

July 31, 2000

Dear State Health Official:

This letter provides guidance on our considerations in reviewing proposed demonstration projects under the authority of section 1115 of the Social Security Act (the Act) in the State Children's Health Insurance Program (SCHIP). SCHIP was created in 1997, with bipartisan support, to provide health care coverage to uninsured low-income children. While States have broad flexibility under title XXI of the Act to design their SCHIP coverage, section 1115 demonstration projects may provide States additional opportunities to develop innovative methods for expanding children's coverage, promoting participation in SCHIP and Medicaid, and improving the scope and quality of the services available to children. The Department of Health and Human Services (the Department) will consider demonstration proposals that will expand coverage and improve enrollment, health care outcomes, and access to health care services for children.

We are issuing this guidance to help States understand the types of demonstrations that will be considered and to inform States of the information they will need to present to the Health Care Financing Administration for consideration and approval of these projects. The enclosed set of Questions and Answers on SCHIP demonstration policy explains the factors we will consider when exercising our authority under section 1115 of the Act to review and approve demonstration projects. We will continue to provide guidance to States in this question and answer format as further issues arise.

SCHIP Demonstration Project Considerations

As previously announced, we will consider section 1115 demonstrations once a State has had at least one year of experience providing child health assistance under SCHIP and has submitted all required evaluations and enrollment reports. Experience with SCHIP will give States and the Department insight into what, if any, new initiatives might help States meet coverage goals and whether such initiatives could be accomplished without a waiver. The evaluations and enrollment reports are an important source of information that allows States, the Department, the Congress and the public to assess a State's progress in covering uninsured children. The first evaluations were due March 31, 2000, and we are pleased to report that almost all States have submitted them.

As with all section 1115 demonstration projects, the purpose of SCHIP 1115 demonstrations is to allow States to illustrate how State-initiated innovations, not otherwise permitted under the law, will help them accomplish the goals of the program. Thus, all demonstration requests must identify demonstration objective(s) and include an evaluation component. In addition, before we

will approve demonstration projects, a State will need to provide assurances that it has met the primary purpose of SCHIP by expanding eligibility to low-income children (defined as those in families with incomes up to 200 percent of the Federal poverty level) and demonstrate that it is successfully reaching and enrolling eligible children. SCHIP funds are limited, and we have an obligation to ensure that the target group of low-income children receives coverage before SCHIP funds are used for other purposes.

We encourage States that have addressed these issues to submit demonstration proposals that would expand coverage to children, incorporate innovative outreach strategies to find and enroll eligible children, and provide services that improve the quality of their care. For example, a State might seek demonstration authority to establish a public health initiative designed to address targeted health needs of children, or obtain coverage for SCHIP enrollees and other low-income children for supplemental health care-related services not otherwise available through Medicaid and SCHIP. In keeping with the purposes of SCHIP and the strong Congressional intent to assure minimum coverage standards and cost-sharing protections, we will not consider proposals that would reduce benefits for children below the minimum requirements of the law or that would require cost sharing above the limits allowed by law. States already have broad flexibility to design benefit packages and establish cost-sharing rules.

We also recognize that some States have expressed interest in extending coverage through demonstrations to low-income parents of the children they are enrolling in Medicaid and SCHIP. To the extent that States have met the conditions described above, we support demonstration initiatives to extend coverage to low-income parents, within the constraints of the SCHIP law and available funds. SCHIP funding, however, was not designed to be sufficient to cover other populations. This is why the Administration continues to support the FamilyCare initiative that adds funding to SCHIP to help States extend health insurance coverage to low-income parents.

The enclosed set of Questions and Answers more specifically describes our policy for section 1115 demonstration projects in SCHIP. This guidance is not intended to provide details on every type of demonstration that States may propose or to limit innovative proposals that States may want to develop. We anticipate that we will learn more about possible approaches that could promote coverage for low-income children as States come forward with their ideas and questions, and we will provide further guidance over time.

