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Waiting Periods for the Children's Health Insurance Program (CHIP):

Not Worth the State Resources or Risk to Children's Health

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Two bills filed during the 84th Regular Legislative Session propose changes to the waiting period for Children's Health Insurance Program (CHIP) eligibility. H.B. 1339, by Rep. Roland Gutierrez, proposes to reduce the waiting period from 90 days to 30 days. S.B. 847, filed by Senator José Rodriguez and Senator Judith Zaffirini, eliminates the waiting period altogether. Nationally, the use of CHIP waiting periods is on a steep decline, and CPPP and the Texas CHIP Coalition support eliminating Texas' waiting period. This policy brief explains the laws, policy, and effects of CHIP waiting periods.

Background on the CHIP Waiting Period in Texas

Since the Children's Health Insurance Program (CHIP) was created in 1997 by Congress, federal rules have required states to adopt mechanisms to minimize substitution of CHIP coverage for private group health coverage if the child is eligible. Waiting periods, or requiring that a child has been uninsured for a specified minimum length of time to qualify for CHIP, were one of the primary mechanisms used by states to prevent substitution, or "crowd out." Recognizing the changed health coverage landscape under the Affordable Care Act, the U.S. Department of Health and Human Services (HHS) updated rules related to waiting periods, effective January 1, 2014. The rules prohibit states from imposing a waiting period of longer than 90 days, and they must transfer the account information of any child subject to a waiting period to the Health Insurance Marketplace to allow the parents to seek coverage there during the CHIP waiting period.[1]

Texas' primary method to avoid substitution of private coverage with CHIP is to require that a child has not had private health insurance in the three months prior to applying for CHIP. Once a child is found otherwise eligible for CHIP, the coverage start date of CHIP is 90 days (three calendar months) after the last month in which the child was covered by private health insurance. Texas has several exemptions to the waiting period, both from Texas' original 1999 CHIP law and from federal standards (see Table 1).

Table 1: Texas Exemptions to the Waiting Period for CHIP

The 90-day waiting period does not apply to children who lost insurance coverage because:

- Their parents separated, divorced, or got remarried.
- A parent died.
- A parent lost the family's health insurance they had through work.
- A parent's COBRA benefits ended.
- The Texas Employees Retirement System no longer covers the child.
- A parent's employer stopped offering dependent health coverage.

The 90-day waiting period also does not apply to the following:

- A child who has special health care needs.
- A child who lost CHIP coverage in another state.
- A child who lost coverage in Medicaid, CHIP, or any "health insurance affordability program." This includes health insurance plans found on the Healthcare.gov website offering premium tax credits and cost-sharing reductions.
- A child whose individual health insurance premium costs more than 5 percent of the family's gross income.
- A child whose family health insurance premium (that includes the child) is more than 9.5 percent of the family's income.

The Health and Human Services Commission (HHSC) can waive the 90-day waiting period if the agency determines a good cause exists based on facts in the application or information HHSC gets from other sources.

Key Concerns with the CHIP Waiting Period

No conclusive evidence exists that CHIP programs crowd out private insurance.

Literature on public insurance programs and crowd out provides no conclusive evidence on whether programs such as CHIP are readily substituted for private insurance. Some studies have shown levels of crowd out at up to 60 percent, while others have estimated that little-to-no crowd out exists.[2] A recent Congressionally-mandated evaluation of CHIP estimated that the substitution rate was only 4 percent.[3]

Since the creation of CHIP, HHS has acknowledged the lack of clear evidence that crowd out is a significant issue for households with lower income. In 2001, HHS stated that states were not required to implement substitution prevention strategies for households with income below 250 of the federal poverty level (FPL) because of the general lack of evidence that substitution exists at these lower income levels.[4] In Texas, CHIP covers children up to 200 of FPL.[5] In final rules released in 2013, the Centers for Medicare and Medicaid Services (CMS) further clarified that states could remove waiting periods altogether, and instead need only to monitor substitution rates.[6] Therefore, federal policies from 2001, 2013, and 2014 all make clear that Texas is neither required nor encouraged under federal rules to implement a CHIP substitution prevention mechanism.

