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Update on CHIP Funding Extension

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Summary

Funding for the Children’s Health Insurance Program (CHIP) expired September 30. On October 4, the Senate Finance Committee approved the Keep Kids’ Insurance Dependable and Secure Act (KIDS Act, [S. 1827](#)). The House Energy and Commerce Committee also approved its bill—the Helping Ensure Access for Little Ones, Toddlers, and Hopeful Youth by Keeping Insurance Delivery Stable Act (HEALTHY KIDS Act, [H.R. 3921](#)).

Both bills would extend funding for CHIP and related programs through fiscal year (FY) 2022, and maintain the Affordable Care Act’s (ACA) 23-percentage-point increase in the enhanced federal matching rate through FY 2019. However, the House bill incorporates provisions not in the Senate bill, including offsets, eliminating Medicaid Disproportionate Share Hospital (DSH) cuts for FY 2018 (but extending the cuts for two years), and providing Medicaid funding for Puerto Rico and the Virgin Islands.

The full House was expected to consider its bill last week, but action has been delayed due to bipartisan negotiations around offsets. In the meantime, the administration [announced](#) that it is distributing \$230 million in unspent prior-year funds to five states and four territories expected to run out of funding for CHIP shortly.

Major CHIP Provisions

Funding. Both bills would appropriate funding for CHIP state allotments for five years, through FY 2022, as detailed below.

	CHIP Allotments (\$ in millions)					
	FY 2017 1/	House and Senate Bills				
		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
National Allotment	\$20,400	\$21,500	\$22,600	\$23,700	\$24,800	\$25,900
<i>Percent change</i>		5%	5%	5%	5%	4%

1/ Does not reflect enacted rescissions included in appropriations bills.

Funding for FY 2022 is structured similar to FY 2017. Specifically, the bills would provide two semi-annual allotments of \$2.85 billion, plus a one-time appropriation of \$20.2 billion (the one-time appropriation would not be part of the Congressional Budget Office’s baseline for future years).

CHIP allotments are available to states for two years. However, under current law, FY 2017 allotments that remain available in FY 2018 are reduced

by one-third. Neither bill changes this provision or includes a similar one for FY 2022.

Matching rates. The House and Senate would maintain the ACA's 23-percentage-point increase in the enhanced Federal Medical Assistance Percentage (E-FMAP) for FY 2018 and FY 2019. In FY 2020, states would receive an 11.5 percentage-point increase. The matching rate would revert to the regular E-FMAP in FY 2021 and beyond.

For illustrative purposes, Table 1 at the end of this brief shows estimated federal matching rates under the bills. The estimates are calculated based on FFIS's calculation of final FY 2019 E-FMAPs (see [Issue Brief 17-27](#)).

Maintenance-of-effort (MOE) requirement. Under the ACA, states must maintain their eligibility levels for children in Medicaid and CHIP through September 30, 2019, as a condition for receiving Medicaid funds. Both bills maintain the ACA MOE provision through FY 2022; after FY 2019, the MOE would apply only to children in families with incomes up to 300% of the federal poverty level.

Other programs. The House and Senate bills would extend the following related provisions through FY 2022:

- Child Enrollment Contingency Fund, which is designed to prevent states from experiencing shortfalls of federal CHIP funds
- Authority for states to use the express-lane eligibility option for children in Medicaid and CHIP
- "Qualifying States" option, which allows 11 states to draw CHIP matching funds for pre-CHIP Medicaid expansions to children
- Outreach and enrollment grants to support efforts that increase coverage of children in Medicaid and CHIP, including an appropriation of \$100 million for FYs 2018-2022
- Childhood Obesity Demonstration, including an appropriation of \$25 million for FYs 2018-2022
- Pediatric Quality Measures Program, including an appropriation of \$75 million for FYs 2018-2022

CHIP risk pools and look-alike plans. The House bill would allow states to include CHIP children, and children in qualified look-alike programs (state-funded programs for children under age 19 not eligible for Medicaid or CHIP) in the same risk pool. To be considered a qualified look-alike program, coverage must be equivalent to CHIP and the program must be funded exclusively through non-federal funds (including premiums paid by families). The bill also specifies that CHIP look-alike programs qualify as minimum essential coverage for purposes of satisfying the ACA's individual mandate.

