

# Healthcare Spending Benchmark

November 18, 2024



# Discussion Points

- Concerns with Current Benchmark & Statutory Authority  
Allowing Reconsideration of Benchmark Calculation
- Relationship of Benchmark to HB 350
- Proposal to Revise Benchmark Methodology

# Current Benchmark Methodology is Confusing and Arbitrary

- Executive Order 19: Benchmark = Potential Gross State Product
  - “PGSP is a measure of the output of the economy. By using PGSP growth as the benchmark, the State is establishing a goal that health care spending should not grow faster than a **forecast** of economic growth.” [DHSS]
  - The numbers were established years ago and as shown below do not reflect actual inflation:

Benchmark History [DEFAC]  
Forecasted PGSP vs Actual PGSP

	CY22	CY23	CY24	CY25
Benchmark (Forecasted PGSP)	3.0%	3.1%	3.0%	4.2%
Actual Inflation (Actual GSP)	7.7%	5.0%	3.4%	

# Current Benchmark Methodology is Confusing and Arbitrary

Current Methodology	Current Approved CY 2025
Expected Growth in National Labor Force Productivity	1.5%
+ Expected Growth in Delaware's Civilian Labor Force	.3%
+ Expected Growth in National Inflation	3%
= Nominal PGSP Growth	4.8%
- Expected Population Growth in Delaware	.6%
= PGSP Growth / Spending Benchmark	<b>4.2%</b>

- No reflection of healthcare costs/trends
- Current method is based on PROJECTED Gross State Product
  - Actual Gross State Product has consistently exceeded benchmark
  - PGSP doesn't change in any year while healthcare costs go up & down year to year
    - Likelihood of meeting benchmark for multiple years is small
- Benchmark does not adjust to reflect legislative mandated services or benefit design changes that add covered services and related costs.
- Benchmark does not incorporate growth in services to underserved areas

# Statutory Charge of the Subcommittee

HB 350 as signed states:

“Section 6. The Delaware Economic and Financial Advisory Council (DEFAC) Health Care Spending Benchmark Subcommittee (Subcommittee) shall review the spending benchmark methodology, as authorized by § 9903(k) of Title 16, and **consider incorporating healthcare and macroeconomic trends into the benchmark methodology.**

The Subcommittee shall submit any recommendations to DEFAC by  
December 31, 2024.”

