



*The* LEWIN GROUP

# **The Cost and Coverage Impacts of the CDF Healthy Children Proposal**

**Final Report – *Executive Summary***

*Prepared for:*

**The Children's Defense Fund (CDF)**

*February 15, 2007*



## EXECUTIVE SUMMARY AND INTRODUCTION

There are 79.0 million children in the US. About 9.5 million are uninsured, which is about 12.0 percent of the nation's children. Of 9.5 million uninsured children, about 5.2 million children (54.7 percent) are actually eligible for the existing Medicaid or State Children's Health Insurance Program (SCHIP) in their state of residence, but are not enrolled. About 75 percent of all uninsured children are living at or below 300 percent of the federal poverty level (FPL). These data reveal a need for an expansion in eligibility for lower-income children and improved enrollment and retention of children in these programs.

The Children's Defense Fund Healthy Children proposal creates a new consolidated health insurance program for all needy children and pregnant women in the US. The program combines the children's portion of Medicaid and the SCHIP program into a single program operated by states with federal financial participation. All children and pregnant women with incomes at or below 300 percent of the federal poverty level (FPL) would be eligible for this program. Children living above 300 percent of the FPL would be permitted to buy-in to the program by paying a premium. All children residing in the US would be eligible for full coverage under the program.

### Program Features

Participants would be covered under a comprehensive benefits package based upon the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) benefits provided under the current Medicaid program. The EPSDT model requires regular screening of children for physical, mental, and developmental conditions and provides coverage for all medically necessary services required to address the problems identified. To encourage provider participation, providers would be reimbursed at not less than 80 percent of private payer rates, which can be up to twice what is paid for comparable services under existing Medicaid programs. There would be no premiums for children and pregnant women living at or below 300 percent of the FPL, and only nominal co-pays for those in families with incomes from 201 to 300 percent of the FPL.

To assure coverage for all children, the program simplifies the enrollment process and implements automatic enrollment mechanisms to ensure all eligible children are enrolled (*Figure ES-1*). Uninsured children would be enrolled automatically at birth, upon school registration, or through other income-tested programs, such as Food Stamps or the Women, Infants, and Children (WIC) program. However, parents would have the option to decline enrollment of their children in the program if they wish.

Another key feature of each Healthy Children proposal option is to increase provider payment levels to at least 80 percent of private payer rates, which is substantially higher than the Medicaid payment rates. These increases in reimbursement would provide an added incentive for provider participation and improved offering and utilization of all medically necessary services consistent with the EPSDT benefit package.



**Figure ES-1  
Summary Provisions of the CDF Healthy Children Proposal Base Plan**

<b>Eligibility Simplification</b>	
Self-attestation of income	Enrollees will be able to self-attest to their income rather than provide documentation, albeit subject to verification and periodic audit.
Twelve-month attestation	Children and pregnant women would remain eligible for a period of 12 months without the need to recertify their eligibility.
No premiums	There would be no premium for enrollees at or below 300 percent of the FPL.
No co-pays at or below 200% FPL	Children and pregnant women in families with an income at or below 200 percent of the FPL will have no co-payments. Families between 201 and 300 percent of the FPL would pay nominal co-payments.
Automatic enrollment through means-tested programs with opt-out	Children and pregnant women are automatically enrolled through other means-tested programs such as the National School Lunch Program, Food Stamps, and the Women, Infants, and Children (WIC) program. Parents may opt-out.
Upgrade SCHIP benefits to Medicaid	All children would be guaranteed full coverage for Early and Periodic Screening, Diagnosis and Treatment (EPSDT) services, including all medically necessary services for all physical, mental, vision, and dental problems identified in that screening and diagnosis process.
<b>Eligibility Expansion</b>	
Eligibility up to and including 300% FPL	The proposal provides coverage to all children under age 19 and pregnant women through 60 days post-partum with incomes up to and including 300 percent of the FPL.
Buy-in	Children over 300 percent of the FPL can buy-in to the program by paying a full cost premium. Premiums could be subsidized if needed to ensure they do not exceed 7.5 percent of income for a family with one child, or 15 percent of income for a family with multiple children.
Preventing Crowd out	Children must have been without employer coverage for at least four months prior to enrollment, to discourage employers from discontinuing coverage. The waiting period rule is waived for people changing jobs or experiencing a change in family status.
Citizenship	The proposal extends coverage to all children and pregnant women regardless of citizenship and eliminates the 5-year residency requirement (i.e., waiting period) for children who are not citizens.
Foster children age 19 and 20	The proposal provides transitional coverage to all children age 19 and 20 who are aging out of the foster care programs through age 20.
No assets test	The proposal eliminates the assets test for children now used in several states.
Supplemental coverage	Children who would have qualified for supplemental coverage through Medicaid or children who are SSI disabled would receive supplemental coverage.
<b>Auto Enrollment of Newborns and In-School Kids, with Opt-out<sup>a/</sup></b>	
Enroll newborns with opt out	Uninsured newborns would be automatically enrolled at birth or upon application for a Social Security number. Parents can opt-out.
Enroll at schools with opt out	Uninsured children would be automatically enrolled upon their registration at school. Parents can opt-out.
Enroll through Providers	Uninsured children would be enrolled by providers when they use services.
<b>Provider Payment Levels and Access to Services</b>	
80 percent Private Rates	All services under the Healthy Children proposal would be paid at the levels equal to at least 80 percent of private payer rates for comparable service.
Guaranteed Access to Services	Eligible children are guaranteed access to all medically necessary services. Providers may not refuse services for non-payment of co-payments (where applicable).