Please contact Cynthia Shirk, SCHIP Technical Director, at (410) 786-6614 if you have questions about this guidance. We look forward to working together to develop proposals for

section 1115 demonstration projects in SCHIP that further our mutual goal providing health care to children and their families.

Sincerely,

/s/

Timothy M. Westmoreland
Director

Enclosure

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

Enclosure

**STATE CHILDREN'S HEALTH INSURANCE PROGRAM (SCHIP) SECTION
1115 DEMONSTRATION POLICY**

<<< Questions and Answers >>>

Question #1: What is the Department's policy on section 1115 demonstration projects for SCHIP?

Answer: The State Children's Health Insurance Program (SCHIP) was established to provide health insurance coverage to uninsured children in families with incomes too high to qualify for Medicaid but too low to afford private health insurance. The SCHIP statute accords States broad flexibility to design initiatives to provide coverage to low-income uninsured children, and the section 1115 demonstration authority gives States the ability to expand that coverage to other, related populations or undertake other health care-related initiatives for children. We encourage innovative demonstrations designed to evaluate new approaches to providing health care to children and will consider State requests to cover populations other than uninsured children. The Department, however, will consider certain factors in evaluating demonstration requests to ensure that SCHIP funds are used for coverage related to the purpose of SCHIP and are not diverted to other uses until SCHIP's primary purpose of insuring low-income children has been met. We are interested in working with States to pursue demonstration proposals that are consistent with the goals of promoting health care coverage for all low-income children and improving health care outcomes and access to services.

Question #2: What factors will affect the Department's consideration of SCHIP section 1115 demonstration projects?

Answer: As discussed in the "Dear State Health Official Letter," the State must have at least one year of experience providing child health assistance under SCHIP. In addition, the State must have submitted any evaluations required by Federal law, as well as all required SCHIP enrollment reports back to the implementation of its SCHIP program. Like all section 1115 demonstrations, the purpose of SCHIP 1115 demonstrations is to allow States to demonstrate how State-initiated innovations, not otherwise permitted under the law, will help a State accomplish the goals of the program. Thus, all demonstration requests must identify demonstration objective(s) and include an evaluation component.

In addition, as noted above, a State will need to provide assurances that it is effectively covering the core population of low-income children intended to be served by SCHIP.

The State must be covering children up to age 19 with family incomes up to at least 200 percent of the Federal poverty level (FPL), the target income range under the SCHIP law. At all times during the course of the demonstration, the State's SCHIP program must be enrolling children on a Statewide basis and cannot have a waiting list or otherwise close enrollment of eligible children.

- A State must demonstrate that its application and redetermination process for SCHIP and Medicaid promotes enrollment and retention of eligible children. For those demonstrations that do not focus on ways to find and enroll uninsured children, or that seek to

cover populations other than targeted low-income children, the State must show that it has adopted at least three of the following policies and procedures in its child health programs (SCHIP and Medicaid):

- Use of a joint mail-in application and a common application procedure (e.g., the same verification and interview requirements) for SCHIP and Medicaid;

- Elimination of assets tests;

- 12-month continuous eligibility;

- Procedures that simplify the redetermination/coverage renewal process by allowing families to establish their child's continuing eligibility by mail and, in States with separate SCHIP programs, by establishing effective procedures that allow children to be transferred between Medicaid and the separate program without a new application or a gap in coverage when a child's eligibility status changes.

- Presumptive eligibility for children.

States that seek enhanced SCHIP matching funds to cover populations other than targeted low-income children (such as, parents or pregnant women) through a SCHIP demonstration project must cover the lower income individuals in the group targeted by the waiver before covering the higher income individuals in that group. In addition, SCHIP 1115 demonstrations will not be available to expand coverage to populations other than targeted low-income children at higher income levels than the income levels applicable to children in that State.

Question #3: Will the Department consider demonstrations for States to use SCHIP funds to provide additional benefits or services to low-income children?

