LEGISLATIVE ALERT

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SCHIP REAUTHORIZATION

THE DEMOCRATS' SCHIP AGENDA: A FISCAL AND HEALTH CARE TRAIN WRECK

(H.R. 3162)

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The Majority's misnamed and misguided Children's Health and Medicare Protection [CHAMP] Act actually creates *a new entitlement program* that will be available to large numbers of adults, eviscerates the Medicare coverage of more than 3 million seniors, and accelerates the bankruptcy of the Medicare Trust Fund. Under the guise of reauthorizing the State Children's Health Insurance Program [SCHIP], the measure massively increases entitlement spending, crowds out private insurance, raises taxes, and takes a major step toward socialized medicine.

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 consumer-oriented solutions. The bill begs the question of whether Congress should be spending an additional $325 billion in Federal dollars on entitlement programs when *the unfunded liability of Medicare and Medicaid is $52 trillion over the next 75 years.*

Here is how the Majority's CHAMP Act expedites the insolvency of the Federal health care programs while achieving their longtime goal of bureaucratic government-run health care:

DISPLACING THE PRIVATE MARKET

- ***Crowds Out Private Insurance.*** Expanding SCHIP will cause a substantial shift away from the private health insurance market, by encouraging more and more children (and adults) to obtain health care 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, *The State Children's Health Insurance Program*, May 2007) CBO estimates that H.R. 3162 *would shift some 2.4 million children who are currently in private health care plans to government-run health care.*

- ***Taxes Private Insurance Plans.*** The Majority's bill includes a stealth tax increase that will raise taxes on every American who carries private coverage – raising the cost of health insurance for everyone – and will drain money from the Medicare Trust Fund (already projected to reach bankruptcy in 2019). The bill creates a new mandatory Comparative Effectiveness Research Program, to be financed by the Medicare Trust Fund and a tax on private insurance policies. Consequently, many individuals would no longer be able to afford the resulting higher cost of private insurance, and would be forced into government-run (socialized) health care.

- ***Guts Medicare Advantage for at Least 3 Million Seniors.*** *One in five seniors would be subject to losing their current Medicare coverage under the Medicare Advantage [MA] Program – which allows seniors to choose from a group of private insurance plans.* As an incentive to private plans, MA coverage now provides, on average, $1,000 more per month in reimbursement rates than traditional Medicare. H.R. 3162 renames the MA Program as Medicare Part C, and reduces payments over 4 years to its private plans, until the reimbursement rate equals 100 percent of fee-for-service Medicare. This will discourage private plans from participating, and seniors will lose coverage. An independent research study estimates reducing the MA payment would cost nearly 3.2 million seniors their coverage, and MA enrollment would fall to zero in 24 States. (Atherly and Thorpe, "The Impact of Reductions in Medicare Advantage Funding on Beneficiaries," April 2007).

RECKLESSLY SWELLING ENTITLEMENTS

- ***Provides Automatic Funding, With No Sunset Date.*** Unlike Medicare, which is automatically funded every year with or without congressional approval (one reason Medicare spending is out of control), *SCHIP was designed as a limited block grant to States, not an entitlement.* Under current law, States receive a set amount of SCHIP funding each year. The Majority's bill provides for an escalating allotment that increases as each State expands coverage and increases enrollment *beyond the population for whom the original program was intended.* In addition, the bill contains no sunset date, as the original SCHIP legislation provided, meaning these mandatory spending increases will be automatically funded in the future.

- ***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 poverty. H.R. 3162 abandons this principle, and *allows States to establish their own eligibility standards.* States may expand coverage for increasingly wealthy beneficiaries if they choose – and because the funding allotment automatically increases, they would have every incentive to do so. This will clearly drive the bill's spending out of control, forcing taxpayers to finance the health care of individuals who previously had private coverage.

