

## How the SCHIP Funding Formula Disadvantages Mississippi

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### ■ Issue

There are two primary factors in the SCHIP funding formula that have a negative effect on Mississippi (see reverse side for a description of the formula):

- The state “Cost Factor” and
- The calculation for “Number of Children.”

The “State Cost Factor” is based on annual average wages in the health services industry in each state and is meant to serve as a proxy for health care costs. This factor, however, does not equate to health care costs. There is very little correlation between this measure and overall health care costs. In addition, use of this factor serves to reduce the allotments to states with low wages, such as Mississippi, which is contrary to the interest of directing SCHIP funds to low income uninsured children.

The “Number of Children” is calculated as 50 percent of the number of low-income uninsured children and 50 percent of the number of low-income children. Program enrollment is not considered. Therefore, the more successful a state is in enrolling low income uninsured children into the Program, the more the state is penalized by the formula because the “Number of Children” is reduced.

### ■ Result

A comparison of the allotments for states with enrollment levels similar to or lower than Mississippi illustrates the inequities in the formula:

<u>State</u>	<u>June 2005 Enrollment</u>	<u>FY 2006 Allotment</u>
Virginia	73,187	\$72,302,825
Indiana	68,939	\$73,000,528
Mississippi	68,068	\$49,916,118
Massachusetts	65,289	\$59,401,346
Alabama	64,342	\$64,182,128
Arkansas	61,102	\$43,795,428
Michigan	56,195	\$117,165,211
Oklahoma	54,427	\$57,370,830
South Carolina	52,561	\$55,545,268
Arizona	50,638	\$107,365,854

Source: Enrollment data compiled by Health Management Associates for the Kaiser Commission on Medicaid and the Uninsured, published December 2006. Allotment data from Federal Register/ Vol. 70, No. 121/ Friday, June 24, 2005.

### ■ Action Needed

Now that states have had almost ten years of experience in the Program, actual enrollment and cost data should be used in the allocation of funding. The number of low-income uninsured children should continue to be included in the calculation of “Number of Children” in order to assess unmet need, but it should apply to a lesser extent. If a cost factor is to be used, historical costs for SCHIP services should be used rather than wages.

## SCHIP Formula

Step One (after allotment to territories):

$$\frac{(\text{Number of Children} \times \text{State Cost Factor}) \text{ for Mississippi}}{(\text{Number of Children} \times \text{State Cost Factor}) \text{ for all states}}$$

### Number of Children

The “Number of Children” is calculated as the arithmetic average of the number of low-income (< 200% FPL) children (< 19 years of age) and the number of low-income children with no health insurance as calculated from the 1994 – 1996 March supplements to the Current Population Survey (CPS)

For FY 1998 and FY 1999 allotments, the “Number of Children” was equal to the number of low-income children with no insurance coverage.

For FY 2000 allotments, the “Number of Children” was calculated as the sum of 75 percent of the number of low-income uninsured children and 25 percent of the number of low-income children.

For FY 2001 and succeeding years, the “Number of Children” has been calculated as 50 percent of the number of low-income uninsured children and 50 percent of the number of low-income children.

### State Cost Factor

The “State Cost Factor” is determined based on the calculation of the ratio of each State’s average annual wages in the health industry to the national average annual wages in the health care industry. Annual wage data are obtained from the Bureau of Labor Statistics.

Step Two:

Floors and ceilings are applied.

1. No state can receive less than \$2 million divided by the total of the amount available nationally for the fiscal year.
2. No state can receive less than 90 percent of the previous year’s allotment proportion.
3. No state can receive less than 70 percent of the state’s allotment proportion in FY 1999.
4. No state can receive more than 145 percent of the state’s allotment proportion for FY 1999.
5. No state can receive more than 45 percent more than the previous year’s allotment proportion.

Step Three:

If after the application of the floors and ceilings the sum of all states’ proportions does not equal one, the states’ proportions must be adjusted in a “pro rata” manner so that the sum is one.

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