# Delaware's Benchmark should be better aligned with National Health Care Cost Trends & Key Drivers

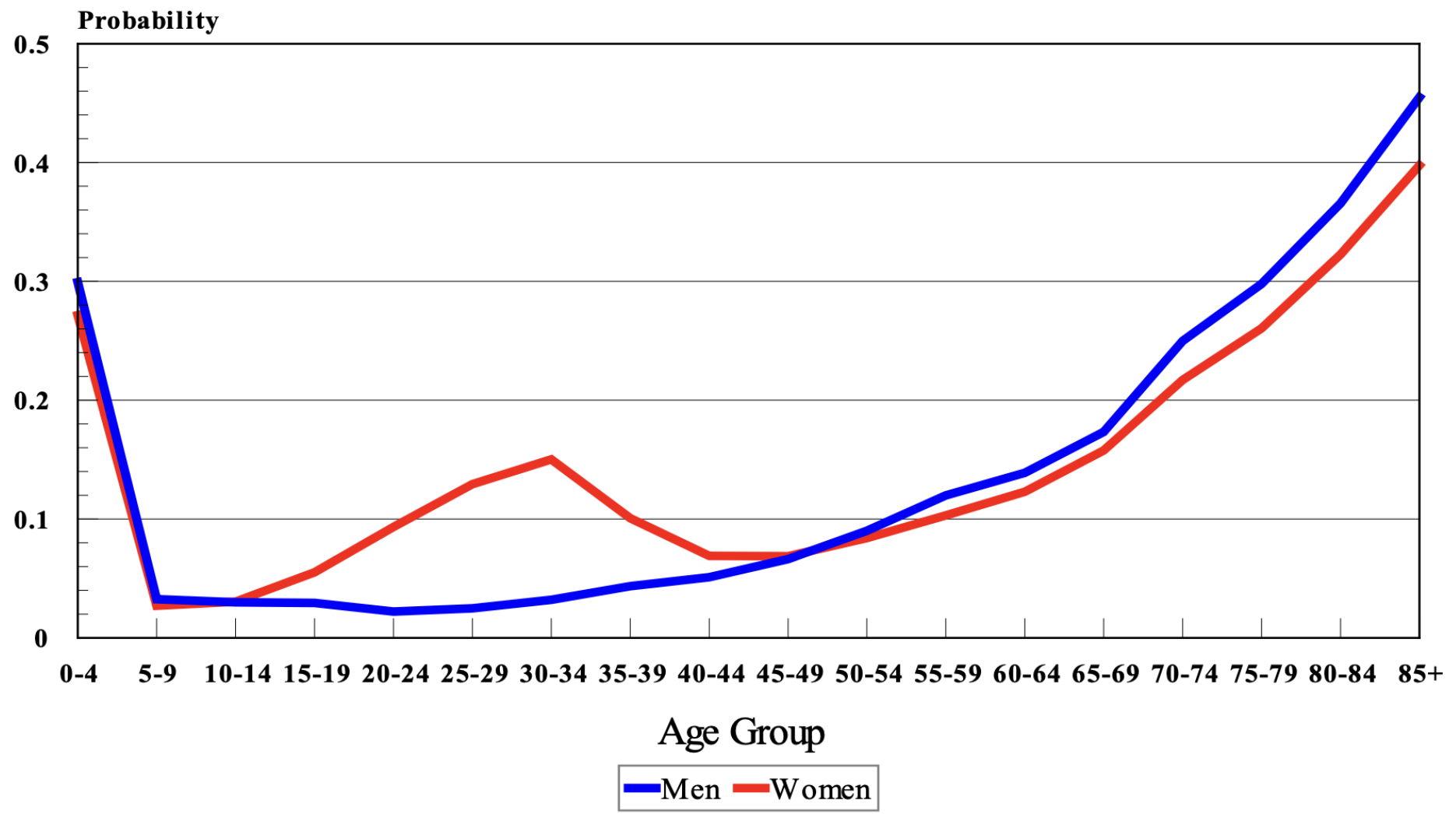
- National experts are projecting that **health care costs will increase as much as 9% in 2025.**
  - Yet Delaware's health care spending benchmark is set at 4.2%.
- These cost estimates are driven by a number of factors. PwC and WTW both site the following drivers:
  - Inflationary pressure
  - Pharmaceutical/prescription drug spending
  - Behavioral health utilization
- Other factors include: cancer costs and severity, workforce shortages, and an aging population

# Delaware's Benchmark Does Not Account for Key Delaware Cost Drivers – AGING POPULATION

## 1. Aging & Growing population

- We're the **5<sup>th</sup> oldest population** in the nation and our aging population is increasing
  - Delaware was one of only 3 states whose 65 and older population increased by more than 50% between 2012 and 2022: Alaska (63%), Idaho (55%), and Delaware (51%).
  - Total state population is projected to increase by 9 percent, from 2020 to 2040. The 85 and up population would more than double. The 65 and up population would increase by more than 41 percent.
  - Delaware is projected to grow 2.8% from 2024 to 2029, compared to the overall US growth rate of 1.9%. Delaware's 65+ population is projected to grow 14.7% vs. 13.5% for the US.
- According to CMS data, **health care spending for someone 65 and older is almost 2.5 times the spending per working-age person.**
- In addition, the aging have a much higher utilization of hospital services...

# Delaware Hospitalization by Age and Gender 2017





# Delaware's Benchmark Does Not Account for Key Delaware Cost Drivers – SICKER POPULATION

## 2. Sicker population

- We have higher rates of chronic conditions than other states that contribute to higher costs
  - We rank the 9<sup>th</sup> highest in the nation for **diabetes** prevalence
    - People with diagnosed diabetes have medical expenditures **2.6 times higher** than would be expected without diabetes.
  - We rank the 8<sup>th</sup> highest in the nation for **adult obesity**
    - Medical costs are 30% to 40% higher for obese individuals than normal weight individuals
  - We have higher rates of **cardiovascular disease** than the US value.
  - We have higher rates of cancer than the US value. Delaware ranks 15<sup>th</sup> among the states for highest all-site cancer incidence.

