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Securing the Safety Net for Texas Children

Cutting the Budget and Strengthening the Children's Health Insurance Program

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Executive Summary

Texas, like many states across the country, is struggling with fiscal problems. With a budget shortfall that may exceed $10 billion, legislators are making difficult decisions about constraining costs and seeking innovative ways to protect the integrity of programs. Decisions about the Children's Health Insurance Program (CHIP) pose one of the greatest challenges for the 78th Texas Legislature. Measures taken to control costs during this session will reshape health care for needy children, gauge legislative commitment to sound fiscal policy, and define the state's commitment to strengthening families.

Since established by the Texas Legislature in 1999, CHIP has served as a safety net for children in low income families, providing health care to Texans under the age of 19 whose families earn too much to qualify for Medicaid but earn no more than 200 percent above the federal poverty level ($36,800 for a family of four).

This safety net is designed to catch the neediest of Texas children, particularly those who lack health insurance as their family transitions from welfare to economic independence. Today, 513,742 children receive care through Texas' CHIP.

State-subsidized health care programs, such as CHIP, now account for over one-third of the entire state budget. Annual appropriations for CHIP rose from $419 million to $967 million in the past year as about 7,000 additional children were enrolled in CHIP while insurance premiums rose almost 15 percent. Legislators funded CHIP with monies from the state's tobacco settlement, and the federal government supplemented every state dollar with three federal dollars.

Decreasing state revenue, rising insurance costs and increasing enrollment in CHIP undermines the financial viability of this vital state program. Cost-savings must be identified for CHIP. The following recommendations identify ways the legislature can conserve financial resources *and* improve health care.

> **1. Monitor and Enforce Statutory Parameters.** Critical oversight must be exercised to ensure appropriations for CHIP do not divert crucial tax dollars from priorities set by the
> General Appropriations Act, and that enrollment is suspended if costs exceed appropriations. As required by law, state funding of CHIP should be based on, and limited to, the funds available from the tobacco settlement.
>
> **2. Redefine Eligibility Requirements.** Enrollment policies should be developed to reflect state priorities – focusing the state's limited resources on the neediest children. As the cost of CHIP rises, eligibility should be constricted to provide health care to children living in families earning up to 150 percent of the federal poverty level. Eliminating benefits for families earning up to 200 percent would offer significant savings while maximizing state resources.

3. Increase Co-payments. Co-payments for health care services should be modestly increased to boost family contribution. For most families, the current fee schedule established for CHIP has been well under the federal cap on family contribution. Co-payments for an office visit, for example, now range between $5 and $10 for a family with annual earnings between $27,600 and $36,800.

4. Eliminate Health Care "Extras." Benefits exceeding the level of care generally purchased by employees in the private sectors should be eliminated from CHIP, such as fully covered dental, optical, behavioral health, tobacco cessation and chiropractic services. *Reducing coverage for these extra services now covered by CHIP, combined with increasing co-payments and constricting eligibility, could save between $109 and $235 million annually.*

5. Remove Income Offsets. State law should be amended to disallow families earning over the maximum income level to qualify for CHIP. Currently, approximately 6,400 children are enrolled in CHIP whose families earn over the 200 percent federal poverty level – some earning up to 245 percent – because certain family expenses offset income. Eliminating these offsets would offer substantial savings, ensure fairness, and allow CHIP to focus resources on the truly needy.

6. Create a Premium Support Program. Texas should secure a federal waiver that allows families the opportunity to use CHIP monies to enroll children in health insurance plans offered by employers. Today, a number of states are subsidizing private health insurance with public funds, finding premium support programs an effective way to both reduce costs and improve health insurance. Premium support allows families to unify health care coverage, expand health insurance choices, increase parental responsibility, and halt the swell of individuals migrating from private to government health insurance.

7. Offer Personal Care Accounts. CHIP should offer families the opportunity to receive CHIP funds in personal care accounts (PCAs) – special accounts dedicated for health insurance spending. PCAs would give families flexibility in selecting benefit plans and increase parental responsibility for health care decisions.

