The California Endowment

# The Future of Children's Coverage in California

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Cover California's kids

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## Introduction

This report, commissioned by The California Endowment, is intended to review the future of children's health insurance coverage in California. It provides a short background of the children's coverage movement, examines the current state of children's coverage and the Children's Health Initiatives (CHIs), describes the demonstrated successes of children's coverage, and discusses the future of the CHIs and the children's coverage movement.

## Background

From the ashes of President Clinton's failed national health reform effort in 1994 arose the drive to provide health insurance coverage for all children. Congress passed the State Children's Health Insurance Program (S-CHIP) in 1997, which provided federal funding for state expansion of children's coverage. Rather than expanding Medi-Cal, California chose to create a new program called Healthy Families which relied upon private and public health plans to provide coverage to the newly expanded population of children in families up to 250% of the federal poverty level (FPL) (currently $44,000 for a family of three).

S-CHIP also ignited a movement to actively seek out and enroll children in available health coverage programs. Children's advocacy groups in California – Children's Defense Fund, Children's Partnership and Children Now – joined together with funding from The California Endowment to found the 100% Campaign. Initial efforts were focused on increasing outreach and streamlining enrollment processes, while also attempting to consolidate the Medi-Cal and Healthy Families programs.

Efforts to expand coverage to those uninsured children who were not eligible for Medi-Cal and Healthy Families was begun in earnest in late 1990s. These children were primarily children who lived in families above 250% FPL and undocumented children. The California Endowment funded five pilot projects to provide coverage to undocumented children[1]. Soon thereafter, a local effort in Santa Clara County created the first Children's Health Initiative (CHI) and enrolled the first children in a local plan called Healthy Kids in 2001.

There are now CHI coalitions in 30 California counties. The CHIs take a two pronged approach to increasing coverage: coordinate enrollment of all children in available programs (e.g. Medi-Cal, Healthy Families, etc.) and create a new coverage program (Healthy Kids) for those children not eligible for existing programs. There are currently approximately 78,650 children enrolled in Healthy Kids programs statewide.

With funding patched together from local resources, statewide and local foundations, health plans, providers, State First 5 Commission and local First 5 Commissions, the CHIs are interim steps toward universal coverage of all children until there is a statewide coverage program. Originally seen as a policy effort to support the state's effort to create a state funded program, the children's coverage movement gained early momentum and clear support from key state and local policymakers. Yet, this attempt to assist the state in finding the appropriate funding mechanisms has proved illusory.

At the current time, in spite of maintaining a relatively consistent base of support, the CHIs are facing chronic underfunding with long waiting lists and constant struggles to maintain funding for the children currently covered on their programs. With no long-term state funding solution on the horizon, they are even more reliant on current funding sources. The CHIs are in a precarious position and some may begin

[1] Frates, J, Diringer, J, and Hogan, L, "Models And Momentum For Insuring Low-Income, Undocumented Immigrant Children In California, "Health Affairs, Vol. 22, No. 1, January/February 2003.

disenrolling children and dismantling their programs should they lose critical funding sources. All the gains in children's health the state has enjoyed such as reduced hospitalizations, public support and coalition building may soon be lost.

## Much Progress in Covering Uninsured Children

California has made huge progress in making health coverage for all children a reality.

- The number of uninsured children dropped 25% from 1,016,000 children in 2001 to 763,000 in 2005. (California Health Interview Survey 2001, 2005). The 2007 California Health Interview Survey results to be released later this year will hopefully show a continuation of this positive trend.

- Medi-Cal now covers approximately 3.5 million California children, up 6% from five years earlier.

- Healthy Families covers an additional 858,000 children in California, an increase of 32% from March 2003.

- Although there was a 5% drop in employer based coverage (which provides coverage for 52% of all children) from 2001 to 2005, it was more than offset by the increases in Medi-Cal and Healthy Families coverage.

