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March 10, 2015

The Honorable Orrin G. Hatch
Chairman, Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Fred Upton
Chairman, Committee on Energy
and Commerce
U.S. House of Representatives
2125 Rayburn House Office Building
Washington, DC 20515

The Honorable Ron Wyden
Ranking Member, Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Frank Pallone, Jr.
Ranking Member, Committee on Energy
and Commerce
U.S. House of Representatives
2125 Rayburn House Office Building
Washington, DC 20515

Re: MACPAC Recommends Urgent Extension of Federal CHIP Funding

As Congress considers the future of the State Children's Health Insurance Program (CHIP), the Medicaid and CHIP Payment and Access Commission (MACPAC) would like to reiterate our strong support for extending funding for the program. In order for states to make appropriate decisions in the management of their CHIP programs and ensure that low-income children continue to have access to adequate and affordable health coverage, immediate congressional action is needed. The Commission's recommendation, initially made in its June 2014 *Report to the Congress on Medicaid and CHIP* and underscored again in its forthcoming March 2015 report, is to extend federal CHIP funding for a transition period of two additional years, during which time policies can be developed to address concerns about affordability and adequacy, with the ultimate goal being integration of children into Medicaid, employer-sponsored, or exchange coverage depending upon their family circumstances.

The need for congressional action is urgent because under current law, states are expected to exhaust existing federal funding for their CHIP programs during fiscal year (FY) 2016. States' own projections of their FY 2015–2016 CHIP spending indicate that 11 states will exhaust all remaining funds by December 31, 2015. The attached table shows when each state is projected to exhaust its federal CHIP funding.

An abrupt end to CHIP would have negative consequences for both program beneficiaries and the states. The number of uninsured children would increase while others would face substantially, higher premiums and cost sharing, differences in covered benefits, and changes in provider networks that could affect their access to

care. In addition, states would likely be forced to shut down their separate CHIP programs while maintaining coverage under Medicaid for many children with fewer federal resources. With states now developing their budgets for the next fiscal year, uncertainty about federal CHIP funding poses many challenges for states. Absent congressional action, states will soon begin taking the necessary steps to discontinue their programs, including notifying enrollees.

MACPAC Recommendation to Extend CHIP

MACPAC recommended in its June 2014 report that Congress extend federal CHIP funding for a period of two years in order to provide time for new policies to be developed that integrate children's coverage with other sources including Medicaid, exchange, and employer-sponsored coverage. MACPAC's recommendation assumed no changes in any other aspect of CHIP-funded coverage as it exists under current law. The Commission continues to support a straight extension of CHIP funding as the preferred approach to ensure continued coverage for program enrollees and certainty for states by allowing them to continue operating their programs as they do today. The Congressional Budget Office (CBO) projected that the two-year extension of CHIP recommended by the Commission would increase federal spending by \$0–5 billion.

In the Commission's view, the optimal outcome for children and families is to address affordability and adequacy so that low- and moderate-income children have affordable coverage that offers access to high-quality care. They should also have smooth transitions to other sources of coverage, including Medicaid, exchange, and employer-sponsored coverage, as their family circumstances change.

But until policy changes are made so low- and moderate-income children can be fully integrated into other sources of coverage without compromising affordability or adequacy of care, CHIP should be extended. Such an extension is needed to minimize coverage disruptions, allow for states to plan transitions, and provide for a thorough examination of the coverage options for children.

Considerations for Children Now Covered by CHIP

The Commission's most recent analyses document the consequences of not extending CHIP. Without an extension, 3.7 million children would lose their separate CHIP coverage in FY 2016, of whom nearly one-third—1.1 million children—would become uninsured. This would represent a nearly 40 percent increase in the number of uninsured children nationwide. If the plaintiffs in the *King v. Burwell* case prevail, this number would increase substantially due to the number of children who would lose access to exchange subsidies.

In addition, among children who would obtain exchange or employer-sponsored coverage in the absence of CHIP, changes in out-of-pocket costs (such as deductibles and copayments), benefits, and provider networks could limit children's access to appropriate care. For example, while CHIP is required to provide dental coverage, many children enrolled in exchange and employer-sponsored coverage lack adequate and affordable dental coverage. These potential effects are described in greater detail in the Commission's March 2015 *Report to Congress on Medicaid and CHIP*, to be released later this week.



The Commission is exploring policy options to reduce the number of children projected to become uninsured without CHIP and to ensure adequate coverage for low- and moderate-income children more generally, while also considering the impact of policy changes on government spending. As these analyses continue, an extension of CHIP must provide enough time both to thoughtfully assess the changes needed and to implement those changes.

