THE HEALTHY KIDS ACT of 2007

This year Congress has a unique opportunity to expand access to health coverage for children through the State Children's Health Insurance Program (SCHIP). Established in 1997 by President Clinton and Congress, SCHIP provides health care coverage for six million children who would otherwise go without care. Over time, the program has proven to be both successful in providing coverage and popular among Republicans and Democrats. As Congress prepares to reauthorize this program, it is critical we expand access to health care coverage and ensure that every child has the chance to grow up healthy and strong.

The Healthy Kids Act of 2007

Since SCHIPôs enactment, the nation has made significant progress in reducing the number of uninsured children. Unfortunately, however, close to nine million children still lack health coverage ï the vast majority of whom are in working families. Numerous studies have shown that children with health insurance do better in school and have better attendance rates. But while the benefits of insuring children are clear, our nation has been going in the wrong direction. For the first time since 1998, the rate of uninsured children increased, from 10.8 percent to 11.2 percent. The *Healthy Kids Act* will reverse this trend by directly addressing the lack of access to affordable health insurance for these children. This legislation provides states with financial incentives and resources to provide coverage to the 6.8 million children who are currently eligible for Medicaid or SCHIP, but not in enrolled. Additionally, the *Healthy Kids Act* provides families that are not eligible for public programs with a refundable, advanceable tax credit to purchase health coverage for their children. Parents can use this tax credit to purchase private employer-based coverage if they have access to it, or a state-designated coverage plan if they do not.

<u>Legislative Proposal</u>

I. SCHIP

Under this legislation, the State Childrenôs Health Insurance Program (SCHIP) will be funded for five years at a funding level of $7.5 billion each year inflated by national health expenditure per capita and population growth for children.

II. Increasing Enrollment in Medicaid and SCHIP

There are currently close to 9 million uninsured children in the US ï two-thirds of which are eligible for SCHIP or Medicaid, but not enrolled (roughly 6.8 million). Under current law, states have the option to implement several policies to streamline the enrollment process, however, due to funding constraints, many do not.

- **Provide Incentives to States to Streamline the Enrollment Process.** Under this provision, states that choose to implement five specific administrative policies to streamline the enrollment process would receive a 2 percentage point increase on their FMAP for coverage of children in both Medicaid and SCHIP. These policies include:

    - Presumptive eligibility
    - 12 month continuous enrollment
    - Automatic renewal
    - Elimination of the asset test
    - Self declaration of income

- **New Options Would Be Made Available to States to Enroll Additional Children.** Many states and advocates have indicated that new state options for difficult to reach populations could make a substantial difference in the success of enrolling children.

  - **States Will Have the Option to Enroll Children if they Qualify for Other Means-Tested Programs.** Under this provision, states would have a new option of enrolling children in a ñone-stop shoppingò where if they qualify for means-tested programs (food stamps, WIC and school lunches), they would automatically be deemed income eligible for Medicaid or SCHIP.

  - **States Will Have the Option to Enroll Legal Immigrant Pregnant Women in Medicaid and Legal Immigrant Children in Medicaid or SCHIP.** Under this provision, states will once again have the option to provide health coverage to legal immigrant children and pregnant women.

- **Automatic Adjustment of Allotment Due to Increased Outreach.** Under this provision the Secretary would add an amount to statesô allotments to account for unexpectedly high enrollment of children. The amount added for all states could not exceed more than 10 percent of the annual total allotment. Additional allotments would only be given for costs directly related to the enrollment of previously eligible, but unenrolled children. The adjustment would not reflect costs associated with increased reimbursement to providers or other non-kid enrollment factors.

III. Healthy Savings Tax Credit

Under this provision, families between 200% and 350% of poverty would receive a Healthy Savings Tax Credit that is advanceable and refundable. For states with SCHIP eligibility above 200% of poverty, the tax credit would start where SCHIP eligibility ends. Parents could then use that tax credit to purchase health coverage for their children.

- **Tax Credit for Employer Based Coverage or Buy into State Designated Coverage Plan.** Families could use the tax credit to purchase health care for their children (1) through their employer if the employer offers coverage (the coverage must be actuarially equivalent to the standard FEHBP Blue Cross Blue Shield plan); (2) if the employer does not offer qualified health coverage, the family could buy into a state designated coverage plan that must be actuarially equivalent to the standard FEHBP BCBS plan; the most popular state employee health plan; the largest commercial HMO in the state or a state-certified actuarially equivalent coverage. The SCHIP benefit offered by the state would also qualify.

- **Tax Credit is Advanceable and Refundable.** The tax credit would be in the form of an advanceable, refundable tax credit and would be a percentage of the cost of the premium. The tax credit would be available on a sliding scale beginning at 200% of poverty at 75% of the cost of the premium. The tax credit would be phased out at 350% to ensure maximum take up rates and minimum marginal tax inequalities.

Cost

The legislation will cost $60 billion over 5 years. $50 billion is allocated to cover the shortfall and extend coverage to the children who are currently eligible, but not enrolled in Medicaid or SCHIP. $10 billion will be allocated for the Healthy Savings Tax Credit.

Offset

The legislation will be paid for by implementing the Simplification through Additional Tax Reporting Tax (START) Act of 2007. The START Act is bipartisan legislation (Bayh/Coburn - Emanuel/Jones) that would help close a portion of the capital gains tax gap by requiring the securities industry (brokerage firms and mutual fund companies) to track and report the adjusted basis a taxpayer has in their stock, bond, or mutual fund to the taxpayer and the IRS.

The ñtax gapò is the amount of money legally owed each year to the government but not collected. According to estimates from the IRS, the gross *annual* federal tax gap for 2001 was $345 billion. The IRS estimates that $11 billion of this total was due to the underpayment of capital gains taxes. Adjusting for the increase in capital gains realizations between 2001 and 2005, the federal government failed to collect **$17 billion** in legally-owed capital gains taxes in 2005. **Over time, this bill will raise more than the $60 billion needed to pay for the Healthy Kids Act.**