

# MAC Basics

Medicaid and CHIP Program Basics

September 2011

## Federal CHIP Financing

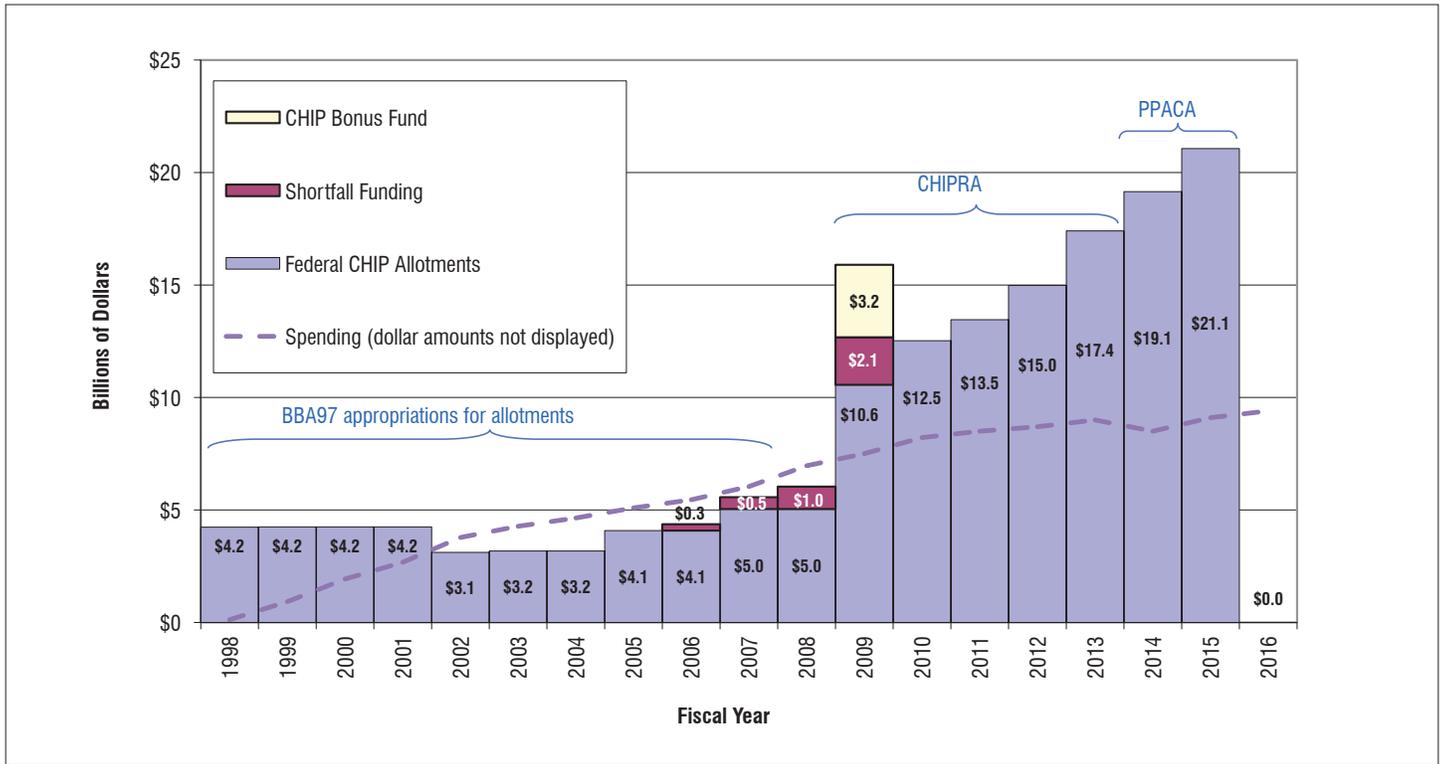
The State Children's Health Insurance Program (CHIP) pays for the health insurance coverage of targeted low-income children whose family income is above the state's Medicaid eligibility levels in 1997, when CHIP was created.<sup>1</sup> States operate their CHIP programs as a CHIP-funded expansion of Medicaid, a CHIP program separate from Medicaid, or a combination of both approaches. In FY 2010, CHIP financed the health coverage of 7.7 million children and nearly 350,000 adults.<sup>2</sup>

Federal CHIP funding provided to states differs from federal Medicaid funding in several ways:

- Federal CHIP allotments to states, which are based on a formula using the state's previous CHIP spending, are capped; states can exhaust their federal CHIP funding, unlike typical federal Medicaid funding.
- Under current law, there are no appropriations for new federal CHIP allotments after FY 2015; federal Medicaid funding is provided automatically.
- The federal matching rate—that is, the percentage of spending paid for by the federal government—is higher for states' CHIP spending than under Medicaid; although the amounts vary by state, the federal government pays for 70 percent of CHIP spending, on average, compared to 57 percent historically under Medicaid.

