

**LEGISLATIVE SERVICES AGENCY**  
**OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 7631**

**BILL NUMBER: HB 1612**

**DATE PREPARED: Feb 8, 1999**

**BILL AMENDED:**

**SUBJECT: Children's Health Insurance Program.**

**FISCAL ANALYST: Alan Gossard**

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**FUNDS AFFECTED: X GENERAL**  
**X DEDICATED**  
**X FEDERAL**

**IMPACT: State & Local**

**Summary of Legislation:** This bill provides that a child who is less than 19 years of age and who is a member of a family with an income that does not exceed 150% of the federal income poverty level (FPL) qualifies for Medicaid. The bill also requires the Office of Medicaid Policy and Planning (OMPP), in operating a managed care program, to offer to contract with and encourage contracts from community entities to manage certain aspects of the program.

The bill also requires the Office of the Children's Health Insurance Program (CHIP) to adopt a sliding scale formula that specifies the premiums to be paid by the parent or guardian of a child enrolled in the program. (Current law makes the premiums optional.) The bill requires that a child and the child's family meet certain requirements in order to enroll in CHIP. It also allows the office administering the program to do the following: (1) Offer additional basic services if appropriations to the program exist to pay for the additional services. (2) Establish a program of employer based subsidies to encourage employers to provide coverage under CHIP. (3) Offer to contract with and encourage contracts from community entities to manage certain aspects of the program.

The bill also provides certain requirements that the office administering the program must undertake. It provides that a provider that contracts with either the Medicaid managed care program or CHIP is considered a provider for both programs. The bill requires direct access to certain speciality providers within the CHIP program if direct access is provided as part of the Medicaid managed care program. It also requires that community health centers be used to provide health care services for CHIP.

The bill also establishes the Children's Health Oversight Committee to coordinate programs designed to provide health care to children and to oversee implementation of CHIP. The bill also makes conforming amendments.

**Effective Date:** July 1, 1999.

**Explanation of State Expenditures:** (Revised) The total costs of the Medicaid expansion and the CHIP program relative to the available federal funding are summarized in the final table, below.

The enrollment and cost estimates were developed by the Lewin Group for the Governor’s Children’s Health Insurance Advisory Panel. The Lewin Group produced three sets of estimates based on the assumptions in the following table.

**Assumptions Used in Development of Three Cost Scenarios.**

<b>Low Enrollment and Cost Estimates</b>	<b>Mid-Range Enrollment and Cost Estimates</b>	<b>High Enrollment and Cost Estimates</b>
Low Crowd-out *	Mid-range Crowd-out *	High Crowd-out *
Outreach has no impact	Outreach has no impact	Outreach increases enrollment by 15%
Current unemployment rates continue	Current unemployment rates continue	Unemployment rates increase from 3.4% to 6.8%
High family premium contributions are used	Low family premium contributions are used	Low family premium contributions are used
* Crowd-out means the number of families or employers who drop private insurance coverage to take advantage of the public insurance program.		

*Costs of Medicaid Expansion:* This bill makes permanent the Medicaid expansion for children from families with incomes up to 150% of FPL. This expansion was set to expire June 30, 1999. (On June 30, 1999, the eligibility levels will revert to 150% of FPL for infants, 133% of FPL for children aged 1 through 5, and 100% of FPL for children aged 6 through 18.) The cost estimates below are for the cost of benefits and administration net of estimated family premium contributions. The estimates also include a 24-month “ramp-up” period to fully phase in the program.

**Estimated Net Costs for Permanent Medicaid Expansion to 150% FPL (with State and Federal Shares).**

<b>Assumptions</b>	<b>FFY1999</b>	<b>FFY2000</b>	<b>FFY2001</b>	<b>FFY2002</b>
<b>Low-Range</b>	\$27.79 M	\$45.98 M	\$50.66 M	\$52.44 M
<b>(State \$/Fed \$)</b>	(7.50M / 20.29M)	(12.41M / 33.57M)	(13.68M / 36.98M)	(14.16M / 38.28M)
<b>Mid-Range</b>	\$35.25 M	\$58.32 M	\$64.25 M	\$66.50 M
<b>(State \$/Fed \$)</b>	(9.52M / 25.73M)	(15.75M / 42.57M)	(17.35M / 46.90M)	(17.96M / 48.54M)
<b>High-Range</b>	\$56.44 M	\$93.38 M	\$102.89 M	\$106.49 M
<b>(State \$/Fed \$)</b>	(15.24M / 41.20M)	(25.21M / 68.17M)	(27.78M / 75.11M)	(28.75M/77.74M)
Source: The Lewin Group for the Governor’s Children’s Health Insurance Advisory Panel, Nov. 1998.				

*Costs of CHIP Program:* The following represents cost estimates based on the three sets of enrollment and cost assumptions for the CHIP program specified by the Children’s Health Insurance Advisory Panel. Coverage

is for those children from families with incomes between 150% and 200% of FPL. Although the bill is not specific about the benefit package to be offered, the benefit package described by the CHIP Advisory Panel is used for estimating costs. The cost estimates include direct services, as well as administrative costs. Eligibility requirements may be adjusted by FSSA based on available program resources.

An adjustment was made to the estimates provided in the final report of the CHIP Advisory Panel to account for a requirement in this bill that treatment limitations or financial requirements on the coverage of services for mental illness may not be imposed if similar provisions are not imposed on coverage for services for other illnesses. Estimated costs of mental health parity range from 0.8% of premiums for tightly managed health maintenance organizations (HMOs) up to 7% of premiums for fee-for-service coverage (Substance Abuse and Mental Health Services Administration (SAMHSA), U.S. Department of Health and Human Services, 1998). The lower estimate is applied to the CHIP costs of the low-range scenario and the 7% increase is applied to the high-range estimates. The most probable cost lies between these estimates. An average of these costs is applied to the mid-range estimates. An estimate of the costs for mental health services for a children’s health program produced by the American Academy of Pediatrics also falls within the range estimated by SAMHSA.

