

CHIP: Exhaustion of Federal Funding

Under current law, there are no new federal funds for the State Children's Health Insurance Program (CHIP) for fiscal year (FY) 2018 or beyond. Unless Congress acts to renew funding, all states will experience a shortfall in CHIP funds in FY 2018.

Funding Available in FY 2018

Although there are no new CHIP allotments, unspent FY 2017 allotments and redistribution funds are available to states for spending in FY 2018. Based on states' projections of CHIP spending for FYs 2017 and 2018 reported to the Centers for Medicare & Medicaid Services (CMS) in August 2017, MACPAC projects that available funds will cover some but not all of the expected expenditures in FY 2018.¹ States will run out of their allotments and available redistribution funds at different points in FY 2018 (Table 1). How quickly states deplete available CHIP funds could change; for example, a state with higher than expected CHIP spending could run out of funds earlier than anticipated and vice versa.

Unspent FY 2017 allotments

States can continue to spend unspent FY 2017 allotments because federal statute allows states two years to spend each year's allotment.

- An estimated \$4.1 billion in unspent FY 2017 allotments are available for spending in FY 2018, based on the most recent certified state projections reported to CMS in August 2017 (Table 1).
- This amount reflects a statutory requirement to reduce the unspent FY 2017 allotment still available for spending in FY 2018 by one-third (§ 2104(m)(2)(B)(iv) of the Social Security Act (the Act)).
- Some states have already exhausted the remainder of their FY 2017 allotments.

Redistribution funds

Redistribution funding, that is, unspent CHIP allotments from prior years, is also available in FY 2018 to state experiencing funding shortfalls. CMS works with states to determine the amount of redistribution funding they will need. If available redistribution funds are not sufficient to cover projected CHIP funding shortfalls, amounts available to states are prorated (§ 2104(f)(2)(B) of the Act).

- An estimated \$3.0 billion is projected to be available for redistribution funding to states in FY 2018.
- As of October 31, 2017, five states have received redistribution funding: Minnesota (\$3.6 million); Arizona (\$21.8 million); Washington (\$10.4 million); California (\$176.9 million); and Oregon (\$14.2 million).
- States are projected to exhaust redistribution funding as early as December 2017 according to their August 2017 CHIP spending estimates.



TABLE 1. Projected Federal CHIP Funding and Spending in FY 2018 as of August 2017, by State (millions)

State	FY 2018 projected federal CHIP spending	Unspent FY 2017 allotments available in FY 2018	Month projected to exhaust FY 2017 CHIP allotment	FY 2018 projected redistribution funding from prior year allotments	Month projected to exhaust redistribution funding
Total	\$17,037.3	\$4,073.3		\$2,979.9	
Alabama	428.1	132.4	January 2018	68.0	March 2018
Alaska	35.7	11.8	January 2018	5.5	March 2018
Arizona	279.0	2.6	October 2017	63.5	December 2017
Arkansas	170.2	75.2	March 2018	21.8	April 2018
California	3130.9	120.7	October 2017	691.9	January 2018
Colorado	302.7	61.7	December 2017	55.4	February 2018
Connecticut ¹	80.9	15.4	December 2017	15.1	February 2018
Delaware	35.1	7.0	December 2017	6.5	February 2018
District of Columbia	49.4	4.8	November 2017	10.2	January 2018
Florida	1000.3	164.7	November 2017	192.1	February 2018
Georgia	516.4	148.5	January 2018	84.6	March 2018
Hawaii	56.4	7.9	November 2017	11.1	February 2018
Idaho	83.4	15.4	December 2017	15.6	February 2018
Illinois	339.0	236.9	June 2018	23.5	July 2018
Indiana	193.9	81.9	March 2018	25.7	April 2018
Iowa	137.2	50.1	February 2018	20.0	April 2018
Kansas	103.7	29.6	January 2018	17.1	March 2018
Kentucky	240.0	60.3	January 2018	41.3	March 2018
Louisiana	350.2	70.7	December 2017	64.2	February 2018
Maine	\$34.8	\$19.1	April 2018	\$3.6	May 2018
Maryland	314.7	114.0	February 2018	46.1	April 2018
Massachusetts	635.2	111.0	December 2017	120.5	February 2018
Michigan	313.6	176.5	April 2018	31.5	May 2018
Minnesota ¹	159.9	0.0	October 2017	36.8	December 2017
Mississippi	263.9	99.9	February 2018	37.7	April 2018
Missouri	229.6	80.9	February 2018	34.2	April 2018
Montana	104.8	21.2	December 2017	19.2	February 2018
Nebraska	70.9	40.8	April 2018	6.9	June 2018
Nevada	76.0	12.9	December 2017	14.5	February 2018
New Hampshire ¹	32.6	13.5	February 2018	4.4	April 2018
New Jersey	490.7	224.7	March 2018	61.1	April 2018
New Mexico	112.8	65.3	April 2018	10.9	June 2018
New York	1353.9	337.9	December 2017	233.6	March 2018