Other policy changes, including the implementation of Patient Protection and Affordable Care Act (P.L. 111-148, as amended), are scheduled to take effect under current law and could affect federal CHIP financing. This MACBasic describes CHIP's current financing structure and examines its future under current law. For a broad overview of the CHIP program, its history, and descriptions of individuals' eligibility for CHIP, see Chapter 3 of MACPAC's March 2011 *Report to the Congress on Medicaid and CHIP*.

**Figure 1.** Federal CHIP Appropriations, FY 1998-2016



**Notes:** The figure shows amounts explicitly appropriated in statute. Redistributed amounts are not shown as separate appropriations because they come from allotments (shown in the figure) that were appropriated but unspent. Federal CHIP spending is from all sources (allotments, redistributed funds, shortfall funding, bonus payments). For FY 2002-5, the line in the figure shows spending nationally exceeding the annual allotment appropriations but no shortfall funding; shortfall appropriations were not needed during this time because states also drew from their unspent prior-year balances and redistribution funds. For FY 2006-8, shortfall funding represents the amounts appropriated in separate bills to eliminate projected shortfalls in those years; for FY 2009, shortfall funding is the initial appropriated amount for the CHIP contingency fund created by CHIPRA.

BBA 97=Balanced Budget Act of 1997 (PL. 105-33); CHIPRA=Children’s Health Insurance Program Reauthorization Act of 2009 (PL. 111-3); PPACA=Patient Protection and Affordable Care Act (PL. 111-148).

**Source:** Appropriated amounts are from MACPAC analyses of §§2104 and 2105 of the Social Security Act and §108 of CHIPRA, as amended by §10203(d)(2)(F) of PPACA. Actual federal CHIP spending (FY 1998-2010) is from Centers for Medicare & Medicaid Services (CMS) expenditure reports; projected federal CHIP spending (FY 2011-2016) is from Congressional Budget Office (CBO), “Spending and Enrollment Detail for CBO’s March 2011 Baseline: Children’s Health Insurance Program (CHIP),” March 18, 2011, <http://www.cbo.gov/budget/factsheets/2011b/Chip.pdf>.

## Current Federal CHIP Financing

The enhanced federal medical assistance percentage (E-FMAP) is the federal matching rate for states’ CHIP benefit spending as well as their CHIP administrative spending. The E-FMAP currently ranges from its statutory minimum of 65 percent in several states to 82 percent in Mississippi. States are responsible for the remaining non-federal share. The CHIP E-FMAP requires states to pay a 30 percent smaller share of

spending than under Medicaid’s regular FMAP, which currently ranges from 50 percent in several states to 75 percent in Mississippi.

Figure 1 shows the history of federal CHIP appropriations, broken into three funding categories: federal CHIP allotments, shortfall funds and the CHIP bonus fund.

### 1. Federal CHIP allotments.

are states' primary source of federal CHIP funding. The national appropriation amounts for allotments and the way in which those amounts were allotted to states have varied, depending on their legislative source:

- The Balanced Budget Act of 1997 (BBA 97, P.L. 105-33), which created CHIP and provided 10 years of federal CHIP appropriations;<sup>3</sup>
- The Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA, P.L. 111-3), which provided five additional years (FY 2009-13) of federal CHIP appropriations and overhauled CHIP's allotment formula; and
- The Patient Protection and Affordable Care Act (PPACA, P.L. 111-148), which provided an additional two years (FY 2014-5) of federal CHIP appropriations for allotments, using CHIPRA's allotment formula.

**2. Shortfall funding.** Toward the end of CHIP's first decade, some states began to exhaust all their available federal CHIP funds. Redistributions of other states' unspent allotments reduced or eliminated some of these shortfalls. For FY 2006 – 2008, Congress separately appropriated funds to eliminate remaining shortfalls. Beginning in FY 2009, CHIPRA appropriated money for a new CHIP contingency fund dedicated to automatically provide funding to qualifying states with federal CHIP shortfalls, in addition to available redistribution funds.