8. Reduce State Health Care Mandates. The number of state restrictions imposed on health insurance plans sold by private companies should be reduced. Mandates increase cost and limit the plans available to consumers. Reducing mandates will encourage insurance companies to offer a wider variety of benefit plans at a wide range of costs – making health insurance more affordable for everyone.

9. Promote Private Employer Insurance Coverage. State policies should be introduced to encourage employers to offer health insurance to employees. Making insurance more affordable by reducing state mandates, offering tax

> incentives and creating purchasing alliances should halt increasing reliance on government-subsidized health care. Today, an increasing number of employers are dropping health insurance as costs rise, while the number of Texans purchasing health insurance through employers decreases.

Coupling cost-savings with consumer-centered health care reforms offers the 78th Legislature the opportunity to focus resources on the neediest Texans, cover as many children as possible with the state's limited funds, expand health care choices, decrease government regulation, transition government-subsidized programs into the private sector, increase individual responsibility and encourage parents to exercise their traditional role of deciding what is in the best interest of their children.

I. Introduction

Texas, like many other states across the country, is struggling to cope with fiscal troubles. With a budget shortfall that may exceed $10 billion, legislators are making difficult decisions and seeking innovative solutions.

Discussions in the Texas legislature regarding the reduction of the State Children's Health Insurance Program (CHIP) should surprise no one.[1] At a time when budgets are tight, all public programs are under tremendous scrutiny. This is especially true for health programs such as CHIP and Medicaid, which account for over a third of the entire Texas budget.[2]

Looking beyond immediate cost-savings for CHIP, legislators can use this opportunity to improve the overall function of all public health programs, using CHIP as a model. Cost-savings can be linked with innovative reforms to improve CHIP: focusing resources, expanding choices, decreasing government regulation, increasing personal responsibility and transitioning government-subsidized programs into the private sector.

This report will examine several strategies for improving the health of CHIP and introducing cost-savings as part of a comprehensive, long-term plan for improving all government sponsored health insurance programs.

II. Federal and State CHIP Design

The federal Children's Health Insurance Program was enacted in 1997 by Congress to assist states in providing coverage to children in low-income families without health insurance.[3] Federal lawmakers committed to spending $40 billion in federal funds for 10 years to help states with this effort. Nationally, the U.S. Department of Health and Human Services estimates there are over 5.3 million children enrolled in state CHIP plans.[4]

In 1999, the 76th Legislature approved the creation of CHIP in Texas, using one of the three options provided by federal law to establish CHIP as an independent program, separate from Medicaid.[5] As a separate program, Texas recovers 72 percent of the cost of

[1] Robert T. Garrett, "Child Health Plan Expected to Escape Cuts with Changes," *The Dallas Morning News*, March 13, 2003, http://www.dallasnews.com.sharedcontent/dallas/tsw/stories/031303dntexchips.a88b0.html.
[2] "Health Care Spending in the Texas State Budget," Office of the Comptroller, State of Texas, August 2002, p. 2, at http://www.window.state.tx.us.
[3] Public Law 105-33 at http://thomas.loc.gov.
[4] "SCHIP Enrollment Climbs to 5.3 Million Children in 2002," U.S. Department of Health and Human Services news release, February 5, 2003, at http://www.hhs.gov/news/press/2003press/20030205a.html.
[5] "Chipping away at Medicaid," Fiscal Notes, State Comptroller, August 2002, at http://www.window.state.tx.us/comptrol/fnotes/fn0208/chipping.html; and "SCHIP Benefits Structure," Benefit Design/Service Design, Centers for Medicare and Medicaid Services, at http://ww.ahcpr.gov/chip/content/benefit_design/chip_benefit_structure.htm.