DSH Changes

The ACA's Medicaid DSH cuts—initially scheduled to begin in FY 2014—have been delayed repeatedly but are effective in FY 2018. The House bill would eliminate the cuts in FY 2018 (which total -\$2 billion), but would extend the reductions for two years, through FY 2027 (at -\$8 billion annually). The Senate bill does not include these provisions. For more details on the DSH reductions, see [Issue Brief 17-22](#).

Assistance for Territories

The House bill includes the following provisions to provide additional Medicaid funding for **Puerto Rico** and the **Virgin Islands** (all subject to the territories' ability to contribute the non-federal share):

- Increases the federal Medicaid cap for Puerto Rico and the Virgin Islands by CPI-M plus 1 (instead of CPI-M) in FY 2018 and FY 2019
- Provides a further Medicaid increase of \$880 million to Puerto Rico, as well as an additional \$120 million (for October 1, 2017-December 31, 2019) if Puerto Rico's Financial Oversight and Management Board certifies that certain requirements are met
- Provides an unspecified amount to the Virgin Islands (for October 1, 2017-December 31, 2019) to be determined on a per capita equivalent basis to the amount provided to Puerto Rico
- Increases the federal matching rate from 75% to 90% in Puerto Rico and the Virgin Islands for activities conducted by skilled professional medical personnel (and their direct staff) and Medicaid fraud control unit operational costs (calendar years 2018 and 2019)

The Senate bill does not include these provisions.

Offsets

The Senate has not yet determined how it will finance its bill. The House bill includes offsets related to Medicare and Medicaid, as described below.

Medicaid third-party liability. Third-party liability refers to the responsibility of parties other than Medicaid to pay for health insurance costs. In general, Medicaid is the payer of last resort for most services. The House bill would make a number of changes to Medicaid's third-party liability rules, including the following:

- Repeals special rules for prenatal and pediatric care, as well as child support orders
- Clarifies responsibilities of states and managed care organizations
- Incentivizes states to pursue third-party liability for ACA's Medicaid expansion population by allowing states to retain their share of recoveries based on the regular FMAP
- Allows the secretary to reduce a state's federal Medicaid matching rate by 0.1 percentage points if a state fails to comply with federal requirements (reductions can be cumulative for failure to comply in consecutive years)
- Requires state Medicaid Integrity Programs to include training on third party liability
- Requires the secretary of the Department of Health and Human Services (HHS) to post best practices online, monitor state efforts, and develop model uniform reporting
- Applies third party liability provisions to CHIP

Most provisions would be effective in FY 2020 (subject to exception if a state's legislature is not in session).

Treatment of lump sum payments. Currently, large lump-sum payments (such as lottery or gambling winnings, and proceeds from some lawsuits and estates) are considered income only in the month they are received for

purposes of Medicaid eligibility. The House bill would count lump-sum payments (above \$80,000) over multiple months, effective in calendar year 2018. It includes a hardship exemption based on criteria established by the secretary of HHS.

Medicare premiums. The House bill would require Medicare beneficiaries with incomes greater than \$500,000 (\$875,000 for couples filing jointly) to pay 100% of Medicare Part B and Part D premiums. Under current law, those beneficiaries pay 80% of premiums. Beginning in calendar year 2017, the threshold is increased by the CPI.

Next Steps

The full House has delayed consideration of its bill in hopes of reaching a bipartisan agreement on offsets. The House is expected to take up the bill the week of October 23. It is not clear when the Senate will consider its version.

In addition, the administration recently announced that it is redistributing \$230 million in unspent prior-year funds to states and territories expected to run out of existing CHIP funds soon. Five states will receive funds—**Arizona** (\$21.8 million), **California** (\$176.9 million), **Minnesota** (\$3.6 million), **Oregon** (\$14.2 million), and **Washington** (\$10.4 million)—as well as **American Samoa**, **Guam**, the **Northern Mariana Islands**, and the **Virgin Islands**.