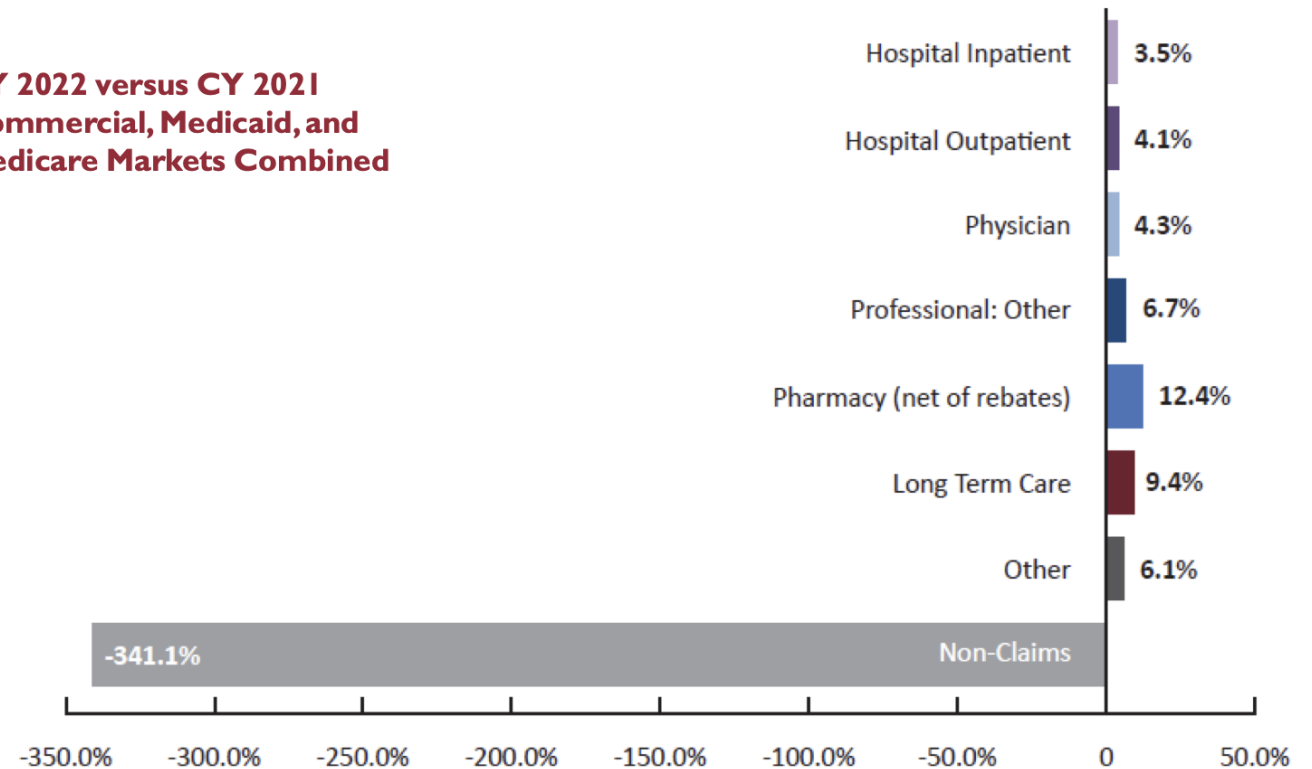
# Delaware's Benchmark Does Not Account for Key Delaware Cost Drivers – PHARMACY

## 3. Other health care sectors, including pharmacy, are growing at faster rates in Delaware and across the nation

- The growth in **pharmacy expenditures (12.4%) in DE is far faster than hospital or any other sector's growth.**
- In addition, the hospital growth category does not separate out pharmaceutical costs that the hospitals incur as part of the care they provide. Therefore, pharmaceutical growth impacts hospital expenditure growth.