CHIP from the federal government whereas Texas can only recover 59 percent for Medicaid expenses.[6] Although Texas established a minimum benefit level corresponding to the benefits provided to state employees, the state chose to go beyond that level in the initial design of CHIP and established benefits at the level suggested by the Joint Interim Committee on Children's Health Insurance.[7] The state also chose to provide CHIP through contracts with private insurance carriers.[8] Premiums and co-payments were established on a sliding scale fee according to family income for the purpose of containing costs and constraining "crowd out," the substitution of public for private insurance.[9]

Texas' CHIP program is designed to serve children younger than 19 years of age whose net family income is at or below 200 percent of the federal poverty level but who are not eligible for Medicaid.[10] Today, children in a family of four that earns $36,800 (an income at 200 percent above the federal poverty level) qualify for CHIP.[11]

The most recent count of CHIP indicates 513,742 children throughout Texas were enrolled as of May 2003.[12] Funding for CHIP comes from dedicated revenues that Texas receives each year from the settlement of its lawsuit against the tobacco industry.[13] The cost of CHIP grows annually and, as the Texas Legislature concludes its debate on the state budget for the 2004-2005 fiscal year, $967 million is allocated for CHIP.[14]

III. The Unfulfilled Promise of Government-Run Health Programs

While well-intentioned, government-run health care programs promise more than they can deliver. Programs generally begin with generous benefit packages that impose little or no financial obligation on enrollees. As the cost of programs rise and fiscal constraints grow, however, governments generally reduce services, decrease access to programs and lower quality.

Fiscal obligations to government-run health care programs continue to rise for both state and the federal government. Total health care spending in Texas increased by over $6 billion between 1998 and 2002.[15] Texas spent over a third of its budget on Medicaid and

[6] "Chipping away at Medicaid."
[7] Texas Health and Safety Code, Chapter 62. Subchapter D., 62.151 (b).
[8] "Texas Electronic Service Delivery Final Report – January 1, 2000," Health and Human Services Commission, Children's Health Insurance Program, Meeting, June 30, 2000.
[9] "Texas Electronic Service Delivery Final Report – January 1, 2000" and "Substitution of Insurance Coverage and the CHIP Program," Briefing Paper, Texas Health and Human Services Commission, Austin, TX, January 29, 2003.
[10] Texas Health and Safety Code, Chapter 62, Subchapter C, 62.101 (b).
[11] "Working Together for a Healthy Texas – Final Report, Texas State Planning Grant, Texas Department of Insurance, State Planning Grant Division, Austin, TX, 2003, page 9.
[12] E-mail Communication from Texas Health & Human Services Commission to the Texas Public Policy Foundation, May 14, 2003.
[13] "CSHB1-The House Appropriations Committees' Proposed 2004-2005 Fiscal Budget," House Research Organization, at http:..www.capitol.state.tx.us/hrofor/frame4.htm, pg. 14.
[14] Ibid, page 15.
[15] "Health Care Spending in the Texas State Budget," p. 1.

CHIP: close to $13 billion in FY 2002.[16] As more people are enrolled in programs and the cost of health care rises, the budgetary burden challenges lawmakers to redefine programs in order to ensure that government programs focus resources on individuals with the greatest needs.

To address budget shortfalls, fiscal measures must be undertaken to manage costs and maximize dollars. States are looking at ways to cut costs: limiting access to prescription drugs, reducing coverage for services, and reducing provider reimbursements.[17] Many states are redefining the safety net – developing new parameters for government subsidized health care and the populations to be served by government programs.

IV. Immediate Solutions

The state's fiscal shortfall and the obligation to provide health care for Texans who are in most need of assistance presses policymakers to produce immediate solutions. The Texas Legislature is presently examining proposals to scale back eligibility for CHIP and to find ways to enforce existing rules to prevent fraud. These proposals are constructive and will help reduce costs in the short term.

Fiscal discipline must be maintained to control costs in the CHIP program. In both the federal and state law related to CHIP, policymakers made it explicitly clear that CHIP is not a federal entitlement like Medicaid.[18] In Texas, funding of the program was provided by, in fact even made contingent on, funds available from the state's settlement with tobacco manufacturers.[19] Moreover, the legislature specifically anticipated that growth of the program would be explosive and required the Health and Human Service Commission to suspend enrollment if growth exceeded appropriations.[20] These provisions must be monitored closely and enforced to prevent the diversion of crucial tax dollars from priorities set in the General Appropriations Act by unchecked access to government-subsidized health care.