The remaining uninsured children are primarily U.S. born citizens (72.9%), Latino (59%), and under 300% FPL, or $52,800 for a family of three (83.6%). The UCLA Center for Health Policy Research estimates that over half (58%) of uninsured children are eligible for, but not enrolled in, Medi-Cal and Healthy Families.

To cover the remaining uninsured children, an array of programs has been created at the local and state levels in recent years.

CHIs in 25 counties offer enrollment in a Healthy Kids plan to the extent funding is available. Similar to Healthy Families coverage, children are covered for medical, hospital, dental, vision and mental health. Income eligibility limits are set at 300% of the federal poverty level (400% FPL in San Mateo County). Benefits are provided by several local health plans (Medi-Cal local initiatives and county organized health systems) as well as one commercial health plan (Health Net). Healthy Kids programs charge families modest premiums as well as co-pays.

There are currently 78,650 children enrolled in Healthy Kids programs statewide, down from a peak of approximately 89,000 in 2006. An additional 21,000 children are on waiting lists. Cumulatively, the Healthy Kids programs have covered approximately 157,000 (unduplicated) previously uninsured children since the first program was launched in 2001. Up to 85% of children enrolled in Healthy Kids are very low income and would have been eligible for Medi-Cal if they had appropriate immigration status.

Additional statewide efforts include the Kaiser Permanente Child Health Plan (KPCHP) and CaliforniaKids (Cal Kids). As part of its community benefits program, KPCHP provides a full scope of services including medical, mental health, dental and vision care to children up to 300% FPL who are not eligible for Medi-Cal or Healthy Families. As of March 2008, KPCHP had 58,740 enrollees in March 2008 in its service areas (45,763 of these children are in CHI counties). Most CHIs enroll children in KPCHP when slots are available in the area and a family is willing to be enrolled. Kaiser continues to enroll in northern California,

but the program is at capacity in the southern California region.

CalKids is an independent non-profit organization that provides preventive and primary health care coverage to approximately 7,100 low income children ages 2 through 18. The program is subsidized primarily by foundations and local funding sources. CalKids provides outpatient medical, dental and vision services, with the notable exception that inpatient services are not covered.

## Successes of the Children's Health Initiatives

Children's Health Initiatives have been shown to:

- Increase enrollment in Healthy Families and Medi-Cal;
- Increase coverage through enrollment in alternatives programs such as Healthy Kids, Kaiser Permanente Child Health Plan and CaliforniaKids;
- Improve access to health care overall;
- Improve access to dental care;
- Improve utilization of all kinds of care;
- Prevent unnecessary hospitalizations;
- Improve children's health;
- Improve school attendance.

### Increases in Coverage

One of the most successful features of the Children's Health Initiatives has been their accomplishments in the areas of outreach, enrollment, and retention. CHIs have brought together a diverse range of local organizations (county agencies, faith-based and children's organizations, schools, labor, other community non-profits) to reach out to low-income families to promote enrollment in health insurance programs, regardless of immigration status. These programs include Healthy Kids, CalKids and KPCHP. Innovations such as the One-e-App electronic enrollment system have helped some counties to facilitate enrollment into Medi-Cal, Healthy Families and Healthy Kids. Working through community-based coalitions has gained trust with parents who are reluctant to go to government social services agencies. The CHI movement has been responsible not only for enrolling and retaining children in the local coverage program, but also promoting enrollment in public programs, such as Medi-Cal and Healthy Families. The concept of "one open door" which allows parents to enroll families in any available health program has brought in families who were previously overwhelmed by confusing eligibility standards. And by offering coverage for children who are not eligible for public programs, the CHIs have overcome the reluctance of parents to obtain coverage from some, but not all, children in the family. An early study of the Santa Clara CHI showed more than a 25% increase in Medi-Cal and Healthy Families enrollment with the CHI than would have been expected without the CHI. The added enrollment resulted in increased state and federal spending in Santa Clara County by an estimated $24.4 million during the initiative's first two years.[2]

### Increases in Health Status and Access to Care

Providing health coverage through Healthy Kids has been shown to have substantial benefits to both children and families. Independent evaluations of Healthy Kids programs in Santa Clara, San Mateo and Los Angeles counties have shown that enrollment in Healthy Kids is associated with an increase in medical and dental care utilization, an improvement in health status, and fewer school days missed.