**3. CHIP bonus fund.** CHIPRA also appropriated funds for another new source of federal CHIP payments: CHIP bonus payments to states that implement certain outreach efforts and that have significant increases in child Medicaid enrollment.

The following section describes the current-law structure of these three categories of federal CHIP appropriations. Because all three funding categories have been appropriated significantly more funds than

are projected to be spent, this section concludes with a discussion of the treatment of budget authority and outlays.

## Federal CHIP Allotments

### *Federal appropriations for allotments*

The national CHIP appropriation amounts, shown in Figure 1, set the overall ceiling on annual federal CHIP allotments to the states, the District of Columbia, and the territories.<sup>4</sup> Since FY 2009, state-level amounts have been allotted according to the allotment formulas described below—as long as the annual appropriation is large enough, which it has been.<sup>5</sup> For FY 2011, the national appropriation for federal CHIP allotments was \$13.459 billion. Of the \$13.459 billion appropriated for FY 2011 federal CHIP allotments, \$8.479 billion was actually allotted to states and territories based on the formulas.<sup>6</sup> The difference in the two amounts—the unobligated amount of approximately \$5 billion—was made available to the bonus fund. Figure 2 illustrates how, for FY 2011, the various appropriations in CHIP are allotted, transferred to other funds, rolled over from one year to another, and/or redistributed.

