



# DEFAC Healthcare Spending Benchmark Subcommittee

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APRIL 12, 2024

# Agenda

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- Review May 3, 2023 Meeting Minutes
- CY 2022 Spending Trends
- Intent of Spending Benchmark
- Consideration of Methodology
- Spending Benchmark Calculation
  - Discussion
  - Public Comments
  - Vote on CY 2025 spending benchmark (tentative)
- Adjourn

# Consideration of Methodology & CY 2025 Calculation

# Current PGSP Methodology

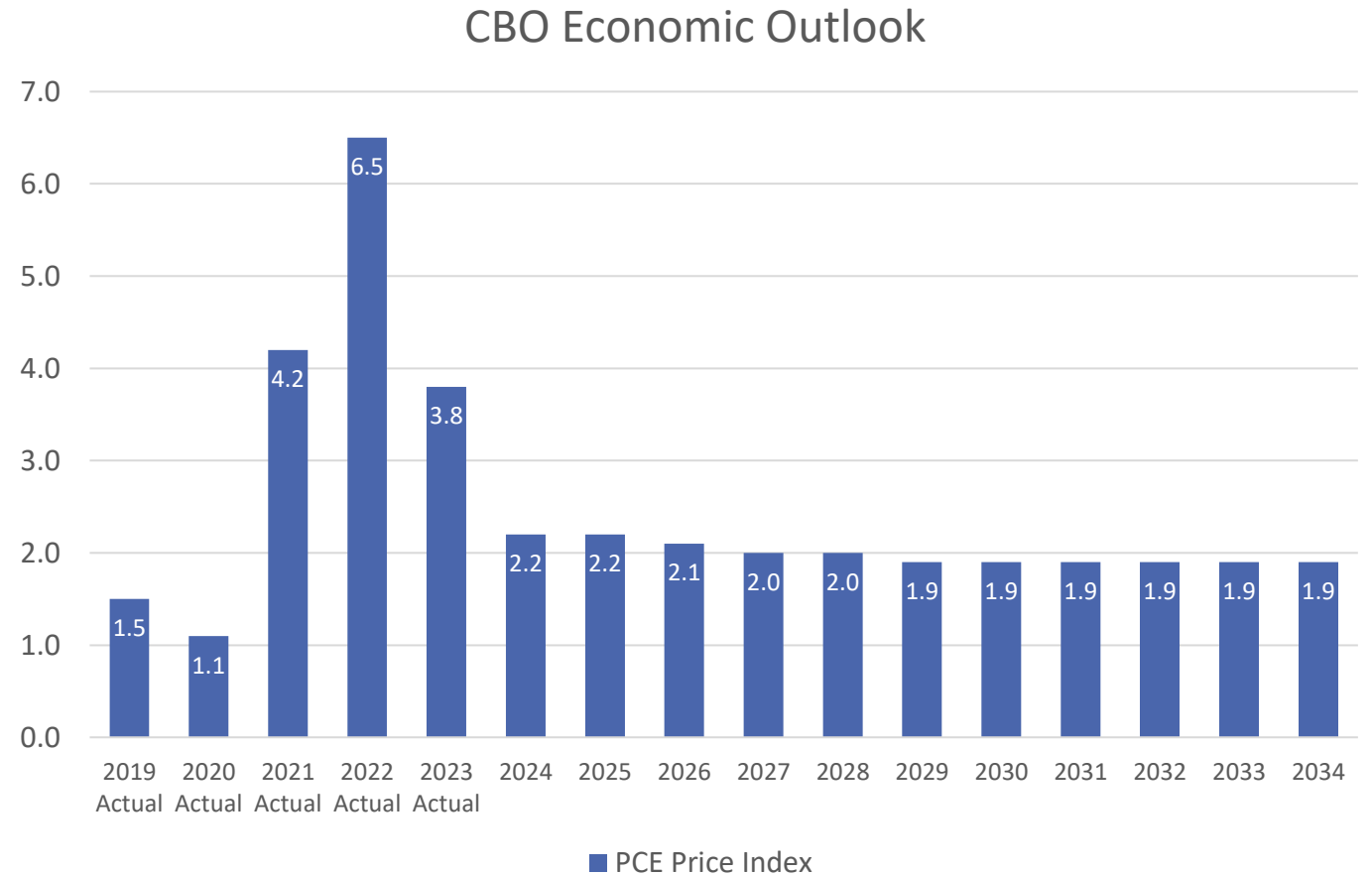
Components set by 16 Del. C. §9903(k)(3)	Data Source	Forecast	CY 25 Calculated
<b>Expected growth in national labor force productivity</b>	Congressional Budget Office <i>Budget and Economic Outlook Report</i>	Utilize forecasts that project growth for 5 through 10 years in the future	1.5%
<b>+ Expected growth in Delaware’s civilian labor force</b>	Delaware Population Consortium <i>Population Projections by Single Year, Age, Race and Sex</i>	Calculate growth by averaging the forecasted increase of Years 5 through 10 in the future	0.3%
<b>+ Expected national inflation</b>	Congressional Budget Office <i>Budget and Economic Outlook Report</i>	Utilize the personal consumption expenditure growth for 5 through 10 years in the future	1.9%
<b>= Nominal PGSP growth</b>			<b>3.7%</b>
<b>– Expected population growth in Delaware</b>	Delaware Population Consortium <i>Population Projections by Single Year, Age, Race and Sex</i>	Calculate growth by averaging the forecasted increase of Years 5 through 10 in the future	0.6%
<b>= PGSP growth/Spending Benchmark</b>			<b>3.1%</b>