TABLE 1. (continued)

State	FY 2018 projected federal CHIP spending	Unspent FY 2017 allotments available in FY 2018	Month projected to exhaust FY 2017 CHIP allotment	FY 2018 projected redistribution funding from prior year allotments	Month projected to exhaust redistribution funding
North Carolina	\$374.3	\$19.6	October 2017	\$81.5	January 2018
North Dakota	20.8	10.9	April 2018	2.3	May 2018
Ohio	569.3	119.2	December 2017	103.5	February 2018
Oklahoma	220.6	82.4	February 2018	31.8	April 2018
Oregon	243.8	20.7	November 2017	51.3	January 2018
Pennsylvania	641.3	127.3	December 2017	118.2	February 2018
Rhode Island	66.3	14.8	December 2017	11.8	February 2018
South Carolina	160.3	80.9	April 2018	18.3	May 2018
South Dakota	32.0	10.9	February 2018	4.9	March 2018
Tennessee	254.4	134.8	April 2018	27.5	May 2018
Texas	1379.2	548.8	February 2018	190.9	April 2018
Utah	135.0	20.2	November 2017	26.4	February 2018
Vermont ¹	28.8	3.1	November 2017	5.9	January 2018
Virginia	323.0	80.6	December 2017	55.7	March 2018
Washington ¹	335.7	11.0	October 2017	74.6	January 2018
West Virginia	70.3	28.5	February 2018	9.6	April 2018
Wisconsin ¹	226.7	84.9	February 2018	32.6	April 2018
Wyoming	11.0	8.2	July 2018	0.6	July 2018
U.S. territories					
American Samoa	3.3	0.0	October 2017	0.7	December 2017
Guam	28.0	0.0	October 2017	6.4	December 2017
N. Mariana Islands	6.7	0.0	October 2017	1.5	December 2017
Puerto Rico	172.3	51.5	January 2018	27.8	March 2018
Virgin Islands	8.1	0.0	October 2017	1.9	December 2017

Notes: FY is fiscal year. CHIP is the State Children's Health Insurance Program. Total dollars include territories. Under current law, available unspent FY 2017 CHIP allotments are reduced by one-third in FY 2018. Projected redistribution funding is distributed proportionally among states based on their projected CHIP funding shortfalls for FY 2018 and the amount of unspent CHIP funding available from prior years. These estimates are based on states' projections of their CHIP spending for FYs 2017 and 2018. The time frame in which states actually exhaust available federal CHIP funds could change depending on states' actual spending.

¹ In FY 2016, six states (Connecticut, Minnesota, New Hampshire, Vermont, Washington, and Wisconsin) reported spending under the qualifying states option (Section 2105(g) of the Act), which provides the CHIP enhanced matching rate for Medicaid-enrolled children in states that had expanded children's coverage before the establishment of CHIP in 1997 (MACPAC 2017a). The authority for the qualifying states option expired on September 30, 2017.

Source: MACPAC 2017 analysis as of September 2017 of CMS Medicaid and CHIP Budget Expenditure System data, including quarterly projections provided by states in August 2017.



Limitation on use of redistribution funds. The qualifying states option provided states that expanded Medicaid eligibility for children prior to the enactment of CHIP with the enhanced CHIP matching rate for children with family incomes above 133 percent of the federal poverty level (FPL).² However, states cannot use redistribution funds available in FY 2018 to cover spending under the qualifying states option because the authority for the option expired on September 30, 2017.

