



Highlights of [GAO-09-252](#), a report to the Chairman, Committee on Finance, U.S. Senate

## Why GAO Did This Study

Congress created the State Children's Health Insurance Program (SCHIP) to reduce the number of uninsured children in low-income families that do not qualify for Medicaid. States have flexibility in structuring their SCHIP programs, and their income eligibility limits vary. Concerns have been raised that individuals might substitute SCHIP for private health insurance—known as crowd-out. GAO was asked to examine the Centers for Medicare & Medicaid Services' (CMS) and states' efforts to minimize crowd-out and determine whether it should be a concern. GAO examined (1) CMS's guidance to states for minimizing crowd-out and assessment of whether it should be a concern and (2) states' policies to minimize crowd-out and how they assess whether it should be a concern. To do the work, GAO reviewed federal laws and guidance, examined state annual reports, and interviewed CMS officials. GAO also interviewed SCHIP officials from nine states.

## What GAO Recommends

To improve information on whether crowd-out should be a concern in SCHIP, GAO recommends that the Acting Administrator of CMS ensure that states (1) collect and report consistent information on the extent to which SCHIP applicants have private insurance available to them and (2) take appropriate steps to determine whether available private health insurance is affordable for SCHIP applicants.

To view the full product, including the scope and methodology, click on [GAO-09-252](#). For more information, contact James C. Cosgrove at (202) 512-7114 or [cosgrovej@gao.gov](mailto:cosgrovej@gao.gov).

# STATE CHILDREN'S HEALTH INSURANCE PROGRAM

## CMS Should Improve Efforts to Assess whether SCHIP Is Substituting for Private Insurance

### What GAO Found

CMS provided guidance to states about activities to minimize crowd-out in SCHIP, and the information it collected was of limited use in assessing the extent to which crowd-out should be a concern. Along with this guidance, CMS instituted specific requirements for certain program designs it identified as being at greater risk of crowd-out, including programs with higher income eligibility thresholds. CMS said that among other sources, it used states' SCHIP annual reports to assess the occurrence of crowd-out, and on this basis it believed that crowd-out was occurring. Yet each of the approaches CMS used was limited in providing information about the occurrence of crowd-out and thus the extent to which it should be a concern. CMS did not collect certain indicators of the potential for crowd-out in SCHIP annual reports, such as the extent to which private health insurance was available and affordable to families. States' responses to CMS were inconsistent: GAO's review of annual reports for 2007 found that less than half of the 50 states and the District of Columbia provided a percentage in response to CMS's question on the percentage of applicants who dropped private health insurance to enroll in SCHIP.

In general, states implemented similar types of policies in their activities to minimize crowd-out, but not all states collected information adequate to assess whether crowd-out should be a concern. The majority of states used policies such as waiting periods—a required period of uninsurance before an applicant can enroll in SCHIP—to try to reduce incentives for dropping private health insurance. All 39 states with waiting periods offered exemptions for involuntary loss of private health insurance. These exemptions were mostly related to whether insurance was available rather than affordable. Not all states collected information that was adequate to assess whether crowd-out should be a concern. For example, while all 50 states and the District of Columbia asked SCHIP applicants if they were currently insured, 24 states asked applicants if they had access to private health insurance, which is important to understanding the potential for crowd-out. Of the 9 states we interviewed, 5 states measured the occurrence of crowd-out, but they all used different methodologies to develop their estimates; the remaining 4 states did not measure crowd-out. None of the officials in the 9 states viewed crowd-out as a concern, with most basing this assessment on a variety of factors, including the lack of available and affordable private health insurance for the SCHIP population in their state.

Overall, CMS concurred with the report's findings and recommendation, but raised concerns regarding the difficulty of measuring crowd-out, particularly assessing the affordability of private coverage. While GAO agrees that measuring crowd-out is complicated, the actions GAO recommends are an essential first step to better assessing whether concerns about crowd-out are warranted.