## Impact on Coverage

In this study, we estimated the number of children and pregnant women who would become covered under the Healthy Children Proposal including provisions to increase enrollment, increase program retention for eligible people and the expansions in eligibility for children and pregnant women under the program. We base our estimates on the most recent data available from the Bureau of the Census on insurance coverage for children, and available data on the cost of covering children under Medicaid and SCHIP. The effectiveness of various automatic enrollment and eligibility simplification measures are based upon published research on the effect these approaches have had on enrollment in states that have already adopted similar measures.

We estimate that when fully implemented, the program would cover a total of about 38.1 million children. This includes about 28.7 million children currently covered under Medicaid and SCHIP, and an additional 9.3 million children who would be enrolled through the eligibility simplifications, automatic enrollment, and expanded eligibility provisions of the Healthy Children proposal. The 9.3 million children newly enrolled in the Healthy Children program include 7.5 million newly insured children and 1.8 million children who drop individual or employer COBRA coverage to enroll.<sup>1</sup>

The program would reduce the number of uninsured children by 7.9 million children, which is about 83 percent of the 9.5 million children now without insurance (*Figure ES-2*). This includes about 7.5 million newly insured children under the Healthy Children program and about 355,700 additional children who enroll in private health insurance as a consequence of automatic enrollment.<sup>2</sup> The proposal would also cover an additional 187,200 pregnant women.

The estimates presented in *Figure ES-2* below, show the combined effects of the enrollment simplification and eligibility expansion provision of the CDF Healthy Children proposal. However, there are significant interactions and overlaps among the various provisions of the proposal. For example, the estimates under the eligibility expansions alone would be lower if it is implemented without the eligibility simplification provisions. The impacts of self-attestation of income at initial application overlap with the automatic enrollment through means-tested programs. Later in the report we show the impact of individual eligibility simplifications if implemented alone.

## Program Spending

Total spending for children under the Healthy Children proposal would be \$89.8 billion, including costs for children currently covered under Medicaid and SCHIP and children newly enrolled through eligibility simplification, eligibility expansions (including foster care children

---

<sup>1</sup> Under the Consolidated Budget Reconciliation Act, employers with health plans are required to offer coverage to laid-off workers and divorcee's spouses with the employee paying a premium equal to 102 percent of the actuarial value of the employer's plan.

<sup>2</sup> These 355,700 children would have been enrolled in the buy-in as a result of the auto-enrollment feature under the proposal. However, because the pool is expected attract the sickest children needing the most services of, we estimate the buy-in premium cost would be higher on average than the premium they would pay for private coverage, we assume that these particular children would opt to become privately insured.



through 20 years of age), and automatic enrollment. This includes \$65.5 billion in spending for children now covered under the current Medicaid and SCHIP programs plus the \$24.3 billion in new spending for children under the CDF proposal.

**Figure ES-2**  
**Cost and Coverage Impacts of the CDF Healthy Children proposal**  
**Assuming Full Implementation in 2007**