Programmatic Issues for States

As described below, states' planning and processes to shut down their separate CHIP programs will begin soon—well before states completely exhaust their CHIP funding. Most states have fiscal years that begin on July 1 and their legislative sessions are underway, requiring them to plan in an environment of uncertainty. If funding is not extended, most states will face the dual challenges of dissolving their separate CHIP programs and maintaining their CHIP-financed Medicaid expansions at the lower Medicaid matching rate.

In many states, planning for the administrative and operational steps necessary to transition children currently enrolled in CHIP into other sources of coverage will need to begin soon, and could take up to a year. States need sufficient time to address at least four issues:

- **Approach to ongoing and continued enrollment.** States will need to decide if they will disenroll separate CHIP beneficiaries, freeze enrollment, or establish a waiting list if there are sufficient state resources to continue coverage.
- **Education, outreach, and consumer assistance.** States will need to notify families of programmatic changes, assisting them in enrolling in other coverage and minimizing disruptions in care during the transition. States also will need to communicate transition plans to providers and health plans.
- **System and administrative changes.** Eligibility and enrollment systems (including systems in the health insurance exchanges) must be updated to reflect any new CHIP eligibility and enrollment policies.
- **Managed care contract changes.** States will need to renegotiate or terminate contracts with health plans or third-party administrators. Some plans are already seeking short-term contract extensions rather than longer-term renewals due to the uncertainty of CHIP funding. In addition, CMS has proposed that initial exchange plan applications and rate filings for the 2016 plan year be submitted between April 15 and May 15, 2015. This does not provide issuers sufficient time to account for an influx of children who might transition from CHIP to exchange plans.

If CHIP funding is exhausted, states are required to develop procedures to automatically transition children from separate CHIP to qualifying exchange coverage (§2105(d)(3)(B) of the Social Security Act (the Act)). However, this requirement only applies if the available exchange plans meet a high standard of being “at least comparable to” CHIP programs with respect to benefits and cost sharing, as certified by the Secretary of the U.S. Department of Health and Human Services (HHS) by April 1, 2015 (§2105(d)(3)(C) of the Act). If the Secretary finds that no exchange plans are comparable to CHIP, states are not obligated to transition children from separate CHIP to exchange coverage, although families may obtain subsidized exchange coverage on their own. The Centers for Medicare & Medicaid Services (CMS) has not released details on the certification of comparability nor any

guidance for states on the transition from CHIP to Medicaid or exchange coverage should funding cease. Sufficient time is needed both for CMS to issue any such guidance and for states to implement requirements.

Other CHIP Policy Changes

The debate around extending CHIP funding may include consideration of other policies relevant to CHIP. MACPAC has previously shared our views on some of these issues through formal recommendations, letters to Congress and the HHS Secretary, and on record in our public meetings. Specifically, MACPAC has noted its support for:

- providing statutory authority for a state option to provide 12-month continuous eligibility (March 2013 report);
- eliminating separate CHIP waiting periods (March 2014 report);
- eliminating premiums for children below 150 percent of the federal poverty level (March 2014 report);
- permanently extending the Express Lane Eligibility option (April 30, 2014 letter to the Secretary of HHS); and
- providing continued funding of children's health care quality measures (November 18, 2014 letter to the Secretary of HHS).

In addition, the Commission supports an extension of the contingency fund authorization and amending the CHIP statute so that no state receives contingency funds in excess of its shortfall.

The Commission appreciates the opportunity to share its continued support for an extension of federal CHIP funding. The Commission will continue to work with Congress to formulate an approach to children's coverage that provides adequate and affordable coverage for children and their families, and for equitable treatment of states in financing it. I look forward to our continued work together to ensure that low-income children have access to necessary health care.

Sincerely,



Diane Rowland, ScD
Chair

Attachment

Federal CHIP Financing, Fiscal Year (FY) 2016 (millions of dollars)

State	FY 2014 balances forfeited ¹	Available unspent FY 2015 balances ²	Projected redistribution ³	Total FY 2016 federal CHIP funding	FY 2016 projected federal CHIP spending	Month projected to exhaust CHIP funding
A	B	C	D	E = C + D	F	G
Total	\$372.8	\$6,329.7	\$372.8	\$6,702.5	\$14,769.3	Median: April 2016
Alabama	–	122.6	3.6	126.1	203.3	May 2016
Alaska	–	20.7	0.2	20.9	26.1	July 2016
Arizona	4.7	80.7	2.9	83.6	147.0	April 2016
Arkansas	8.6	94.0	1.8	95.8	135.0	June 2016
California	–	574.8	91.2	666.0	2,642.6	January 2016
Colorado	–	104.7	6.9	111.6	261.2	March 2016
Connecticut	–	41.7	0.7	42.4	57.7	June 2016
Delaware	–	7.2	1.2	8.4	35.2	December 2015
District of Columbia	–	18.0	0.1	18.2	21.4	August 2016
Florida	–	268.0	28.6	296.6	916.8	January 2016
Georgia	–	32.4	24.5	57.0	588.4	November 2015
Hawaii	–	15.9	1.5	17.4	49.0	February 2016
Idaho	–	36.8	0.6	37.4	50.8	June 2016
Illinois	–	190.1	13.4	203.5	493.1	February 2016
Indiana	–	144.8	–	144.8	134.9	October 2017
Iowa	–	36.0	5.1	41.0	150.6	January 2016
Kansas	–	30.5	3.2	33.7	102.3	January 2016
Kentucky	–	98.8	3.7	102.5	182.1	April 2016
Louisiana	30.7	180.1	1.1	181.3	206.0	August 2016
Maine	8.3	27.4	0.2	27.6	32.9	August 2016
Maryland	–	162.8	4.2	167.0	258.4	May 2016
Massachusetts	–	226.7	10.3	237.0	459.1	April 2016
Michigan	–	27.3	5.3	32.6	147.8	December 2015
Minnesota	–	11.2	1.8	13.0	52.5	December 2015
Mississippi	–	172.8	2.1	174.9	220.8	July 2016
Missouri	–	117.0	4.0	121.0	208.1	April 2016
Montana	–	7.1	5.3	12.4	126.9	November 2015
Nebraska	–	22.0	3.5	25.5	102.3	December 2015
Nevada	–	28.1	0.3	28.4	34.3	July 2016
New Hampshire	–	16.0	0.5	16.5	28.4	April 2016
New Jersey	250.0	344.8	4.9	349.7	456.6	July 2016
New Mexico	50.7	73.6	1.9	75.5	115.8	May 2016
New York	–	655.7	6.9	662.6	813.1	July 2016
North Carolina	–	115.2	24.0	139.2	659.4	December 2015
North Dakota	–	11.4	0.5	11.9	22.2	April 2016
Ohio	–	212.4	8.9	221.3	413.9	April 2016
Oklahoma	–	124.3	3.4	127.8	202.3	May 2016
Oregon	–	68.2	11.8	80.0	336.0	December 2015
Pennsylvania	12.4	371.1	2.8	373.9	433.8	August 2016
Rhode Island	–	7.8	2.9	10.7	73.4	November 2015

State	FY 2014 balances forfeited ¹	Available unspent FY 2015 balances ²	Projected redistribution ³	Total FY 2016 federal CHIP funding	FY 2016 projected federal CHIP spending	Month projected to exhaust CHIP funding
A	B	C	D	E = C + D	F	G
South Carolina	–	103.1	2.6	105.6	161.2	May 2016
South Dakota	4.0	18.9	0.2	19.1	24.5	July 2016
Tennessee	–	113.7	7.5	121.2	283.6	March 2016
Texas	–	911.6	28.3	940.0	1,553.9	May 2016
Utah	–	58.7	1.4	60.1	89.6	June 2016
Vermont	–	3.7	0.7	4.4	19.4	December 2015
Virginia	–	83.5	10.1	93.7	313.2	January 2016
Washington	–	–	9.1	9.1	206.1	October 2015
West Virginia	–	28.6	1.2	29.8	56.2	April 2016
Wisconsin	–	95.8	4.0	99.7	185.5	April 2016
Wyoming	3.5	11.4	0.0	11.4	11.5	September 2016

Notes: Total dollars include territories. Assumes current law in FY 2016, including increase of 23 percentage points above typical federal CHIP matching rate.

¹ States have two years to spend each CHIP allotment. After two years of availability, unspent allotments are forfeited and made available for redistribution to other states.

² Although no FY 2016 federal CHIP allotments are available to states under current law, nearly every state will begin FY 2016 with some balances from their unspent FY 2015 allotments.

³ States that exhaust their federal CHIP allotments during the year and therefore qualify as shortfall states are entitled to redistribution funds. Because the \$372.8 million in redistributed FY 2014 funding is inadequate to cover the projected shortfalls, the funds are distributed proportionally, based on the size of each state's projected shortfall.

Source: MACPAC analysis as of February 2015 of Medicaid and CHIP Budget Expenditure System (MBES/CBES) data from the Centers for Medicare & Medicaid Services, including quarterly projections provided by states in November 2014.