Appendix B: Federal Disparity Index - In a Nutshell

The Federal Employees Health Plan Disparity Index (FDI) is an index comparing IHS funding to cost of insuring IHS AIAN users in a mainstream health insurance plan such as the Federal Employees Health Plan (FEHP). The index starts with an average benchmark cost for enrollees in FEHP. Because some characteristics of the IHS AIAN user population differ from FEHP enrollees in ways that affect health care costs, industry standard actuarial methods statistically adjust FEHP costs for characteristics found in the Indian population. These characteristics include demographic factors (age and sex), geographic variation in medical costs, size/scale of IHS/tribal health delivery sites, and poor health status of Indians in general and its variation place to place.

The FDI computation is accomplished in several steps.

1. The benchmark FEHP per capita cost is adjusted for coverage differences (scope of FEHP benefits compared to IHS benefits), out-of-pocket costs, AIAN demographic characteristics, less 25% for insurance coverage (Medicare, Medicaid, and private insurance) of AIANs. This yields an adjusted net cost of $3,079 per AIAN in 2006.
2. Next, the average net cost is individualized to 250 IHS and Tribal sites considering conditions that vary among the sites including size, remoteness, prevailing medical costs, and some variations in health status of AIAN users. These adjustments yield a unique site-specific cost forecast for each of the 250 IHS and Tribal sites. Forecast site costs will exceed the $3,079 IHS average at some sites and fall below the average at other sites.
3. Next, IHS funding at each site is adjusted to exclude spending on public health services which are not included in FEHP coverage. Each site's IHS funding is divided by the number of unduplicated users served at the site yielding a site-specific IHS funding per capita (an average of $1,610 per AIAN user in 2006).
4. Finally, each site's IHS funding per capita (step 3) is expressed as a percentage of the site's forecast cost (step 2). This ratio is known as the FDI percentage. A ratio of 60% means a site's funding is sufficient to cover only 60% of its users in an FEHP type health insurance plan. The lower the percentage, the greater the funding disparity compared to the FEHP benchmark.

Following guidelines in law, the IHS uses FDI results to allocate Indian Health Care Improvement Fund (IHCIF) appropriations to IHS and tribal sites. IHCIF appropriations are intended to reduce the degree of funding deficiency at IHS and Tribal sites as measured by the FDI ratio. The IHCIF formula is designed to reduce inequitable funding variations among sites by allocating more funds to sites with the lowest FDI ration (greatest funding disparity). Sites scoring above 60% receive no new IHCIF funds.

The FDI model accounts for important, but not all, factors that affect true costs of health care to Indians. Its value lies in systematic comparisons using industry recognized cost forecasts. The FDI is a statistical index that is valid for groups of AIAN served at the 250 IHS and Tribal sites. The FDI is not a valid basis to forecast costs for individual patients.