### CHANGE IN TME BY SERVICE CATEGORY

**CY 2022 versus CY 2021  
Commercial, Medicaid, and  
Medicare Markets Combined**



## Relationship of Benchmark to HB 350

*The following question was posed during the  
October 24<sup>th</sup> Health Care Benchmark  
Subcommittee meeting:*

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### Considerations

- a) Is the spending benchmark a goal of how much Delaware is aiming to have spending change from year-to-year.
- b) Is the spending benchmark intended to be a predictor of growth in healthcare spending?

Inclusion of healthcare trends would move from the original intention (a) toward a new intention (b).

# The Benchmark *was* a goal, now it is a measure with consequences ONLY for hospitals (HB 350)

- Even though the health care spending **benchmark measures ALL health care spending** across all sectors (pharmacy, long term care, physicians, etc.), **hospitals are the ONLY sector to be held accountable to the benchmark** as a result of House Bill 350 passed and signed into law in 2024.
- The language of the law states:
  - “(a) Beginning in 2026, **if the Board determines that a hospital’s actual annual cost growth has exceeded the spending benchmark**, the Board shall send the hospital notice of that finding and may require the hospital to submit a performance improvement plan within 45 days.”
  - (e) If the Board and a hospital cannot agree on a modified budget, **the Board may impose a modified budget** and shall issue a written decision enumerating the reasons why the Board’s modified budget will satisfy the factors under subsection (c) of this section.

# The Benchmark *was* a goal, now it is a measure with consequences ONLY for hospitals (HB 350)

## **HB 350 has changed the benchmark to a measure of hospital growth**

- Meeting the benchmark exempts hospitals from PIP and Budget Review Process
- Not meeting benchmark subjects hospital to risk of PIP and Budget Review Process
- It is highly unlikely hospitals will meet the current arbitrary benchmark
- No methodology has been established on how hospitals will be measured against the benchmark.
- This places hospitals and their ability to adequately serve their patients and communities at risk...

# Actions of Cost Review Board: Vermont Headlines



Local News

## Vermont hospitals are heading for bankruptcy. A plan to keep them afloat calls for dramatic changes

Vermont Public | By Lexi Krupp, Elodie Reed  
Published September 19, 2024 at 1:47 PM EDT



▶ LISTEN • 6:15

NEWS » HEALTH CARE

## Health Care Costs in Vermont Continue to Soar

By COLIN FLANDERS    

Published November 6, 2024 at 10:00 a.m. | Updated November 13, 2024 at 10:47 a.m.

HEALTH

## UVM Medical Center postpones surgical center construction, citing regulatory decisions

The medical center blamed the pause on recent orders from the Green Mountain Care Board denying its requests for a larger 2025 fiscal year budget.

