MassHealth and the Importance of Continued Federal Funding for CHIP

APRIL 2015

MMPI
MASSACHUSETTS MEDICAID POLICY INSTITUTE

FOUNDATION MASSACHUSETTS

UMASS MEDICAL SCHOOL
Center for Health Law and Economics
A Commonwealth Medicine Center of Distinction

Robert W. Seifert
Center for Health Law and Economics, University of Massachusetts Medical School

ABOUT THE MASSACHUSETTS MEDICAID POLICY INSTITUTE

The Massachusetts Medicaid Policy Institute (MMPI)—a program of the Blue Cross Blue Shield of Massachusetts Foundation—is an independent and nonpartisan source of information and analysis about the Massachusetts Medicaid program, MassHealth. MMPI's mission is to promote the development of effective Medicaid policy solutions through research and policy analysis.

ABOUT THE CENTER FOR HEALTH LAW AND ECONOMICS

The Center for Health Law and Economics (CHLE) at the University of Massachusetts Medical School is a sought-after partner among public agencies and foundations striving for health care system improvement and health policy analysis. CHLE's purpose—to enrich and develop reform ideas and policies that enhance coverage, quality, and affordability for vulnerable populations—drives its work analyzing new policies, crafting laws and financing frameworks for reform, designing new programs and purchasing strategies, navigating complex legal parameters, and educating through reports and webcasts.

ACKNOWLEDGMENTS

The author thanks Matthew Reidy of the Center for Health Care Financing, UMass Medical School, and staff of the Executive Office of Health and Human Services for their expert assistance.

EXECUTIVE SUMMARY

The Children's Health Insurance Program (CHIP) provides insurance coverage for low- and moderate-income children who are above the income standards for Medicaid eligibility. In Massachusetts, CHIP is incorporated into the MassHealth program and currently covers about 130,000 children. Federal CHIP funding will run out soon after September 2015 unless Congress takes action to continue funding. On March 26, the U.S. House of Representatives passed legislation that would fund CHIP for two more years. The Senate is expected to take up the bill in mid-April after spring recess.

If federal funding is not extended, there would be significant implications for Massachusetts. While most of Massachusetts's CHIP population would continue to get MassHealth coverage through other eligibility categories, the federal matching rate would be lower (50%) than it is currently under CHIP (65%), and lower still than the increased CHIP matching rate that is mandated in the Affordable Care Act and that figured into the Governor's state fiscal year (SFY) 2016 budget (88%). Under the terms of the state's Medicaid Demonstration Waiver (the "1115 waiver"), 123,000 children currently enrolled in CHIP would retain their MassHealth benefits but at a loss to the state of about $142 million in federal revenue in SFY 2016.

For some other CHIP enrollees—about 7,000 unborn children whose mothers receive prenatal care through CHIP—there would be no federal match at all. Unborn children are not eligible for coverage through the Health Connector. If the state chose to continue to cover these children with state dollars only, the cost to the state would be an additional $24.3 million in SFY 2016.

All told, if federal CHIP funding is not continued and Massachusetts opts to continue to provide coverage to all of the 130,000 children currently covered, it will do so at an additional cost of about $166.3 million in SFY 2016.

Alternatively, fiscal pressures could lead Massachusetts to amend its 1115 waiver to eliminate MassHealth coverage for as many as 58,000 CHIP children and to choose not to cover the 7,000 unborn children. Some of these children might obtain more expensive, less comprehensive coverage through an employer[1] or the Health Connector, but a significant number of them could become uninsured. This would reverse a long-running trend in Massachusetts and tarnish what has been one of the state's great health policy triumphs: reducing the number of uninsured children in the state to a minuscule level.

1 MassHealth provides premium assistance for some of its members, including some CHIP children, to assist with their purchase of employer coverage. Loss of CHIP coverage for these members would effectively increase the cost to the family, as they would be required to pay the full employee share of the premium.

BACKGROUND

The Children's Health Insurance Program (CHIP) is a state-administered health insurance program for low- and moderate-income children whose family incomes exceed the standard for the state's Medicaid program. Congress enacted CHIP in 1997 as Title XXI of the Social Security Act and reauthorized it in 2009. The Affordable Care Act (ACA) extended the authorization of CHIP indefinitely, and imposed a "maintenance of effort" requirement, which prohibits states from making their CHIP standards more restrictive than they were at the time of the ACA's enactment, until 2019.[2] Like CHIP's older cousin Medicaid (Title XIX), the program's financing is shared by state and federal governments. In fact, the federal government contributes a larger percentage to state CHIP programs than it does to Medicaid, averaging 70 cents for each CHIP dollar spent nationally, compared with 57 cents in Medicaid.[3] Massachusetts receives 50 cents of federal reimbursement for every dollar spent on Medicaid[4] and 65 cents per dollar of CHIP spending.