Spending and Enrollment under Current Medicaid and SCHIP Programs							
Medicaid and SCHIP Programs	Newly Eligible (1,000's)	Current Enrollment (1,000's)	Newly Insured Under Healthy Children (1,000's)	Newly Privately Insured (1,000's)	Total Program Costs (millions) <sup>b/</sup>	Net Cost to State Govt. (millions) <sup>b/</sup>	Net Cost to Federal Govt. (millions) <sup>b/</sup>
Current programs <sup>a/</sup>	n/a	28,700.0	n/a	n/a	\$65,500.0	\$28,800.0	\$36,700.0
Healthy Children proposal	Newly Eligible (1,000's)	Newly Enrolled Under Healthy Children (1,000's)	Newly Insured Under Healthy Children (1,000's)	Newly Privately Insured (1,000's)	Total Program Costs (millions)	Net Cost to State Govt. (millions)	Net Cost to Federal Govt. (millions)
Key Provisions of the CDF Healthy Children proposal for Children (i.e., Excluding Pregnant Women)							
Eligibility simplification	n/a	1,590.0	1,288.4	0.0	\$1,856.5	\$0.0	\$1,856.5
Auto-Enrollment through means-tested programs	n/a	2,793.0	2,793.0	0.0	\$2,941.0	0.0	\$2,941.0
Eligibility expansion	3,983.0	2,974.6	2,074.0	0.0	\$3,762.4	\$0.0	\$3,762.4
Auto enrollment of newborns and in-school kids	n/a	3,480.7	3,480.7	355.7	\$5,345.1	\$0.0	\$5,345.1
Foster children	79.3	59.5	36.3	--	\$83.5	\$0.0	\$83.5
Combined Impact of Eligibility Simplification, Eligibility Expansions and Automatic Enrollment of Children							
Combined impact for Children before payment rate increase <sup>c/</sup>	4,062.3	9,261.7	7,560.9	355.7	\$12,937.3	\$0.0	\$12,937.3
Provisions Affecting Pregnant Women							
Pregnant women	347.7	187.2	163.2	--	\$1,858.5	\$0.0	\$1,858.5
All provisions Affecting Pregnant Women and Children Without Provider Payment Rate Increases							
All provisions for pregnant women and children	4,410.0	9,448.9	7,724.1	355.7	\$14,795.8	\$0.0	\$14,795.8
Cost of Provider Payment Rate Increases (for Children and Pregnant Women)							
Adopt 80 percent of private provider payment levels	n/a	n/a	n/a	n/a	\$11,353.3	\$0.0	\$11,353.3
Combined Impact of All Provisions Including Rate Increase <sup>d/</sup>							
Total Change	4,410.0	9,448.9	7,724.1	355.7	\$26,149.0	\$0.0	\$26,149.0
Combined Program Including Existing Medicaid and SCHIP Spending for Children							
Total Program	4,410.0	38,148.9	7,724.1	355.7	\$91,649.0	\$28,800.0	\$62,849.0

a/ March 2006 baseline assumptions from the Congressional Budget Office.

b/ Includes cost of benefits and administration less premium revenues.

c/ Numbers do not sum to totals due to overlapping effects.

Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).



About 53 percent (\$12.9 billion) of the \$24.3 billion in new spending for children under the CDF proposal is attributed to increased enrollment. These include the expansions in eligibility, enrollment simplifications and automatic enrollment. The remaining \$11.4 billion is due to increasing provider payment amounts from the current Medicaid and SCHIP levels to 80 percent of private-payer reimbursement levels.

The expansions in eligibility for pregnant women under the proposal would cover an additional 187,200 pregnant women, of whom 163,200 would be newly insured. Coverage for newly enrolled pregnant women would result in about \$1.9 billion in new spending. Thus, the aggregate net cost to the federal government for pregnant women and children would be \$26.1 billion (*Figure ES-3*). This includes \$24.3 billion in spending for children and \$1.9 billion in spending for pregnant women.

Under the CDF Healthy Children proposal, the federal government would pay the full amount of these \$26.1 billion in new costs so that there is no net increase in spending for states.

**Figure ES-3**  
**Cost and Coverage Impacts of the CDF Healthy Children proposal Assuming Full Implementation in 2007(Children and Pregnant Women)**