Children enrolled in Healthy Kids have experienced dramatic improvements in having

[2]Trenholm, C, "Expanding Coverage for Children: The Santa Clara County Children's Health Initiative,"Mathematica Policy Research, Inc., University of California San Francisco, Urban Institute, April 2005.

a usual source of care and having a recent medical visit. Children also experience dramatically lower levels of unmet medical needs when compared to uninsured children. In addition, parents of children in Healthy Kids also reported far more confidence that they could obtain care for their children than uninsured children.[3] Finally, Healthy Kids has been shown to significantly improve a child's health status and reduce the number of missed school days.[4]

Healthy Kids programs throughout California may have helped prevent as many as 1,000 hospitalizations a year by treating health conditions such as asthma earlier on an outpatient basis before they escalated and required hospitalization. If available in all California counties USC researchers estimated that Healthy Kids could prevent an additional 4,300 hospitalizations annually, at a savings of an estimated $24.3 million per year.[5]

Healthy Kids has also increased access to dental care. Approximately two-thirds of children in Healthy Kids programs have a dental visit during a year, a rate much higher than Medi-Cal (47%), and similar to Delta Dental's longer established Healthy Families program.

## Policy Efforts to Cover All Children

Coupled with the local efforts to provide health coverage through the CHIs, there have been major statewide policy efforts to enact universal coverage for children in California. Several vehicles have been pursued to provide this coverage.

The first efforts to expand coverage were AB495 (2001 - Diaz) and SB59 (2002 – Escutia) which allowed county funds to be matched by federal S-CHIP funds for children who did not meet the Healthy Families income criteria. In 2005, AB 131 (Budget Committee) authorized the state to review the feasibility of and to establish a Healthy Families Buy-In Option.

Legislation for universal children's coverage was passed in 2005 (AB772 - Chan), but was vetoed by the Governor who said that he wanted a secure funding source for the expanded coverage. In 2006, the Governor proposed funding in his 2006-2007 budget to cover the children on the waiting lists in the CHIs, only to face unrelenting opposition from the Republican minority in the Legislature whose votes were needed to approve the funding. A legislative attempt to cover children (SB437-Escutia) was passed in a much scaled down version which streamlined enrollment into existing programs, but did not expand coverage. A major tobacco tax initiative (Proposition 86) in 2006, would have provided funding for coverage for all children, but was narrowly defeated. AB1 and its companion bill SB32 were vehicles for universal children's coverage in 2007. AB1 passed the Legislature but was not sent to the Governor for action due to the desire to allow a major health reform bill to move forward.

Expanded coverage for children under 300% FPL was included in the major health reform bills proposed by the Governor and Legislature. Unfortunately, this bill died in the Senate Health Committee in early 2008, in the face of growing opposition by some stakeholders and the looming multi-billion dollar state deficit. Efforts to revive the health reform effort are underway, but are not expected to offer any financing for expanded coverage this year.

In view of the state's difficult fiscal position, immediate policy efforts have shifted to trying to maintain current funding and eligibility levels, rather than seeking additional resources for

[3]Trenholm, C, et al., "Three Independent Evaluations of Healthy Kids Programs Find Dramatic Gains in Well-Being of Children and Families," Mathematica Policy Research, Inc., University of California San Francisco, Urban Institute, November 2007.

[4]Howell, E and Trenholm, C, "Santa Clara County Children's Health Initiative Improves Children's Health," Mathematica Policy Research, Inc., University of California San Francisco, Urban Institute, March 2007.

