HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 245 Florida Kidcare Program
SPONSOR(S): Rich and others
TIED BILLS: None. **IDEN./SIM. BILLS:** SB 466 (i)

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Health Services (Sub)	5 Y, 3 N	Rawlins	Collins
2) Health Care			
3) Insurance			
4) Health Appropriations (Sub)			
5) Appropriations			

SUMMARY ANALYSIS

Millions of children and adults lost *private* health insurance coverage during 2001 and the first quarter of 2002, according to data from the Census Bureau and the Centers for Disease Control and Prevention (CDC). The number of individuals who became uninsured during this period was much smaller, however, primarily because of offsetting increases in the number of children and adults served by Medicaid and the State Children's Health Insurance Program (SCHIP). If states scale back Medicaid eligibility to help balance their budgets, the program will become less effective in cushioning the loss of employer-sponsored health insurance during the current period of economic weakness, and the number of uninsured individuals will rise.

Congress created the State Children's Health Insurance Program (SCHIP) in 1997 and provided states with $40 billion over ten years, 1997-2007, to expand health care coverage for low-income families with uninsured children. Under the 1997 legislation, however, the annual level of SCHIP funding dropped substantially for fiscal year 2002, and expected to continue the drop in upcoming years. Federal funding for SCHIP dropped by 26 percent, or more than $1 billion, in fiscal year 2002 and scheduled to remain at this level in FY 2003 and FY 2004. The Balanced Budget Act of 1997 included this reduction solely to ensure a balanced federal budget by 2002, under the budget and economic assumptions in use at that time. However, because of this funding reduction and rising SCHIP enrollments and expenditures, the federal government expects that a substantial number of states (including Florida) will have insufficient federal funds available to sustain their SCHIP programs in the years ahead.

This funding dip [known as CHIP-DIP] is taking effect at a time when states have an increased need for SCHIP funds. Enrollment in SCHIP programs has increased sharply in the past few years. Federal SCHIP expenditures have increased correspondingly, jumping from $200 million in fiscal year 1998, the program's first year, to $600 million in fiscal year 1999 and $1.8 billion in fiscal year 2000. In its April 2001 estimates, the Office of Management and Budget, in the Executive Office of the President of the United States (OMB) estimated that SCHIP expenditures would reach $3.4 billion in fiscal year 2002. Moreover, the April OMB estimates did not assume a recession. In a recession, more children will become eligible for SCHIP as their parents lose their jobs and health insurance. The most recent expenditure data indicate that SCHIP expenditures in 2002 exceeded OMB's April 2001 estimate.

HB 245 creates s. 409.8141,F.S., which provides for enrollment under certain limitations in a medical insurance coverage plan with separate premiums or cost-sharing requirements for uninsured parents, guardians or relative caretakers whose children are enrolled in the Florida Kidcare program. The proposed legislation further safeguards the child's enrollment in the program when the adult fails to make premium payments or meet cost-sharing requirements. The bill allows for enrollment limitations.

AHCA estimates the fiscal impact at $202,689,648 in FY 03-04, and $270,252,863 in FY 04-05. In addition to AHCA's estimated fiscal impact, the Department of Health, which handles outreach for KidCare, estimates a fiscal impact of $300,000 for educational and informational materials.

The bill is effective October 1, 2003.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

1. Reduce government?	Yes[]	No[x]	N/A[]
2. Lower taxes?	Yes[]	No[x]	N/A[]
3. Expand individual freedom?	Yes[x]	No[]	N/A[]
4. Increase personal responsibility?	Yes[]	No[x]	N/A[]
5. Empower families?	Yes[x]	No[]	N/A[]

For any principle that received a "no" above, please explain:

By increasing the number of beneficiaries, the role of government is expanded by increasing the number of staff to process applications, operate telephone call centers and process changes and premium payments.

This bill does not reduce taxes, but expands the use of state dollars to fund health insurance for adults.

B. EFFECT OF PROPOSED CHANGES:

Millions of children and adults lost private health insurance coverage during 2001 and the first quarter of 2002, according to data from the Census Bureau and the Centers for Disease Control and Prevention (CDC). The number of individuals who became uninsured during this period was much smaller, however, primarily because of offsetting increases in the number of children and adults served by Medicaid and the State Children's Health Insurance Program (SCHIP). If states scale back Medicaid eligibility to help balance their budgets, the program will become less effective in cushioning the loss of employer-sponsored health insurance during the current period of economic weakness, and the number of uninsured individuals will rise.