Key Provisions	Newly Eligible (1,000's)	Newly Enrolled Under Healthy Children (1,000's)	Newly Insured Under Healthy Children (1,000's)	Newly Privately Insured (1,000's)	Total Program Costs (millions)	Net Cost to State Govt. (millions)	Net Cost to Federal Govt. (millions)
<b>Option 1-Base Plan as Described above in Figure ES-1: Key Provisions of the Healthy Children proposal – No Premiums with Anti-Crowd-out Provisions</b>							
Children	4,062.3	9,261.7	7,560.9	355.7	\$24,290.5	\$0.0	\$24,290.5
Pregnant women	347.7	187.2	163.2	--	\$1,858.5	\$0.0	\$1,858.5
<b>Combined impact of all with payment rate increase</b>	<b>4,410.0</b>	<b>9,448.9</b>	<b>7,724.1</b>	<b>355.7</b>	<b>\$26,149.0</b>	<b>\$0.0</b>	<b>\$26,149.0</b>
<b>Option 2: Healthy Children with Premiums and Anti Crowd-Out Provisions</b>							
Children	4,062.3	7,187.9	6,058.5	355.7	\$20,045.8	\$0.0	\$20,045.8
Pregnant women	347.7	150.4	134.5	0.0	\$1,718.7	\$0.0	\$1,718.7
<b>Combined impact of all with payment rate increase</b>	<b>4,410.0</b>	<b>7,338.3</b>	<b>6,193.0</b>	<b>355.7</b>	<b>\$21,765.5</b>	<b>\$0.0</b>	<b>\$21,765.5</b>
<b>Option 3: Healthy Children without Premiums and without Anti Crowd-Out Provisions</b>							
Children	10,068.4	12,396.5	7,245.3	355.7	\$29,659.8	\$0.0	\$29,659.8
Pregnant women	748.6	261.0	161.6	0.0	\$1,815.0	\$0.0	\$1,815.0
<b>Combined impact of all with payment rate increase</b>	<b>10,817.0</b>	<b>12,657.5</b>	<b>7,406.9</b>	<b>355.7</b>	<b>\$31,474.8</b>	<b>\$0.0</b>	<b>\$31,474.8</b>
<b>Option 4: Impact of Healthy Children without Premium, with Waiting Period, and with Expansion to 350% FPL</b>							
Children	4,718.9	10,574.1	8,016.1	281.4	\$27,948.5	\$0.0	\$27,948.5
Pregnant women	391.5	217.3	174.4	0.0	\$2,228.0	\$0.0	\$2,228.0
<b>Combined impact of all with payment rate increase</b>	<b>5,110.4</b>	<b>10,791.4</b>	<b>8,193.5</b>	<b>281.4</b>	<b>\$30,176.5</b>	<b>\$0.0</b>	<b>\$30,176.5</b>

Source: Lewin Group estimates using the Health Benefits Simulations Model (HBSM).



## Summary of Key Findings

Other findings include the following:

- **Eligibility simplification:** We estimate that the eligibility simplification provisions would result in 1.6 million newly enrolled individuals, of whom about 1.3 million would be newly insured. We estimate that the net federal costs of eligibility simplification would be about \$1.9 billion (*Figure ES-2*).
- **Automatic enrollment through means-tested programs:** Automatic enrollment through the Food Stamp and other means-tested programs would cover an additional 2.8 million children at a cost of \$2.9 billion.
- **Eligibility expansion:** We estimate that the eligibility expansion provisions would result in 3.0 million newly enrolled, of which about 2.1 million would be newly insured. We estimate that the net federal costs of these eligibility expansions would be about \$3.8 billion (*Figure ES-2*).
- **Automatic enrollment of newborns and in school children:** We estimate that auto-enrollment of newborns and in-school kids would result in about 3.5 million newly enrolled children, all of whom will be newly insured. We estimate that the net cost to the federal government would be \$5.3 billion (*Figure ES-2*).

Overall, as highlighted in *Figure ES-3*, we developed estimates for three alternative proposals in addition to the Base Plan presented above. These alternative proposals, beginning with the CDF Base Plan proposal including:

- **Option 1-The CDF Healthy Children “Base Plan” proposal (no premiums with anti-crowd-out provisions):** As discussed above, the combined effect of all the eligibility expansion, simplification and auto-enrollment provisions would result in an enrollment of 9.3 million children in the Healthy Children proposal and enrollment of about 187,200 pregnant women. The number of uninsured children and pregnant women would be reduced by 7.7 million people. We estimate that the net cost to the federal government without the increased provider payments would be about \$14.8 billion. Increased provider payment rates would add about \$11.3 billion to the cost of the Healthy Children proposal, for a total net cost to the federal government of \$26.1 billion (*Figure ES-2*).
- **Option 2-Healthy Children with Premiums and Anti Crowd-Out:** Imposing premiums and anti crowd-out reduces estimated total program enrollment of pregnant women and children from 9.3 million under the base plan to 7.3 million. We estimate that the net cost to the federal government would also be reduced from \$26.1 billion under the base plan, to \$21.8 billion (*Figure ES-3*).
- **Option 3-Healthy Children without Premiums and without Anti Crowd-Out:** We estimate that eliminating premiums and anti crowd-out results in 12.7 million children and pregnant women enrolling in the program and a net cost to the federal government of about \$31.5 billion (*Figure ES-3*).
- **Option 4-Healthy Children without Premiums, with Waiting Period, and with Expansion to 350 percent FPL:** We estimate that expanding eligibility to 350 percent of



the federal poverty level results in 10.8 million children and pregnant women enrolling in the program at a net cost to the federal government of \$30.2 billion (*Figure ES-3*).