



## Center for Medicaid and State Operations

SHO #06-001

Dear State Health Official:

The purpose of this letter is to provide you with information regarding the extension of grant funds for State high risk pools and the availability of additional grant funding related to high risk pool activities. The funding for the grants is authorized by the Deficit Reduction Act of 2005 (DRA) and the State High Risk Pool Funding Extension Act of 2006 (Extension Act). Section 6202 of the DRA entitled "State High Risk Health Insurance Pool Funding" extends funding of grants under 2745 of the Public Health Service Act through the fiscal year (FY) 2006 by authorizing and appropriating \$75 million for grants to help fund existing qualified State high risk pools and \$15 million for seed grants to assist States to create and initially fund qualified high risk pools. The Extension Act, enacted February 10, 2006, modifies eligibility requirements and the funding formula, beginning with the 2006 appropriation, and authorizes \$75 million for each of fiscal years 2007 through 2010.

The Extension Act amends section 2745 of the Public Health Service Act to establish: (1) the availability of seed grants through FY 2006 to States for the creation and initial operation of a qualified high-risk pool for those States that do not have one and (2) significant modifications to the statutory provisions relating to grants to States, with high risk pools that have incurred losses. These modifications extend the definition of a "qualified high risk pool" to include an acceptable alternative mechanism such as a health insurance coverage pool, guaranteed issue plans of individual insurance health coverage, open enrollment by health insurance issuers, or a combination of the above.

### **Grant Opportunities Announcement:**

This letter gives general information about the grant opportunities. More specific requirements and instructions will be announced on or about May 1, 2006 on the Web at [www.grants.gov](http://www.grants.gov). Letters of Intent for seed grants are desired by May 31, 2006. Grant applications for seed grants and operational grants will be due on June 30, 2006, and grant awards will be announced on or by September 30, 2006.

**Seed Grants** - A State that has not created a qualified high risk pool as of February 10, 2006, may apply for grant funding for the State's costs of creation and initial operation of a high risk pool. The terms of the grant program will be detailed in the grant opportunities announcement.

**Grants for Operational Losses and Bonus Grants** - States that have established a qualified high risk pool which has incurred losses and meet the terms of the grant program may apply for funding. The terms of the grant program are significantly different than those that applied for FY 2002 through 2004 and will be detailed in the grant opportunities announcement.

**Allocation of Grant Amounts for Operational Losses Grants** - The amount of dollars available for operational grants is based on the following funding methodology. Two-thirds of the total appropriation will be available for the operational losses grants. This amount will be divided among the States that apply and are awarded grants according to the allotment rules that generally provide that: 40 percent will be equally divided among those States; 30 percent will be divided among States and territories based on their number of uninsured residents in the State during the specified year as compared to all States that apply; and 30 percent will be divided among States and territories based on the number of people in State high risk pools during the specified year as compared to all States that apply.


The Extension Act also modifies the definition of “qualified high risk pool” to include State alternative mechanisms as described in section 2744 of the Public Health Service Act and allows a State to qualify for a grant as long as the premiums it charges under the risk pool are no more than 200 percent of the premium for applicable standard risk rates. (The previous limitation was 150 percent). However, if a State’s qualified high-risk pool program charges premiums that exceed 150 percent of the premium for applicable standard risks, the State must use at least 50 percent of the amount of the grant award to reduce premiums for enrollees.

**Limitations for Territories** – The aggregate amount allotted and made available to Territories for operational grants will not exceed \$1,000,000.

**Bonus Grants for Supplemental Consumer Benefits** - One-third of the total appropriation is set aside to be used for grants for supplemental consumer benefits. If a State has an established qualified high risk pool and is receiving a grant for operational losses, it may apply for a grant to be used to provide supplemental consumer benefits to enrollees or potential enrollees of its high risk pool. The benefits to be funded with this grant shall include one or more of the following: (a) low income premium subsidies; (b) reduction in premium trends, actual premium or other cost-sharing requirements; (c) an expansion or broadening of the pool of individuals eligible for coverage, such as through eliminating waiting lists, increasing enrollment caps, or providing flexibility in enrolment rules; (d) less stringent rules or additional waiver authority with respect to coverage of pre-existing conditions; (e) increased benefits; and (f) the establishment of disease management programs.

The CMS contact for this new legislation is Ms. Jean Sheil, Director, Family and Children’s Health Program Group. She may be reached at 410-786-5647. Please do not hesitate to contact us if you have any additional questions.

Sincerely,



Dennis G. Smith  
Director

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cc:

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