

LEGISLATIVE ALERT

BY THE COMMITTEE ON THE BUDGET, REPUBLICAN CAUCUS

B-71 Cannon House Office Building
Washington, DC 20515
Representative Paul Ryan, *Ranking Republican*

Phone: (202)-226-7270
Fax: (202)-226-7174
James T. Bates, *Republican Staff Director*

SCHIP REAUTHORIZATION ANOTHER STEP TOWARD GOVERNMENT-RUN HEALTH CARE (Amendment to H.R. 976)

25 September 2007

Like its House-passed predecessor, the House-Senate agreement on children's health insurance recklessly increases entitlement spending – by \$112 billion over 10 years – crowds out private insurance, and raises taxes. Under the guise of reauthorizing the State Children's Health Insurance Program [SCHIP], the Majority's plan in fact pushes both children and adults toward expanded government health coverage, thereby taking a major step toward socialized medicine.

The entitlement expansion comes less than a week after Senate Budget Committee Chairman Conrad proposed a bipartisan commission to study entitlement reform; and thus the SCHIP bill proves the Majority's hypocrisy on the subject. Moreover, an array of experts – including the Comptroller General and the Congressional Budget Office Director – have warned that health care spending and government health entitlements are the greatest threats to the Nation's economic and budgetary stability. Yet the Majority continues to throw money at the problem, expanding the government's role at the expense of patient-centered solutions.

The bill begs the question of whether Congress should commit taxpayers to an additional \$112 billion in Federal entitlement spending when *the unfunded liability of Medicare and Medicaid already is \$52 trillion over the next 75 years.*

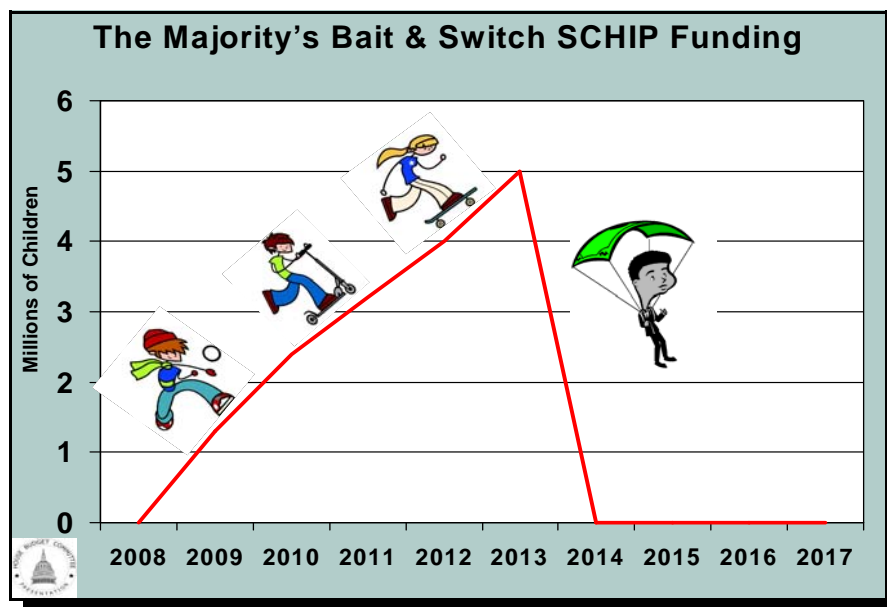
Here is how the Majority's plan hastens the insolvency of the Federal health care programs while achieving their long-term goal of bureaucratic government-run health care:

DISPLACING THE MARKET

- **Crowds Out Private Insurance.** Expanding SCHIP will increase the bias against private health insurance and toward government dependency, by encouraging more and more children *and adults* to obtain health coverage from the Federal Government. According to the Congressional Budget Office [CBO], this phenomenon already is occurring. Writes CBO: “[T]he increase in public coverage has been partially offset by a reduction in private coverage . . . some parents who otherwise would have enrolled their children in private coverage may prefer instead to switch their coverage to SCHIP.” CBO projects the Majority's plan will cover 600,000 new uninsured individuals, but also *will cause 2 million individuals to drop their private insurance and move to government coverage.*