Another important distinction from Medicaid is that CHIP is not an entitlement program and depends on an annual budget appropriation from Congress. Each state receives an allotment from that appropriation, which represents the state's available federal CHIP funds. The state has two years to spend each year's allotment. States that have exhausted their allotments may receive funds redistributed from states that do not use theirs up after two years, or from a contingency fund created in the CHIP Reauthorization Act (CHIPRA) of 2009. In short, federal CHIP funding is capped, not open-ended as Medicaid funding is.

This is an especially salient point now because, although CHIP is authorized through 2019 and beyond, it currently is funded only through the end of federal fiscal year (FFY) 2015—September 30, 2015. States may not have spent their entire allotments by that date, but the money will begin to run out shortly thereafter.

With the start of subsidized coverage under the ACA, CHIP may seem redundant, as it targets children living in families that would qualify for subsidies for purchasing coverage in an insurance marketplace (the Health Connector in Massachusetts). For example, CHIP eligibility in Massachusetts extends to family incomes at or below 300 percent of the federal poverty level (FPL) for children age 0–18; marketplace subsidies, which are available up to 400 percent of FPL, overlap this income range.[5] Yet, compared with CHIP, marketplace coverage may offer fewer benefits appropriate to children and require higher out-of-pocket costs. Along with the higher costs to consumers, an interpretation of the ACA known as the "family glitch"[6] means that in the absence of CHIP the number of uninsured children would probably rise.[7] There is broad consensus, then,

2 42 U.S.C. 1397ee(b). The ACA also specifies exceptions to this requirement, one of which is addressed in this report.

3 Medicaid and CHIP Payment and Access Commission (MACPAC). *Report to the Congress on Medicaid and CHIP*. June 2014.

4 Certain Medicaid expenditures receive a higher reimbursement rate, but generally, spending for covered services is reimbursed at the 50 percent rate. For the population newly eligible as a result of the ACA expansion, Massachusetts receives 80 percent reimbursement on covered services this year, gradually increasing to 90 percent by 2020.

5 In 2015, the federal poverty level is $11,772 for an individual and $24,252 for a family of four.

6 The premium subsidies that the ACA authorizes are available to individuals only if affordable employer-sponsored insurance (ESI) is not available. The affordability test is based on the self-only premium for the employee, even if family ESI is offered and other family members need insurance. Thus, covering a child through an employer could in fact be unaffordable even if ACA rules deem ESI affordable, which would close off the possibility of subsidized marketplace coverage.

7 Aaron E. Carroll. "Health Law Helped Adults. Now, What About Children?" *New York Times*, December 29, 2014.

that continued funding for CHIP is desirable, at least for the near future. The Medicaid and CHIP Payment and Access Commission (MACPAC) recommended that Congress extend CHIP funding for two years, through FFY 2017, "during which time the key issues regarding the affordability and adequacy of children's coverage can be addressed."[8] On March 26, the U.S. House of Representatives passed a bill that includes a two-year extension of CHIP funding.[9] The Senate will take up the bill next.

There is bipartisan support to extend CHIP funding, but Congress must pass legislation before September 30, 2015.

Despite this important progress, there still is no guarantee that Congress will pass an extension of CHIP funding before states' current allotments begin to run out next fall. The remainder of this fact sheet examines the implications for Massachusetts of a possible loss of federal CHIP dollars.

