



# DEFAC Healthcare Spending Benchmark Subcommittee

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MAY 3, 2023

# 9 States Have Adopted Healthcare Cost Growth Benchmarks

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States have considered indicators that fall into three general categories:

- 1. State economic output:** represent the total value of goods produced and services provided in a state during a defined period; sets an expectation that health care costs should not grow faster than the state economy, and that state spending on health care should not take up a greater proportion of the state's overall spending in the future than it does currently
- 2. Inflation:** measures the decrease in the purchasing power of money, reflected as increases in prices consumers pay for goods and services; signals that health care costs should not grow faster than the increase in the cost of goods and services, tying the target to consumers' experiences at the grocery store or shopping mall
- 3. Income or wages:** represent the individual earnings of a state's population and the ability to afford to live in and purchase goods and services in the state; puts health care in the context of individual and family experiences and signals that spending on health care should not take up a greater proportion of a family's budget than it currently does

|           |  |        | 2019 | 2020  | 2021  | 2022  | 2023  | 2024       |
|-----------|--|--------|------|-------|-------|-------|-------|------------|
| <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%  | <i>tbd</i> |
|           |  | Actual | 5.8% | -1.2% | 11.2% | -     | -     | -          |
| <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%       |
|           |  | Actual | 4.1% | -2.4% | 9.0%  | -     | -     | -          |
| <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%       |
|           |  | Actual | 4.1% | -3.1% | -     | -     | -     | -          |
| <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%  | 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%       |
|           |  | Actual | 4.4% | -     | -     | -     | -     | -          |
| <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           | Target | -    | -     | -     | 3.19% | 2.98% | 2.78%      |
|           |  | 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%       |
|           |  | Actual | -    | -     | -     | -     | -     | -          |
| <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%       |
|           |  | Actual | -    | -     | -     | -     | -     | -          |
| <b>CA</b> | Methodology not yet determined; first benchmark will be set by June 2024 for CY 2025   | Target | -    | -     | -     | -     | -     | -          |
|           |  | Actual | -    | -     | -     | -     | -     | -          |

# Discussions with RI & MA

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- Rhode Island
  - Increased emphasis on consumer affordability
  - Higher benchmark reflects lag in healthcare inflation
  - Included median household income to offset increase from inflation adjustment
- Massachusetts
  - Believes PGSP method is sound
  - Annualized trend of actual cost growth for 2019-2021 is 3.2% (in line with 3.1% benchmark for that period)
  - PGSP and median household income are roughly the same

# Our Objectives

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- Sound, reasonable, predictable, easy-to-understand, and developed in an independent manner
- Provide a stable cost growth-constraining target against which providers and insurers can plan and contract
- State health care costs should not exceed the long-run average growth rate of the state's economy

# Current Methodology

| Components set by 16 Del. C. §9902(k)(3)                    | Data Source   | Forecast  | CY 23       |
|---|---|---|-------------|
| <b>Expected growth in national labor force productivity</b> | Congressional Budget Office<br><i>Budget and Economic Outlook Report</i>                          | Utilize forecasts that project growth for 5 through 10 years in the future                | 1.4%        |
| <b>+ Expected growth in Delaware’s civilian labor force</b> | Delaware Population Consortium Population<br><i>Projections by Single Year, Age, Race and Sex</i> | Calculate growth by averaging the forecasted increase of Years 5 through 10 in the future | 0.2%        |
| <b>+ Expected national inflation</b>                        | Congressional Budget Office<br><i>Budget and Economic Outlook Report</i>                          | Utilize the personal consumption expenditure growth for 5 through 10 years in the future  | 2.0%        |
| <b>= Nominal PGSP growth</b>                                |   |   | <b>3.6%</b> |
| <b>– Expected population growth in Delaware</b>             | Delaware Population Consortium Population<br><i>Projections by Single Year, Age, Race and Sex</i> | Calculate growth by averaging the forecasted increase of Years 5 through 10 in the future | 0.5%        |
| <b>= PGSP growth/Spending Benchmark</b>                     |   |   | <b>3.1%</b> |

# Possible Benchmark for CY24

## *Current Methodology*

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| <b>Components</b>                                    | <b>Forecast for 5-10<br/>Years into Future</b> |
|--|--|
| Expected growth in national labor force productivity | 1.4  |
| + Expected growth in Delaware's civilian labor force | 0.1  |
| + Expected national inflation                        | 2.0  |
| <b>= Nominal PGSP growth</b>                         | <b>3.5</b>                                     |
| - Expected population growth in Delaware             | 0.5  |
| <b>= PGSP/Spending Benchmark</b>                     | <b>3.0</b>                                     |

# Median Household Income

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- What is it?
  - Household income, as defined by U.S. Census Bureau, includes gross cash income of all people ages 15 years or older occupying the same housing unit, regardless of how they are related.
- Why include it?
  - Recognizes the challenges facing residents as healthcare costs consume ever growing portions of their income, jeopardizing the affordability of healthcare
- Data source:
  - S&P Global forecast of Delaware median household income
  - Updated monthly
  - No official government forecast for the future



# Income Component for CY24 Benchmark

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|                           | <b>Real Median Household<br/>Income for US</b><br>(Source: St. Louis Fed) | <b>Delaware Median<br/>Household Income</b><br>(Source: S&P Global) |
|---------------------------|---|---|
| <b>2019</b>               | 6.1   | 8.3   |
| <b>2020</b>               | 2.5   | 2.8   |
| <b>2021</b>               | 3.5   | -1.4  |
| <b>2022</b>               | -   | -1.9  |
| <b>2023</b>               | -   | 4.9   |
| <b>5-10 Year Forecast</b> | -   | 3.1   |

# Possible Benchmark for CY24

## *Incorporating Median Household Income*

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|                                | <b>Benchmark</b> |
|--------------------------------|------------------|
| <b>PGSP</b>                    | <b>3.0</b>       |
| <b>Median Household Income</b> | <b>3.1</b>       |
| <b>25% PGSP / 75% Income</b>   | <b>3.1</b>       |
| <b>50% PGSP / 50% Income</b>   | <b>3.1</b>       |
| <b>75% PGSP / 25% Income</b>   | <b>3.0</b>       |

# Public Comment

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# Consideration/Approval of CY24 Benchmark

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# Thank you!

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For more information about the health care spending benchmark:

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

[DHCC@delaware.gov](mailto:DHCC@delaware.gov)