Answer: Yes. The Department will consider proposals to provide health-related services to low-income children as long as these services are provided to an identifiable group of children and represent an expansion in the services available to children (i.e., the SCHIP funds do not simply supplant other State and Federal funds). There are two ways that States might receive enhanced matching funds to provide additional benefits for low-income children under a SCHIP demonstration. They can provide a health care-related benefit for SCHIP enrollees and other low-income children that is not otherwise coverable under Medicaid or SCHIP, or design public health initiatives that address the health care needs of some or all low-income children in the State.

Supplemental Benefits: Additional benefits could be made available by establishing a health care-related benefit that supplements the benefit package provided under Medicaid or a State's separate child health program. For example, we would consider demonstration proposals to receive enhanced Federal matching payments for providing respite services to Medicaid or SCHIP eligible children with special health care needs. Since the benefits that are covered under Medicaid and SCHIP are quite expansive, States will need to clearly define the benefit(s) to be made available under the demonstration that are not otherwise coverable under Medicaid or SCHIP.

Public Health Initiatives: Some States might consider title XXI waivers to develop public health initiatives that target all or some low-income children in the State. These public health initiatives could be broad-based to address the significant health care needs of low-income children or focused on specific target populations. For example, a State could design a public health initiative to coordinate community mental health and substance abuse services for children, to address the special needs of children with chronic physical or mental health conditions. Additionally, a State could provide health care services to a targeted group of underserved low-income children, such as children who lack access to dental services. However, the State must ensure that such a demonstration does not replace existing State public health services.

Question #4: Will the Department consider demonstration requests to use SCHIP funds to provide coverage to populations other than children?

Answer: Yes, with limitations and subject to the criteria identified in Question #2. We will consider demonstration projects for States to cover other populations, as long as the initiative is related to the purposes of the SCHIP law and is designed to improve enrollment of uninsured children. The primary purpose of the law is to provide health care coverage to low-income children; however, the law also anticipated coverage of adult family members through the provision of family coverage waivers. Thus, States may submit demonstrations to cover parents, but to ensure that the purpose of the SCHIP law is met, we will consider the factors discussed in Question #2 to ensure that children are covered before SCHIP funds are spent on parent coverage.

We also will consider SCHIP demonstration requests to cover pregnant women with incomes above 185 percent of the Federal poverty level (for States that have already covered pregnant women up to 185 percent of the FPL through Medicaid at the regular matching rate), but we will not consider demonstration proposals to use SCHIP funds to cover other adults without children.

Question #5: Will the Department approve demonstration projects to cover parents of SCHIP-funded children as well as parents of children covered under traditional Medicaid?

Answer: Yes, if the factors discussed in Question #2 are addressed. We will consider demonstrations from States that implement an expansion of coverage to uninsured parents after March 31, 2000 (the date on which States were required to submit their first SCHIP

evaluations) regardless of whether the children of these parents are eligible for regular Medicaid, a SCHIP-funded Medicaid expansion, or a separate child health program. This is consistent with the criteria discussed earlier, that lower income parents must be covered before higher income parents and that such demonstrations will increase enrollment of children.

Question #6: Some States have already expanded coverage for parents either through Medicaid options or through title XIX section 1115 demonstrations. Can States receive SCHIP enhanced matching payments for these parent expansions?

Answer: A primary goal of SCHIP and of SCHIP demonstrations is not to supplant dollars being spent on existing coverage. However, States that meet the applicable criteria and show how the demonstration will improve or expand coverage may have access to SCHIP funds for parent expansions that were implemented on or before March 31, 2000. These demonstrations will be limited to coverage of those parents whose income exceeds 100 percent of the FPL. The demonstration proposal must address each of the considerations outlined in Question #2 and illustrate how it will enhance coverage or bolster enrollment. This policy offers the potential of SCHIP enhanced matching payments to States that have adopted significant coverage expansions for parents, while limiting the extent to which SCHIP funds are used for parents who are already eligible for coverage.

