

ulation of insurance markets, investments in health information technology, medical malpractice reform, and expansion of health savings accounts (tax-preferred accounts that can be used to pay for medical expenses in conjunction with high-deductible health insurance).

These Republican plans are also noteworthy for what they do not do: propose the establishment of any major new federal insurance programs or the adoption of any new employer or individual mandates. The focus is on decentralized, market-oriented reforms rather than on achieving

universal coverage. Without more details, it is difficult to assess the plans' potential impact, but their incremental measures are unlikely to substantially increase health insurance coverage or effectively control costs.

The 2008 presidential election will not resolve the debate over health care reform, but the results will go a long way toward determining the future of U.S. health policy. It would be a mistake, however, to read the candidates' plans too literally. A plan offered during the primaries usually looks different in key respects from the plan that a newly elect-

ed president takes to Congress, to say nothing of any legislation that Congress actually passes. Still, it is clear that there is a wide partisan gap on health care reform that reflects ideological divisions over the roles that government and market forces should play in the health care system. And the further U.S. health policy moves from incrementalism, the more that partisan divide is likely to be exposed.

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## The Fate of SCHIP — Surrogate Marker for Health Care Ideology?

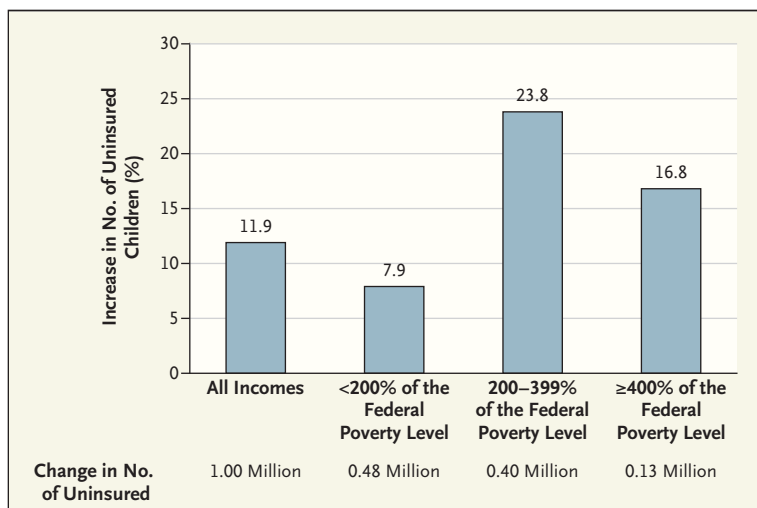
John K. Iglehart

To appreciate the power of the U.S. presidency — even when its current occupant's approval rating is only 31% — one need look no further than the political brawl over the State Children's Health Insurance Program (SCHIP). On October 3, 2007, President George W. Bush vetoed legislation that would have reauthorized SCHIP for 5 years, asserting that it was too expensive and would lead down a path to socialized medicine. On October 18, despite pleas by Democrats and some senior Republican legislators, the House failed to garner the necessary two-thirds vote to override Bush's veto; the vote count was 273 to 156. In addition to many legislators, a large majority of the public, major private stakeholders, and 43 governors strongly support ex-

pansion of the program. By contrast, in an effort to appeal to the conservative base of their party, the leading Republican presidential candidates agreed with Bush's veto — despite the fact that the program, though signed into law by a Democratic president, originated in a bipartisan compromise and was enacted by a Republican-controlled Congress.

A few months ago, reauthorization of SCHIP seemed like a routine matter. Then Bush decided to single it out as a target of the administration's newfound fiscal discipline. The program was created in 1997 to provide coverage to "targeted low-income children" who are uninsured and not eligible for Medicaid — typically, families with incomes up to 200% of the federal pov-

erty level, or about \$41,300 for a family of four in 2007. As the cost of private insurance has increased and the number of employers offering it has decreased, the ranks of the uninsured have grown — by 2.2 million in 2006, including 710,000 children, half of them with a family income between 200 and 399% of the poverty level (see bar graph)<sup>1</sup> — and government has tried to fill the gap. While 24 states still use SCHIP to cover children with family incomes up to 200% of the poverty level and 8 states set their income thresholds below 200%, the other 18 states have extended their thresholds above 200% — 16 of them to 250% or above. Through waivers approved by the Bush administration, 5 states cover pregnant women under SCHIP, 11 cover



Percentage Increase in the Number of Uninsured Children in the United States, between 2004 and 2006.