The National Forecast for State Children's Health Insurance Plan

The State Children's Health Insurance Program (SCHIP) gives grants to states to provide health insurance coverage to uninsured children up to 200% of the federal poverty level (FPL). States may provide this coverage by expanding Medicaid or as in the Florida program, expand or create a state children's health insurance program. Funds are available October 1, 1997. However, states do not have to participate, and they can choose to wait up to three years to implement the program without losing any funds.

This legislation sets eligibility criteria. States can decide to cover all of those children or to target coverage to a narrower group of children. The eligibility criteria are to cover uninsured children who are:

- not eligible for Medicaid;
- under age 19; and
- at or below 200% of the federal poverty level (FPL).

States must maintain the Medicaid eligibility they had in place on June 1, 1997 in order to receive the grants. They must also maintain the same level of state spending on child health programs that was expended in 1996.

When Congress created State Children's Health Insurance Program (SCHIP) SCHIP in 199, it provided states with $40 billion over ten years to expand health care coverage for low-income uninsured children. Under the 1997 legislation, however, the annual level of SCHIP funding drops substantially

for fiscal year 2002 and the 2 subsequent fiscal years. Federal funding for SCHIP dropped by 26 percent, or more than $1 billion, in fiscal year 2002 and is scheduled to remain at this level in each of the next two fiscal years. The Balanced Budget Act of 1997 included this reduction solely to ensure the budget was balanced by 2002 under the budget and economic assumptions in use at that time. However, because of this funding reduction and rising SCHIP enrollments and expenditures, a substantial number of states, including Florida, are expected to have insufficient federal funds available to sustain their SCHIP programs in the years ahead.

Data and projections from the Centers for Medicare and Medicaid Services (CMS) at the U.S. Department of Health and Human Services (HHS) indicate the reduction in SCHIP funding will affect states in the years ahead. These projections show that starting in fiscal year 2004, the level of federal SCHIP expenditures for some states, including Florida, will need to sustain their projected SCHIP enrollment will exceed the *total* federal SCHIP funds available to these states, including unspent funds from prior years and funds reallocated from other states. As a result, it is suggested that these states will have to:

1. Reduce the number of children they insure through SCHIP; or
2. Provide additional state funds.

The HHS projections also show that the number of states that will face this problem will grow substantially in years after 2004. If the affected states are unable (or unwilling) to increase state funding to compensate, they will have no choice but to cut their SCHIP programs.

As a result, a large number of children may lose coverage. According to the April 2001 OMB[1] estimates, the increase in the number of children enrolled in SCHIP programs nationally will slow in 2002 as the effects of the funding reduction begin to be felt, with SCHIP enrollment then nearly leveling off in 2004 and beginning to decline in 2005. OMB projected that national SCHIP enrollment will reach 3.3 million in 2004 but fall to three million in fiscal year 2005 and 2.9 million in fiscal year 2006, a decline of 400,000 children in two years. Moreover, the April OMB estimates are likely to understate the decline in SCHIP enrollment. More recent SCHIP expenditure data from HHS indicate that SCHIP expenditures in fiscal year 2002 are higher than OMB projected in April 2002. In addition, the April estimates assumed no recession; SCHIP enrollment — and hence SCHIP expenditures — are likely to be higher during the time when funding is being reduced. Since expenditures will be higher in the short term than OMB had expected, less in unspent funds will remain, with the result that the eventual drop in enrollment is likely to be larger than 400,000 nationally.

Although this decline in national SCHIP enrollment will not appear until fiscal year 2005, children in some states are likely to begin losing coverage before then. As noted above, in some states the SCHIP expenditures necessary to sustain projected enrollment are expected to exceed the available funds starting in 2004, making it likely these states will have to start scaling back their SCHIP programs by that year. The year 2005 is simply the year that an enrollment decline begins to show up in the national estimates. In addition, with a number of states concerned that their future SCHIP costs will outstrip their available funding, some states may take steps much earlier than 2005 — and possibly as early as this year — to halt or slow increases in SCHIP enrollment (and thereby cause fewer children to be insured than would otherwise be the case). Some states are likely to start taking such steps soon to avoid having to reduce the number of children insured through SCHIP in subsequent years.