Re-examining eligibility requirements for CHIP could offer Texas significant savings. At present, Texas has chosen to offer benefits to children who do not qualify for Medicaid living in families that earn up to 200 percent above the federal poverty level. Texas could elect to restrict CHIP benefits to families who earn 50 percent above the poverty level or any other level between 50 and 200 percent.[21] Reducing the state's maximum eligibility threshold to 150 percent of the federal poverty level would cover children in families of

[16] Total state and federal spending. *Ibid.*, p. 18.
[17] "State Budget Constraints: The Impact on Medicaid," Henry J. Kaiser Family Foundation, *Fact Sheet*, January 2003, at http://www.kff.org/content/2003/4087/4087.pdf.
[18] "Interim Evaluation Report: Congressionally Mandated Evaluation of the State Children's Health Insurance Program, United States Department of Health and Human Services," page 2, at http://aspe.hhs.gov/health/schip/interimrpt/prtq.htm; and Texas Health and Safety Code, Chapter 62, Subchapter A, 62.003 (c).
[19] Texas Health and Safety Code, Chapter 62, Subchapter A, (C).
[20] Ibid.
[21] "State Children's Health Insurance Program," Balanced Budget Act of 1997, Public Law 105-33, Section 2110, State Children's Health Insurance Program, at http://cms.hhs.gov/schip/kidssum.asp.

four with incomes of $27,600 or set at 185 percent, children in families of four with incomes of $34,040 would be covered.[22]

Increasing co-payments for CHIP could also produce significant cost-savings. The current fee schedule established for CHIP families is well under federal caps (five percent of net income for most families in the 151 to 200 percent range of the federal poverty level[23]). For example, for families earning between 151 to 200 percent above the federal poverty level, co-payments for an office visit now range between $5 and $10.[24]

Eliminating medical benefits in CHIP that are considered "optional extras" in insurance plans provided to private sector employees – such as dental, behavioral health, tobacco cessation and chiropractic – would offer significant cost-savings for CHIP. Policymakers should consider revising the standard of care established for the CHIP program. Today's standard for CHIP represents the "Cadillac" of health care benefits - benefits available to few employees in the private sector. The federal model that Texas chose for CHIP, a program separate from Medicaid, specifically does allow Texas the flexibility to tailor both benefits and eligibility.[25]

Significant cost-savings could be gained if Texas set a maximum threshold for CHIP eligibility at 150 percent above the federal poverty level, by reducing "optional extra" benefits, and increasing the co-pay. Preliminary estimates for these reforms suggest a range of savings from $109 million up to $235 million annually.[26]

Removing "offsets," statutory income disregards for the federal poverty level that are set for CHIP now by Texas law, would offer substantial savings. Allowing some families to exceed the poverty level raises questions about reasonable cost constraints as well as fairness. Use of offsets diverts resources from the truly needy and elevates program costs. While the federal government requires Texas to use offsets for Medicaid, there is no requirement for offsets in CHIP. A report by the Texas Health and Human Services Commission indicates that about 6,400 children were enrolled in CHIP whose families earned over the 200 percent federal poverty level.[27] Some of these families earn incomes that reach 245 percent above the federal poverty level.[28]

The described reforms offer much more than just cost-savings. These reforms would:

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[22] "Working Together for a Healthy Texas – Final Report, Texas State Planning Grant," page 9.
[23] "HHSC Work Group Presents Options for Cost Sharing by Medicaid Clients," Interim News, House Research Organization, Texas House of Representatives, Number 77-7, April 30, 2002.
[24] Ibid.
[25] "Interim Evaluation Report: Congressionally Mandated Evaluation of the State Children's Health Insurance Program, page 2.
[26] W. Gardner Selby, "Bill would drastically shuffle health services," San Antonio Express News, April 25, 2003; and, Fiscal Note for HB 2292, 78th Legislative Regular Session, Legislative Budget Board, Austin, TX, May 11, 2003.
[27] "Income Disregards for Medicaid and CHIP," Attachment D, report issued by the Texas Health and Human Services to the Texas Legislature, February 26, 2003.
[28] Statement to the Appropriations Committee, Texas House of Representatives by Rep. Arlene Wohlegemuth, March 31, 2003.