THE MASSACHUSETTS CHIP PROGRAM

The Massachusetts CHIP program is incorporated into MassHealth, the state's public insurance program for low-income individuals and families. Most of MassHealth falls under the authority and funding of Medicaid, but some children in MassHealth who do not meet Medicaid eligibility standards are covered by CHIP.[10] Under the federal CHIP statute, states have the option of expanding their Medicaid programs using the enhanced federal match for CHIP, creating a CHIP program separate from Medicaid, or doing a combination of the two. Massachusetts, along with 28 other states, has a combination CHIP program.[11] About 130,000 MassHealth members are enrolled in categories funded by CHIP, representing more than one-fifth of children enrolled in MassHealth.[12]

The determination of whether a child is covered by Medicaid, Medicaid-expansion CHIP, or Separate CHIP is based on age, family income, and disability status. In addition, the child must be uninsured at the time of application to qualify for CHIP coverage. Figure 1 illustrates the eligibility standards for children covered by Medicaid, Medicaid-expansion CHIP, and Separate CHIP. In the chart, Separate CHIP is split into two subcategories—"rollover to Title XIX" and "no rollover." Under the current terms of the 1115 waiver, the rollover group consists of children with disabilities in MassHealth CommonHealth and non-disabled children with family incomes between 150 and 300 percent of FPL. Their eligibility is authorized by both the 1115 waiver and the Title XXI (CHIP) state plan. Therefore, if CHIP funds were exhausted or eliminated, these children would revert to

8 MACPAC. *Report to the Congress on Medicaid and CHIP.*

9 U.S. House, 114th Congress. H.R. 2: Medicare Access and CHIP Reauthorization Act of 2015.

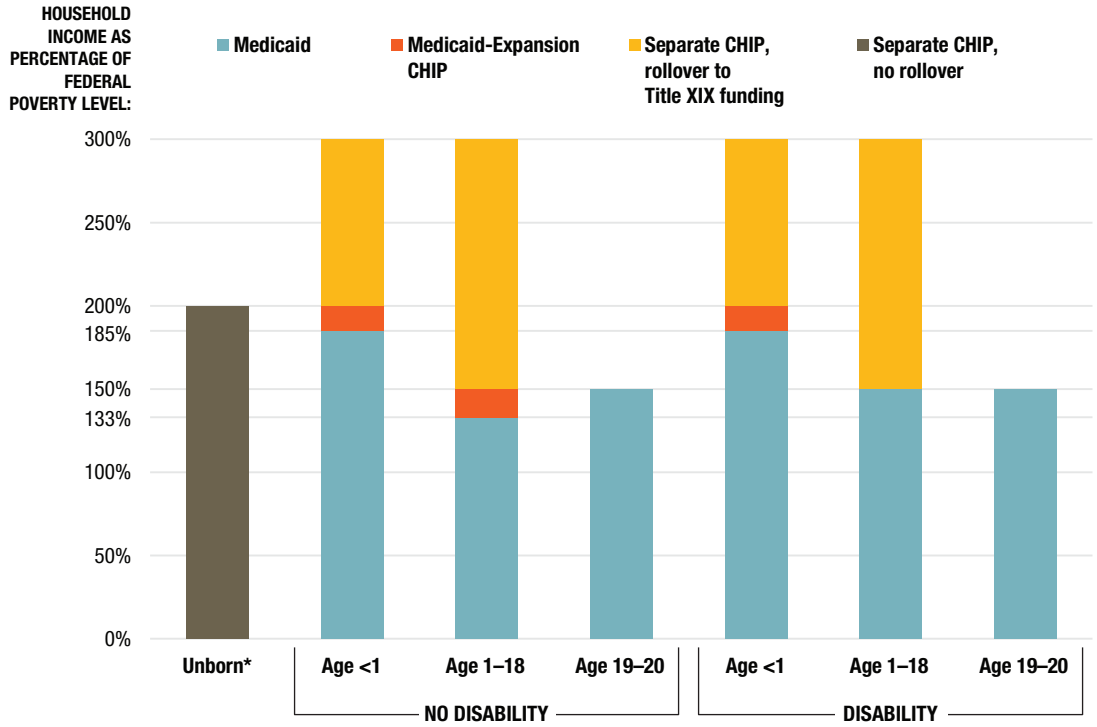
10 Some children in MassHealth are eligible under both Medicaid and CHIP standards, under the terms of Massachusetts's Medicaid 1115 demonstration waiver. CHIP eligibility takes priority in those cases because of the more favorable federal reimbursement.

11 MACPAC. *Report to the Congress on Medicaid and CHIP.*

12 Personal communication with MassHealth staff, March 2015.

the Medicaid authority and continue to be eligible for MassHealth. This has both coverage and financial implications for MassHealth, which are discussed below.

