



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 30, 2007
(Senate)

STATEMENT OF ADMINISTRATION POLICY

S. 1893 – Children’s Health Insurance Reauthorization Act of 2007

(Sen. Baucus (D) MT)

The Administration strongly supports reauthorization of the State Children’s Health Insurance Program (SCHIP). The Administration is committed to making sure that poor children have health insurance and to that end, supports focusing resources on providing coverage for low-income children. It is urgent that Congress complete its work and send the President a bill he can sign before the program expires September 30, 2007. In fact, the President would sign reasonable legislation to reauthorize SCHIP today. The President’s Budget includes a proposed \$5 billion expansion, a 20 percent increase in funding. However, the President has several concerns about S. 1893 and the Senate approach to SCHIP Reauthorization. If S. 1893 were presented to the President in its current form, he would veto the bill.

S. 1893 expands the SCHIP program and changes the focus from those who cannot afford coverage to include families with incomes of up to \$83,000 per year or even more. This bill essentially extends a welfare benefit to middleclass households. The funding levels provided in the first five years under S. 1893 are far more than necessary to accomplish the goal of covering low-income children.

At the same time, S. 1893 sets SCHIP on an unsustainable course by expanding and then drastically underfunding the program in the future by at least \$60 billion. The legislation balloons the allotments to \$16 billion in 2012 and then reduces the allotments to \$3.5 billion in 2013. Such a dramatic decline in allotments is highly unlikely and nothing more than an irresponsible budgetary gimmick. In the period 2013-2017, according to the Congressional Budget Office, SCHIP funding and enrollment under the bill would be lower than under current law, which could cause millions of children to lose coverage over the long-term.

The bill discourages States from efficiently managing their allotments by increasing SCHIP allotments at a growth rate well above their projected spending and by creating new funding sources in addition to State allotments. The legislation would create two new funds that appear to encourage States to overspend their budgets. The legislation purposefully sets excessive and unnecessary allotment levels that are designed to spill over into the new “Incentive Fund.”

The bill is inconsistent with the principle of choice for American consumers and instead goes too far in federalizing health care. A competitive private market for health insurance is better policy than a government-run system that would mean lower quality, longer lines, and fewer options for patients and their doctors. S. 1893 would cause millions of individuals to drop their private insurance in order to be involved with a government insurance plan. Many of the gains in SCHIP under this legislation will be offset by losses in private health insurance coverage

because the proposed SCHIP expansion targets families at income levels where most children already have private health insurance coverage. As a result, the true net increase in coverage for children is estimated to be between 40 and 50 percent of the increase in enrollment levels under SCHIP. As a result, the cost per each newly insured individual under the bill would be \$3,950 in 2012 in combined Federal and State spending. The Administration is deeply concerned that S. 1893 will result in the expenditure of billions of dollars that will merely replace what otherwise would have been spent by families meeting their own obligations to care for their children. The “crowd out” effect weakens the private health insurance system and creates new inequities among families who continue to pay for their own health care and those at the same income level who do not.

The Administration is also concerned that S. 1893 will delay the Administration’s efforts to transition adults out of SCHIP and into Medicaid. By October 1, 2007, the Department of Health and Human Services will have moved half of the adults covered by SCHIP through demonstration projects out of Title XXI and into Medicaid, but S. 1893 would reverse this progress.

The Administration believes this legislation needs dramatic changes in three major areas—funding, coverage of adults, and coverage of children in higher income levels.

The Administration strongly objects to the provision in S. 1893 that wrongly weakens the current option available to States to cover unborn children and their mothers. The new option would exclude coverage for certain unborn children and their mothers who would be eligible under the existing regulations. The Administration believes every human life has value, and every child should be welcomed into life.

The Administration also strongly opposes the proposed tax increases contained in the legislation. The use of tax increases to fund spending increases is undesirable and inadvisable. The Administration is concerned about the negative impact on State budgets from the loss of direct revenue and the uncertain impact this may have on States and bondholders in relation to the tobacco Master Settlement Agreements.

* * * * *