No conclusive evidence exists that waiting periods are an effective method of preventing crowd out.

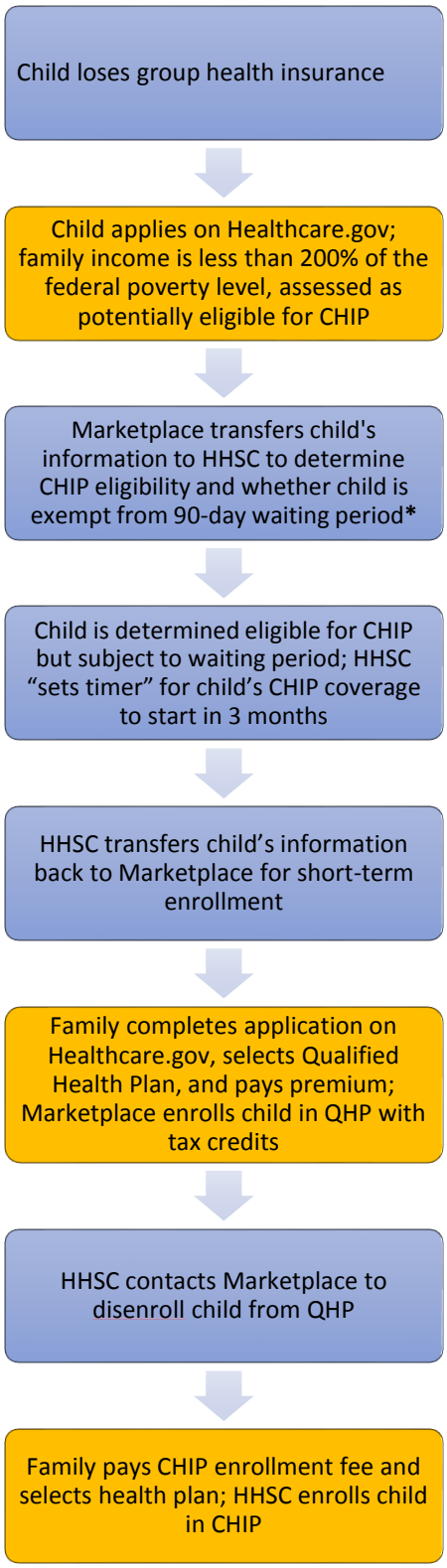
Studies on the effect of CHIP waiting periods on crowd out have yielded inconsistent and contradictory results. Some studies have shown a reduction in crowd out in states with waiting periods, while others have shown that states with waiting periods have higher levels of crowd out. Results differ due to the large variation in the measurement models and the data sets used.[7] However, research has consistently shown that waiting periods reduce the share of eligible children who successfully enroll in CHIP, also known as the "take-up" rate.[8] Waiting periods are therefore not proven to be effective at reducing crowd out, but have been shown to negatively impact the ultimate goal of CHIP: to provide health insurance to uninsured, low-income children.

Administering waiting periods is a costly and inefficient use of state resources.

To streamline eligibility processes and lessen gaps in coverage, federal rules require states to track children who are subject to a waiting period, transfer the child's information to the Health Insurance Marketplace (Healthcare.gov) for coverage during the waiting period, contact the Marketplace once the waiting period has ended, and finally, enroll the child in CHIP coverage[9] (see Figure 1).

Given the administrative burden of transferring the child's information back and forth and the likelihood of coordination issues, it is not surprising that 21 states eliminated their waiting periods between 2013 and 2014. Currently, 33 states do not impose a waiting period at all, and 6 states only impose waiting periods for children in higher income brackets.[10] Texas requires a waiting period for any CHIP-eligible child who had health insurance in the three months prior to applying for CHIP (and who does not qualify for an exception), regardless of their household income.

