FY 2003 IHCIF EXPLANATION

$26,212,000 is allocated to severely under funded service units (both tribal and IHS operated) in the IHS system from the FY 2003 Indian Health Care Improvement Fund (IHCIF). According to authorizing legislation, the purpose of the IHCIF is for: (1) eliminating the deficiencies in health status and resources of all Indian tribes, (2) eliminating backlogs in the provision of health care services to Indians, (3) meeting the health needs of Indians in an efficient and equitable manner.

This is the third year the IHCIF is allocated with a formula using deficiencies measured by the Federal Disparity Index (FDI) – an index of comparability with the Federal Employees Health Plan. The IHCIF formula, which was adopted after extensive national tribal consultation, allocates funds to below average units in proportion to the unit's funding deficiency. Under the formula, more funds go to units with the greatest deficiencies.

The IHCIF formula is applied for FY 2003 using the same data used in the FY 2002 allocation. The threshold to qualify for IHCIF funds remains the same; scores of less than 60% on the Federal Disparity Index (FDI). Based on guidance and clarification from the Congress in 2003, deficiencies in the lowest bracket--FDI scores of less than 40%--are given more emphasis. As a result, 57 units in the lowest bracket (<40% FDI scores) receive 70% of the IHCIF and 117 units in the next lowest bracket (40%-60% FDI scores) receive 30% of the fund. The $26 million of additional funds in 2003 begin to reduce disparities for the most deficient units, but are extremely insufficient for the $1.8 billion system-wide deficiency identified by the FDI methodology.

Emphasis on the Greatest Deficiencies

- The FDI methodology identifies resource deficiency brackets:
  - Units scoring < 40% on the FDI
  - Units scoring 40% to 60% on the FDI
  - Units scoring 60% to 80% on the FDI
  - Units scoring 80% to 100% on the FDI
- In 2003 as in 2001 and 2002, only units scoring in the two lowest brackets <40% and 40%-60% qualify for distributions from the IHCIF. This restriction is necessary because the system-wide deficiency approaches $1.8 billion which far exceeds the $26 million available.
- Based on guidance and clarification from the Congress in 2003, deficiencies in the lowest bracket--FDI scores of less than 40%--are given more emphasis by running the IHCIF formula separately for the lowest and second lowest brackets.

- This approach results in 70% of funds for the lowest bracket of units (<40% FDI scores) and 30% of funds to units in the next lowest bracket (40%-60% FDI scores). In fact, the tiered formula for FDI brackets was seriously considered during LNF consultation.
- As suggested during tribal consultation, this has the advantage of raising the lowest units faster while keeping many other poorly funded units in the mix thereby acknowledging their large unmet needs also.
- Unless some funds are devoted to the 40%-60% bracket, the FDI scores will decline further from 60% because of inflation. Some units would fall from the second bracket to the lowest bracket (<40%).

Questions and Answers

1. ***What is the Indian Health Care Improvement Fund?***
   The IHCIF are funds appropriated by the Congress to reduce disparities and resource deficiencies among units with the IHS system.

2. ***How is the IHCIF distributed to IHS and tribal health care units?***
   This is the third year for the IHCIF formula which was developed at the direction of the Congress. The formula targets funding deficiencies measured by the Federal Disparity Index (FDI) model. The FDI model was developed with national tribal consultation by a tribal/IHS workgroup working with health economists and actuaries. The approach used for the FDI is specified in law in section 1621 of the Indian Health Care Improvement Act.

3. ***What factors are in the FDI methodology?***
   Resource and health status deficiencies for IHS and tribal health care units are determined considering numerous factors that impact on health care needs and costs:

   a. User population
   b. Health status deficiencies (using indices of mortality, life expectancy, morbidity, and poverty)
   c. Benchmark costs for mainstream plans (FEHP) adjusted annually for medical inflation.
   d. Geographic variations in cost of medical care including isolation and remoteness
   e. Size of unit (correlated with operational economies and efficiency)
   f. Current funding available from IHS
   g. 25% factor for coverage by third parties such as Medicare, Medicaid, and private/employer insurance.

