SHADAC
STATE HEALTH ACCESS DATA ASSISTANCE CENTER

Issue Brief

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Yet Another Wild Card in State Budget Deliberations: Federal SCHIP Allocations to States

In light of the tight fiscal environments in which most states now find themselves, it is not difficult to imagine why health care policy makers and program administrators at the state level find unstable federal funding problematic. To be sure, forecasting state health care obligations—given fluctuating unemployment rates, rising costs of health care, and legislative reductions to program eligibility and benefits—is not a precise science. Added uncertainty over the extent to which federal matching dollars can be used to offset state health care expenditures often leads to less-informed decision-making as state budgets are deliberated amongst competing interests and community needs.

In the last five years, projecting federal participation in the State Children's Health Insurance Program (SCHIP) has been a challenge for most states. Analysis by the State Health Access Data Assistance Center (SHADAC) indicates that state SCHIP allocations have varied significantly—on average, 22 percent per state—between 1999 and 2002.

For an average state participating in the program, this fluctuation equates to funding changes during the time period, either upwards or downwards, of $18.5 million. In other words, the average state participating in SCHIP could have only reasonably counted on a federal allocation within a range of $37 million between 1999 and 2002. This SHADAC issue brief seeks to provide an understanding of the sources of this variability and to recommend methods that could be employed to reduce the uncertainty for states in future years.

SCHIP Allocation Formula

Established in 1997, SCHIP provides states with federal funding for the expansion of health care eligibility for uninsured, low-income children. Through either a separate SCHIP program, or a Medicaid expansion, participating states obtain federal matching funds to finance health care expansions at higher federal financial participation rates than under existing Medicaid programs.

SCHIP is not a federal entitlement. Available federal matching funds for SCHIP—$3.15 billion to $4.2 billion for fiscal years 1998-2004—are distributed to states via an allocation formula. This formula is specified in law, and was designed to address states' differing demographics with respect to the levels of uninsurance among poor children and need for added resources. Notwithstanding certain exceptions, a state's "SCHIP allocation" can be thought of as a limit on the amount of federal program participation the state can attain in any given year.

To target funds to states with the greatest need, Congress initially specified that funds be allocated to states based on the number of uninsured children age 18 and younger living in families with incomes below 200 percent of the federal poverty level (FPL). Later, so as not to penalize states making progress toward greater coverage of uninsured children, Congress specified that future allocations be made based on a "blended allocation formula", one incorporating the number of uninsured children in low-income households *and* the overall number of children in low-income households, weighted equally. The blended formula was phased in beginning in fiscal year 2000, and fully implemented by fiscal year 2001.

Sources of Variation in SCHIP Allocations

Generally speaking, variation in a state's SCHIP allocations across years could be the result of one of the following factors: (1) changes in the

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allocation formula (e.g., initial versus blended formula), (2) movement in the actual number of uninsured and poor children, or (3) random error in the state estimates of uninsured and poor children.

By simulating what "would have happened" under various formulas and scenarios, our analysis suggests that over half of the variation in state SCHIP allocations between 1999 and 2002 is due to changes in the allocation formula; the rest of the variation can be attributed to random error in the estimates used to approximate uninsurance rates for children and the number of families living under 200 percent of FPL.

In contrast to the policy rationale behind the allocation formula, we found *no* evidence that fluctuations in allocations had anything to do with actual changes in state rates of uninsurance or poverty among children. In practice, then, it appears that with current data sources, the methodology for allocating federal SCHIP funding is not functioning as designed.

Recommendations for Stabilizing SCHIP Allocations

The main state-level inputs to the SCHIP allocation formula described above—namely, estimates of the number of uninsured children and the number of children in families below 200 percent of poverty—come from the Annual Demographic Supplement to the Current Population Survey (CPS-ADS). One important question to ask is whether other data sources exist that would be less "noisy." Said another way, would other data sources be expected to change more exclusively with movements in actual state uninsurance and poverty rates?

Two alternate data sources for reducing estimate error include: (1) the newly expanded CPS-ADS sample, and (2) a fully implemented American Community Survey (ACS). The CPS-ADS was expanded from a survey of roughly 50,000 to 78,000 interviewed households beginning in 2001. The ACS will be an annual survey of three million addresses similar to the decennial census long form. Utilizing these alternate data sources by themselves in the SCHIP allocation formula reduced the variability in state allocations by 23 and 67 percent, respectively. We suggest that the most desirable path would be to *create* estimates via statistical modeling that combine the strengths of the CPS-ADS and the fully implemented ACS. This method would be similar to the one used by the Census Bureau to allocate Title I education funds.

Our analysis illustrates how seemingly technical data issues can have very real policy implications for states. Working with improved data estimates would have the effect of greatly reducing the amount of random fluctuation in funding built into the current SCHIP formula. Resolving this problem will only become more critical as more and more states exhaust their federal SCHIP allotments in the context of growing numbers of uninsured, increasing health care inflation, and severe budget deficits.

The State Health Access Data Assistance Center at the University of Minnesota promotes the effective use of available data to inform the debate on health coverage and access. For a copy of SHADAC's study, please see:

Davern, Michael, Lynn A. Blewett, Boris Bershadsky, Kathleen Thiede Call, Todd Rockwood. "State Variation in SCHIP Allocations: How Much Is There, What Are Its Sources, and Can It Be Reduced?" *Inquiry* 40: 184-197 (Summer 2003)

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