IRET *Congressional Advisory*

INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

IRET is a non-profit 501(c)(3) economic policy research and educational organization devoted to informing the public about policies that will promote growth and efficient operation of the market economy.

September 28, 2007 **Advisory No. 228**

SCHIP PASSES CONGRESS, FACES VETO

The Senate has joined the House in passing a significant expansion of the State Children's Health Insurance Program (SCHIP). It would more than double the size of the program, expanding it by $35 billion over five years (from $25 billion to $60 billion), and would extend eligibility to children of middle income families (up to 300% of poverty, or nearly $62,000 for a family of four), most of whom already have insurance. (The limits could be higher in some states.) To hold the five-year estimate to $35 billion, it ridiculously assumes that spending on the program will drop by about 75% in 2012, forcing all the new entrants and most of those covered by the original program off the rolls.

President Bush is expected to veto the bill. He had proposed a 20% increase in SCHIP, from $20 billion to $25 billion, over five years. His request for extra funding did not rely on budget gimmicks. The Bush request was enough to fully fund a renewal of the SCHIP program at a level that would fully cover health cost inflation and the rising number of children in the originally qualifying income categories (families with income up to 200% of poverty).

The House-Senate conference agreement scaled back some controversial features in the House's earlier version. It had wanted a $50 billion increase in funding (higher than the Senate's $35 billion raise), and had proposed to pay for the additional $15 billion mainly by cutting Medicare Advantage funding for private policies favored by many retirees. These provisions were dropped.

The main funding mechanism in the final bill is a nasty, regressive tobacco tax hike that would hurt low income families, including families currently receiving SCHIP assistance. It would raise the federal cigarette tax by $0.61 per pack hike (from $0.39 to $1), and impose similar or higher tax hikes on other tobacco products. Low income individuals are far more likely to be smokers than middle and high income individuals, and for those who do smoke, people with lower incomes spend a higher percentage of their incomes on cigarettes and the associated tax than do people with higher incomes.

Who would lose and who would win? Low income families already covered by SCHIP would either gain nothing or lose. They would have the same real health benefits as now, but would face a stiff hike in their tobacco taxes (if they are smokers) to pay for covering the new higher income enrollees. The tax would offset about a third of what the poorest families now receive from having a child in the program. Middle income families who do not smoke would get the full benefit of the expansion.

The bill is still too focused on extending a federal subsidy to families that can pay for insurance and who mostly have insurance already, dragging millions of participants into the federal subsidy program for no good reason. The bill deserves a veto.

For further discussion of the original bills, see *IRET Congressional Advisories 221* and *226*.

Stephen J. Entin
President and Executive Director