

## FINANCIAL SUSTAINABILITY OF HEALTHY KIDS PROGRAMS

GREGORY D. STEVENS, MICHAEL R. COUSINEAU, AND KYOKO RICE

Since 2001, 25 California counties have formed Children's Health Initiatives (CHIs) to design and offer health insurance products known as Healthy Kids for low-income children ineligible for Medi-Cal or Healthy Families.<sup>1</sup> These programs are locally funded through a mix of public and private dollars. As of one year ago, however, funding in certain counties was not keeping pace with enrollments, leading to an enrollment freeze or the formation of waitlists.<sup>2</sup> This brief highlights the latest evaluation findings on the financial sustainability of Healthy Kids programs.

### ➤ Methods

- Healthy Kids enrollment and financial forms were completed by CHI directors or coordinators between April and June 2007. Data were reported separately for children 0-5 years and 6-18 years. No data were reported by Merced, San Francisco, or Tulare so they were not included in this study.
- Using monthly premium rate data provided by each CHI, estimates were made of the annualized costs of maintaining coverage for all currently enrolled children (with and without waitlisted children) for the next three fiscal years. A 4% rate of inflation was applied to premiums.
- Estimated premiums were compared to committed funds for each fiscal year. Funding that was noted as "pending" was not included in order to be conservative regarding available funds. Funds directed to specific age-groups (e.g., from First 5) were not considered interchangeable with other age groups.

### ➤ Enrollments in Healthy Kids declined slightly in the past year due to funding limitations.

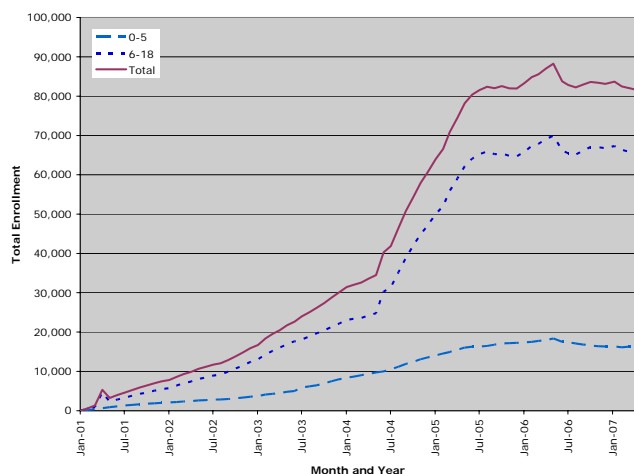


Figure 1. Statewide Enrollment Trends in Healthy Kids Programs through April 2007

- Healthy Kids total enrollment reached 88,200 in May 2006 but since then has declined to about 81,600 by April 2007. Of these, 65,300 were children ages 6-18 years and 16,300 were ages 0-5 years (see Figure 1).
- Enrollment declines occurred for both age groups despite separate funding streams. Most funds for children ages 0-5 are provided by First 5, while older children are supported by philanthropies, health plans, and others.
- Fifteen CHIs maintain active waitlists for Healthy Kids due to funding limitations. Waitlists ranged from 18 children in Colusa County to 2,500 in Alameda County, and total 8,700 children statewide.

### ➤ The average monthly Healthy Kids enrollee premium has increased from \$84 to \$87 over one year.

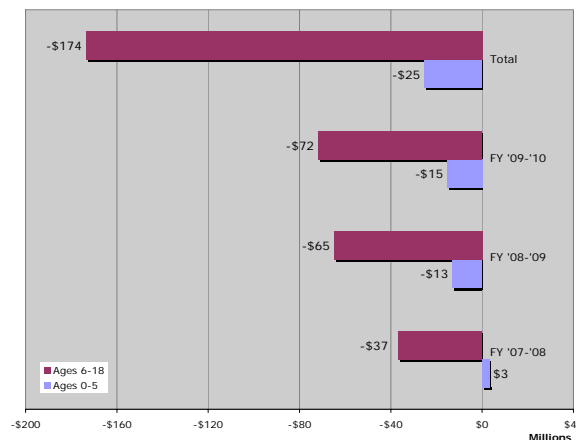
- Some CHIs have attempted to compensate for increasing costs by developing separate premium rates for children ages 0-5 years and 6-18 years. The current average premium rate for Healthy Kids enrollees ages 0-5 years is \$94 and \$86 for older children, reflecting the higher utilization rates among younger children.

➤ **Since their inception, CHIs have raised more than \$378 million to fund Healthy Kids.**

- Eighty-two percent (\$310 million) of these funds have been used to subsidize premiums (\$110 million for ages 0-5 and \$200 million for ages 6-18). The remaining funds were directed to outreach and enrollment (8% or \$31 million), administration (6% or \$23 million), and planning (4% or \$14 million).

➤ **Over the next three years, however, CHIs face a possible \$200 million deficit in premium funding.**

- The estimated statewide premium costs for one year of Healthy Kids coverage for currently enrolled children of all ages is \$76 million (or \$84 million with waitlisted children). Over three years, accounting for inflation, the cost is \$237 million or \$263 million if waitlisted children are included.
- While there is a surplus in the current fiscal year of \$3 million in premium funds for children 0-5 years, CHIs will need to raise an additional \$29 million in order to maintain coverage for older children just for the remainder of the current year. This amount is \$37 million with waitlisted children (see Figure 2).
- Including waitlisted children, the funding deficit for children ages 6-18 years increases to \$65 and \$72 million in the second and third years, reaching a total deficit over three years of \$174 million. For children ages 0-5 years, deficits in funding total \$13 and \$15 million in the second and third years, reaching a total funding deficit for this age group of \$25 million.



**Figure 2. Surplus or Deficit in Premium Funds for Healthy Kids Enrollees**  
Note: Includes waitlisted children

➤ **Policy Implications**

- Given expected financial deficits, the CHIs may have to further limit enrollments or reduce coverage for children currently on the program. With many philanthropic and other funders announcing the end of term for Healthy Kids premium funding, state and/or national funding will be necessary to ensure that all children currently enrolled do not lose coverage. Incorporation of these children into programs such as Healthy Families (albeit with slightly different funding streams) is one option under consideration.
- Maintaining coverage for these children may have substantial benefits to both families and funders. Some recent studies have shown that enrollment in Healthy Kids is associated with an increase in medical and dental care utilization and an improvement in health status (including fewer school-days missed).<sup>3-5</sup> Another study has shown that Healthy Kids may have helped prevent as many as 1,000 hospitalizations among children in California, and could prevent an additional 4,300 if Healthy Kids was available in all counties. This translates into an estimated savings of up to \$30 million over seven years.<sup>6</sup>
- The surplus in the first year for younger children is due primarily to newer CHIs not having yet reached their target enrollments. Once they reach their target for the first year, this will increase sustainability concerns as programs seek to maintain coverage for these additional children. While First 5 agencies have made some of the longest-term commitments to Healthy Kids of any organization, many are near reaching the end of their planned commitments such that additional funding may require reassessment.

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