



DEPARTMENT OF HEALTH & HUMAN SERVICES
Health Care Financing Administration

Center for Medicaid and State Operations
7500 Security Boulevard
Baltimore, MD 21244-1850

August 27, 1997

Dear State Official:

The Balanced Budget Act of 1997 created a new children's health insurance program under Title XXI of the Social Security Act. This new Title enables States to initiate and expand health insurance coverage for uninsured children. The Department of Health and Human Services is pleased to be a part of this historic initiative and is looking forward to working with States on the implementation and oversight of these programs. These programs will make an unprecedented investment and contribution to the quality of life for millions of vulnerable children.

The President signed the children's health title into law just four weeks ago. The short time frame between the enactment of the bill and the effective date of the legislation requires that States and the Department work together expeditiously so that States can begin implementing new programs as soon as possible. While there are a number of technical questions to be resolved, this letter outlines the basic provisions of the program. A summary of the new legislation is enclosed.

OVERVIEW OF PROGRAM

Determination of State Allotments. Funding for the new program is available through an enhanced match of State expenditures beginning on October 1, 1997. To receive Federal matching funds, a State must have an approved State plan. The total Federal payments available to States are specified in statute and will be allocated to States according to the statutory formula that is based on the number of uninsured, low-income children in each State and a geographic cost factor. We plan to publish by mid-September, through the rulemaking process, the preliminary fiscal year 1998 allotments of Federal funds for each State and territory, along with the assumptions and methodologies used to determine these allotments. It is important to note that while funding is available October 1, 1997, for States with approved plans, the new law allows each State to access its fiscal year 1998 allotment for three years for expenditures on children's health insurance coverage under Title XXI. For fiscal year 1998, the total amount allocated for the program is \$4.275 billion.

Requirement to Submit a State Plan. In order to be eligible for payment under this new legislation, each State must submit one Title XXI plan for approval by the Secretary that details how the State intends to use the funds. Under the law, a State plan is considered approved in 90 days unless the Secretary notifies the State in writing that the plan is disapproved or that specified additional information is needed. If a State wishes to use Medicaid to expand coverage through Title XXI, it must submit a Medicaid plan amendment for an eligibility expansion. This plan should encompass all of the child health assistance being provided using title XXI funding. It is important to note that, once a Title XXI plan is approved, the State will be obligated to continue providing benefits as described in that plan until the plan is amended. (The same is true for Medicaid.) Consistent with the law, however, States have the flexibility to modify their plans by submitting state plan amendments. The Department will be working with States to facilitate and expedite the application and approval process.

Program Options. The law allows States to expand coverage for children through a separate child health insurance program, through the Medicaid program, or through a combination of these programs. States have the following options under Title XXI:

Option to Expand Medicaid. States may elect to expand coverage through Medicaid. This new option for States would be available for children who do not qualify for Medicaid under State rules in effect as of April 15, 1997. Under this option, current Medicaid rules would apply.

Option to Create or Expand a Separate Program. States electing to use their available Title XXI funds to establish or expand a separate child health insurance program will be subject to new cost-sharing and benefit rules in the law (see summary). These States must establish enrollment systems that are coordinated with Medicaid and other sources of health coverage for children and also must screen children during the application process to determine if they are eligible for Medicaid and, if they are, enroll these children promptly in Medicaid. The law requires that any State that lowers its Medicaid eligibility standards for children below the June 1, 1997 levels be denied access to the new child health funds.

Combination of Options. The new law allows States to elect to use a combination of the Medicaid program and a separate child health insurance program to increase health coverage for children. For example, a State may cover children up to 133% of poverty through Medicaid and a targeted group of children above that level through a separate program. For the children the State chooses to cover under Medicaid, the description provided under "Option to Expand Medicaid" would apply. Similarly, for children the State chooses to cover under a separate program, the provisions outlined above in

“Option to Create or Expand a Separate Program” would apply.