FIGURE 1. MASSHEALTH ELIGIBILITY LEVELS FOR CHILDREN



*CHIP technically covers the unborn child, not the pregnant mother. Unborn children are not eligible for Medicaid, however. Pregnant women in Massachusetts qualify for Medicaid coverage if they have an income below 200 percent of FPL and meet other eligibility criteria—for example, for immigration status. If the mother is not eligible for Medicaid, the loss of CHIP funding would mean that public coverage of prenatal care for the unborn child would not be available.

Notes: To qualify for CHIP funding, an applicant must be uninsured at the time of application.
Age 1–18 with no disability is Medicaid (Title XIX) funded to 150% FPL if member is insured when applying.
Age 1–18 with disability is Title XIX funded to 300% FPL if member is insured when applying.

Source: MassHealth Medicaid Section 1115 Demonstration, Table A, October 30, 2014.

Whether a child is covered by Medicaid, Medicaid-expansion CHIP, or Separate CHIP is financially important to Massachusetts because the state receives a larger federal contribution to its CHIP expenditures. There are two main distinctions between Medicaid and CHIP for members. First, the benefits differ somewhat. Medicaid (including Medicaid-expansion CHIP) includes Early and Periodic Screening, Diagnosis, and Treatment (EPSDT), a very broad, comprehensive pediatric benefit. States have more discretion in designing the benefits for a Separate CHIP program. Massachusetts's benchmark CHIP benefit is based on the HMO with the largest enrollment in the state.[13] Children in the Separate CHIP category who do not have a disability receive the MassHealth Family Assistance benefits. Family Assistance does not include EPSDT, nor does it cover case management, care coordination, and medically necessary non-emergency transportation. There is limited coverage for the use of skilled nursing facilities, and a number of other long-term services

13 Anita Cardwell, et al. *Benefits and Cost Sharing in Separate CHIP Programs.* National Academy for State Health Policy, May 2014.

and supports (LTSS)—such as personal care attendant services and private-duty nursing—are not covered. Members with disabilities who need these services, however, qualify for MassHealth CommonHealth, which does cover these LTSS benefits, rather than Family Assistance. Unborn children (and their mothers) qualify for MassHealth Standard, which also includes the benefits that are excluded from Family Assistance.[14]

The second distinction is that Separate CHIP requires a premium in some cases and Medicaid does not. Separate CHIP children with family incomes from 150 percent to 300 percent of FPL pay a monthly premium ranging from $12 to $28 per child, with a family maximum of three times the premium.[15]

TABLE 1. MEDICAID-EXPANSION VS. SEPARATE CHIP: WHAT'S THE DIFFERENCE?

	Medicaid-Expansion CHIP	Separate CHIP Unborn Child	Separate CHIP Disability	Separate CHIP No Disability
MassHealth Program	Standard	Standard	CommonHealth	Family Assistance
Benefits	Comprehensive, including EPSDT and LTSS	Comprehensive, including EPSDT and LTSS	Comprehensive, including EPSDT and LTSS	Excludes EPSDT, most LTSS, case management, transportation
Premium	No	No	$12–$28 per child, max. 3x premium	$12–$28 per child, max. 3x premium
Copayments	No	No	No	No

EPSDT: Early and Periodic Screening, Diagnosis, and Treatment
LTSS: Long-term services and supports

Massachusetts's allotment of federal CHIP funds was $331 million in FFY 2013 and $352 million in FFY 2014. The actual federal CHIP contribution coming to Massachusetts, representing 65 percent of total state spending on CHIP, was $373 million in FFY 2013 (using some of the previous year's allotment) and $338 million in FFY 2014. This is about 4 percent of the $8.4 billion in total federal revenue the state garnered in SFY 2014, most of which is Medicaid reimbursement.[16]

14 MassHealth Medicaid Section 1115 Demonstration Waiver, Special Terms and Conditions. October 30, 2014.

15 Commonwealth of Massachusetts. Member Booklet for Health Coverage and Help Paying Costs. http://www.mass.gov/eohhs/docs/masshealth/membappforms/aca-1-english-mb.pdf, accessed March 6, 2015.

16 Commonwealth of Massachusetts, Office of the Comptroller. *Statutory Basis Financial Report for the Fiscal Year Ended June 30, 2014.*

WHAT IS AT STAKE FOR MASSACHUSETTS?

