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Insurance Folly

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By John C. Goodman

The state children's health insurance program (SCHIP) was originally a Republican program to provide health insurance to children in near-poor families who did not qualify for Medicaid. Democrats now want to expand SCHIP to children of the middle class. Their efforts to do so are rightly being resisted by the White House, but Senate Finance Committee Republicans have already caved on an unwise compromise – agreeing to raise the eligibility to 300% of the poverty level (\$62,000), up from the current 200%. House Democrats will now see if they can get the GOP to cave some more. House Democrats want to push coverage to 400% percent (\$83,000 annual income).

On the surface, congressional Democrats appear to be rescuing children from the scourge of uninsurance. The reality is quite different. If they get their way, millions of children will have less access to health care than they do today, and the same will surprisingly be true for many low-income seniors. On top of all this, Democrats would also

impose highly regressive taxes.

Studies by MIT economist Jonathan Gruber show that public insurance substitutes for private insurance and the crowd-out rate is high. In general, for every extra dollar spent on Medicaid, private insurance contracts by 50 cents to 75 cents. For SCHIP, depending on how it is implemented, private insurance could contract by about 60 cents.

These findings make sense. Why pay for something if the government offers it for free? Under congressional proposals to expand SCHIP, the crowd out would likely be much worse. The reason: almost all the newly eligible beneficiaries already have insurance.

Yet almost eight of every 10 children whose parents earn from 200%-300% more than the poverty level already have private health-care coverage, according to the Congressional Budget Office (CBO). At incomes between 300% and 400% more than poverty, nine of every 10 children are already insured.

What about the eight to nine million children currently uninsured? Nearly 75% of them are already eligible for Medicaid or SCHIP, according to the CBO. So the main result of the Democrats' proposal to expand SCHIP will be to shift middle-class children from private to public plans.

Why is that bad? One reason is that most SCHIP programs pay doctors at Medicaid rates—rates so low that Medicaid patients are having increasing difficulty getting access to health care. Anecdotal evidence suggests that U.S. Medicaid patients already must wait as long for specialist care and hospital surgery as in Canada.

Many doctors won't see Medicaid patients. Among those that do, many will not accept new patients. As a result, children who lose private coverage and enroll in SCHIP are likely to get less care, not more.

There is also the issue of who exactly will be covered. Republicans want to restrict SCHIP to children. The Democrats want adults covered as well. Even under the current system, children's health insurance is increasingly a ruse to cover adults. Minnesota spends 61% of SCHIP funds on adults. Wisconsin spends 75%.

Seniors will suffer from SCHIP expansion too. When millions shift from private to public coverage,

not much happens to the overall rate of uninsurance. But the government's cost soars. Where's the money to come from? One idea popular with some house Democrats is to reduce federal payments to Medicare Advantage plans. These plans provide comprehensive coverage to low-income seniors who can't afford supplemental insurance to fill all the gaps in Medicare. One in five seniors has enrolled in these plans and one in four of those is a minority. In the House of Representatives, health care for this group is a great risk.

The proposal to expand SCHIP comes at a time when health-care spending already poses a serious threat to the federal budget. The Medicare trustees tell us that the program's unfunded liability is six times that of Social Security. The CBO predicts that on the current course, income tax rates paid by the middle class will reach 66% by midcentury and the top marginal rate will reach 92%.

So what do congressional Democrats plan to do about this problem? Ignore it.

A key provision of the 2003 Medicare modernization act says that when Medicare's finances deteriorate to a certain level (that level is already reached), the

president must propose an appropriate reform and congress must fast-track the proposal. Yet one senior Democratic legislator—as yet unidentified—wants the SCHIP bill to repeal that provision.

In a way, repeal makes a certain sense. If the ship is going down anyway, why spoil the fun?

John C. Goodman is president of the National Center for Policy Analysis.