- Enable Texas to continue the CHIP program and to focus resources on the growing population of most needy children.
- Help prepare CHIP families for greater self-sufficiency, stepping up personal fiscal responsibility.
- Introduce programmatic differences between CHIP and Medicaid that reflect fundamental financial differences between people served by the two programs.
- Bring government-subsidized benefits more in line with health care benefits purchased by employees in the private sector.

V. Comprehensive, Long-term Solutions

Premium Support Program:

In 2001, the legislature took an important step in fundamental reform of government-subsidized health care. House Bill 3038 introduced premium support to reinvigorate an already successful model in the Medicaid program and also proposed the same for families enrolled in CHIP. However, due to reluctance by the federal government and concerns about integrating the CHIP health maintenance organization model with private sector plans, premium support in CHIP was delayed.

When fully implemented, HB 3038 will offer families the opportunity to use state and federal CHIP monies to enroll children in health insurance plans offered by employers.[29] This provision allows families to receive reimbursement for part or all of the cost of enrolling children eligible for CHIP in their employers' health insurance. A number of states are now subsidizing private health insurance with public funds: Massachusetts, Colorado, Rhode Island, Pennsylvania, Wisconsin, New Jersey, Maryland, and Iowa.[30]

Texas' Health and Human Services Commission is working with the federal government to secure a HIFA waiver (through the federal Health Insurance Flexibility and Accountability Act).[31] Legislation recently passed by both the Texas House and Senate, Senate Bill 240, expands state provisions for premium assistance and increases flexibility of the program.[32]

Premium support programs, helping families purchase private health insurance coverage, offer significant, comprehensive, long-term benefits to both individuals and government. States are finding significant savings in leveraging public resources with private health coverage dollars, and premium support programs help states to halt "crowd out," the substitution of public welfare for private health insurance coverage.[33]

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[29] "CHIP Premium Assistance/HIFA Waiver Proposal," Briefing Paper, Health and Human Services Commission, Austin, TX, May 8, 2003.
[30] "A Snapshot of State Experience Implementing Premium Assistance Programs," National Academic for State Health Policy, produced under contract with the Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services, April 2003, pages 9 and 10, at http://www.cms.hhs.gov/schiop/snapshot.pdf.
[31] "CHIP Premium Assistance/HIFA Waiver Proposal."
[32] Senate Bill 240, Enrolled, April 23, 2002, Telicom Bill Information and History, at http://telicon.com.
[33] "A Snapshot of State Experience Implementing Premium Assistance Programs," page 2.

While there are a variety of state examples, a well-designed premium support program for CHIP should be based on *choice,* allowing families to decide for themselves the best coverage option for their children and other family members. For example, parents may choose to enroll their child in their employer-sponsored coverage. A recent consumer survey of CHIP families found that 24 percent had access to employer-based family coverage, but 81 percent of those with access said they could not afford it.[34] There are also low-income families that do not have access to employer-sponsored family coverage. These families should have the option of obtaining alternative, private coverage for the family or the child, including policies offered in the individual market. Data published by the Texas Department of Insurance's State Planning Grant Division finds the average family policy available to Texans costs $553 per month.[35] Premium support could make the difference between a family's having or not having coverage.

Besides giving individuals control over their health care decisions, there are several other important benefits that flow from a premium support program.

