

July 10, 2000

Dear State Health Officials:

The purpose of this letter is to provide you with a policy clarification related to Medicaid and the State Children's Health Insurance Program (SCHIP) concerning the interpretation of the term "optional targeted low-income child."

We included a definition of optional targeted low-income children in the Notice of Proposed Rulemaking that was published in the Federal Register on November 8, 1999 (HCFA 2006-P, 64 FR 60882) and will respond to public comments when the final SCHIP rule is published later this year. However, in order to provide guidance to States in the interim, we are issuing this policy clarification in advance of the final rule.

Background

Section 4911 of the Balanced Budget Act (BBA) established a new Medicaid definition for the term "optional targeted low-income children" by adding section 1905(u)(2)(B) to the Social Security Act. Section 1905(u)(2)(B) defines an optional targeted low-income child as a child who meets the definition of "targeted low-income child" in section 2110(b)(1) of the Act and who would not qualify for medical assistance under the Medicaid State plan in effect on March 31, 1997. This definition is referenced in the definition of a new eligibility group for optional targeted low-income children, at section 1902(a)(10)(A) (ii)(XIV) of the Act. The statute also provides an enhanced Federal matching rate for States providing coverage to children meeting the definition of optional targeted low-income children (whether they are in that new Medicaid eligibility group or another Medicaid eligibility group).

The enhanced matching rate is thus available only for eligibility expansions since March 31, 1997. The Department has generally interpreted this restriction to apply to statewide section 1115 demonstration projects in effect on that date. This interpretation assures that the enhanced matching rate is reserved for eligibility expansions. Moreover, the Department believes it is reasonable to accord parallel treatment to States that had expanded eligibility through adding optional eligibility groups to their regular Medicaid program and States that had expanded eligibility by offering equivalent coverage under section 1115 demonstration projects.

Policy Clarification

While we intend, in general, to continue interpreting the statute as set forth above, we believe

that a more refined definition of "optional targeted low-income child" is appropriate to recognize circumstances in which eligibility under a section 1115 demonstration project was never intended to be or regarded as equivalent to traditional Medicaid eligibility. Limited exceptions to the general interpretation would help States provide coverage to uninsured children, as intended by the statute, without compromising the provisions of the law that are designed to assure that SCHIP funds are spent on new coverage.

Thus, we will no longer consider demonstrations that were significantly limited in scope to be part of the Medicaid State plan in effect for these purposes. Specifically, demonstrations that granted coverage to a new group of eligible children but that did not provide a comprehensive benefit package that included inpatient hospital coverage will not be considered part of the State plan in effect for purposes of this definition. We will also exclude demonstrations that did not time-limit coverage, but that limited eligibility both by allowing only children who were previously enrolled in Medicaid to qualify and imposing premiums as a condition of participation in the demonstration.

We are excluding these types of demonstration projects because they are particularly narrow in scope and did not provide coverage equivalent to that ordinarily available under a Medicaid State plan. We believe this clarification is consistent with the statutory definition, which seeks to ensure that States receive the enhanced Medicaid matching rate only for expansions of Medicaid eligibility. Because of the limited nature of these demonstration projects, we believe it is consistent with this purpose to permit States to receive the enhanced matching rate when expanding traditional Medicaid eligibility to children who could have been eligible only under the limited terms and benefits of the demonstration.

Based on this interpretation, States may claim enhanced match for "optional targeted low-income children" who were previously eligible for the types of demonstration projects described above, to the extent that the State expands traditional Medicaid eligibility to these children. In order to extend traditional Medicaid eligibility to these children and receive enhanced Federal matching payments, States will be required to have an approved title XXI State plan, and to submit any necessary amendments to their title XXI plans and title XIX plans or demonstration projects under section 1115, and must comply with applicable Medicaid rules.

We will apply a parallel interpretation to the language "under the State plan under title XIX" for purposes of the SCHIP maintenance of effort provision at section 2105(d)(1) of the Act, and for purposes of the definition of "Medicaid applicable income level" at section 2110(b)(4) of the Act. As a result, children previously eligible for the types of demonstration projects

described above may also be included in a separate child health program as "targeted low-income children."

We continue to interpret the statute and Congressional intent to generally exclude children from the definition of "optional targeted low-income child" who would be eligible under a statewide demonstration project authorized through section 1115(a) of the Act. The Administration also continues to support its budget proposal to allow States to receive enhanced match for all children above Medicaid mandatory eligibility, irrespective of when the State expanded coverage to them, if allotments are increased through legislation.

I hope this information is helpful. Please contact Cynthia Shirk at (410) 786-6614 if you have questions about this guidance. We look forward to continuing to work together toward accomplishing the goal of providing health care to uninsured children.

Sincerely,

Tim Westmoreland Director

cc: All HHS Regional Directors All HCFA Regional Administrators All HCFA Associate Regional Administrators for Medicaid and State Operations Lee Partridge, American Public Human Services Association Brett Ewig, Association of State and Territorial Health Officials Joy Wilson, National Conference of State Legislatures Matt Salo, National Governors' Association