1. MEMBERS

Under the current terms of the MassHealth 1115 waiver, children enrolled in the Medicaid-expansion part of CHIP, and children in Separate CHIP with the exception of unborn children, would continue as MassHealth members and would see no effect from a loss of CHIP funding on their eligibility and benefits. The terms and conditions of the 1115 waiver state that federal funding for these groups would continue through Title XIX if Title XXI funds were exhausted.[17]

The 7,000 MassHealth unborn children covered by the Separate CHIP program, by contrast, would be at high risk to lose their MassHealth eligibility under current rules. The state could opt to continue to cover this group with state dollars only. However, Massachusetts would not be bound by the maintenance of effort requirement of the ACA if federal CHIP funds were not available,[18] and the state could choose to discontinue MassHealth eligibility for this Separate CHIP group.

The state also could choose, because of fiscal considerations, to amend its 1115 waiver to continue MassHealth coverage only for the Medicaid-expansion CHIP children (whose coverage is required by the ACA's maintenance of effort provision). This would result in about 65,000 Separate CHIP children losing eligibility for MassHealth.

> At least 7,000 and as many as 65,000 children could lose MassHealth eligibility.

Children moving from MassHealth to seek coverage through the Health Connector would face higher costs. For example, a family with an income between 200 and 250 percent of FPL ($47,700–$59,625 for a family of four) now pays a CHIP premium of $20 per child per month, with a family maximum of $60. The lowest premium at this income level for coverage through the Health Connector's ConnectorCare plans is $78 per child per month for up to three children (with no additional premium beyond three). There are also copayments for using most services in ConnectorCare, with an out-of-pocket maximum outlay of $3,000 per family.[19] Costs for employer-sponsored insurance, if available to a family member, could also be higher.[20] These additional costs would be prohibitive for some families and could result in an increase in uninsured children.[21]

17 For a discussion of the 1115 demonstration waiver, see Robert Seifert, Michael Grenier, and Jean Sullivan, *The MassHealth Waiver Extension for State Fiscal Years 2015–2019: Foundation for Coverage, Engine for Innovation.* Blue Cross Blue Shield of Massachusetts Foundation, February 2015.

18 MACPAC. *Report to the Congress on Medicaid and CHIP.*

19 Massachusetts Health Connector. ConnectorCare Health Plans. https://www.mahealthconnector.org/wp-content/uploads/Guide_to_ConnectorCare.pdf, accessed March 5, 2015.

20 MassHealth offers premium assistance to members who have access to employer-sponsored insurance (ESI) if that approach is more cost-effective than direct MassHealth coverage. Loss of MassHealth coverage would eliminate premium assistance for Separate CHIP members, effectively increasing the cost of the employee's share of the ESI premium.

21 An option for partial coverage is the Children's Medical Security Plan (CMSP), a state program that provides coverage only for primary and preventive care, not for treatment of illness and injury. The CMSP premium for children in families with income between 200 and 300 percent of FPL is $7.80 per child per month with a family maximum of $23.40.

2. STATE GOVERNMENT

The ACA includes a provision to increase the CHIP federal matching rate by 23 percentage points for FFY 2016–2019.[22] This means that Massachusetts would receive 88 cents of federal reimbursement for every dollar of CHIP spending, up to its federal allotment, rather than the current 65 cents. The allotment would need to grow proportionately for this increase to be meaningful. The ACA did not require increased allotments, though the recent House-passed CHIP extension bill does. Governor Baker's proposed budget incorporates this increased revenue, estimated to be $91 million over three-quarters of SFY 2016 (October 2015–June 2016). If federal funding does not continue beyond FFY 2015, of course, neither Massachusetts nor any other state will realize this boost in federal support. (The matching rate enhancement could also become a point of negotiation in Congress's efforts to pass an extension of CHIP funding.)

TABLE 2. CHIP ENROLLEES IN MASSHEALTH, 2015

CHIP Category	Number
Total	**130,000**
Medicaid-Expansion	65,000
Separate CHIP:	
Age 1–18	58,000
Unborn	7,000

Source: MassHealth.

The loss of federal CHIP funding, even at its current rate, would have fiscal implications for the state. First, about 123,000 children are in Medicaid-expansion CHIP and in Separate CHIP with funding that, under current 1115 waiver terms, would roll over to Title XIX funding if CHIP funds were exhausted. Spending for these children would draw just the 50 percent Medicaid reimbursement instead of the 65 percent CHIP reimbursement, requiring a 43 percent increase in state spending per member for this group, or an additional $56 million in SFY 2016.[23] Because the increased federal match of 88 percent is already assumed in the Governor's budget proposal, the increase to the state over budgeted outlays would be $142 million. Under the ACA's maintenance of effort terms and the terms of the state's MassHealth 1115 waiver, Massachusetts would be required to continue MassHealth eligibility for these children at least through September 30, 2019.

