



The Health Care Power Grab

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PART 2 – THE STATE CHILDREN’S HEALTH INSURANCE PROGRAM [SCHIP]

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The Majority’s effort to transfer more control of health care to the Federal Government began in the current Congress with the reauthorization of the State Children’s Health Insurance Program [SCHIP]. The measure, signed by the President on 10 February 2009, takes the first of many likely steps toward government-run health care.

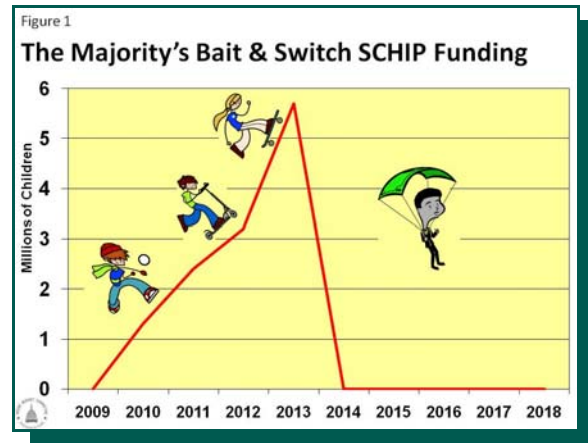
This 5-year extension of the program not only hastens the insolvency of Federal health care programs, it also expands the government’s role in medicine at the expense of patient-centered solutions, increasing entitlement spending by an advertised cost of \$73.3 billion; it enrolls a new population of individuals in the program with no plan to cover them after the extension expires; it crowds out private insurance; and it raises taxes.

- **Creates a New Entitlement, Worsening the Fiscal Crisis.** Previously, each State received a capped SCHIP allotment from the total annual appropriation, based on a statutory formula. While the SCHIP reauthorization extends these allotments for fiscal years 2009-13, it allows them to be based on “projected spending”; therefore, if a State exceeds its allotment, it can base funding on *projected* expenditures instead. Additionally, it creates a new Child Enrollment Contingency Fund for States that exhaust their allotments by expanding coverage. The bill also allows States to expand their Medicaid Programs by matching State expenditures on SCHIP at an increased Federal rate. The result is that SCHIP will grow at an average annual rate of 23.7 percent over the next 5 years.

Based on the Treasury Department’s financial report, the government has \$56 trillion in unfunded liabilities, mostly in the Federal Government’s health care programs. Each year Congress fails to act, that long-term problem grows by \$2 trillion to \$3 trillion. This unsustainable rate of spending will smother the U.S. economy and sacrifice the longstanding American legacy of leaving the next generation better off. While the magnitude of the long-term fiscal impact of an SCHIP expansion remains unknown, it most certainly adds to the unfunded liabilities of the Federal health entitlement programs.

- **Crowds Out Private Insurance.** Expanding SCHIP will increase the bias against private health insurance and toward government dependency, by encouraging more and more individuals to obtain health coverage from the Federal Government. According to the Congressional Budget Office [CBO], this phenomenon already is occurring. CBO projects the Majority’s plan will *cause 2.4 million individuals to drop their private insurance and move to government coverage.*

- **Hides Deficit Spending With an SCHIP Funding Cliff.** The SCHIP reauthorization was manipulated to hide the true cost of its entitlement expansion – \$115 billion – by pushing enrollees over a precipitous funding “cliff” (see Figure 1).
 - *Cuts SCHIP Funding by 65 Percent in 2014.* The bill’s bait-and-switch dramatically increases Federal funding to enroll new children in SCHIP for the next 5 years, and then, in 2014, it abruptly *cuts SCHIP funding by 65 percent.*
 - *Budget Gimmicks.* Specifically, the bill authorized \$14.4 billion during the first 6 months of 2013; then slashes the amount to \$3 billion for the second 6 months of that year; and then assumes the lower level for the duration of the program. While this reduction will not actually take effect, it was used as a gimmick to generate unrealistic “savings” to give the illusion of complying with the Majority’s PAYGO rule.
- **Misleads Either Taxpayers or Children.** The SCHIP reauthorization will lead to either one of the following outcomes:
 - *Option 1: Force Children Off of SCHIP and Onto Medicaid – and Hike Medicaid Spending.* With its front-loaded spending, the SCHIP reauthorization draws millions of children into the program – though many of them already have health insurance today. Then by cutting the funding in 2014, it yanks the rug out from under these children, depriving them of any health coverage at all. States will respond by moving those children into Medicaid, resulting in a \$22-billion expansion to Medicaid – a program in dire need of reform.
 - *Option 2: Deceive Taxpayers About the Cost of the Plan.* The bill purposely misleads American taxpayers by “fudging” the actual 10-year cost. If SCHIP enrollees are not forced off the SCHIP program in 2014, as is unlikely to happen, the true cost of the expansion would be \$115 billion.
- **Relied on an Unstable Tax-Increase Funding Source.** The new spending was partially offset by a tax increase of \$64 billion over 10 years, through a \$1-per-pack increase in cigarette and cigar taxes – \$7 billion *less* than the same policy did just over a year ago. Because fewer and fewer persons smoke, this revenue source is constantly declining; and because a new tax on cigarettes is likely to deter sales, the efficacy of the offset is questionable at best.



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This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of individual committee members.