Data are from the Kaiser Commission on Medicaid and the Uninsured.

parents of enrolled children, and 14 cover other adults. Yet 90% of children enrolled in SCHIP in 2005 still had family incomes at or below 200% of the poverty level (see pie charts).

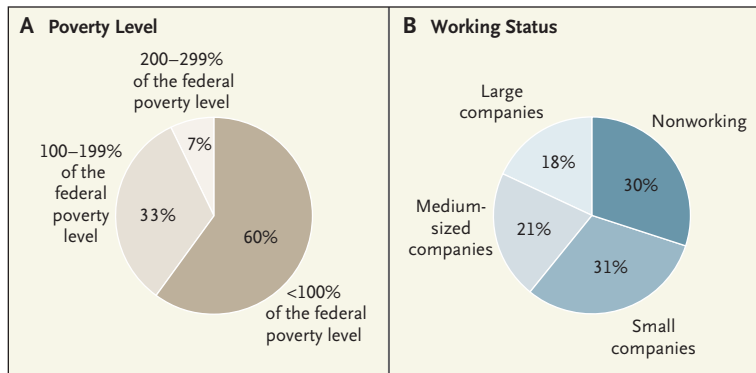
In his veto message, Bush said, “This bill would shift SCHIP away from its original purpose and turn it into a program that would cover children from some families of four earning almost \$83,000 a year. In addition . . . government coverage would displace private health insurance for many children. . . . The bill also does not fully fund all of its new spending, obscuring the true cost of the bill’s expansion of SCHIP, and it raises taxes on working Americans.” Tellingly, 2 weeks earlier, Bush had described “a philosophical divide . . . over the best approach for health care,” noting that “Democratic leaders in Congress want to put more power in the hands of government by expanding federal health care programs. Their SCHIP is an incre-

mental step toward the goal of government-run health care for every American.” He contrasted this alleged aim with his proposal for creating tax incentives that encourage Americans to purchase private insurance.<sup>2</sup>

The measure that Bush vetoed was a compromise based largely on legislation drafted by four senior members of the Senate Finance Committee: Democrats Max Baucus of Montana (chairman) and Jay Rockefeller of West Virginia and Republicans Chuck Grassley of Iowa (ranking minority member) and Orrin Hatch of Utah. Senate Majority Leader Harry Reid (D-NV) persuaded House Speaker Nancy Pelosi (D-CA) that her party caucus should acquiesce to the less expansive Senate version because it had passed by a veto-proof majority. What incensed senators about Bush’s veto was the administration’s failure to work toward a compromise that would reauthorize SCHIP but combine it with some form of Bush’s tax credit — an idea promoted largely by Grass-

ley. When the senators cobbled together a bipartisan compromise, the administration offered no realistic alternative, instead attacking the proposal with ideological arguments and dubious interpretations. In mid-August, the administration further antagonized some legislators and many governors when the Centers for Medicare and Medicaid Services (CMS) released a directive placing new restrictions on states that wanted to continue covering children with family incomes above 250% of the poverty level. The directive was issued late on a Friday (August 17, 2007) without any warning to either Congress, which was in recess, or governors.<sup>3,4</sup> On September 10, a group of 44 senators wrote a letter to Bush asserting that the directive represented “a dramatic change in administration policy” and urging him to withdraw it, which he declined to do.