# Benchmark History

Components	CY 19	CY 20	CY 21	CY 22	CY 23	CY 24	CY 25
set by 16 Del. C. §9903(k)(3)	Approved	Approved	Approved	Approved	Approved	Approved	Calculated
Expected growth in national labor force productivity		1.4%	1.4%	1.4%	1.4%	1.4%	1.5%
+ Expected growth in Delaware's civilian labor force		0.1%	0.1%	0.1%	0.2%	0.1%	0.3%
+ Expected national inflation		2.0%	1.9%	2.0%	2.0%	2.0%	1.9%
<b>= Nominal PGSP growth</b>		<b>3.5%</b>	<b>3.4%</b>	<b>3.5%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>3.7%</b>
– Expected population growth in Delaware		0.5%	0.4%	0.5%	0.5%	0.5%	0.6%
+ Transitional Market Adj.		0.5%	0.25%	0.0%	0.0%	n/a	n/a
<b>= PGSP growth/Spending Benchmark</b>	<b>3.8%</b>	<b>3.5%</b>	<b>3.25%</b>	<b>3.0%</b>	<b>3.1%</b>	<b>3.0%</b>	<b>3.1%</b>

# Inflation (PCE Price Index)

- Inflation slowed markedly in 2023. In CBO's projections, inflation slows further in 2024. It then ticks up in 2025, before declining slightly.
- What's keeping inflation close to 2% after 2027:
  - Federal Reserve policy actions
  - Easing of supply-related issues
  - Inflation expectations that continue to remain anchored near the Federal Reserve's goal



# Inflation: PCE vs CPI

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- Personal Consumption Expenditures (PCE)
  - Prepared by the Bureau of Economic Analysis (BEA) and sources data from businesses. Measures the change in goods and services consumed by all households, and nonprofit institutions serving households.
- Consumer Price Index (CPI)
  - Prepared by the Bureau of Labor Statistics (BLS) and sources data from consumers. Measures the change in the out-of-pocket expenditures of all urban households.

For example:

- The expenditure weights for medical care services in the CPI are derived only from **out-of-pocket** expenses paid for by **consumers**.
- Medical care services in the PCE index include those services purchased **out of pocket by consumers** and those **services paid for on behalf of consumers**—for example, medical care services paid for by employers through employer-provided health insurance, as well as medical care services paid for by governments through programs such as Medicare and Medicaid.