**Estimated Net Costs for CHIP: Children between 150% and 200% FPL (with State and Federal Shares).**

<b>Assumptions</b>	<b>SFY2000</b>	<b>SFY2001</b>	<b>SFY2002</b>
<b>Low-Range</b>	\$13.07 M	\$22.15 M	\$24.99 M
(State \$/Fed \$)	(3.53M / 9.54M)	(5.98M / 16.17M)	(6.75M / 18.24M)
<b>Mid-Range</b>	\$25.64 M	\$43.46 M	\$49.04 M
(State \$/Fed \$)	(6.92M / 18.72M)	(11.73M / 31.73M)	(13.24M / 35.80M)
<b>High-Range</b>	\$32.22 M	\$54.59 M	\$61.60 M
(State \$/Fed \$)	(8.70M / 23.52M)	(14.74M / 39.85M)	(16.63M / 44.97M)
Source: The Lewin Group for the Governor’s Children’s Health Insurance Advisory Panel, Nov. 1998.			

*Federal CHIP Funding:* The CHIP program was authorized by Congress in 1997. Unused allotments may be rolled over to the next year. Each year’s allotment remains available for three years, after which the unused allotment is returned for redistribution to other states. The CHIP program funding also comes with an enhanced federal match of about 73%, compared with the current federal match under the Medicaid program of about 61%. The reimbursement for expenditures under the CHIP program, as well as the Medicaid expansion described above, will be made at the enhanced rate of 73%.

**Estimated Net Program Costs Relative to CHIP Funding: FFY1999 Through FFY2002.**

<b>Assumptions</b>		<b>FFY1999</b>	<b>FFY2000</b>	<b>FFY2001</b>	<b>FFY2002</b>
<b>Low-Range</b>	<b>Carryover from Prev. Yr</b>	95.16 M *	164.21 M	194.18 M	199.50 M
	<b>Current Year Allotment</b>	97.09 M	97.09 M	102.41 M	78.47 M
	<b>Total Program Costs **</b>	28.04 M	50.01 M	66.06 M	75.31 M
	<b>Returned to Feds</b>	-	17.11 M	31.03 M	21.78 M
	<b>Surplus / (Deficit)</b>	164.21 M	194.18 M	199.50 M	180.88 M
<b>Mid-Range</b>	<b>Carryover from Prev. Yr</b>	94.64 M *	155.82 M	186.04 M	193.54 M
	<b>Current Year Allotment</b>	97.09 M	97.09 M	102.41 M	78.47 M
	<b>Total Program Costs **</b>	35.91 M	66.87 M	94.91 M	111.52 M
	<b>Returned to Feds</b>	-	-	-	-
	<b>Surplus / (Deficit)</b>	155.82 M	186.04 M	193.54 M	160.49 M
<b>High-Range</b>	<b>Carryover from Prev. Yr</b>	93.17 M *	132.78 M	124.96 M	85.46 M
	<b>Current Year Allotment</b>	97.09 M	97.09 M	102.41 M	78.47 M
	<b>Total Program Costs **</b>	57.48 M	104.91 M	141.91 M	163.18 M
	<b>Returned to Feds</b>	-	-	-	-
	<b>Surplus / (Deficit)</b>	132.78 M	124.96 M	85.46 M	0.75 M
Source: The Lewin Group for the Governor's Children's Health Insurance Advisory Panel, Nov. 1998. * Estimated carryover from FFY1998 arising from the one-year Medicaid expansion. ** Represents total costs (both state and federal shares). State Share = 27%, Federal Share = 73%.					

*Children's Health Oversight Committee:* A twelve-member Children's Health Oversight Committee: is also established by the bill to coordinate programs designed to provide health care to children and their families and oversee implementation of the CHIP program. Four of the members are to be legislators. The Board is to meet at least quarterly. The Board is to contract with an independent organization to evaluate the Children's Health Insurance Program once every two years.

*Contracting with Community Entities:* This bill also has a provision that the Office of Medicaid Policy and Planning administer the Medicaid managed care program on a community level to the greatest extent possible and to offer to contract with, and encourage contracts from community entities, including private entities to manage outreach, the provision of services, consumer education and public health education, and day-to-day administration of the managed care program. Any fiscal impact would depend on administrative action and the specific contracts that may result.

**Explanation of State Revenues:** See Explanation of State Expenditures, above, regarding federal funding for the CHIP program.

**Explanation of Local Expenditures:** See Explanation of State Expenditures, above, regarding contracting with community entities in the Medicaid managed care program.

**Explanation of Local Revenues:** See Explanation of State Expenditures, above, regarding contracting with community entities in the Medicaid managed care program.

**State Agencies Affected:** Family and Social Services Administration

**Local Agencies Affected:**

**Information Sources:** American Academy of Pediatrics, An Analysis of the Costs to Provide Health Care Coverage to the Children and Adolescent Population Aged 0 to 21 Years, July 1, 1998.

Governor's Children's Health Insurance Advisory Panel, Final Report of the Governor's Children's Health Insurance Advisory Panel, November 1998.

Substance Abuse and Mental Health Services Administration, U.S. Department of Health and Human Services, The Costs and Effects of Parity for Mental Health and Substance Abuse Insurance Benefits, DHHS Publication No. SMA 98-3205, 1998.