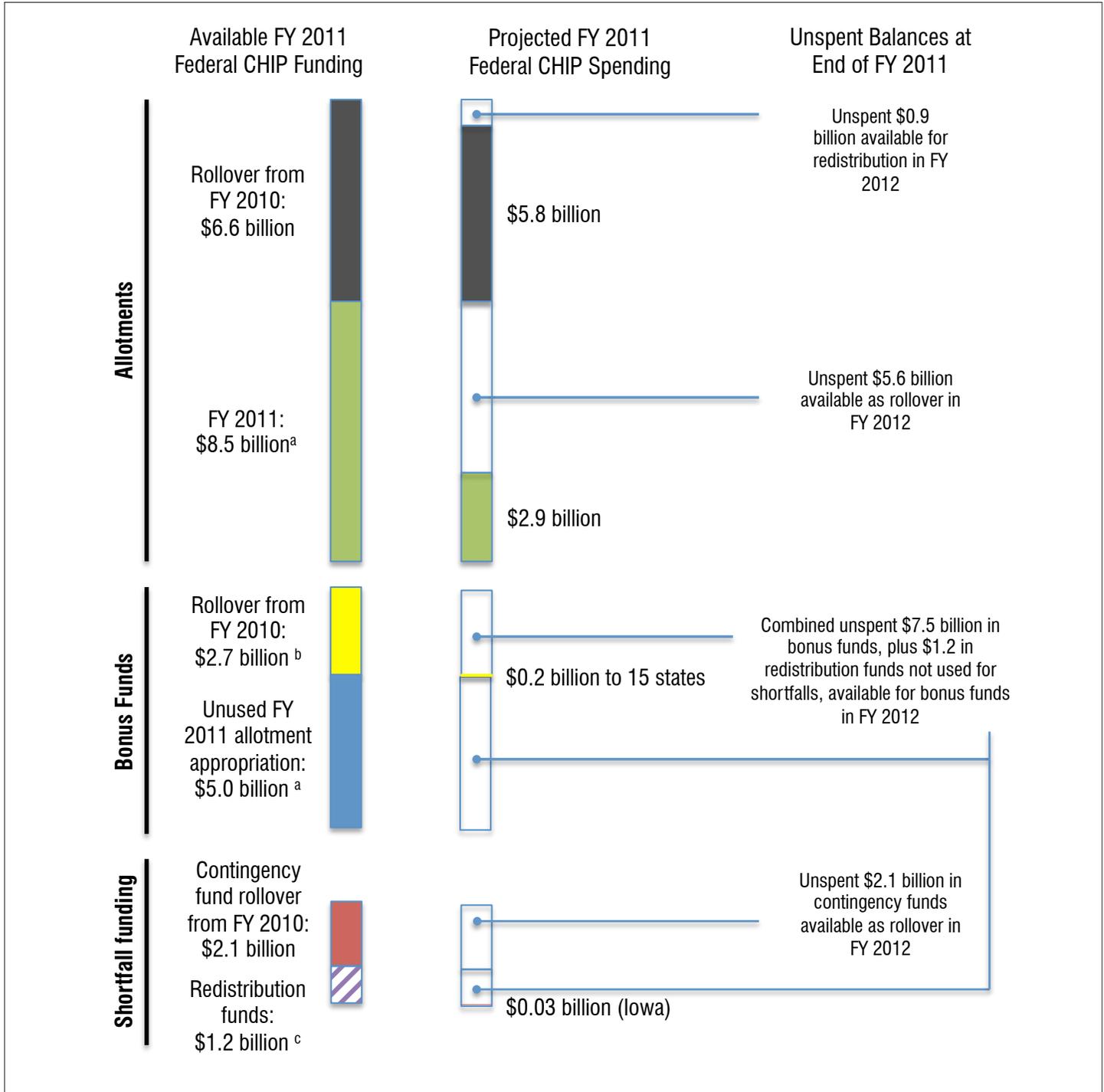
### *Allotment formula*

For even-numbered years (FY 2010, FY 2012, and FY 2014), allotments are calculated as last year's allotment and any shortfall payments (e.g., contingency funds), increased by a state-specific growth factor.<sup>7</sup> For these years, a state can also have its allotment increased to reflect a CHIP eligibility or benefits expansion. For odd-numbered years (FY 2011, FY 2013, and FY 2015), the allotments are rebased, based on last year's federal CHIP spending in each state or territory, including from contingency funds, plus its growth factor.

### *Redistribution of unspent allotments*

States have two years to spend their allotments. Since FY 2009, allotments not spent within two years may be redistributed to states that, even after taking into account any contingency fund payments, are projected to experience shortfalls. Since FY 2009, no state has received such redistribution funds. If not redistributed

**Figure 2.** Snapshot of FY 2011 Federal CHIP Financing



a. For FY 2011, \$13.5 billion was appropriated for allotments. Of that total, \$8.5 billion was allotted to states; the remaining \$5.0 billion was transferred to the bonus fund.

b. From unspent balances of initial bonus fund appropriation, allotment appropriations not allotted, and redistribution funds not used for shortfalls, reduced by \$3.5 billion per §1859 of PL. 112-10.

c. In FY 2011, unspent balances from two years' of federal CHIP allotments became available for redistribution—the FY 2008 allotment, which was available to states for three years, and the FY 2009 allotment, available for two years.

Source: MACPAC analysis of Medicaid and CHIP Budget and Expenditure System as of August 4, 2011.

for shortfalls, unspent allotments are made available for bonus payments.

### **Shortfall Funding (Contingency and Redistribution Funds)**

CHIPRA provided larger total CHIP appropriations, compared to prior years (Figure 1), and overhauled the allotment formula to better align with states' actual use of federal CHIP funds. In the event shortfalls still might occur, CHIPRA also created a child enrollment contingency fund, which was appropriated \$2.112 billion in FY 2009. After receiving contingency funds, which are calculated based on a complex formula described below, a state may then have any remaining shortfalls addressed by the redistribution of other states' unspent CHIP allotments. Considering the current CHIP appropriations, allotment formula, contingency funding, and redistributions, any shortfalls of federal CHIP funds that states actually experience in the near term are expected to be small and rare.

Chapter 3 of the March 2011 MACPAC Report to the Congress described several ways in which the new contingency fund addresses shortfalls differently than prior to CHIPRA:

- Unlike prior shortfall appropriations, the amount of federal contingency funds provided to a state is not the amount of its shortfall. As described below, the contingency fund formula does not factor in the size of the state's shortfall. The contingency fund formula is designed to make payments based on a state's growth in CHIP enrollment and per capita spending since FY 2008, so the contingency fund payment may be significantly smaller or larger than the amount necessary to eliminate a state's shortfall.
- Unlike previous shortfall appropriations, contingency funds require no state matching funds. Instead, federal contingency funds are designed to offset CHIP spending by the state for which it had no federal CHIP matching funds.