[1] The Office of Management and Budget, in the Executive Office of the President of the United States, assists the President in the development and implementation of budget, management, and regulatory policies. This is accomplished by developing the President's annual budget submission to Congress, assisting the President in managing the Executive Branch, developing the Administration's position on legislation before Congress, implementing the budget after it is enacted into law, and conducting in-depth regulatory review of proposed rules by federal agencies, and providing quality regulatory analysis. The federal government today has 14 Cabinet Agencies with over 100 Agencies, Boards and Commissions, with 4.8 military and civilian employees.

According to estimates based on the Centers for Medicare and Medicaid (CMS) model, under current law, the following 20 states will face federal funding shortfalls some time between now and fiscal year 2007: Alaska, Arizona, California, **Florida**, Georgia, Iowa, Kansas, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, Missouri, New Jersey, New York, Rhode Island, South Dakota, Texas, West Virginia and Wisconsin.

Pending Federal Legislation

In addition to the built-in reductions of the 1997 SCHIP Legislation, a House Budget Resolution, as modified on March 20, 2003, indicates that Function 550 (Health) is being reduced by $98 billion over ten years (FY 2004 to 2013). Exempting health care for military retirees from the reduction (because it falls under the jurisdiction of the House Armed Services Committee, which is exempt from making cuts) and distributing the $98 billion in reductions proportionally over the remaining entitlements in that budget function yields the estimates that Medicaid will be cut by $92 billion and the State Children's Health Insurance Program (SCHIP) will be cut by $2 billion over the FY 2003 to 2014 period. The exact amount in federal matching funds for Medicaid and SCHIP reeducations each state will bear is unknown, since the policy changes needed to attain the reductions is unclear. For example, the savings may occur by reducing allotments to states under the Administration's Medicaid and SCHIP proposal on a pro rata[2] basis or by some other mechanism. The table illustrates how much each state could lose over the ten-year period, if losses are distributed evenly across states in proportion to their estimated federal Medicaid and SCHIP expenditures in FY 2003

Federal Medicaid and SCHIP Funds That Could Be Lost: FY 2004 to 2013
(in millions of $)

United States	**$94,000**	Louisiana	$2,085	Oregon	$1,104
Alabama	$1,361	Maine	$631	Pennsylvania	$4,407
Alaska	$306	Maryland	$1,289	Rhode Island	$503
Arizona	$1,851	Massachusetts	$2,677	South Carolina	$1,513
Arkansas	$1,047	Michigan	$2,746	South Dakota	$220
California	$9,738	Minnesota	$1,566	Tennessee	$2,350
Colorado	$815	Mississippi	$1,456	Texas	$5,691
Connecticut	$1,129	Missouri	$2,037	Utah	$459
Delaware	$210	Montana	$273	Vermont	$277
Dist. of Columbia	$497	Nebraska	$508	Virginia	$1,222
Florida	**$4,059**	Nevada	$331	Washington	$1,685
Georgia	$2,378	New Hampshire	$343	West Virginia	$780
Hawaii	$285	New Jersey	$2,535	Wisconsin	$1,636
Idaho	$367	New Mexico	$856	Wyoming	$115
Illinois	$2,850	New York	$12,705	Amer. Samoa	$2
Indiana	$1,794	North Carolina	$2,883	Guam	$4
Iowa	$864	North Dakota	$197	N. Mariana Isl.	$1
Kansas	$655	Ohio	$3,794	Puerto Rico	$130
Kentucky	$1,641	Oklahoma	$1,140	Virgin Islands	$4

Source: Center on Budget and Policy Priorities, based on states' estimates of Medicaid and SCHIP expenditures for FY 2003, as reported in November 2002. Revised 20-March-03.

[2] PRO RATA - Term used to designate the system of distributing the assets of an estate (or government) in equal proportion among all the members of the same class of beneficiaries.

Florida's SCHIP Policy

In 1998, the Florida Legislature enacted the Children's Health Insurance Program (CHIP). This program includes KidCare Medicaid which provide health insurance coverage to those low-income families with uninsured children, whose families were unable to afford healthcare costs, but did not qualify for health benefits under Medicaid, and who did not have healthcare benefits under their employers. Florida KidCare, a non-entitlement program that employs separate insurance programs and a Medicaid expansion provides affordable health care benefit coverage options for children. The family contributes financially either by paying a premium or share of cost for healthcare for their children.

