



# Budget Tidbits... just the facts

Senate Republican Caucus

## Budget Brief #5: (2/15/07)

### Good Politics, Bad Policy

*A look at the so-called "Cover All Kids" proposal (2SSB 5093) to expand taxpayer funded health care.*

#### A. What the Bill Primarily Does

Expands state funded health care coverage to all children in families under 300 percent of the federal poverty level, which is \$62,000 a year for a family of four (higher than the median income in 37 of 39 counties).<sup>1</sup>

Functionally this increases eligibility from current law as follows:

- Citizen children – from 250% to 300% (2/3 federal funds)
- Illegal immigrant children – from 100% to 300% (state-only funds)

#### B. Good Politics, Bad Policy

This is a feel-good bill with some real ramifications amongst which:

1. **Most Enrollees will be People Dropping Private Coverage** – As the public sector increases income eligibility ever higher, a result is that persons with private insurance drop their coverage and enroll on the taxpayer subsidized rolls. A recent National Bureau of Economic Research paper indicated the “crowd out” effect was on the order of 60 percent, *meaning for every four uninsured you enroll you get an additional six people on state coverage who drop private coverage.*<sup>2</sup> Fiscal committee staff analysis confirmed that more people with insurance could be expected to enroll than those who are uninsured.<sup>3</sup>
2. **Better Coverage for Illegal Immigrant Children than Washington Citizens** – Low-income Washington adults are eligible for the state-funded Basic Health plan up to 200 percent federal poverty level. That is a lower income level, with less generous benefits, than provided to illegal immigrant children under this legislation.
3. **Makes Private Sector Health Insurance More Expensive** – Two ways:
  - a. *Aggravates Inadequate Provider Reimbursements* – Medicaid reimbursements for physicians do not cover their costs, leading many physicians to either not take Medicaid patients or to recoup their costs by charging private pay patients more than they otherwise would.<sup>4</sup>
  - b. *Average Plan Costs Will Rise* – Children are the least expensive to insure, generally being of good health. A shift of children away from private coverage and onto state coverage will increase the average demographic age of private insurance and, hence, result in higher costs than otherwise.<sup>5</sup>
4. **Result in Fewer State Services for Truly Needy and Vulnerable (or Tax Increases)** – The Governor’s budget proposal – which proposed keeping eligibility at 250 percent federal poverty level and not making this an entitlement – already was projected to put the state in a \$1.2 billion and \$2.8 billion deficit in

subsequent biennia. The majority leader publicly stated – and was quoted in the papers – as saying the revised, more expensive bill cost \$32 million.<sup>6</sup> But this is highly misleading as it reflects only the upcoming biennium, when costs and enrollment are still ramping up – indeed the step-up to 300 percent FPL does not occur until the last six months of the biennium. Once fully implemented this bill would result in additional state costs approaching \$200 million a biennium,<sup>7</sup> although no one knows the precise figure because the bill was voted on without an accurate fiscal note.

The question then is what will get cut in upcoming budgets, or which taxes will be raised, to finance this bill – a bill where the majority of costs come from covering (a) people who already have insurance, and (b) illegal immigrants. Will funding for nursing homes, the developmentally disabled, the mentally ill, or K-12 education have to be reduced? All have been proposed in the past by Democratic governors when the state has faced a multi-billion dollar deficit.

5. **Does Nothing to Control the Rising Cost of Health Care** – The legislation does nothing to control or stem the rising tide of health care costs. In fact, as noted, it merely aggravates the problem.

### **C. Who Needs to Know Future Cost to Taxpayers?**

Nearly as concerning as the ultimate ramifications of the bill is the process by which the legislation has moved forward. Fiscal notes are prepared on legislation so that members are aware of the long-term fiscal impact of legislation and can make an informed vote. Yet in a nearly unprecedented move this legislation was voted off the Senate floor despite an acknowledgement the fiscal note was grossly inaccurate and needed revision, likely understating the out biennia costs by half.<sup>8</sup> Requests to delay a vote until an accurate fiscal note was developed were dismissed by the majority leader who stated, “*Frankly even if it costs three times as much, we would be willing to move this bill.*”<sup>9</sup>

This deviation from normal practice – voting on legislation without a proper fiscal note – is a disservice to the legislative process, the public who has a right to know what bills will cost, and disturbing evidence of a lack of regard for the costs of legislation.

### **Bottom Line**

The sound-bite “Cover All Kids” makes for good politics.

But is it good policy to pass legislation that encourages people to drop private sector coverage, makes private health insurance more expensive, provides better coverage for illegal immigrants than provided to citizens, expends funds on the middle-class at the expense of the truly needy, and does nothing to stem the rising cost of health care?

1. OFM Median Household Income Estimates by County, Projection for 2006 (17 counties’ median income under \$40,000; 13 more under \$50,000; 7 more under \$60,000; only Snohomish (\$63,313) and King (\$65,940) are above \$62,000)
2. “Crowd-Out Ten Years Later: Have Recent Public Insurance Expansions Crowded Out Private Health Insurance?”, Gruber & Simon (National Bureau of Economic Research, Jan. 2007)
3. Ways & Means staff analysis (2/14/07) – Once fully implemented, expected that 78,000 more children added to state’s rolls (38,000 uninsured & 40,000 from private insurance). The 51% substitution effect is lower than the NBER estimate due to an assumption that the 11,400 illegal immigrant children added to the rolls will be from the uninsured pool and crowd-out is not applicable.
4. The Governor’s budget provides \$16 M state funds to bring up pediatrician reimbursement for fee-for-service patients. But 80% of pediatricians provide care in a managed care setting. No increase is provided for them.

5. Interestingly, the state's Health Care Authority notes the potential fiscal impact to the state's basic health plan from precisely this phenomenon. Currently there are 14,907 children enrolled in the regular BHP. Each shift of one percent of children onto this new plan and off the BHP would cost the state an additional \$600,000 a biennium due to the increase in demographic age on the BHP. Rationally, a large shift should occur as this new program prohibits premiums under 200% FPL, whereas the BHP currently charges such premiums. A 50% shift (7,500 kids) would result in additional state costs of \$30 million a biennium.
6. "*Washington Senate Passes Kids Health Care Expansion Bill*", Associated Press, written by Jennifer Byrd (2/15/07).
7. Ways & Means staff analysis places FY 2011 state costs at \$81 million a year (or \$162 million a biennium). This does NOT include medical inflation costs or additional staffing costs. A 6% annual medical inflation rate assumption over the next three years places the FY 2011 at \$96 million (or \$192 million a biennium), exclusive of additional staffing needs. Additionally this does NOT take into account the Health Care Authority's conclusion cited in footnote 4 concerning the possible additional costs to the state's BHP.
8. The fiscal note to the substitute assumed the same caseload increase (33,000) and virtually the same state costs in outgoing biennia (\$87 million vs. \$92 million) as the original legislation, despite the fact that the revised legislation made two huge changes to the original legislation: (a) it increased eligibility to 300% FPL, rather than 250% FPL; and (b) it made enrollment an entitlement, rather than subject to appropriation meaning the state must serve everyone who qualifies. Ways & Means staff analysis concluded these changes would likely nearly double the cost of the fiscal note in out biennia.
9. Senator Lisa Brown quote in Senate Rules, (2/14/07)