As with all section 1115 demonstration projects, States will need to identify their demonstration objective(s) and evaluation plan, and these demonstrations will be effective only on a prospective basis. States should address in their proposals how expanded coverage will be improved or promoted through the use of demonstration authority.

Question #7: What are the rules relating to budget neutrality? Will States have to show that activities under a title demonstration would not cost the Federal government any additional Federal dollars?

Answer: As we believe Congress intended States to have full access to their SCHIP allotments to improve children's health care coverage, the Department has adopted an allotment neutrality policy for SCHIP demonstrations that allows States to spend title XXI Federal funds up to their individual SCHIP allotments. This permits States to access more of their Federal SCHIP funds and at the same time, limits Federal spending exposure to the capped allotment levels. Reallocated funds will not be considered with respect to this policy, since such funds are not available to a State on an ongoing basis.

States that seek a title XIX (Medicaid) demonstration in conjunction with a title XXI demonstration will need to meet all title XIX budget neutrality rules; this policy does not change title XIX budget neutrality rules.

Question #8: What happens if a State with a SCHIP demonstration exceeds its allotment? Does coverage under the demonstration end?

Answer: The answer to this question depends on how a State has set up its coverage and designed its demonstration project. A State could design a title XXI demonstration that operates through its Medicaid program or that is administered through its separate child health program. If the title XXI demonstration operates through a separate program, no further Federal matching funds will be available once the SCHIP allotment has been used.

If the demonstration is in Medicaid, regular Medicaid matching funds can be available, either through a title XIX State plan amendment or through a title XIX demonstration, when the title XXI allotment is exhausted. As noted in Question #7, if the coverage continues through a title XIX demonstration, title XIX budget neutrality rules will apply. In the course of establishing the terms and conditions for a combination title XIX/title XXI demonstration, budget neutrality would be negotiated at the onset of the demonstration to establish the parameters under which Federal funds would continue to flow through the Medicaid program at the regular Federal matching rate in the event that the State's SCHIP allotment is exhausted.

Question #9: Are there other types of demonstrations the Department will consider?

Answer: Yes. While it is not possible to envision every type of demonstration that States might propose, particularly in light of the flexibility that States already have under the SCHIP law, States have identified some of the following initiatives that the Department would consider:

Extensions of coverage for children who age out of SCHIP in the midst of treatment for a specific condition; and

Proposals to promote enrollment of children, who are eligible for benefits under other income-based benefit programs, such as free and reduced school lunch program.

While we are offering guidance on types of demonstrations in which we have particular interest and the factors we will consider in evaluating demonstration proposals, each proposal will be considered on a case-by-case basis.

Question #10: Are certain types of demonstrations not likely to be approved?

Answer: Yes. We will not consider demonstrations that are inconsistent with key principles of the SCHIP law, including proposals that would:

- Reduce benefits below benchmark levels;
- Permit cost sharing above levels specified in title XXI;
- Cover groups where there is a high risk that Federal funds will be substituted for State or private funds, such as children of public employees eligible for a State health benefit plan, children in institutions for mental diseases, and children who already have comprehensive private coverage;
- Permit children who are eligible for regular Medicaid to enroll in a separate child health program; and
- Waive the 10 percent cap for administrative expenditures.

Question #11: What process will the Department follow in considering section 1115 demonstration proposals from States?

Answer: In general, the Department will follow the section 1115 demonstration procedures discussed in the Federal Register notice published on September 27, 1994. That notice outlined the requirements for public notice that a State should complete prior to submitting a section 1115 demonstration proposal. We strongly encourage States to solicit and consider public input as they develop their proposals. As with traditional Medicaid section 1115 demonstrations, we also expect States to incorporate processes for consultation with Tribes where American Indian/Alaska Native populations are involved.

In addition, we reaffirm the Administration's commitment to reviewing proposals in an expeditious manner. The Department plans to provide a proposal guide in the near future that will specify the information that States should submit for SCHIP demonstration proposals. We will continue discussions with States regarding how the process can be designed to accomplish our mutual goal of expanding and improving health insurance coverage for low-income children and their families.