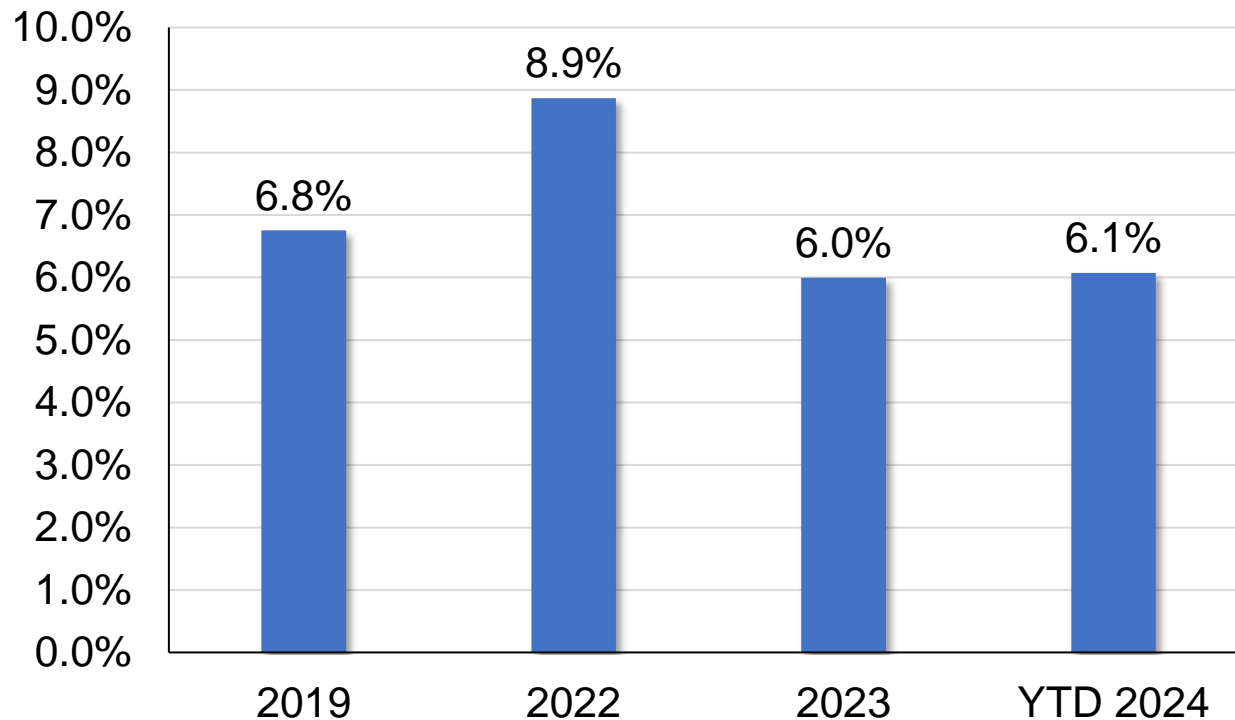
By Peter D'Auria  
October 4, 2024, 5:50 pm

# Hospital care can be expensive, but they incur significant expenses and many factors that cannot be “cut”

- Over **26,000 direct hospital jobs** in the state (compare that to 4,267 pharmaceutical jobs and 1,308 insurance jobs in Delaware)
- Open 24/7 a day 365 days per year
- Take all patients including those unable to pay
- **Lose over \$68.2M** annually in supporting ambulatory primary care in the state
- Provide nearly **\$1B in Community Benefit** spending annually

# Expenses are Growing that are Beyond Hospital Control

Median Total Expense Year-Over-Year % Change



Data is reflective of northeast health systems

This slide was prepared by Kaufman Hall, a Vizient company, at the request of the Delaware Healthcare Association.

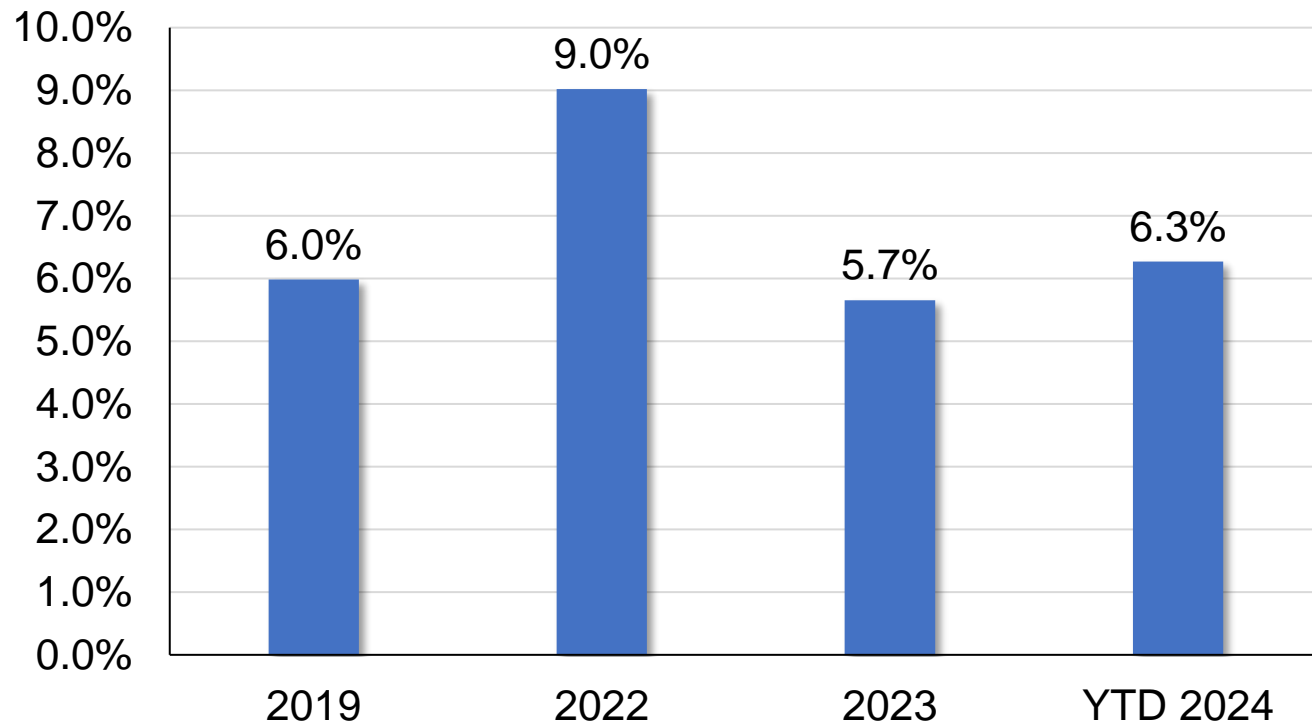
## TOTAL Expense has Grown by 7% Annually Over the Last Three Years