The Healthy Kid's Corporation determines eligibility for Title XXI programs. Eligibility for Kidcare is contingent upon family income at or below 200% of the federal poverty level. There are four comprehensive programs based on need and eligibility:

- MediKids- for a child who has attained age 1, but who is under 5 is eligible;
- KidCare Medicaid- for children under age 19 whose family income qualifies them for services through Medicaid Title XIX;
- Healthy Kids- for children 5 to 19 years of age; and
- Children's Medical Service (CMS) - for children ages 1 to 19 years of age with special healthcare needs.

In addition to these programs, an employer-sponsored group health insurance plan is a fifth component. A family whose income is above 200% of the FPL may participate in a Florida Kidcare program excluding Medicaid, however, the family is not eligible for premium assistance payments and must pay full cost of premiums including administrative cost, and is subject to enrollment limitations. Eligibility determinations are made separately for each program. For a child who has been determined eligible for participation in Florida Kidcare, the parent is not eligible to receive healthcare benefits under this program.

The Department of Children and Families' (DCF's) role is to determine Medicaid eligibility. DCF screens applicants for eligibility and should a family be determined ineligible for Medicaid services, the case may be referred to the Florida Healthy Kid's Corporation for a determination of eligibility under the Kidcare program.

HB 245

The bill extends healthcare insurance benefits, creating s. 409.8141, F.S., under the Florida Kidcare program to the parents or relative caretakers of children who were determined eligible for services under Kidcare, Title XXI provisions. Since the bill does not specifically address language regarding Medicaid eligibility for the parent, it appears that there would be no impact on DCF's Title XIX caseload.

The bill provides for separate cost sharing on premiums for adults from those for children and creates the opportunity for families with income over 200% of the federal poverty level to pay the full premium plus administrative costs to obtain coverage for the parent, guardian, or relative caretaker.

The bill specifies that eligibility for this population will not be an entitlement, and that the Florida Healthy Kids Corporation's Board of Directors may limit enrollment to comply with the General Appropriations Act. Provides that these enrollees would not be included in the enrollment limitations established for the Florida KidCare program. Non-payment of the parent's premium would not affect the child's enrollment.

The bill is effective, October 1, 2003.

Limitations of the Bill

The Florida Kidcare program includes a Medicaid expansion provision. The bill does not specify whether Title XIX funds would be used to pay for health services for parents whose children already

receive Kidcare benefits. Consequently, the potential impact this bill would have on DCF Title XIX caseload or AHCA is unclear. If Title XIX funds are being considered for such services, there is a provision under Section 1906 of the Social Security Act that allows a child's parent to apply for enrollment in a group health plan and the state shall provide for payment of the enrollee premiums or cost-sharing obligations. The inclusion of healthcare benefits for parents under Title XIX would require federal waivers unless the state wants to cover the parents with general revenue funds.

Policy Considerations

DCF expressed concern with using Title XXI funds for covering parents or guardians or relative caretakers of KidCare enrolled children. Estimates for Florida indicate that there are between 366,000 to 390,000 potentially eligible uninsured children not yet covered by this program. The state needs additional funding to expand coverage to the group of uninsured. However, as illustrated in previous narrative, the reduced federal funding, at a time when state budget cuts may affect a number of individuals' eligibility in the SCHIP program, may not be the appropriate time to expand the program.

It is worth noting, that policy opportunities to provide programs that assist families with their healthcare needs might ultimately improve the quality of life for its beneficiaries. DCF reported, "Although it would support measures for low-income families to have better access to healthcare, there is concern at this present time, whether there is adequate funds to pay for these much needed services."

According to AHCA, "adding adults to KidCare coverage would create a more "family" type of coverage. Families may be more apt to maintain their insurance coverage when all family members are insured. The Florida Healthy Kids Corporation contracts with managed care providers are based on services for children and would need to be changed to serve adults. This would also require a determination of what benefit package would be available to adults."