RECKLESSLY SWELLING ENTITLEMENTS

- **Creates an SCHIP Funding Cliff to Hide \$41 Billion in Deficit Spending.** The Majority’s bill language is manipulated to hide the true cost of this massive entitlement expansion – by pushing enrollees over a precipitous funding “cliff.”
 - *The Bait-and-Switch.* It dramatically increases Federal funding to enroll new children in SCHIP for the next 5 years, and then – *six months into 2012* – it abruptly *cuts SCHIP funding by 72 percent, which is below current levels.*
 - *The Funding Amounts.* Specifically, the bill authorizes \$14.25 billion during the first 6 months of 2012; then slashes the amount to \$1.75 billion for the second 6 months of that year; and then assumes the lower level for the duration of the program. The likelihood of all this happening is, roughly, zero.
- **Misleads Either Taxpayers or Children.** This spending gimmick truly constitutes a reckless entitlement expansion, both fiscally and morally. It will lead to one or the other of the following outcomes:
 - *Option 1: Deceive Taxpayers About the Cost of the Plan.* The bill purposely misleads American taxpayers by “fudging” the actual 10-year cost of its entitlement expansion plan by \$41 billion. Without the gimmick, the true cost of the bill will likely be more than \$112 billion over 10 years.
 - *Option 2: Force 5 Million Children Off of SCHIP and Onto Medicaid – and Hike Medicaid Spending.* With its front-loaded spending, the bill draws millions of children into the SCHIP program – though many of them already have health insurance today. Then by cutting the funding in 2012, the Majority yanks the rug out from under these children, depriving them of any health coverage at all. States will respond by moving those children into Medicaid – adding to the \$42.3-billion Medicaid spending increase already contained in the bill.



-
- **Puts No Limit on SCHIP Eligibility.** The original intent of SCHIP was to cover children from families with incomes at or below 200 percent of the poverty level. The Majority not only abandons this principle and increases eligibility to 300 percent of poverty, it also *allows States to establish their own eligibility standards*. States may expand coverage for higher income beneficiaries by excluding certain family income from eligibility tests. *This will drive the bill's spending out of control, forcing taxpayers to finance the health care of individuals who previously had private coverage.*
 - **Uses Funds Intended for Children to Cover Adults.** Although SCHIP was intended to cover children, currently 13 percent of SCHIP funds go to cover *adults*. The Majority's plan phases out childless adults, but does not eliminate adults who are not pregnant from SCHIP coverage. In fact, the Majority allows States currently covering parents to continue enrolling additional parents. Further, the plan creates a new "Reduced Enhanced Matching Assistance Percentage," which continues payments to States currently covering adults above what is provided under Medicaid. This means that funds intended for children will still be diverted to cover adults.

MOCKING THE BUDGET, AND RAISING TAXES

- **Raises Taxes Dramatically.** The measure imposes a \$71-billion tax increase, raising the regressive tax on cigarettes by 61 cents per pack – once again proving Democrats are willing to punish the low-income families they claim to want to help. In addition, this revenue source is constantly declining, as fewer individuals take up smoking, and others quit. A higher tax on cigarettes will likely deter sales, casting doubt on whether the projected revenue will actually materialize. According to a study by the Heritage Foundation: "To produce the revenues that Congress needs to fund SCHIP expansion through such a tax would require 22.4 million new smokers by 2017."
- **Creates a PAYGO Problem to be Offset with More Gimmicks or a Massive Increase in Taxes.** The funding cliff cited above – which deliberately understates the bill's true cost by \$41 billion – also allows Democrats to evade their own pay-as-you-go [PAYGO] rule, in which they promised to "pay for" their entitlement expansions. Thus the Majority once again demonstrates its hypocrisy about "fiscal discipline."
- **Provides No Deficit Reduction.** The bill follows the Majority's longstanding fiscal practice of chasing higher spending with higher taxes – and makes no effort to reduce the deficit. It also does nothing to slow the currently unsustainable growth of health entitlement spending. Hence it will only feed even more rapid growth in health spending, both for the government and the private health care sector.