- Total expense (labor and non-labor expenses) for health systems continues to outpace growth in inflation with an average of 7% yearly growth over the last three years.
- While the growth has slowed in the last two years, this only represents a reduction in the *rate of growth*, not a reduction in expense, which is compounded to substantial increases in expense in 2022.



# Expenses are Growing that are Beyond Hospital Control - LABOR

Median Total Labor Expense Year-Over-Year  
% Change



Data is reflective of northeast health systems

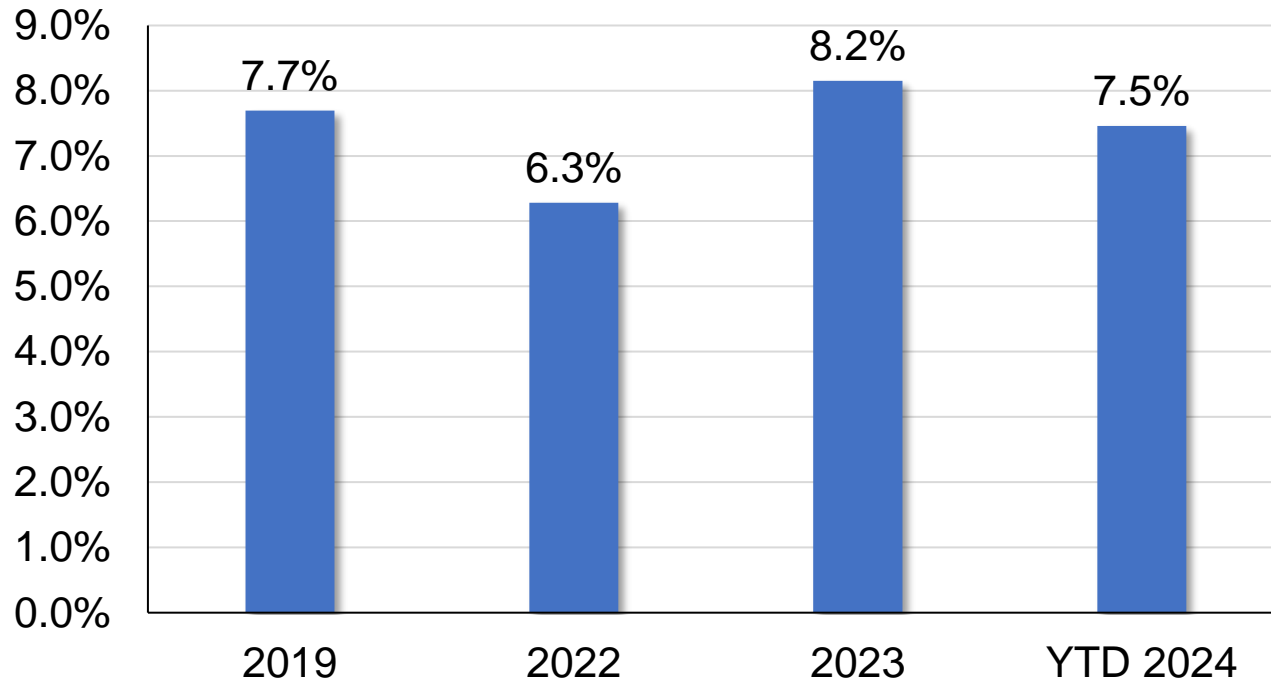
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## LABOR Expense has Grown by 7% Annually Over the Last Three Years