1. **Efficient use of funds**. Instead of feeding a growing bureaucracy, a premium support program allows states to give low-income families direct financial assistance to help them obtain coverage for their children.
2. **Unified family coverage**. Premium support consolidates health insurance coverage for a family**.** Many times parents of CHIP children either have a health plan that is different from their children or have no coverage at all. Premium support would help low-income parents obtain coverage as a family.
3. **Continuity of care**. Often, children dependent on public health programs fall in and out of eligibility or switch from program to program. Premium support would ensure that low-income children have one plan with their family. Even as family members transition off assistance, the plan could stay the same.
4. **Individual responsibility**. Premium support programs engage individuals in making decisions about their own health insurance and health care, promoting individual responsibility and self-reliance.
5. **Private sector vitality**. Premium support programs stimulate private sector health insurance, transitioning reliance on government-sponsored care to privately-owned insurance companies.

Reduce State Health Care Mandates:

The cost of health insurance is strongly linked to the mandates that government, both state and federal, imposes on benefit plans sold by private insurers.[36] Mandates not only increase cost, they also reduce the choices available to consumers because mandates standardize benefit packages. Since 1993, Texas legislators have debated, passed and

[34] "Substitution of Insurance Coverage and the Texas CHIP Program," Briefing Paper, Texas Health and Human Services Commission, January 29, 2003, at http://www.caction.org/LegAgenda/CHIP.pdf.
[35] "Working Together for a Healthy Texas – Final Report, Texas Planning Grant," page 34.
[36] "Is There Really An Uninsured Children's Epidemic?" CAHI Policy Brief, Council for Affordable Health Insurance, Alexandria, Virginia, Volume 1, Number 1, 1997.

repealed a number of laws to identify health insurance mandates and assess their financial impact; over the years, panels and interim committees have met to identify mandates and costs, but to date there is no consistent or comprehensive numbers yet available.[37] In 2001, House Bill 1610 required health insurers to disclose cost and utilization data for each mandated health benefit and required the Texas Department of Insurance to adopt rules for collecting data.

When this information becomes available in 2004, legislators will be able to determine if mandates make health insurance too expensive for some families and small employers. The 79th Legislature could significantly reduce the cost of health insurance by allowing insurance carriers to offer a wider variety of insurance benefits at lower costs, making insurance more affordable for more people.

Personal Care Accounts:

A growing number of health care plans throughout the nation offer personal care accounts (PCAs), sometimes called health reimbursement accounts (HRAs). PCAs are special accounts set up by employers (or agents providing health insurance) for individuals to use, specifically designated, for health care. PCAs, and their predecessors – medical savings accounts – are considered by some benefit analysts as promising alternatives to traditional forms of Medicaid and CHIP.[38]

Offering families who are eligible for CHIP the opportunity to receive state and federal dollars for CHIP in the form of a PCA dedicated for health insurance premiums would give families flexibility in selecting benefit plans, in addition to employer group plans, and would increase personal responsibility for health care.

Employer Incentives for Offering Health Insurance:

As Texas proceeds along the current path of expanding consumer-driven health care policy and transitioning health insurance from the public to the private sector, legislators should be cognizant of changes in private sector employer insurance.

Employers, particularly small companies with 50 or fewer employees, encounter growing barriers to offering heath insurance to their employees. National studies indicate that many employers are dropping health insurance because of cost.[39] This trend is evident in Texas. While almost 95 percent of large companies and 37 percent of small firms in Texas offer health insurance, one-third of small employers indicate that they are likely to discontinue insurance within the next five years because the cost is too high, according to the Texas Department of Insurance.[40] Because almost 75 percent of Texas employers are

[37] "Mandated Health Benefits: History and Controversy," Focus Report, House Research Organization, Texas House of Representatives, January 29, 2003, page 2.
[38] "Kid Care and Medical Savings Accounts: A Healthy Alternative to Medicaid," CAHI Policy Brief, Council for Affordable Health Insurance, Vol. 11, No. 4, Alexandria, VA, 1998, page 4.
[39] "Is There Really An Uninsured Children's Epidemic?"
[40] "Working Together for a Healthy Texas – Final Report, Texas State Planning Grant," page 37.

small,[41] many working Texans could find themselves without employer insurance over the next several years.