- While the redistribution of states' unspent allotments had historically been used to reduce or eliminate any need for separate federal shortfall funding, contingency funding is provided before taking into account any amounts available through redistribution. This modification was likely intended to first target funding to shortfall states with higher enrollment growth and/or lower per capita spending growth.
- In addition, not all shortfall states will necessarily qualify for contingency funds. As described below, receipt of contingency funds is tied to having certain levels of CHIP enrollment growth.
- No state received contingency funds in FY 2009 or FY 2010. In FY 2011, Iowa became the first state to receive contingency funds. Iowa's projected FY 2011 federal CHIP spending (\$82.3 million) was projected to exceed its available funding (\$78.5 million) by approximately \$3.8 million. Because the state was projected to face a shortfall (\$3.8 million), the Centers for Medicare and Medicaid Services (CMS) put Iowa's projected FY 2011 enrollment and per capita spending numbers through the statutory contingency fund formula, which multiplies:
  - CHIP child enrollment growth (that is, the number of children enrolled in CHIP in FY 2011 above a target amount),<sup>8</sup> by
  - the federal share of the state's per capita CHIP expenditures in FY 2011 for those children.<sup>9</sup>

Based on the formula, Iowa qualified for and received a federal contingency fund payment of \$28.9 million, which may be adjusted when the actual FY 2011 enrollment and expenditure numbers become available.

Using states' own projections of FY 2012 CHIP spending, a preliminary analysis by MACPAC found that a handful of other states may also qualify for contingency fund payments in FY 2012. Whether the contingency fund payments in FY 2012 would be larger or smaller than these states' projected shortfalls was not assessed.

Another \$1.2 billion was available for shortfall funding in FY 2011 from the redistribution of states' unspent FY 2008 and FY 2009 allotments. Because Iowa was the only shortfall state in FY 2011, and its shortfall was eliminated by contingency fund payments, no amounts were redistributed in FY 2011. The unspent \$1.2 billion in redistribution funds will be transferred to the CHIP bonus fund for FY 2012.

### **CHIP Bonus Fund**

For FY 2009, \$3.225 billion was appropriated for CHIP bonus payments. Although these payments are from CHIP appropriations, they are only available to states that (1) increase Medicaid (not CHIP) child enrollment by significant amounts and (2) implement five out of eight specific outreach and retention efforts.<sup>10</sup>

In addition to the initial FY 2009 appropriation, bonus fund balances are also increased by unspent national allotment and redistribution amounts. Combined, unspent national allotment and redistribution amounts have been substantial, while actual payments from the bonus fund have been comparatively small. In FY 2009, 10 states received less than \$0.1 billion in bonus payments; in FY 2010, 15 states received \$0.2 billion in bonus payments.<sup>11</sup> In the law to fund the federal government through FY 2011, a provision was included to reduce the balance of the CHIP bonus fund by \$3.5 billion (§1859 of P.L. 112-10). After accounting for this reduction, the balance of unspent bonus funds available at the end of FY 2011 is projected to be \$7.5 billion.<sup>12</sup>

Under current law, FY 2013 is the final year for bonus payments. FY 2013 bonus payments are projected to total \$0.1 billion, with a bonus fund balance of approximately \$24.3 billion at year's end. Although bonus payments cannot occur after FY 2013, unobligated allotments would continue to be transferred to the fund such that the balance of bonus funds at the end of FY 2015 is projected to approach \$50 billion.<sup>13</sup>

### **Treatment of Budget Authority and Outlays**

Several billion dollars of balances exist in unused bonus funds and contingency funds. For federal budget and accounting purposes, these balances are considered unused budget authority. The U.S. Department of Health and Human Services (HHS) is authorized to spend these amounts in accordance with the federal CHIP statute, but those balances have not actually been spent, or outlaid. As described above, the actual spending, or outlays, from these funds has been very small in comparison to the available amounts.

For most legislative purposes, "costs" and "savings" are calculated on the basis of projected changes in outlays, not budget authority.<sup>14</sup> As a result, eliminating the bonus and/or contingency funds would not produce significant savings given their relatively small amount of projected outlays, notwithstanding their balances of unused budget authority.