- Labor expense continues to grow as health systems increase employment to cover the demand alongside increases in wage rate to remain competitive in the marketplace.
- Average wage rates for health systems in the Northeast have continued to grow at an average of 3.5% over the last three years.
- Organizations experienced a spike in growth in 2022 as contract labor rates and utilization reach all-time highs, and while growth has slowed from 2022, total wage rate continues to rise.
- Average wage rates in the Northeast are around \$2 higher per hour than the nation.

# Expenses are Growing that are Beyond Hospital Control – NON-LABOR (Supplies, drug expenses, etc.)

Median Total Non-Labor Expense Year-  
Over-Year % Change



## NON-LABOR Expense has Grown by 7.3% Annually Over the Last Three Years

- Health systems have faced significant growth in non-labor goods and supplies over the last three years averaging 7.3%
  - As a subset of non-labor expenses, supplies have grown by 7.7% annually in the last three years.
  - Drug expense has grown substantially on a long-term basis, with the last three years as no exception, growing 9.7% annually

Data is reflective of northeast health systems

Though there are many opportunities for improvement and collaboration on efforts that will reduce costs in the long run



**Strengthening the healthcare workforce**



**Ensuring healthcare access, quality, and affordability**



**Advancing health equity**

Recommended  
Methodology Changes



# Source: Delaware SEBC Presentation

## Trend outlook — Other sources for consideration

- WTW's 2023 Best Practices in Health Care Survey indicates a 6.5% expected trend for 2024 healthcare costs
- Similar to WTW, other consulting firms' trend forecasts project higher trend than last year
- Note that trend projections in these surveys are backward looking based on trend assumptions chosen for 2024 pricing projections and do not consider the prospective factors outlined in this document



WTW: <https://www.wtwco.com/en-us/insights/2023/11/employers-remain-focused-on-controlling-healthcare-costs>

Aon: <https://aon.mediaroom.com/2023-08-22-Aon-U-S-Employer-Health-Care-Costs-Projected-to-Increase-8-5-Percent-Next-Year>

Mercer: <https://www.mercer.com/en-us/insights/us-health-news/health-benefit-cost-expected-to-rise-54-in-2024-mercero-survey/>