In Texas, the number of individuals purchasing private health insurance through their employers has decreased over the past three years – currently about 63 percent of Texans are covered by private health insurance – while at the same time enrollment in Medicaid and CHIP has increased.[42] Clearly, government-subsidized health care is outpacing insurance in the private sector.

As policymakers transition responsibility for health insurance from government to the private sector by introducing premium support to CHIP, it is critically important to address the problem of insurance affordability. This problem should not be addressed by increased governmental regulations but instead by creating incentives for reducing insurance costs and increasing the choice of health insurance plans available to employers.

In addressing the problem of insurance affordability, some members of the Working Group responsible for the Texas State Planning Grant suggest the solution for affordable insurance is to return to more traditional catastrophic benefits plans that provide reduced benefits and more significant cost-sharing.[43] These members attribute the increasing cost of health insurance premiums to overly generous benefit plans that encourage unnecessary care and discourage consumers from using insurance wisely; in exchange for reduced coverage, they suggest, insurance costs will decrease and more uninsured individuals and businesses will be able to afford coverage.[44]

Over the next several years, the Texas Legislature will be challenged to expand the statutory ability of insurance companies to offer a greater variety of benefit plans and to create incentives for employers to both retain and increase employer health insurance. Eliminating state mandates, creating purchasing alliances, and offering tax incentives will reduce the cost of CHIP *and* will encourage employers to offer health insurance to employees.

VI. Conclusion

CHIP furnishes a health care safety net, particularly important for families who are transitioning from government services to economic independence.

Today, 513,742 children in Texas are enrolled in CHIP. This number continues to grow; CHIP gained almost 7,000 new children from January 2002 to January 2003.[45] At the same time, the cost of health insurance across the industry has risen almost 15 percent.[46]

[41] Ibid, page 23.
[42] Ibid, page 38.
[43] Ibid, page 39.
[44] Ibid.
[45] "Children's Health Insurance Program (CHIP) – Enrollment March 1, 2003."
[46] "Definity Health Overview," Definity Health Corporation, April 2003, provided to the Texas Public Policy Foundation, San Antonio, TX, April 2003.

The state budget reflects rising enrollment in CHIP and soaring health insurance costs; appropriations for CHIP doubled from fiscal year 2002-03 to 2004-05, rising from $419 million to $967 million.[47]

An effectively-designed, successful CHIP plan will cover as many needy children as possible within limited resources, rely primarily on private sector services, offer choices in benefits, and engage parents in exercising their traditional role of deciding what is best for their children. The 78th Texas Legislature can shoulder an ambitious plan for improving CHIP with the following reforms:

1. Limit the eligibility of children for CHIP to those most in need – setting a maximum threshold for coverage at 150 percent above the federal poverty level.
2. Eliminate income disregards in state law that allows families with income over the poverty level set for eligibility to qualify for services.
3. Increase co-payments for CHIP services.
4. Reduce medical benefits to a level aligned with private sector health insurance coverage.
5. Implement a premium support program to allow families to purchase CHIP insurance through their employers, filing the necessary federal waiver to allow implementation.
6. Eliminate state mandates over benefits that insurance companies must provide in plans.
7. Offer personal care accounts to CHIP families with dedicated funds for health insurance.
8. Create incentives for employers to retain and expand employee health insurance coverage, including tax credits and purchasing alliances.

Today's reform of CHIP can serve as a model for tomorrow's reforms of Medicaid and other government-subsidized health insurance. More accessible health insurance, more affordable health insurance, more health insurance choices, and greater reliance of private sector insurance promise to benefit all who rely on government-subsidized health care. Ultimately all Texans will benefit because government reforms will substantially change how private health insurance will be packaged and sold.

Mending the CHIP safety net – to ensure that CHIP has sufficient funds to catch and care for the growing number of needy children – stands as one of the highest priorities facing the Texas 78th Legislature.

[47] "Texas Budget Highlights Fiscal Year 2002-03, State Finance Report," House Research Report, No. 77-3. September 28, 2001, Austin, TX; and "CSHB1-The House Appropriations Committee's Proposed 2004-2005 Fiscal Budget."

VII. About The Authors

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