> Loss of the enhanced federal CHIP match rate could mean an additional state expense of $142 million in the next fiscal year.

Medicaid expenditures for some of the Separate CHIP rollover group would be counted against the budget neutrality limit of the 1115 waiver. Federal reimbursement could, therefore, be further truncated if there is not sufficient room under the budget neutrality ceiling to accommodate these additional expenditures.[24]

The increased financial burden to the state would be proportionately even greater for the unborn CHIP children—numbering about 7,000—if Massachusetts officials were to decide to continue MassHealth coverage for all currently eligible children entirely at the state's expense (i.e., with

22 42 U.S.C. 1397ee(b).

23 This estimate is based on SFY 2016 projected CHIP spending of $527 million and on the reduction in federal match occurring three months into the state fiscal year (the federal fiscal year begins in October). (Source: MassHealth.)

24 For an explanation of budget neutrality, see Seifert, et al., *The MassHealth Waiver Extension for State Fiscal Years 2015–2019, op. cit.*

no federal match). The state would go from a planned 12 percent contribution (because of the budgeted increase in federal match) to 100 percent, or about $24.3 million in additional costs in SFY 2016.

All told, if federal CHIP funding is not continued and Massachusetts opts to continue to provide coverage to all of the 130,000 children currently covered, it will do so at an additional cost of about $166.3 million in SFY 2016.

Alternatively, if the state were to choose to discontinue MassHealth eligibility for all 65,000 Separate CHIP children, the state expense for those children would include the cost of premium and cost-sharing subsidies that the state provides to people with incomes below 300 percent of FPL who purchase ConnectorCare plans through the Health Connector, which would be considerably less than the cost of full coverage through MassHealth. Not all children who lose their MassHealth eligibility would enroll in a ConnectorCare plan; a recent study estimated that 41.4 percent of children in New England with Separate CHIP coverage would become uninsured without CHIP funding, which translates to about 27,000 of the Separate CHIP children in Massachusetts.[25] Coincidentally, this number is roughly equivalent to the estimate of all uninsured children in the state.[26] These children might enroll in the Children's Medical Security Plan (CMSP) and/or obtain care paid for by the Health Safety Net, both of which would entail state expense as well—again considerably less than the cost of full MassHealth coverage.[27]

> Loss of CHIP funding could reverse a trend that has nearly eliminated uninsurance among Massachusetts children.

On balance, the loss of federal dollars from shifting some children from CHIP to Medicaid funding would be partially offset by state savings realized through Separate CHIP children losing their MassHealth eligibility, but there would still be a significant net loss of federal revenue to the state in SFY 2016. It also would likely result in an increase in the number of uninsured children in a state that has pursued policies over 20 years to reduce that number to a minuscule level.

25 Lisa Dubay, Matthew Buettgens, and Genevieve M. Kenney. *Estimates of Coverage Changes for Children Enrolled in Separate Children's Health Insurance Programs in the Absence of Additional Federal CHIP Funding–Key Findings and Methodology.* The Urban Institute, March 2015.

26 The U.S. Census Bureau's American Community Survey estimated that 1.6 percent of the state's 1.4 million children—22,000 children—were uninsured in 2011–2013.

27 State spending for ConnectorCare, CMSP, and the Health Safety Net is eligible for 50 percent federal reimbursement through the 1115 demonstration waiver.

CONCLUSION

CHIP covers a substantial portion of MassHealth children. If federal CHIP funding ends, most of these children will maintain their coverage, incurring an increased cost to the state that, while small relative to the entire MassHealth budget, is not insignificant in this era of state fiscal challenges. A number of children could lose their MassHealth eligibility if the state opts not to make up the loss of federal dollars with its own, or if the state chooses to lessen the impact of the loss of federal funds by rolling back eligibility under the 1115 waiver. These children and their families would face a choice of availing themselves of other coverage, at greater expense, or going without comprehensive insurance. An increase in the number of uninsured children would reverse a long-running trend in Massachusetts and tarnish what has been one of the state's great health policy triumphs.