- ***Requires No Means-Testing.*** H.R. 3162 allows anyone to be eligible for free health care. The bill provides "bonus payments," or additional funding to States that do not subject individuals to asset-testing in determining SCHIP eligibility. For example, a family could hold assets in excess of $1 million (a house, a car, etc.), yet still qualify for SCHIP if their income level met their State's income requirements.

- ***Encourages States to Spend More.*** H.R. 3162 shortens the amount of time a state has to spend its annual SCHIP allotment – encouraging States to spend their money faster.

Under current law, States are given 3 years to spend each year's original allotment. The Majority's bill changes the period to 2 years, and establishes a process through which any unspent State funds would be evenly redistributed to any State with a shortfall in funding. This new statutory formula is essentially the same distribution process that results when Congress has appropriated additional SCHIP funding for shortfall States, thus further providing an incentive for States to spend their allotments quickly by offering additional services and benefits.

MOCKING THE BUDGET, AND RAISING TAXES

- ***Contains Bait-and-Switch Funding for States.*** The Majority's bill offers States expanded Federal money to enroll new children for the next 5 years, *then abruptly eliminates that funding completely*, leaving States without the resources to cover the newly enrolled children who have left private insurance plans. This gimmick leads to even higher spending in the future, and leaves children without *any* health insurance.

- ***Drains the Medicare Trust Fund.*** As noted above, the Majority's bill drains substantial funds from the Medicare Trust Fund: $300 million over the first 3 fiscal years, and up to $90 million each fiscal year thereafter. According to the Medicare Trustees, the Trust Fund already is projected to hit bankruptcy in 2019. The Majority's bill will expedite the process.

- ***Removes Spending Protections.*** The Medicare Modernization Act requires that Trustees issue a "Medicare funding warning" when general revenue funding (non-Trust Fund) is projected to account for 45 percent or more of total Medicare expenditures for any year. This year, the Trustee's report issued a second 45-percent funding warning, triggering proposed legislation. The Majority's bill repeals the 45-percent trigger in order, *thereby eliminating an opportunity to address Medicare's looming insolvency*.

- ***Employs a Gimmick to Hide Doc Fix Spending.*** The Majority's bill provides $19.3 billion over 5 years, and $65.3 billion over 10 years, to increase Medicare payments to physicians. It includes language, however, that artificially limits the provision's impact by scheduling *a 12-percent cut to physicians in both 2010 and 2011, and then freezing the cut in the outyears*. In short, the bill spends $65.3 billion over 10 years, while mandating significant cuts for physicians.

- ***Raises Taxes Dramatically.*** A major tax increase in the Majority's bill is the regressive cigarette tax, which will rise by 45 cents per pack – once again proving that Democrats are punishing the low-income families they claim to want to help. In addition, this revenue source is constantly declining, as fewer and fewer individuals begin to smoke. A higher tax on cigarettes will likely deter sales, leading some to question whether the offset will really 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 Majority's SCHIP plan provides a net increase in mandatory spending of

$27.5 billion over 5 years and $132.6 billion over 10 years (after counting the cuts to Medicare Advantage). The new spending is only partially offset by tax increases, totaling $28.9 billion over 5 years and $59.7 billion over 10. The resulting $72.9-billion 10-year deficit increase is subject to a pay-as-you-go [PAYGO] point of order under House rules – which the Majority is expected to address with more tax hikes or budget gimmicks.

- ***Provides No Deficit Reduction.*** The Majority's bill includes a variety of provider payment reductions and cost-saving provisions to pay for its increased entitlement spending. Some of these provisions were proposed as savers in the Republican budget substitute and many were also initially included in the Deficit Reduction Act 2005 in an effort to slow the growth in entitlement spending and reduce the deficit. The Democratic Caucus previously railed against such entitlement reforms; but now faced with the need to offset their massive new entitlement spending, they are considering cuts in Medicare. But reshuffling entitlement spending without real reform does nothing to address the long-term fiscal crisis of health care spending – especially when Congress may "give back" many of the Medicare reductions later. While the offsets could be temporary, the spending increases in H.R. 3162 are permanent.