## **Future of CHIP Financing**

### **Federal CHIP Financing Beginning in 2014**

Under current law, millions of adults age 19 to 64 will be newly eligible in 2014 for Medicaid and for coverage through state health insurance exchanges; states' CHIP eligibility levels for children are not required to increase, but cannot be lowered from current levels until October 1, 2019. One of the Medicaid changes effective in 2014 extends mandatory Medicaid eligibility levels for children ages 6 to 18 to 133 percent of the federal poverty level (FPL), from 100 percent FPL. States affected by this change are those currently covering these children in separate CHIP programs.<sup>15</sup> Beginning in 2014, these children will be enrolled in Medicaid but will continue to be financed by CHIP at the CHIP matching rate (E-FMAP), as long as CHIP funding is available.

## No New CHIP Allotments Beginning FY 2016

Although no new federal funds for allotments are slated for FY 2016 or thereafter, CHIP's authorization does not technically expire. Thus, in FY 2016, states can continue to use unspent federal CHIP funds, as long as they are available.<sup>16</sup>

Also beginning in FY 2016, E-FMAPs under current law will increase by 23 percentage points (but cannot exceed 100 percent). Thus, beginning in FY 2016, E-FMAPs will range from 88 percent to 100 percent, rather than the current 65 percent to 83 percent. This E-FMAP increase will cause states to use remaining federal CHIP balances more quickly, which may also need to be a consideration if the Congress provides CHIP allotments for FY 2016 and thereafter.<sup>17</sup>

If no new appropriations are provided for CHIP allotments beginning in FY 2016, states will begin to exhaust their federal CHIP funds. The coverage options for children formerly funded by CHIP may vary based on whether they were enrolled in a Medicaid-expansion or separate CHIP program, because of the maintenance of effort (MOE) provision for children in the Patient Protection and Affordable Care Act (PPACA, P.L. 111-148, as amended). The PPACA MOE requires that states maintain their Medicaid and CHIP eligibility levels for children until October 1, 2019. If a state's federal CHIP funds are exhausted, however, CHIP children are to be screened for Medicaid or exchange eligibility and enrolled in the appropriate program.

### *Moving from separate CHIP programs*

Beginning in FY 2016, children in separate CHIP programs can be enrolled in subsidized exchange coverage that has been certified by the Secretary of HHS. To be certified, the subsidized exchange coverage must offer benefits and cost sharing comparable to the state's CHIP coverage. However, one analysis found that almost all of the CHIP benefit packages analyzed had more comprehensive coverage<sup>18</sup> than even the most generous coverage permitted in subsidized exchange plans.<sup>19</sup> Nevertheless, assuming certified exchange plans will exist for former CHIP children, such plans would

be available to children who would otherwise have been enrolled in a separate CHIP program. States could also expand their Medicaid eligibility levels to cover these children in Medicaid at the regular Medicaid matching rate. It is worth noting that for children enrolled in subsidized exchange coverage, the state would pay for no portion of their coverage, while the state would be responsible for its usual share of Medicaid spending for children enrolled in Medicaid. This could deter states from expanding their Medicaid eligibility levels.

### *Moving from Medicaid-expansion CHIP programs*

Under current law, children enrolled in Medicaid-expansion CHIP programs are actually enrolled in Medicaid but funded by CHIP, as long as CHIP funding is available. When CHIP funding is exhausted, these children continue to be enrolled in Medicaid but funded by Medicaid at the regular Medicaid matching rate. For children, the PPACA MOE provides no exceptions for states to restrict their Medicaid eligibility levels from those in effect at the law's enactment. Thus, if a state's federal CHIP funds are exhausted, the PPACA MOE and other provisions could be interpreted to require that Medicaid-expansion children remain eligible for Medicaid, albeit financed at the regular FMAP from Medicaid funds rather than the E-FMAP from CHIP funds. On the other hand, PPACA also said its MOE does not prevent states from enrolling CHIP children in certified exchange plans beginning in FY 2016.<sup>20</sup> MACPAC will continue to track and provide analyses on the issues described in this MACBasic that affect CHIP financing. ■

