

LEGISLATIVE ALERT

BY THE COMMITTEE ON THE BUDGET, REPUBLICAN CAUCUS

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

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

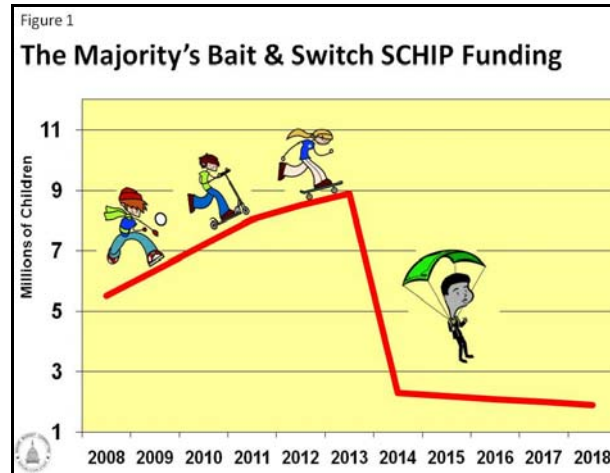
SCHIP REAUTHORIZATION WORSENING THE ENTITLEMENT CRISIS, HIDING THE TRUE COST (H.R. 2)

Updated
14 January 2009

The Majority's reauthorization of the State Children's Health Insurance Program [SCHIP], scheduled for the floor this week, recklessly increases entitlement spending by at least \$73.3 billion over 10 years; repeats a bait-and-switch funding gimmick that makes a mockery of the Majority's pay-as-you-go [PAYGO] rule; crowds out private insurance; and raises taxes.

Here is how the Majority's plan, H.R. 2, hastens the insolvency of Federal health care programs while expanding the government's role in medicine at the expense of patient-centered solutions.

- **Creates a New Entitlement, Worsening the Fiscal Crisis.** Under current law, each State receives a capped SCHIP allotment from the total annual appropriation, based on a statutory formula. While the Majority's bill extends these allotments for fiscal years 2009-13, it allows them to be based on "projected spending"; therefore, if a State exceeds its allotment, it can base funding on *projected* expenditures instead. Additionally, H.R. 2 creates a new Child Enrollment Contingency Fund for States that exhaust their allotments by expanding coverage. The bill also allows States to expand their Medicaid Programs by matching State expenditures on SCHIP at an increased Federal rate. The result is that SCHIP would grow at an average annual rate of 23.7 percent over the next 5 years.



Based on the Treasury Department's financial report, the government has \$56 trillion in unfunded liabilities, mostly in the Federal Government's health care programs. Each year Congress fails to act, that long-term problem grows by \$2 trillion to \$3 trillion. This unsustainable rate of spending will smother the U.S. economy and sacrifice the longstanding American legacy of leaving the next generation better off. While the magnitude of fiscal long-term impact of an SCHIP expansion remains unknown, it most certainly adds to the unfunded liabilities of the Federal health entitlement programs.

-
- **Hides Deficit Spending With an SCHIP Funding Cliff.** The Majority’s bill language is manipulated to hide the true cost of its entitlement expansion – by pushing enrollees over a precipitous funding “cliff” (see Figure 1 above).
 - *Cuts SCHIP Funding by 65 Percent in 2014.* The Majority’s bait-and-switch plan – repeated from H.R. 3963, the SCHIP reauthorization in the 110th Congress – dramatically increases Federal funding to enroll new children in SCHIP for the next 5 years, and then, in 2014, it abruptly *cuts SCHIP funding by 65 percent.*
 - *Budget Gimmicks.* Specifically, the bill authorizes \$14.4 billion during the first 6 months of 2013; then slashes the amount to \$3 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.* While this reduction would not actually take effect, it is used as a gimmick to generate unrealistic “savings” to give the illusion of complying with the Majority’s PAYGO rule.
 - **Misleads Either Taxpayers or Children.** This spending gimmick will lead to either one of the following outcomes:
 - *Option 1: Force 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 2014, 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, resulting in a \$22-billion expansion to Medicaid – a program in dire need of reform.
 - *Option 2: 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 with a funding cliff. If SCHIP enrollees are not forced off the SCHIP program in 2014, as is unlikely to happen, the true cost of the expansion would be much greater.
 - **Crowds Out Private Insurance.** Expanding SCHIP will increase the bias against private health insurance and toward government dependency, by encouraging more and more individuals to obtain health coverage from the Federal Government. According to the Congressional Budget Office [CBO], this phenomenon already is occurring. CBO projects the Majority’s plan will *cause 2.4 million individuals to drop their private insurance and move to government coverage.*
 - **Relies on an Unstable Tax-Increase Funding Source.** The new spending is partially offset by a tax increase of \$64 billion over 10 years, through a \$1-per-pack increase in cigarette and cigar taxes. It is important to note that the revenue estimate accompanying H.R. 2 indicates the increase in tobacco taxes raises approximately \$7 billion *less* than the same policy did just over a year ago (based on the Joint Committee on Taxation’s revenue estimate of H.R. 3963). Because fewer and fewer persons smoke, this revenue source is constantly declining; and because a new tax on cigarettes is likely to deter sales, the efficacy of the offset is questionable at best.

This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of individual committee members.