Matching Rate. For qualifying expenditures, States will receive an “enhanced” federal matching rate that is equal to its the current FMAP increased by 30 percent of the difference between its regular matching rate and 100 percent, except that the enhanced match can not exceed 85 percent. It is important to note, for planning purposes, that a State using the Medicaid expansion may continue to collect a Federal match, at the State’s regular matching rate, after exceeding its allotment. A State that elects to put its Title XXI funds into a separate state insurance program cannot receive additional federal funds for the cost of covering more children once the Title XXI funds are exhausted. If a State does not use all of its Title XXI funds in any given year, States may access the remaining unused funds in the two succeeding fiscal years.

Limitations on Use of Funds. The new child health program focus on low-income children and, therefore, Title XXI funding is available for “targeted low-income children” as described in the law. In their plan, States must describe the standards used to determine the eligibility of targeted low-income children under this new program. Under the statute, funding may not be used for children who are: eligible for Medicaid or other health insurance coverage; inmates of a public institution; patients in an institution for mental diseases; or in families who are eligible for coverage under a state health benefits plan because of a family member’s employment with a public agency in the State. Although children found to be eligible for other health insurance coverage generally are not eligible for Title XXI assistance, children currently covered by a State children’s health program that receives no federal funds and was in operation before July 1, 1997 can be considered targeted low income children. Title XXI does not create an entitlement for any child served under a separate State program. States may claim up to 10 percent of their total expenditures for administration, outreach and the direct purchase of health services listed in the law. The law requires that Federal payment for these types of matchable expenses only may be made based on actual or expected expenditures for a given period under the child health assistance plan (up to the amount of the State’s allotment), not based on the State’s allotment.

Additional Medicaid Changes. In conjunction with the new State child health insurance program, the Balanced Budget Act included three new provisions designed to increase children’s health care coverage through the Medicaid program: (1) presumptive eligibility for children;

(2) coverage of SSI children; and (3) the option to provide 12 month continuous coverage.

Presumptive Eligibility: States now have the option of establishing a presumptive Medicaid eligibility procedure to facilitate the enrollment of children. Certain qualified entities may enroll children in Medicaid on a temporary basis, relying on information supplied by the family on income levels. This can be a particularly useful tool for reaching children who are not receiving welfare and whose parents are employed at low-wage jobs that do not offer health insurance coverage.

Coverage of SSI Children: States also are now required to continue Medicaid coverage for all disabled children who were receiving SSI on August 22, 1996 but who lost their Medicaid eligibility as a result of last year’s law restricting the SSI child disability standards.

12 Month Continuous Eligibility: States now have the option to guarantee 12 months of coverage to children enrolled in Medicaid regardless of whether the child experiences changes in family income or other circumstances that would render him/her ineligible for Medicaid during the 12 month period.

Overview of Implementation

Implementation of the new program will involve a crosscutting effort throughout the Department of Health and Human Services. The new program will be administered by the Center for Medicaid and State Operations (CMSO) within HCFA. We will be working jointly with the Health Resources and Services Administration (HRSA) to implement and monitor the new program as a part of the Department’s overall strategy to support coordination with other Federal and State health programs in providing outreach to uninsured children and promoting coordination of care and other public health interventions.

We are very excited about this historic opportunity to work in partnership with States to implement a program that holds great promise of bringing health care to uninsured, low-income children. We recognize the urgency of this issue and States’ desire to move quickly to cover as many uninsured children as possible. To assist States with their plans, we are developing the necessary material and instructions to implement the programs. There are, however, many issues that need to be resolved.

We are preparing information on allotments and developing a template that will provide information on the requirements and options under the new law to assist States in submitting their plans. We plan to have both available to States by mid-September. We also are working on developing a procedure for plan submittal, development of financial reporting forms

and claims procedures, coordination with Medicaid expansions for children's health, and the development of procedures for annual reports, evaluations, and studies. HHS staff will gladly offer technical assistance to any State that requests it, and we will be creating avenues such as a web page to help states answer immediate questions about the new legislation and its implementation. We will be soliciting input and feedback from interested consumer and advocacy groups, the National Governor's Association and other State and local government groups, as well as individual states, throughout the entire process.

We are working to get information out to the states as quickly as possible. If you have questions about issues not addressed in this letter, please contact Rick Fenton, Deputy Director of the Family and Children's Health Programs Group at (410) 786-5920.

Sincerely,

/s/

Sally K. Richardson

Director

Center for Medicaid and State Operations

Enclosure

cc: Governor's Office