- 1 See Table 9 of MACStats the March 2011 *Report to the Congress on Medicaid and CHIP*, available at [www.macpac.gov/reports](http://www.macpac.gov/reports), page 92. MACStats for states' Medicaid eligibility levels that are treated as in effect as of March 31, 1997, as well as the income eligibility levels for CHIP-funded children's coverage in each state as of March 2011.
- 2 Table 3 of MACStats in the March 2011 *Report to the Congress on Medicaid and CHIP*, page 80. Prior to FY 2009, some states received approval to use their unspent federal CHIP funds to cover adults through §1115 waivers. With the exception of targeted low-income pregnant women, adult coverage is being phased out of CHIP (§§2111-2112 of the Social Security Act).
- 3 BBA 97 provided appropriations for new CHIP allotments through FY 2007. The CHIP appropriation for FY 2008 was enacted in the Medicare, Medicaid, and SCHIP Extension Act of 2007 (MMSEA, P.L. 110-173) as a stopgap measure until longer-term legislation could be enacted.
- 4 The Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa, and the Northern Mariana Islands.
- 5 If the total national appropriation is not large enough to provide states and territories with their full allotments, all allotments would be reduced proportionally.
- 6 Table 4 of Centers for Medicare and Medicaid Services (CMS), "Children's Health Insurance Program (CHIP); Allotment Methodology and States' Fiscal Years 2009 Through 2015 CHIP Allotments," 76 *Federal Register* 9244, February 17, 2011.
- 7 This allotment increase factor is the product of (1) the percentage increase in projected per capita National Health Expenditures and (2) the Census Bureau's projection of child population growth (if any) plus one percentage point (§2104(m)(5) of the Social Security Act). In calculating the FY 2010 allotments, this factor ranged from 4.69 percent to 7.14 percent across the states and territories (76 *Federal Register* 9241).
- 8 The target number is the FY 2008 average monthly unduplicated child enrollment in CHIP, as adjusted by the state's annual growth in child population plus 1 percentage point (§2104(n)(3)(B) of the Act).
- 9 For purposes of the contingency fund payments, projected per capita expenditures are the per capita expenditures for children enrolled in FY 2008, increased by annual growth factors, multiplied by the enhanced FMAP (§2104(n)(3)(c) of the Act).
- 10 See MACPAC March 2011 *Report to the Congress on Medicaid and CHIP*, Chapter 3, pages 68-69 for a complete description of these eight initiatives.
- 11 Department of Health and Human Services, *Connecting Kids to Coverage: Continuing the Progress—2010 CHIPRA Annual Report*, Appendix 3, 2011, [http://www.insurekidsnow.gov/professionals/reports/chipra/2010\\_annual.pdf](http://www.insurekidsnow.gov/professionals/reports/chipra/2010_annual.pdf).
- 12 MACPAC analysis of Medicaid and CHIP Budget and Expenditure System as of August 4, 2011.
- 13 Balances in CBO, "Spending and Enrollment Detail for CBO's March 2011 Baseline: Children's Health Insurance Program (CHIP)," March 18, 2011, <http://www.cbo.gov/budget/factsheets/2011b/Chip.pdf>, reduced by \$3.5 billion per §1859 of P.L. 112-10.
- 14 For example, see §3(4)(A) of the Statutory Pay-As-You-Go Act of 2010 (P.L. 111-139).
- 15 As of March 2011, 17 states covered 6-to-18-year-olds in separate CHIP programs: Alabama, Arizona, Colorado, Delaware, Florida, Georgia, Kansas, Mississippi, Nevada, New York, North Carolina, Oregon, Pennsylvania, Texas, Utah, West Virginia, and Wyoming (Table 9 of MACStats in the March 2011 *Report to the Congress on Medicaid and CHIP*, page 92).
- 16 Federal CHIP funds available in FY 2016 would be (1) a state's own unspent balances (if any) from its FY 2015 allotment, and (2) previously unspent FY 2014 allotments redistributed to shortfall states. Contingency funds are not available after FY 2015 (§2104(n)(3)(A) of the Act).
- 17 Another consideration for the Congress if CHIP funding is extended is the amount of federal CHIP appropriations for allotments that CBO assumes continues in its baseline—\$5.7 billion annually, beginning in FY 2016 (CBO, "Spending and Enrollment Detail for CBO's March 2011 Baseline: Children's Health Insurance Program (CHIP)," March 18, 2011, <http://www.cbo.gov/budget/factsheets/2011b/Chip.pdf>).
- 18 Watson Wyatt Worldwide, "Implications of health care reform for children currently enrolled in CHIP," 2009, <http://www.firstfocus.net/sites/default/files/r.2009-10.1.watson.pdf>.
- 19 §1402(c)(1)(B) of the Patient Protection and Affordable Care Act (PPACA, P.L. 111-148, as amended).
- 20 §2105(d)(3)(A)(ii) of the Act.