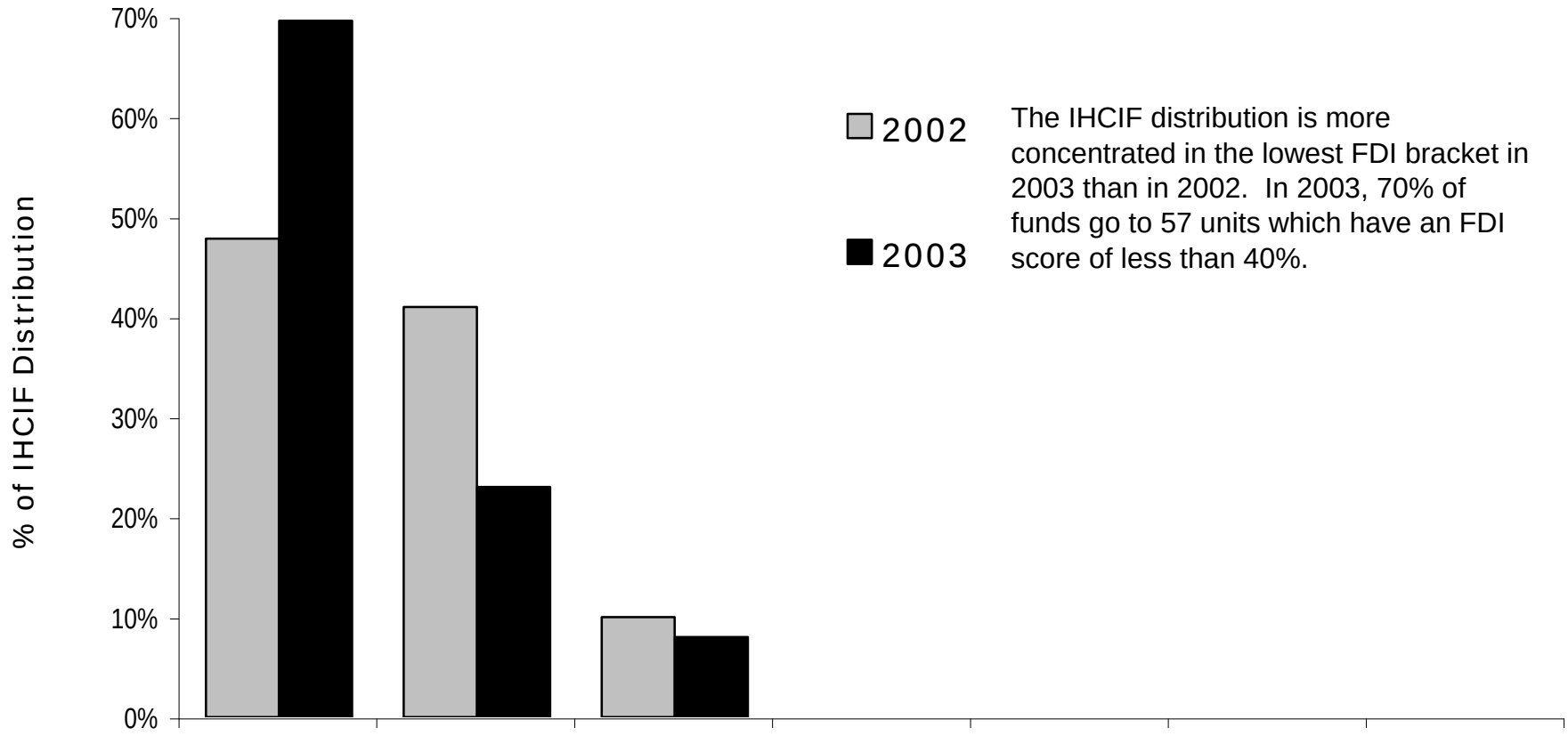
4. ***Describe how the IHCIF formula works?***
Each IHS or tribal unit is scored on a needs scale from 0% to 100% by applying the FDI methodology, e.g., a score of 50% means the unit has ½ of the resources necessary to afford health care like the FEHP. Using the FDI scores, all units are sorted and identified in brackets explained earlier. The 174 units in the 2 lowest brackets, less than 40% and 40%-60%, qualify for IHCIF funds. Units with scores between 60% and 100% have substantial resource deficiencies also, but must wait for all other units to reach 60% before sharing in new IHCIF funds. Among qualifying units below 60%, the formula gives more funds to units with the lowest FDI scores to raise them at a faster pace.

5. ***Will the IHCIF eliminate resource deficiencies and inequities?***
The $26 million of additional funds in 2003 begins to reduce disparities for the most deficient units, but are extremely insufficient for the $1.8 billion system-wide deficiency identified by the FDI methodology. This large discrepancy is why the IHCIF distributions must be restricted to units funded below 60%. According to the FDI, $389 million is necessary to raise all units to 60% of need, so within this group the IHCIF gives greater emphasis to the largest deficiencies – the 57 units with FDI scores below 40%.

6. ***Has the IHCIF formula changed in 2003?***
The threshold to qualify for IHCIF distributions in 2003 remains the same as in 2001 and 2002 – units with FDI scores of 60% or less. Among qualifying units, additional emphasis is given in 2003 to the lowest bracket, those units scoring less than 40%. This is accomplished by running the existing IHCIF formula separately for lowest and second lowest brackets.

7. ***Why was this adjustment necessary?***
The Congress provided the IHS with additional guidance for the IHCIF that specified IHCIF funds for the “lowest 55 units”. Congress also asked IHS to report on the pending IHCIF allocation. IHS reported on possible allocations and the Congress provided further clarification of its guidance. The clarification acknowledged the value of distributing some of the IHCIF to units funded at below 60% of need, while urging a greater share of funds for the most severely under funded units - units funded below 40% of need.

2002 and 2003 IHCIF Distribution by Bracket



The IHCIF distribution is more concentrated in the lowest FDI bracket in 2003 than in 2002. In 2003, 70% of funds go to 57 units which have an FDI score of less than 40%.

FDI Scores	< 40%	40%-50%	50%-60%	60%-70%	70%-80%	80%-90%	90%-100%
# Units w Score	57 Units	60 Units	57 Units	32 Units	18 Units	5 Units	6 Units

FDI Scores With # of Units in Each Bracket