Figure 1 - Process for Child Subject to a Waiting Period



Given the complexity of the process, unnecessary and harmful gaps in coverage are inevitable.

The administrative complexity of this process is also difficult for the child's family to navigate. Figure 1 shows the multiple-step process required to administer waiting periods. Each step in yellow requires action by the child's parent or caretaker. Due to the complexity of this process, gaps in coverage and coordination issues between the state and the Health Insurance Marketplace are inevitable. Even a short gap in health coverage can be harmful to a child. Without health insurance, the family may postpone needed care, only access care at the point a health issue becomes an emergency, or forego care altogether.

Gaps also create financial hardship for low-income families. Unlike Medicaid, which can cover medical costs for three months prior to the date of application, both CHIP coverage in Texas and coverage under a Qualified Health Plan (QHP) take effect only after application and enrollment. Therefore, any health care services rendered prior to the enrollment of the child in either a QHP or CHIP, even if the child's application is being processed, will not be covered.

Conclusion

Requiring a waiting period of any length before a child can enroll in CHIP is an unnecessary use of state resources that negatively affects children. No clear evidence exists that crowd out is a significant problem in CHIP or that waiting periods help reduce crowd out. Waiting periods create gaps in health coverage that can harm the health and development of children, and require complex and costly administrative processes by bouncing children between the Marketplace and CHIP.

Two bills filed during the 84th Texas Legislative Session propose changes to the waiting period for CHIP.

- H.B. 1339, filed by Rep. Ronald Gutierrez, proposes to reduce the waiting period from 90 days to 30 days.
- S.B. 847, filed by Senator Rodriguez and Senator Zaffirini, eliminates the waiting period altogether.

Eliminating the waiting period altogether is the preferable approach. Reducing the waiting period to 30 days still leaves children without affordable health care coverage during that month, and leaves the family, Texas HHSC, and the Marketplace with the administrative complexity of straddling the waiting period process.

Endnotes

[1] Code of Federal Regulations, 42 CFR §457.340, §457.350, and §457.805.

[2] Gruber, Jonathan, and Kosali Simon. 2008. "Crowd-Out 10 Years Later: Have Recent Public Insurance Expansions Crowded Out Private Health Insurance?" *Journal of Health Economics*, 27 (2): 201–17.

[3] Mary Harrington, et al., "CHIPRA Mandated Evaluation of the Children's Health Insurance Program: Final Findings," Mathematica Policy Research and the Urban Institute (August 2014). http://medicaid.gov/chip/downloads/chip_report_congress-2014.pdf

[4] 66 Fed. Reg. 2490-2688 (January 11, 2001).

[5] The Affordable Care Act (ACA) required each state to convert the income limit for CHIP to account for the changes to the use of Modified Adjusted Gross Income methodologies, to reduce the number of households that would become eligible or ineligible solely because of how income was defined. As a result, in Texas the CHIP income standard was increased to 201 percent of the federal poverty level Furthermore, the ACA required the inclusion of a 5 percentage point income disregard, meaning households with income up to 206 percent of the FPL may be eligible for CHIP.

[6] 78 Fed. Reg. 42160-42322 (July 15, 2013).

[7] See note 1.

[8] Bansak C, Raphael S. 2006. "The Effects of State Policy Design Features on Take-up and Crowd-out Rates for the State Children's Health Insurance Program." *Journal of Policy Analysis and Management*, 26 (1).

[9] 42 CFR §457.340(d)(3).

[10] Tricia Brooks et al., "Modern Era Medicaid: Findings from a 50-State Survey, Eligibility, Enrollment, Renewal, and Cost-Sharing Policies in Medicaid and CHIP as of January 2015," Kaiser Family Foundation (January 2015), http://ccf.georgetown.edu/wp-content/uploads/2015/01/Modern-Era-Medicaid-January-2015.pdf.

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