthorize SCHIP today. The President's Budget included a proposed \$5 billion expansion of the program over five years, which translates into a 20 percent increase in funding above the baseline.

The Office of Management and Budget advises that there is no objection to the transmission of this letter as regards the program of the President.

Thank you for your leadership on this important issue.

Sincerely,

A handwritten signature in black ink, reading "Michael O. Leavitt". The signature is written in a cursive style with a large, sweeping initial "M".

Michael O. Leavitt