

February 13, 1998

Dear State Official:

The Balanced Budget Act of 1997 (Public Law 105-33), established the Children's Health Insurance Program (CHIP) under Title XXI of the Social Security Act (the Act.) This new Title enables States to expand health insurance coverage for uninsured children. The Department of Health and Human Services has issued several letters to provide policy and State plan guidance on the implementation of the Children's Health Insurance Program (CHIP).

This letter is intended to provide additional detailed guidance regarding the implementation of CHIP provisions related to cost-sharing, described in section 2103(e) of the Act. It reflects preliminary policies which we intend to incorporate into proposed regulations, subject to public comment, and into appropriate State manual instructions.

If a State implements CHIP as a *separate, non-Medicaid program*, then the following requirements apply. Under the statute, the State child health plan must include a description of the amount of premiums, deductibles, coinsurance, and other cost sharing imposed under CHIP; and any such charges must be imposed according to a public schedule. Its CHIP plan must also describe methods that will be used to ensure that total cost-sharing liability does not exceed the aggregate cap for families with income above 150 percent of poverty, described below. With regard to cost-sharing policy, States may vary premiums, deductibles, coinsurance and other cost sharing based on family income, provided that lower income families pay less than higher income families. However, States are prohibited from imposing deductibles, coinsurance, or other cost-sharing on well-baby and well-child care, including age-appropriate immunizations.

Additionally, the Act includes several restrictions on cost-sharing under CHIP that differ based on whether the income of the child's family is above or below 150 percent of the Federal poverty line.

These limitations, applicable only to non-Medicaid CHIP programs, are described below.

If a State has chosen to implement CHIP as an *expansion to its Medicaid program*, then cost-sharing obligations imposed by the State under Medicaid are applicable to CHIP. Federal Medicaid rules are described in regulations at 42 CFR 447.50-59. We note that these rules permit the imposition of enrollment fees, premiums, or similar charges on children under certain circumstances, but prohibit cost-sharing in the form of deductibles, coinsurance, copayments, or similar charges on services to children.

Targeted low-income children in families with incomes at or below 150 percent of poverty:

Under section 2103(e)(3)(A) of the Act, a State may impose enrollment fees, premiums, or similar charges on children with family income at or below 150 percent of poverty, but if it does so, the maximum amounts it imposes are limited by the maximum amounts it may impose under Medicaid under section 1916(b)(1) of the Social Security Act for a Medicaid-eligible family of the same size and income. Specific rules, described in Medicaid regulations at 42 CFR 447.51, require premiums to be based on an income-related sliding scale, and to be limited to no more than a specified monthly amount per family. For example, the maximum amount for a family with \$1000 monthly income is \$19 for a family of 1 or 2 persons, \$16 for a family of 3 or 4, and \$15 for a family of 5 or more. Lower maximum premium amounts are prescribed for families with less income.

In the case of cost-sharing other than premiums for children below 150 percent of poverty, Section 2103 (e) of Title XXI specifies the maximum amounts that a State may impose under CHIP for deductibles, cost sharing, or similar charges are limited to amounts considered to be nominal, consistent with regulations implementing section 1916(a)(3) for persons covered under Medicaid, "with such appropriate adjustment for inflation or other reasons as the Secretary determines to be reasonable." Because the Child Health Insurance Program is designed for families with incomes above the Medicaid eligibility levels, the Department of Health and Human

Services has determined preliminarily that it would be reasonable to increase the limits for CHIP cost-sharing consistent with our concern that access to services not be compromised. Therefore, the Secretary currently intends to propose regulations to increase the limits on coinsurance, copayments, or similar charges for services under CHIP as follows: \$1.00 for services of \$15.00 or less, \$2.00 for services between \$15.01 and \$40.00, \$3.00 for services between \$40.01 and \$80.00, and \$5.00 for services over \$80.00. These proposed changes only will affect separate, non-Medicaid CHIP State programs.

Targeted low-income children in families with incomes above 150 percent of poverty:

CHIP cost-sharing rules under section 2103(e)(3)(B) of the Act are more flexible for children above 150% of poverty. States may impose premiums, deductibles, cost sharing or similar charges in any amount, provided that cost-sharing for higher income children is not lower than cost-sharing for lower income children. However, the total annual aggregate cost-sharing (including premiums, deductibles, copayments, and any other charges) for all targeted low-income children in a family may not exceed 5% of total family income for the year. In addition, States must inform families of these limits and provide a mechanism for families to stop paying once the cost-sharing limits have been reached.

If there are any questions regarding the CHIP cost-sharing provisions, please contact your HCFA regional office staff.

Sincerely,

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