[5]Cousineau, MR, et al., "Preventable Hospitalizations Among Children in California Counties After Child Health Insurance Expansion Initiatives," Medical Care, Vol. 46, No. 2, February 2008.

expanded coverage. Although there currently appears to be continued support for expanded children's coverage in the Legislature, no financing mechanisms have evolved to provide funding, nor is there a legislative sponsor for a bill expanding coverage. In addition, current state and federal budget proposals would increase the number of uninsured children. The Governor's Office states that he is still committed to a major health reform bill, but does not favor a separate children's approach. A new health reform measure might be on the ballot in 2010 if sufficient funds are raised to gather signatures and support a campaign.

## Future of the Children's Health Initiatives

While specific circumstances vary from county to county, there is no question that the overall health of the Children's Health Initiative movement is in jeopardy and the children enrolled in the local coverage programs face grave uncertainty. It costs approximately $83 million annually to cover the children currently in Healthy Kids (approximately $1040 per child per year) with First 5 providing approximately $16.3 million to fund the 15,685 children ages 0-5.

Healthy Kids total enrollment declined between May 2006 and April 2008 from a peak of approximately 89,000. At least 18 of the 22 CHIs with Healthy Kids programs maintain active wait lists, totaling 21,000 children, due to funding limitations. Nearly all waitlisted children are between 6 and 18 years of age. In the face of actual and potential reduced funding, a number of CHIs have not been filling slots that have been vacated due to attrition (e.g., aging out, moving out of county, nonpayment of premiums, etc.). In the past, several counties also actively disenrolled children when they lost critical funding.

Since CHIs rely on limited sources of revenue, they have been developing contingency plans in the event of a major loss of funding. With most CHIs reporting few major changes in funding over the next six to nine months, and fearful of alienating potential new funders, CHIs have been reluctant to openly discuss disenrolling children. However, within the past six months, most CHIs have engaged in contingency planning which could reduce enrollment in Healthy Kids through freezing slots, disenrolling older children, reducing benefits (e.g. dental), increasing premiums, or eliminating the program.

At this point, both Los Angeles County and Alameda Counties may be forced to disenroll children as early as September 2008, although they have not publicly stated so. Los Angeles Healthy Kids has no funding for 6-18 year olds beyond September. Alameda will be losing its tobacco tax settlement funds which are its major funding source. San Bernardino and Riverside Counties also face immediate funding challenges and in the past have been forced to disenroll children.

One large fear is that without an improvement in the state's fiscal condition, the funding sources will slowly begin to fade over the next two years. State economic and budget factors could adversely affect funding from local government and health plan sources. More troubling is the possibility that at some critical threshold of enrollees, health plans may decide not to participate, even if some funding remains for younger children. Administrative costs per enrollee would rise with a fewer number of members. With respect to local governments and the contributions from local businesses and other charitable organizations, there remains a question how long these local funders will continue to maintain past levels of financial

support for health care premiums and administrative costs.

Given expected financial challenges, CHIs will continue to limit enrollments or even reduce coverage for children currently on the program. With precarious philanthropic and other funding streams, state funding is necessary to ensure that all children currently enrolled do not lose coverage.

If there is disenrollment of children from expanded coverage programs, access to and continuity of health care is a major concern. Care for uninsured children has historically been provided under the hodgepodge of programs including the Children Health and Disability Prevention Program (CHDP), California Children's Services (CCS) and restricted scope Medi-Cal with emergency benefits only. If children are disenrolled from Healthy Kids with no alternative coverage, the CHIs will make efforts to retain them in medical homes shifting the burden to county and nonprofit clinics.

The progress in access to dental services will likely be reversed. Since most of the care is provided by private practitioners with limited capacity in community clinics, it is likely that children will go without preventive care. The private sector pool of dentists providing care for public program recipients is likely to be diminished with the synergy of the 10% Medi-Cal provider rate cuts and the proposed elimination of adult dental coverage.

The future of the outreach and enrollment activities are also highly in doubt. While outreach and enrollment is a major function, and success, of CHIs, funding for these activities has always been limited. With the elimination of the long-awaited state Outreach, Enrollment, Retention, and Utilization (OERU) funding, the CHIs now rely on local funding (First 5, health plan, small grants) for OERU activities and small fees paid by the state to Certified Application Assistors for successful applications. CHIs are continually challenged to find OERU funding in addition to premium subsidies.