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Table 1

Estimated Enhanced FMAPs under House, Senate CHIP Bills (federal share as a percent)

	FY 2018 1/	Estimated 1/			Percentage-Point Change	
		FY 2019	FY 2020	FY 2021+	2019-2020	2020-2021
Alabama	100.00	100.00	91.82	80.32	-8.18	-11.50
Alaska	88.00	88.00	76.50	65.00	-11.50	-11.50
Arizona	100.00	100.00	90.37	78.87	-9.63	-11.50
Arkansas	100.00	100.00	90.86	79.36	-9.14	-11.50
California	88.00	88.00	76.50	65.00	-11.50	-11.50
Colorado	88.00	88.00	76.50	65.00	-11.50	-11.50
Connecticut	88.00	88.00	76.50	65.00	-11.50	-11.50
Delaware	92.50	93.29	81.79	70.29	-11.50	-11.50
District of Columbia	100.00	100.00	90.50	79.00	-9.50	-11.50
Florida	96.25	95.61	84.11	72.61	-11.50	-11.50
Georgia	100.00	100.00	88.83	77.33	-11.17	-11.50
Hawaii	91.35	90.74	79.24	67.74	-11.50	-11.50
Idaho	100.00	100.00	91.29	79.79	-8.71	-11.50
Illinois	88.52	88.22	76.72	65.22	-11.50	-11.50
Indiana	98.91	99.17	87.67	76.17	-11.50	-11.50
Iowa	93.94	94.95	83.45	71.95	-11.50	-11.50
Kansas	91.32	92.97	81.47	69.97	-11.50	-11.50
Kentucky	100.00	100.00	91.67	80.17	-8.33	-11.50
Louisiana	97.58	98.50	87.00	75.50	-11.50	-11.50
Maine	98.04	98.16	86.66	75.16	-11.50	-11.50
Maryland	88.00	88.00	76.50	65.00	-11.50	-11.50
Massachusetts	88.00	88.00	76.50	65.00	-11.50	-11.50
Michigan	98.35	98.12	86.62	75.12	-11.50	-11.50
Minnesota	88.00	88.00	76.50	65.00	-11.50	-11.50
Mississippi	100.00	100.00	94.97	83.47	-5.03	-11.50
Missouri	98.23	98.78	87.28	75.78	-11.50	-11.50
Montana	98.77	98.88	87.38	75.88	-11.50	-11.50
Nebraska	89.79	89.81	78.31	66.81	-11.50	-11.50
Nevada	99.03	98.41	86.91	75.41	-11.50	-11.50
New Hampshire	88.00	88.00	76.50	65.00	-11.50	-11.50
New Jersey	88.00	88.00	76.50	65.00	-11.50	-11.50
New Mexico	100.00	100.00	92.08	80.58	-7.92	-11.50
New York	88.00	88.00	76.50	65.00	-11.50	-11.50
North Carolina	100.00	100.00	88.51	77.01	-11.49	-11.50
North Dakota	88.00	88.00	76.50	65.00	-11.50	-11.50
Ohio	96.95	97.16	85.66	74.16	-11.50	-11.50
Oklahoma	94.00	96.67	85.17	73.67	-11.50	-11.50
Oregon	97.53	96.79	85.29	73.79	-11.50	-11.50
Pennsylvania	89.27	89.58	78.08	66.58	-11.50	-11.50
Rhode Island	89.02	89.80	78.30	66.80	-11.50	-11.50
South Carolina	100.00	100.00	91.35	79.85	-8.65	-11.50
South Dakota	91.74	92.70	81.20	69.70	-11.50	-11.50
Tennessee	99.07	99.11	87.61	76.11	-11.50	-11.50
Texas	92.82	93.73	82.23	70.73	-11.50	-11.50
Utah	100.00	100.00	90.30	78.80	-9.70	-11.50
Vermont	90.43	90.72	79.22	67.72	-11.50	-11.50
Virginia	88.00	88.00	76.50	65.00	-11.50	-11.50
Washington	88.00	88.00	76.50	65.00	-11.50	-11.50
West Virginia	100.00	100.00	93.54	82.04	-6.46	-11.50
Wisconsin	94.14	94.56	83.06	71.56	-11.50	-11.50
Wyoming	88.00	88.00	76.50	65.00	-11.50	-11.50
Puerto Rico & Territories	91.50	91.50	80.00	68.50	-11.50	-11.50

1/ FY 2018 FMAPs with the ACA increase were published in the *Federal Register* in November 2016. Estimates for future years are based on the final FY 2019 regular E-FMAPs calculated by FFIS in *Issue Brief 17-27*.

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