Revisiting the SCHIP Funding Formula

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Overview

- Reassessing the SCHIP funding formula process and data inputs
- State estimates of the Current Population Survey are key components of formula inputs
- Revising the SCHIP funding formula can increase accuracy of SCHIP federal funds to states

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State factors in the SCHIP funding formula

Fiscal Year	Formula
1998-1999	(State Health Cost Factor) (Number of Uninsured Children Living Below 200 percent of FPL)
2000	(State Health Cost Factor) (.75 (Number of Uninsured Children Living Below 200 percent of FPL) + .25 (Number of Children Living Below 200 percent of poverty)
2001-2007	(State Health Cost Factor) (.50 (Number of Uninsured Children Living Below 200 percent of FPL) + .50 (Number of Children Living Below 200 percent of poverty)

Child Component Factor (CCF)

# of uninsured children below 200% of FPL
# of children below 200% of FPL

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(1) Lack of precision in estimating target population

- On average any state's SCHIP allocation could be off by as much as 25 percent too high or too low because of lack of precision in estimating the CCF.

- 1998/99 estimate of the CCF is used as baseline for future SCHIP allocation and locks in disparities
  - States with low estimate in the baseline year due to random variation have their allotments capped over time

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Why does this happen?

- Small CPS sample of target population makes it difficult to obtain precision in the estimates of the target population
  - Low-income children under 200% of FPL
  - Low-income *uninsured* children under 200%
- State sample of low-income *uninsured* children is VERY small
  - Range: 18 kids in MA to 608 in CA in 2005
  - 41 states have <100 kids in the sample
  - Only 3 states have >200

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Small kids sample in the CPS

Number of Uninsured Children < 200% FPL in CPS Data

○ < 100
● 100-199
● 200+
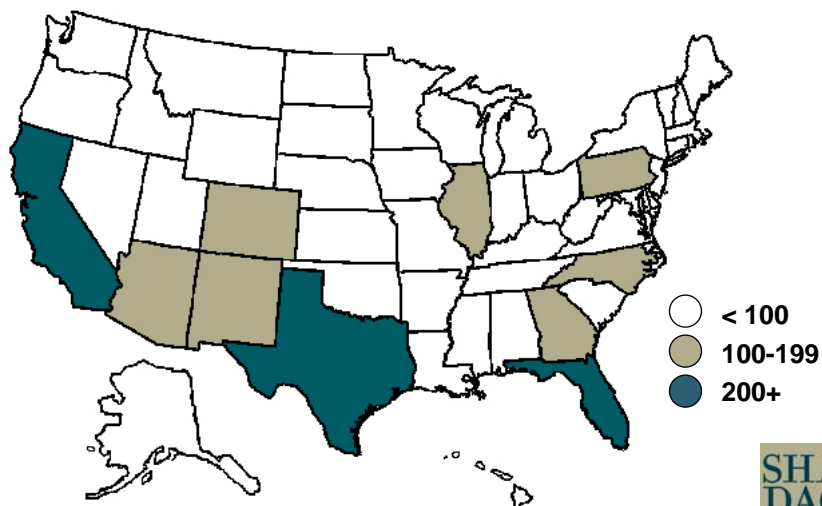
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Recommendation

- Problems with **precision** and **bias** lead to much inaccuracy in state SCHIP allocations and we believe it can be improved.
- Census Bureau should consider:
  - Use of model-based estimates to reduce standard errors
  - Use alternative data sources with larger sample to estimate the number of children below 200 percent of poverty, e.g., the American Community Survey

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(2) Missing Data in the CPS

- 17% of CPS respondents do not report any income on the survey; 13% do not report health insurance coverage

- Census estimates these values based on characteristics of respondents that do answer these questions
  - However they do not take state of residence into account
  - Leads to bias in the state estimates

- Practical Outcome: Respondents from Texas (the state with the highest uninsurance rate) can be used to fill in missing data for health insurance coverage responses to respondents in Minnesota (the state with the lowest uninsurance rate).

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Recommendation

- Add state and region to the list of variables used to estimate (impute) missing values for the income and insurance questions in CPS

- Recalculate missing values before estimating Child Component Factor variables

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(3) Excluding SCHIP enrollees in funding Formula

- When states successfully enroll low-income children in Medicaid and SCHIP their future SCHIP allocation will be reduced

- States that are less aggressive in program implementation will not reduce the number of low-income uninsured children and will retain a higher proportion of the total federal allotment.

- This may result in SCHIP programs operating at less than maximum capacity.

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Recommendation

- The CCF component of the SCHIP funding formula should include an adjusted administrative estimate of children enrolled in SCHIP to the numbers of low-income uninsured children.

- Adding SCHIP enrollment to the funding formula will increase incentives for SCHIP enrollment.

- Addresses the issue of ongoing SCHIP program costs for successful enrollment

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Conclusion

- Federal funding formula should be part of the discussion of the SCHIP reauthorization

- Better data and estimation techniques are available to improve precision and reduce bias in the formula.

- A phased-in approach to any significant change can be adopted to ameliorate wide fluctuations in state funding levels from one year to the next.

- The impact at the state level could be minimized with adequate funding levels, phased-in changes and hold harmless provisions.

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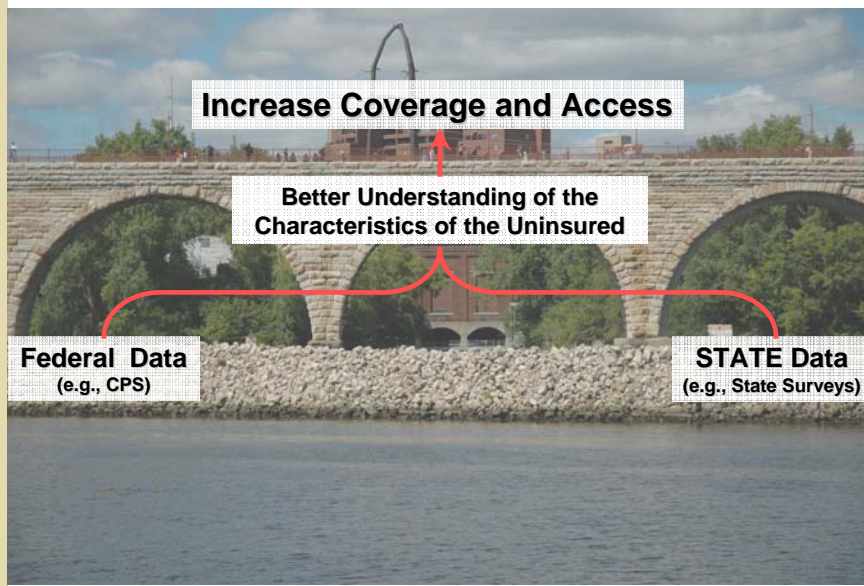# Resources

- Blewett, Lynn A. and Michael Davern. "Evaluating Federal Funding Formulas: The State Children's Health Insurance Program." <u>Journal of Health Policy Politics and Law</u>. *Forthcoming 32 (3): 2007.*
- Czajka, J.L. and T. Jabine. 2002. Using survey data to allocate federal funds for the State Children's Health Insurance Program (SCHIP). *Journal of Official Statistics* 18 (3): 409-27.
- Peterson, Chris L. Congressional Research Service. Federal SCHIP Financing: Testimony Before the Senate Finance Health Subcommittee. Washington, D.C. July 25, 2006.

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The SHADAC vision

Increase Coverage and Access

Better Understanding of the Characteristics of the Uninsured

Federal Data
(e.g., CPS)

STATE Data
(e.g., State Surveys)

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