- States eligible to receive additional CHIP funding for Medicaid-enrolled children under the qualifying states option could face additional funding limitations in FY 2018. These states can now receive funds only at the regular Medicaid matching rate instead of the enhanced CHIP matching rate.
- In FY 2016, Connecticut, Minnesota, New Hampshire, Vermont, Washington, and Wisconsin reported spending on the qualifying states option. In addition Hawaii, Maryland, New Mexico, Rhode Island, and Tennessee are also eligible for this option but did not report such spending in FY 2016 (MACPAC 2017a).

Projected exhaustion of federal CHIP funds. All states will exhaust all available federal funds (unspent allotments plus redistribution funds) at some point in FY 2018 (Table 2). Two states will exhaust all available federal funds by the end of the first quarter of FY 2018. More than half of states (29 states and the District of Columbia) are projected to exhaust federal CHIP funds by the second quarter of FY 2018. Nineteen states are projected to exhaust federal funds in the third quarter of FY 2018, and two states in the fourth quarter.

TABLE 2. Projected Exhaustion of Federal CHIP Funds (FY 2017 Unspent Allotment and Redistribution Funds) in Fiscal Year 2018

Quarter of fiscal year	Number of states	States
First quarter (October–December 2017)	2	Arizona and Minnesota
Second quarter (January–March 2018)	28	Alabama, Alaska, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Kansas, Kentucky, Louisiana, Massachusetts, Montana, Nevada, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, South Dakota, Utah, Vermont, Virginia, and Washington
Third quarter (April–June 2018)	19	Arkansas, Indiana, Iowa, Maine, Maryland, Michigan, Mississippi, Missouri, Nebraska, New Hampshire, New Jersey, New Mexico, North Dakota, Oklahoma, South Carolina, Tennessee, Texas, West Virginia, and Wisconsin
Fourth quarter (July–September 2018)	2	Illinois and Wyoming

Notes: CHIP is the State Children’s Health Insurance Program. U.S. territories also receive CHIP funding. Puerto Rico is projected to exhaust CHIP funding in March 2018 and the other U.S. territories are expected to exhaust CHIP funds in December 2017.

Source: MACPAC 2017 analysis using June 2017 CMS Medicaid and CHIP Budget and Expenditure System data, including quarterly projections provided by states in August 2017.



Implications for States

The exhaustion of CHIP funding in FY 2018 will require states to make many decisions about the design and funding of children's coverage. It is important to note that states' decisions about children's coverage will depend on the type of CHIP program states had in place in March 2010.³ In general, the maintenance-of-effort requirement in the Patient Protection and Affordable Care Act (ACA, P.L. 111-148, as amended) requires states to maintain 2010 Medicaid and CHIP eligibility levels for children through FY 2019. As of January 2016, 10 states (including the District of Columbia) ran CHIP as a Medicaid expansion, 2 states had separate CHIP, and 39 states operated a combination of both approaches (MACPAC 2017b).

Medicaid-expansion CHIP. States and territories with Medicaid-expansion CHIP must continue to provide that coverage to children but will receive the lower federal Medicaid matching rate.

- In FY 2016, 5.2 million children were enrolled in Medicaid-expansion CHIP (MACPAC 2017c).
- States will need to spend a greater share of state funds for these children as a result of the lower Medicaid matching rate. This could lead states to take other steps potentially affecting access, such as lowering provider payment rates or increasing requirements for prior authorization.

Separate CHIP. States with separate CHIP are permitted to terminate that coverage if federal CHIP funding runs out.

- In FY 2016, about 3.7 million children, including those covered under the unborn option, were enrolled in separate CHIP (MACPAC 2017c).⁴
- In the absence of separate CHIP coverage, 1.2 million children enrolled in separate CHIP would become uninsured because the costs of other sources of coverage—such as employer-sponsored insurance or subsidized exchange coverage—would be unaffordable (Urban Institute 2017).⁵

State actions to address CHIP funding shortfalls

If CHIP funding is not renewed, states must decide whether to end separate CHIP, how to finance Medicaid-expansion CHIP with reduced federal financing, and how to provide information to families, providers, and plans. While states have developed contingency plans in case CHIP funding is not renewed, for the most part, they have not activated these as they await congressional action. States have indicated that they would need several months, in some cases up to a year, for an orderly shutdown of CHIP (Hensley-Quinn and King 2016). Available funds, however, would be exhausted before that timeframe. Actions states would need to take include:

- **Obtaining state legislative authority for policy changes.** States with separate CHIP may look to expand children's Medicaid eligibility to cover some or all of the children that would lose separate CHIP. Some states may wish to continue their separate CHIP funding with only state funds, which would require a state appropriation. These actions would require state legislative authority but most state legislatures have adjourned and will not reconvene until January 2018 or later.
- **Revising state and program budgets.** States' budgets for their current fiscal years have already been approved and have assumed the availability of federal CHIP funds (Hensley-Quinn and King 2016). States



requiring additional state funds to operate CHIP would need to call a special legislative session to obtain an additional state appropriation.

- **Making systems changes.** States would need to make substantial systems changes, particularly to eligibility rules for any coverage change. Such changes can be costly, and in some states could mean that other systems changes would need to be delayed in order to prioritize changes to CHIP. States indicate that making system changes would take several months (Nablo 2017, Hensley-Quinn and King 2016).
- **Developing and submitting state plan amendments.** States ending separate CHIP would need to submit a CHIP state plan to CMS, and if they plan to move some of their separate CHIP population to Medicaid they would also need to file a Medicaid state plan amendment.
- **Providing public notice.** Although federal CHIP rules require only that notice must be provided before a change occurs, some states have more specific legal requirements, including how far in advance such notifications must be provided. In some states, notices must be translated to multiple languages, which would require time and funds. In some states, tribal notice is also required.
- **Educating and training state staff, application assisters, and eligibility workers.** States must educate and train staff about the status of CHIP, and prepare them to be able to answer questions from families.
- **Changing forms such as paper applications and enrollee notices.** States would also need to revise paper applications, enrollee materials and notices, and outreach materials to reflect changes to CHIP. These also need to be translated into multiple languages in some states.
- **Screening and enrolling children for Medicaid eligibility.** States would need to screen children in separate CHIP for Medicaid eligibility if separate CHIP is closed. If CHIP funding is renewed after children are moved to other coverage sources, if those children remain eligible for CHIP, they would need to be moved back into CHIP. Thus coordination with Medicaid and exchanges would be important.
- **Developing transition plans for children who would move to new coverage.** Children, particularly those in a course of treatment, would need transition plans to prevent gaps in care.
- **Amending contracts with managed care plans.** States ending CHIP would need to amend contracts with managed care plans. To determine when to end the plan contract, states would have to anticipate what the level of spending will be (which could be especially challenging if families seek services for children before they lose coverage), and when claims would be submitted (Nablo 2017).
- **Amending other contracts.** States may have other contracts that must be amended, e.g. with enrollment brokers, prior authorization reviews, external quality review organizations, and auditors (Nablo 2017).

MACPAC Recommendations for the Future of CHIP and Children's Coverage

In a January 2017 special report, MACPAC recommended an urgent renewal of federal CHIP funding for five years, as well as other recommendations to stabilize CHIP, and to move toward a more seamless system of affordable and comprehensive children coverage. The recommendations can be found at <https://www.macpac.gov/publication/recommendations-for-the-future-of-chip-and-childrens-coverage/>.



Endnotes

¹ States report anticipated expenditures for both Medicaid and CHIP to the Centers for Medicare & Medicaid Services on a quarterly basis. The data used for this fact sheet reflect quarterly projections provided by states in August 2017.

² The qualifying state option covered children enrolled in Medicaid in states that had expanded eligibility to children with family incomes at or above 185 percent of the FPL in 1997 (§ 2105(g) of the Act).

³ States have the flexibility to structure CHIP as an expansion of Medicaid, as a program entirely separate from Medicaid, or as a combination of both approaches.

⁴ In FY 2015, 327,175 unborn children were covered. If CHIP funding were exhausted, unborn children enrolled through separate CHIP in 15 states could not be moved into Medicaid under current law (MACPAC 2017b). Under separate CHIP, states may cover pregnant women regardless of immigration status through the unborn child option by revising the definition of the term child in federal regulations to include the period from conception to birth.

⁵ This estimate was updated in August 2017. MACPAC's prior estimates indicated that 1.1 million children would become uninsured (MACPAC 2015).

References

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