C. SECTION DIRECTORY:

Section 1. Creates s. 409.8141, F.S., providing that an uninsured parent, guardian, or relative caretaker of a child enrolled in the Florida Kidcare program is eligible for coverage under the program, subject to certain limitations, requiring separate premiums, or cost sharing requirements for the parent, guardian, or relative caretaker; providing that nonpayment of premiums or cost-sharing requirements for an adult is not grounds for disenrolling a child in that family from the program; providing for coverage of a parent, guardian, or relative caretaker whose income is above a specified level if the adult pays the full cost of the premium, including administrative cost; providing that the eligibility for coverage provided by the act is not an entitlement; authorizing the Agency for Health Care Administration and the board of directors of the Florida Kidcare program to limit enrollment under the act; and exempting the adults enrolled under the act from the enrollment limitations of the Florida Kidcare program.

Section 2. Provides for an effective date of October 1, 2003.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

According to the Agency for Health Care Administration:

	Amount Year 1 (FY 03-04)	**Amount Year 2 (FY 04-05)**
Title XXI (SCHIP)	$502,317,824	$669,757,099
Transfers In / Another Agency	$	$
Total Recurring Revenues	**$502,317,824**	**$669,757,099**

Under current projections for Title XXI expenditures, Florida's allocation of Title XXI funds will not be sufficient to fund the current program for children in FY 2004-05. The state's expenditures now exceed the allocation for one year. Because the state has three years to spend an allocation for a specific federal fiscal year, the state can continue to cover the current program through FY 2003-04 without major change. There is no guarantee that federal funds will be available to Florida under the current Title XXI program and funding allocations.

2. Expenditures:

According to the Agency for Health Care Administration:

	Year 1 (FY 03-04)	**Year 2 (FY 04-05)**
Expense:	$ 0	$ 0
Contracts with Insurance Plans/Fiscal Administrator		
266,144 parents X $291 Premium X 9 Months	$697,031,136	$ 0
266,144 parents X $3.33 Admin Cost X 9 Months	$ 7,976,336	$ 0
266,144 parents X $291 Premium X 12 Months	$ 0	$929,374,848
266,144 parents X $3.33 Admin Cost X 12 Months	$ 0	$ 10,635,114
OCO	$ 0	$ 0
Total Recurring Expenditures	**$705,007,472**	**$940,009,962**

Difference: (Total Revenues minus Total Expenditures)

Amount Year 1 (FY 03-04)	**Amount Year 2 (FY 04-05)**
($202,689,648)	**($270,252,863)**

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

The Kidcare program is funded through local government requirements, it is unclear as to the fiscal impact of this bill on local governments.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Since the bill extends healthcare services to parents of children who are Kidcare enrollees, those businesses who employ low-income people and who do not offer health insurance benefits may eliminate their responsibility to provide health insurance benefit to their employees.

Additionally, those businesses that carry high cost health insurance plans for their employees may drop the coverage in order to cut the expense. Their employees would be forced to seek out health insurance coverage on their own, more than likely opting for lower costs plans subsidized by the state.

It is anticipated that the implementation of the bill may have adverse consequences on the state's small group health insurance market, providing the effects of "crowd-out." Crowd-out is an industry term used to describe when a beneficiary cancels or refuses private or employer-based insurance to receive this more affordable, state subsidized, health insurance alternative.

Conversely, the bill provides more affordable health insurance for low-income adults, who may not have been previously insured, resulting in the opportunity for better health care treatment and the recipients' ability to access more preventive health care. Health care providers will receive payment for their services for the population who previously may have been slow or unable to pay for services and often classified in hospital accounting procedures as "bad-debt" or "charity care" write-offs.

D. FISCAL COMMENTS:

In addition to AHCA's estimated fiscal impact, the Department of Health, which handles outreach for KidCare, estimates a fiscal impact of $300,000 for educational and informational materials.

By adding additional members to the Florida KidCare program, the time frame for reaching the adverse effects of CHIP-Dip would be shortened. This could mean imposing a waiting list, decreasing enrollment, or limiting the benefits package currently offered to existing KidCare members.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds. This bill does not reduce the percentage of a state tax shared with counties or municipalities. This bill does not reduce the authority that municipalities have to raise revenues.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

The Agency has the authority to promulgate rules pursuant to section 409.919, F.S., to implement the provisions of this bill.

C. DRAFTING ISSUES OR OTHER COMMENTS:

According to the Department of Children and Families, current recipients and providers of the Kidcare Program may object and subsequently generate litigation, if the state is forced to cut services or provider payments in order to extend coverage to parents, guardians, and relative caretakers of children enrolled in the KidCare program.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES