

Congress Is Full of SCHIP
Expansion isn't the best way to help the uninsured.

NRO Online
July 31, 2007
By Paul Howard

Nicole Garrett is not one of the uninsured. Her family is covered by Michigan's Medicaid program. And so when her daughter Jada developed painful joint inflammation and needed to see a specialist, she turned to her Medicaid plan. But if she had coverage, she lacked access: there was only one rheumatologist in her network, and the wait to see him was more than three months. Unfortunately, her story is all too common, an example of the failure of public programs — designed with the best of intentions — to produce acceptable outcomes. With Congress debating a massive expansion of such programs, the better prescription is for a smarter safety net, not a pricier one.

For millions of Medicaid patients, finding access to a doctor who accepts Medicaid's low reimbursement rates is an agonizing struggle. As Ms. Garrett told the *Wall Street Journal* recently, "when we had real insurance, we could call [a doctor] and come in at the drop of a hat." In fact, according to 2006 study by the Center for Studying Health System Change, over 20 percent of doctors have stopped accepting new Medicaid patients — a rate "five times higher than for privately insured patients."

Today, states spend more money on Medicaid than they do on K-12 education. And many states have lavish plans that (on paper) cover at least as many services as private insurance. But they offer doctors only a fraction of what private insurers pay.

The irony is that as states expand public programs for the uninsured, including many middle-income families, they are weakening private insurance markets through a phenomenon known as "crowd out." For instance, in May the Congressional Budget office issued a report on the State Children's Health Insurance Program (SCHIP) that found that "the increase in public coverage [as a result of SCHIP] has been partially offset by a reduction in private coverage." This may be because SCHIP is cheaper than insurance offered through some employers, leading many parents to refuse coverage.

In fact, "about 60 percent of the children who were eligible for [SCHIP] were covered by private insurance in the year before the program was enacted." The CBO also estimated that for every 100 new SCHIP enrollees, between 25 and 50 children lost private coverage.

Besides crowd out, legislators also ignore the fact that public insurance often makes it harder for poor patients to stay healthy because of an onerous bureaucracy and pervasive cost controls.

A 2003 study in *The Journal of Health Economics* found that HIV+ patients fared better

in private insurance, in part because “many anti-retroviral drugs [required] prior authorization from Medicaid that restricted use to advanced illness.” Privately insured patients started effective drug treatment sooner and stayed healthier. Another study in Health Affairs (2005) found that Medicaid patients had nearly as much trouble getting prescription drugs as the uninsured (22 percent v. 26 percent).

Despite these problems, the political temptation to expand Medicaid and SCHIP into middle class entitlements is nearly irresistible. Today, according to the Government Accounting Office, over 40 states enroll children from families at 200% or higher of the federal poverty level, around \$40,000 for a family of four. Seven states cover children in families at 300 percent or higher, about \$60,000. (New Jersey tips the scales at 350 percent.)

This week, Congress is set to massively expand SCHIP without doing anything to help make private health insurance more affordable. Last Thursday, the Senate Finance Committee approved a bill that increases federal SCHIP funding by \$35 billion over five years; a family of four making over \$80,000 would even be eligible for coverage. The House is expected to endorse even more spending.

The president has announced that he will veto any bill that includes over \$5 billion in new funding as an unwarranted government takeover of health care. He’s right, and Congress can do much more to help the uninsured without breaking the bank.

The president has a better plan: creating an individual tax deduction up to \$15,000, or an equivalent tax credit. Any individual could take advantage of the deduction, provided they purchased at least catastrophic health insurance. While expanding SCHIP funding would cover a few million uninsured at enormous cost to taxpayers, the administration predicts that fixing the tax code could lead up to 20 million uninsured to purchase private coverage without substantial new outlays.

If this was combined with an interstate market for health insurance, where consumers could shop for low-cost policies across state lines, Congress could add modest new SCHIP funding and fundamentally improve health care access for the uninsured.

Past experience has shown that expanding public programs is not a sustainable alternative to private insurance. Helping low-income uninsured children get access to public health insurance is a noble cause; but making good, private health insurance more affordable for all working families is a better one.

— *Paul Howard is a senior fellow at the Manhattan Institute’s Center for Medical Progress and is editor of the daily blog www.medicalprogresstoday.com.*