In the weeks leading up to Bush’s veto, the administration asserted repeatedly that the compromise would expand SCHIP eligibility limits to 400% of the poverty level — an interpretation that the bill’s sponsors insist is incorrect. The senators say the measure would have reined in SCHIP by phasing out eligibility for childless adults and by prohibiting any new states from covering parents of enrolled children. It authorized SCHIP expenditures of \$60 billion over the next 5 years — more than double the \$25 billion appropriated in the past 5 years but well short of the spending level sought by the House (\$75 billion). The administration’s 2008 budget proposed an appropriation of only \$30 billion over 5 years. The compromise also stripped out many



**Distribution of Uninsured Children Eligible for Medicaid or SCHIP, According to Percentage of the Federal Poverty Level (Panel A) and the Working Status of the Family (Panel B), in 2004.**

The total number of uninsured eligible children was 6 million. Small companies were defined as those with fewer than 25 employees, medium-sized as those with 25 to 999, and large as those with 1000 or more. Data are from the Kaiser Commission on Medicaid and the Uninsured.

contentious House provisions that would have affected Medicare. On September 25, the House approved the compromise bill, 265 to 159. Two days later, the Senate approved the measure 67 to 29 and sent it to Bush.

Of Republican legislators who decried the president's veto, none was more infuriated than Grassley, a five-term senator with a strong conservative voting record. Anticipating the veto, Grassley asserted in an impassioned speech on the Senate floor on September 26 that Bush's interpretation of the measure was simply incorrect. Grassley said, "Screaming 'socialized medicine' during a health care debate is like shouting 'fire' in a crowded theater. It is intended to cause hysteria that diverts people from reading the bill, looking at the facts." Grassley reminded Bush of a speech he had delivered to the Republican National Convention in 2004 committing to an expansion of coverage for children. ("In a new term, we will lead an aggressive

effort to enroll millions of poor children who are eligible but not signed up for the government's health insurance programs.")

Grassley noted that the measure would be financed through a new revenue source, not added to the federal budget as an unfunded liability. However, the administration opposed the source — increasing the per-pack tax on cigarettes by 61 cents to \$1.00. The compromise would have required states to prepare a plan to prevent families from enrolling children in SCHIP if private insurance was available to them. The administration was particularly concerned that an expansion of SCHIP would "crowd out" private insurance coverage and be more costly to the federal treasury. But Grassley concluded that "The compromise bill discourages states from covering higher-income kids by reducing the federal matching rate for states that wish to expand eligibility over 300% of federal poverty limits. It rewards states that cover more low-income kids by providing

targeted incentives. . . . So there is a very clear message to states . . . don't spend money on higher-income kids unless you can prove that your state is covering your lower-income kids first. It is all there in black and white."

Given the heated rhetoric of the past several months, it may be difficult for Congress to return quickly to the task of reauthorizing SCHIP for the full 5 years. Barring a new compromise, the program would probably continue at its current funding level thanks to stopgap measures that would be enacted as necessary, which could leave many states short of the funds needed to maintain their current enrollments. Many House Republicans discount the possibility that, by upholding Bush's veto, they may have weakened their party's election prospects in 2008.

Democrats, who command a Congress with a public approval rating that, at 22%, is even lower than the president's, are divided over which path to take. Some are inclined to continue working toward a compromise that Bush would accept and to put SCHIP reauthorization behind them. Given her belief that SCHIP should be substantially expanded, the current frontrunner in the Democratic presidential race — Senator Hillary Clinton of New York — may prefer to fight out this issue during the coming campaign. On January 20, 2007, surrounded by children in a New York health center, Clinton simultaneously announced her candidacy for president and proposed extending the SCHIP threshold to four times the federal poverty level. On September 7, the administration announced that it had

rejected New York's request to expand its SCHIP to cover 70,000 more children — the first application of the August 17 CMS directive calling for more restrictive enrollment policies.

How prominently SCHIP and the health care needs of uninsured children will figure in election-year debates is anybody's guess, but one thing is certain: However the SCHIP saga ends, it

will not lay to rest the larger issue of what level of public support uninsured people deserve as our employer-based insurance system continues to erode.

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