## Future of CHI Funding Streams

CHI funding streams are interdependent. First 5 commissions at both the state and local levels have been a solid source of support for children 0-5 years old, but CHIs rely on other funders to cover older children. Foundations have been essential partners of CHIs around the state and have helped leverage funding for Healthy Kids premiums from other donors, including counties, providers, private donors and other foundations. Participating health plans, both public and commercial, have also been critical funders of CHIs in many counties. Some CHIs enjoy funding from a more diverse portfolio of funders including local businesses, as well as local hospitals, hospital districts, and individuals.

However, as funders reach their financial and programmatic limits to Healthy Kids premium support, the "house of cards" becomes unstable. If a health plan needs to reduce or eliminate its support due to declining reserves then local funding partners (e.g. counties, local hospitals, businesses, individual donors, etc.) might terminate or decrease support if plans reduce their funding or if enrollment is reduced. The same is true if foundation support is withdrawn. If any of the partners pulls out, the viability of the CHI is threatened if the number of enrollees drops to the point where the plan is no longer viable. At that point, even the First 5 funding may not be able to sustain the coverage for the younger children beyond the next two years.

## Future of Policy Advocacy

Policy advocacy for children's coverage is also at a crossroads. On the one hand, there is a major health reform effort at the state level, and

perhaps soon to be at the federal level. On the other hand, the state is facing an unprecedented budget deficit and cuts are being proposed even to critical health programs. In addition to health reform and the budget crisis, several factors will play a role in the formulation of public policy regarding the continuation of the CHI movement and the continued funding for Healthy Kids programs. These factors include whether the anti-immigrant forces that resist health coverage for all children regardless of immigration status can be overcome, whether a ballot proposition in 2010 will provide funding for children's coverage or attempt a major overhaul of the health care system, whether a legislator is willing to champion a universal children's coverage program, and what happens at the federal level with a new administration.

## Opportunities and Obstacles

The long-term uncertainty of CHI funding presents both opportunities, as well as obstacles. The increasingly tenuous funding and potential impending loss of two major counties (Los Angeles and Alameda) may spur state policy makers to develop a solution to support CHIs. In addition, the realization from funders that withdrawal of their support will adversely affect the entire CHI program will encourage them to maintain their investments while the state policy issues are sorted out. The independent evaluations which have documented improved health status outcomes and cost savings from Healthy Kids are strong arguments for coverage for all children, regardless of immigration status. To the extent that CHIs have been successful in increasing enrollment in Medi-Cal and Healthy Families, they have helped to shift previously uncompensated care costs from local providers to state and federal governments and provide a more secure funding stream for health care providers. Disenrolling children will shift costs back to the local nonprofit and county clinics.

On the other hand, obstacles include the continued inability of the state government to agree on a funding mechanism for children's coverage. Meanwhile, health plans are coming under pressure to limit use of reserves in funding premium subsidies for Healthy Kids. If funding is lost for one age group, there may not be a sufficiently large number of children 0-5 to justify maintaining the Healthy Kids program in that county. Once a Healthy Kids program terminates in a county, it may be difficult to summon the local effort to reinstate it if future funding becomes available. Moreover, if CHIs are forced to downsize or shut down, they will be portrayed as "failures," rather than the successes they have been shown to be. This perception will not only derail all the progress that has been made in showing that health coverage works, but also adversely affect "restart" efforts in the future.

## Conclusion

Continued progress in covering all uninsured children in California is in jeopardy. Despite demonstrated success in covering children and improving their access to health care as well as avowed policy maker support, state funding for universal coverage for children has been illusive. The Children's Health Initiatives are confronted with long waiting lists and increasingly weary funders. Some children are being threatened with disenrollment due to funding shortages. In order to maintain the momentum, the CHIs need to receive continued support for their Healthy Kids program with continued and redoubled efforts to enact policy change for state coverage.

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