			2019	2020	2021	2022	2023	2024	2025
<b>DE</b>	2019: budget benchmark; 2020-23: PGSP with transitional adj. factor in 2020-21	Target	3.8%	3.5%	3.25%	3.0%	3.1%	3.0%	<i>tbd</i>
		Actual	5.8%	-1.2%	11.2%	6.3%	-	-	-
<b>MA</b>	2013-17: PGSP; 2018-22: PGSP minus 0.5%, HPC could modify up to 3.6% but didn't; 2024+: PGSP, HPC can modify to any amount	Target	3.1%	3.1%	3.1%	3.1%	3.6%	3.6%	<i>tbd</i>
		Actual	4.1%	-2.4%	9.0%	5.8%	-	-	-
<b>RI</b>	2019-22: PGSP; 2023-27: 25/75 blend of median projected household income and PGSP, with adjustment for inflation in 2023-25	Target	3.2%	3.2%	3.2%	3.2%	6.0%	5.1%	3.6%
		Actual	4.1%	-2.9%	3.2	-	-	-	-
<b>CT</b>	80/20 blend of forecasted median income and PGSP with add-on factors: +0.5% for CY 2021, +0.3% for CY2022, +0.0% for CY 2023-25	Target	-	-	3.4%	3.2%	2.9%	4.0%	2.9%
		Actual	-	-3.1%	6.0%	-	-	-	-
<b>OR</b>	Historical GSP, median wage and the growth cap in the state's Medicaid and publicly purchased programs	Target	-	-	3.4%	3.4%	3.4%	3.4%	3.4%
		Actual	3.6%	-1.2%	3.5%	-	-	-	-
<b>NV</b>	Changing blend of forecasted median wage and PGSP, with increasing weight on forecasted median wage over time; 20/80, 35/65, 50/50, 65/35	Target	-	-	-	3.19%	2.98%	2.78%	2.58%
		Actual	-	-	-	-	-	-	-
<b>WA</b>	70/30 blend of historical median wage and PGSP, with a downward adjustment starting in 2024	Target	-	-	-	3.2%	3.2%	3.0%	3.0%
		Actual	5.81%	-	-	-	-	-	-
<b>NJ</b>	75/25 blend of median projected household income and PGSP with add on factors: +0.3 for 2023, none for 2024, -0.2 for 2025, -0.4 for 2026-27	Target	-	-	-	-	3.5%	3.2%	3.0%
		Actual	-	-	-	-	-	-	-
<b>CA</b>	Median household income for 2002-2022; single fixed-value target for CY 2025-2029	Target	-	-	-	-	-	-	3.0%
		Actual	-	-	-	-	-	-	-

Meeting  
4/11/24  
default  
3.6%

Was  
2.9%



# Rhode Island

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- Updated based on the theory that health care inflation is lagged two years
- Use actual or forecasted inflation for two years prior – not long-term forecast
  - 2023 benchmark uses actual 2021 inflation
  - 2024 benchmark uses forecasted 2022 inflation
  - 2025 benchmark uses forecasted 2023 inflation
  - Back to long-term inflation forecast for 2026-2027
- Blended with median household income (25% income/ 75% PGSP)
  - Consumer focused
  - Counters the effects of higher, short-term inflation component

	2019	2020	2021	2022	2023	2024	2025	2026	2027
RI Benchmark	3.2%	3.2%	3.2%	3.2%	6.0%	5.1%	3.6%	3.2%	3.2%

# Connecticut

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- Office of Health Strategy set 2021-2025 benchmarks in 2020
  - 80/20 blend of CT median household income and PGSP
  - Included a transitional factor for the first two years
  - OHS annually reviews the impact of inflation on the benchmark
- Did not adjust 2023 benchmark – believed health care inflation is on a two-year lag; policy doesn't have explicit threshold for when to make adjustments
- Did increase 2024 benchmark
  - Due to unusually high inflation in 2022 and two-year lag, 2024 benchmark warranted adjusting
  - Maintained spirit of the benchmark, but updated the inputs – actual 2022 PCE and updated median household income projections

	2021	2022	2023	2024	2025
CT Benchmark	3.4%	3.2%	2.9%	4.0%	2.9%

# Lagged Inflation with Blended PGSP/Income

Components	CY 2024		CY 2025		CY 2026	
	5 to 10 Years Out	2022 Actual Inflation	5 to 10 Years Out	2023 Actual Inflation	5 to 10 Years Out	2024 Actual Inflation
Expected growth in national labor force productivity	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%
+ Expected growth in Delaware's civilian labor force	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%
+ Expected national inflation	2.0%	6.5%	1.9%	3.8%	1.9%	2.2%
– Expected population growth in Delaware	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%
<b>= PGSP growth</b>	<b>3.0%</b>	<b>7.7%</b>	<b>3.1%</b>	<b>5.0%</b>	<b>3.1%</b>	<b>3.4%</b>
<b>Median household income (5-10 years out)</b> Source: S&P Global	<b>3.1%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>3.1%</b>
25/75 blend of PGSP and Household Income	3.1%	4.3%	3.1%	3.6%	3.1%	3.2%
50/50 blend of PGSP and Household Income	3.1%	5.4%	3.1%	4.1%	3.1%	3.3%
75/25 blend of PGSP and Household Income	3.0%	6.6%	3.1%	4.5%	3.1%	3.3%

# Public Comment

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# Consideration/Approval of CY 2025 Benchmark

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# Thank you!

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For more information about the health care spending and quality benchmarks:

<https://dhss.delaware.gov/dhcc/global.html>