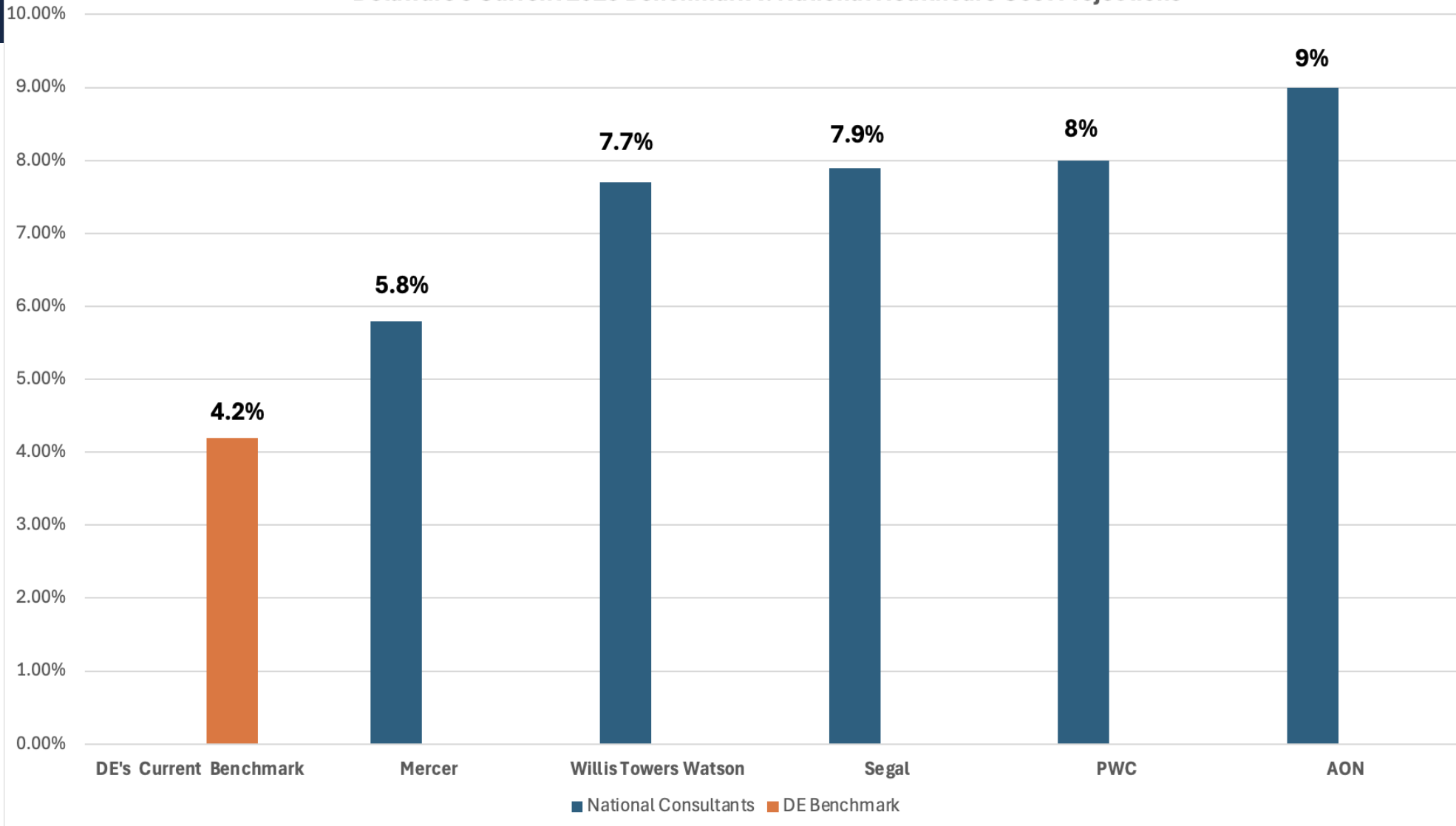
Segal: <https://www.segalco.com/consulting-insights/2024-health-plan-cost-trend-survey>

PwC: <https://www.pwc.com/us/en/industries/health-industries/library/assets/pwc-behind-the-numbers-2024.pdf>

Buck: <https://buck.com/press/buck-survey-shows-medical-costs-for-employer-sponsored-plans-in-2023-2024-have-yet-to-fully-adjust-for-inflation/>

# DHA OPTION #1

Delaware's Current 2025 Benchmark v. National Healthcare Cost Projections



Averaging the national consultants' projections for 2025 yields a national health care cost growth of **7.68%**

# Current Methodology

# DHA OPTION #2

Components	CY 2025	
Expected growth in national labor force productivity	1.5%	1.5%
+ Expected growth in Delaware's civilian labor force	0.3%	.3%
+ Expected national inflation <i>(Average of 2023-2024)</i>	3.0%	7.15% (average of 9% and 5.3%)
- Expected population growth in Delaware	0.6%	-.6%
= PGSP growth	4.2%	8.35%

National inflation should be replaced by Healthcare Inflation measured by average projected NHE personal healthcare for the average of 2023 and 2024