

DEFAC
Healthcare Spending
Benchmark
Subcommittee

December 18, 2024

Agenda

- Approval of November 24, 2024 Minutes
- Subcommittee Discussion of Benchmark Methodology
Recommendations
- Vote on recommendations (tentative)
- Public Comment

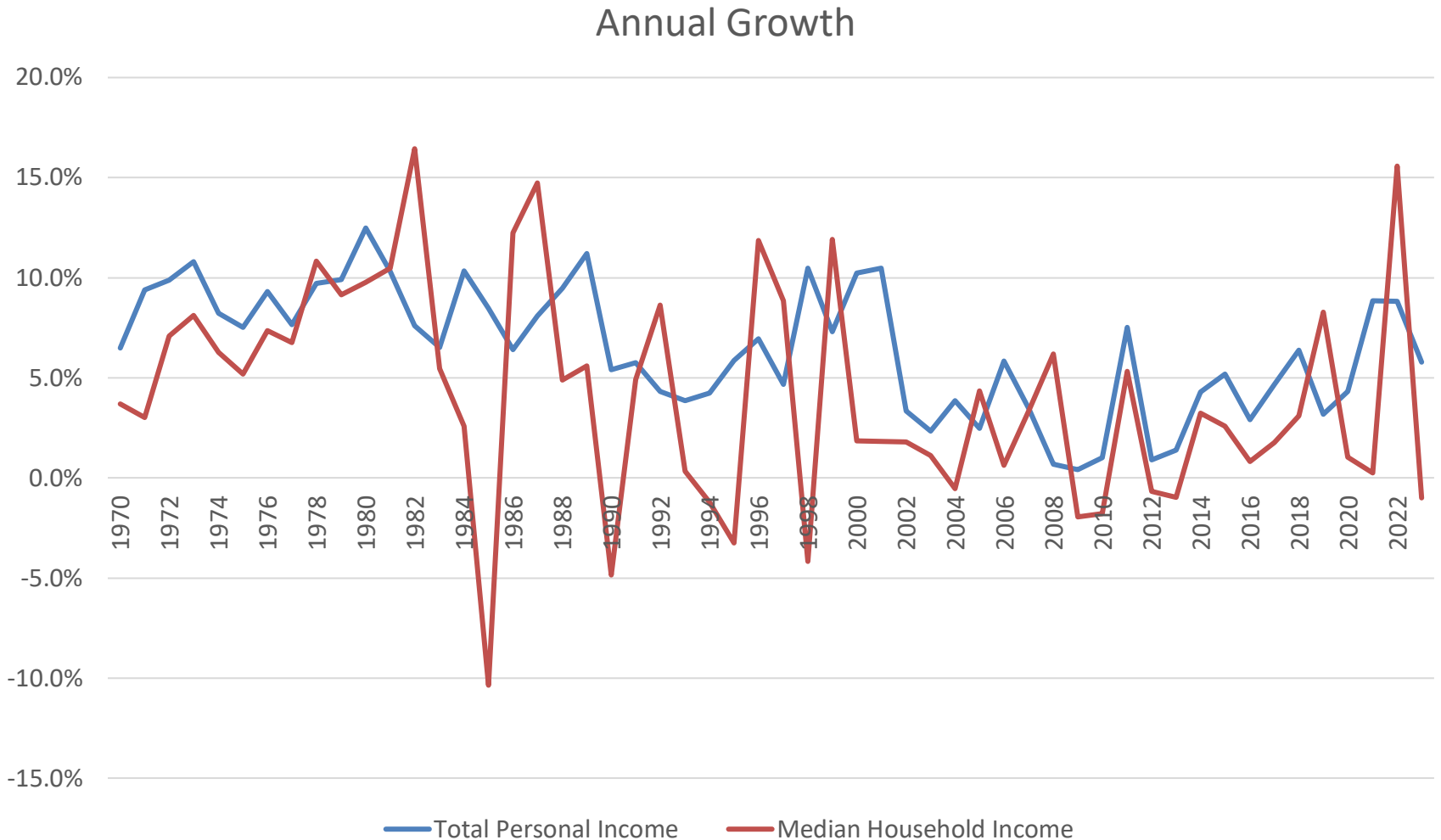
State Budget Benchmark Index

- Intended to provide policy makers with an independent economic metric for sustainable budget growth
 - Delaware Personal Income is a proxy for understanding Delaware’s “means” as personal income tax is largely derived from Delaware personal income
 - The combination of S&L Price Deflator and Population is a proxy for understanding Delaware’s “needs” as the demand for services provided by the State are largely based upon the population and the change in prices for services can be measured through the change in the S&L Price Deflator.
- Constructed as an equally-weighted, three-year rolling average of the growth rate of total Delaware personal income and the sum of Delaware population growth and inflation (as measured by the implicit price deflator for state and local government purchases)
- Since the FY 2020 budget, GRB has adhered closely, but not perfectly, to the Index

Potential Healthcare & Macroeconomic Trends for Use in Benchmark Methodology

- Custom healthcare Personal Consumption Expenditure (PCE) price index as measure of inflation
 - Combine price indices for pharmaceuticals/medical supplies, physician services, paramedical services, and hospital services; weighted by share of total expenditures
- Could use median household income growth instead of total personal income growth
- Maintain DE population growth component
- Equal weighting of income and the sum of population and healthcare PCE price index
- Single year, 3-year average, or 5-year average?

Total Personal Income vs. Median Household Income



Custom Healthcare PCE Price Index

- Includes spending on goods (pharmaceutical and other medical supplies) and services (physician, paramedical, hospital).
 - Excludes dental services and nursing homes
 - National figure, not Delaware-specific
- Annual price index growth of each category is weighted by its respective share of total expenditures

Year	Price Index Annual Growth Rate				Share of Total Expenditures			
	Pharm.	Physician	Paramed.	Hospital	Pharm.	Physician	Paramed.	Hospital
2023	3.6%	0.5%	1.5%	2.7%	19%	22%	16%	42%

$$3.6(.19) + 0.5(.22) + 1.5(.16) + 2.7(.42) = 2.2\%$$

Custom Healthcare PCE Price Index

Data Year	Price Index Annual Growth Rate				Share of Total Expenditures				Index
	Pharm.	Physician	Paramed.	Hospital	Pharm.	Physician	Paramed.	Hospital	
2017	3.0%	0.5%	1.7%	1.7%	19%	23%	15%	43%	1.7%
2018	1.2%	0.8%	0.8%	2.4%	19%	23%	15%	43%	1.6%
2019	-0.1%	1.0%	1.2%	2.0%	19%	23%	15%	43%	1.3%
2020	0.6%	1.2%	1.7%	3.3%	20%	22%	15%	42%	2.0%
2021	-1.6%	3.7%	2.0%	3.1%	19%	22%	15%	43%	2.2%
2022	2.7%	0.5%	3.1%	2.8%	19%	22%	16%	43%	2.3%
2023	3.6%	0.5%	1.5%	2.7%	19%	22%	16%	42%	2.2%

Potential Benchmark Calculation

- Equal weightings of all of the following:
 - a. Delaware personal income growth, and
 - b. Delaware population growth plus the growth in the relevant healthcare PCE price index weighted by total expenditures

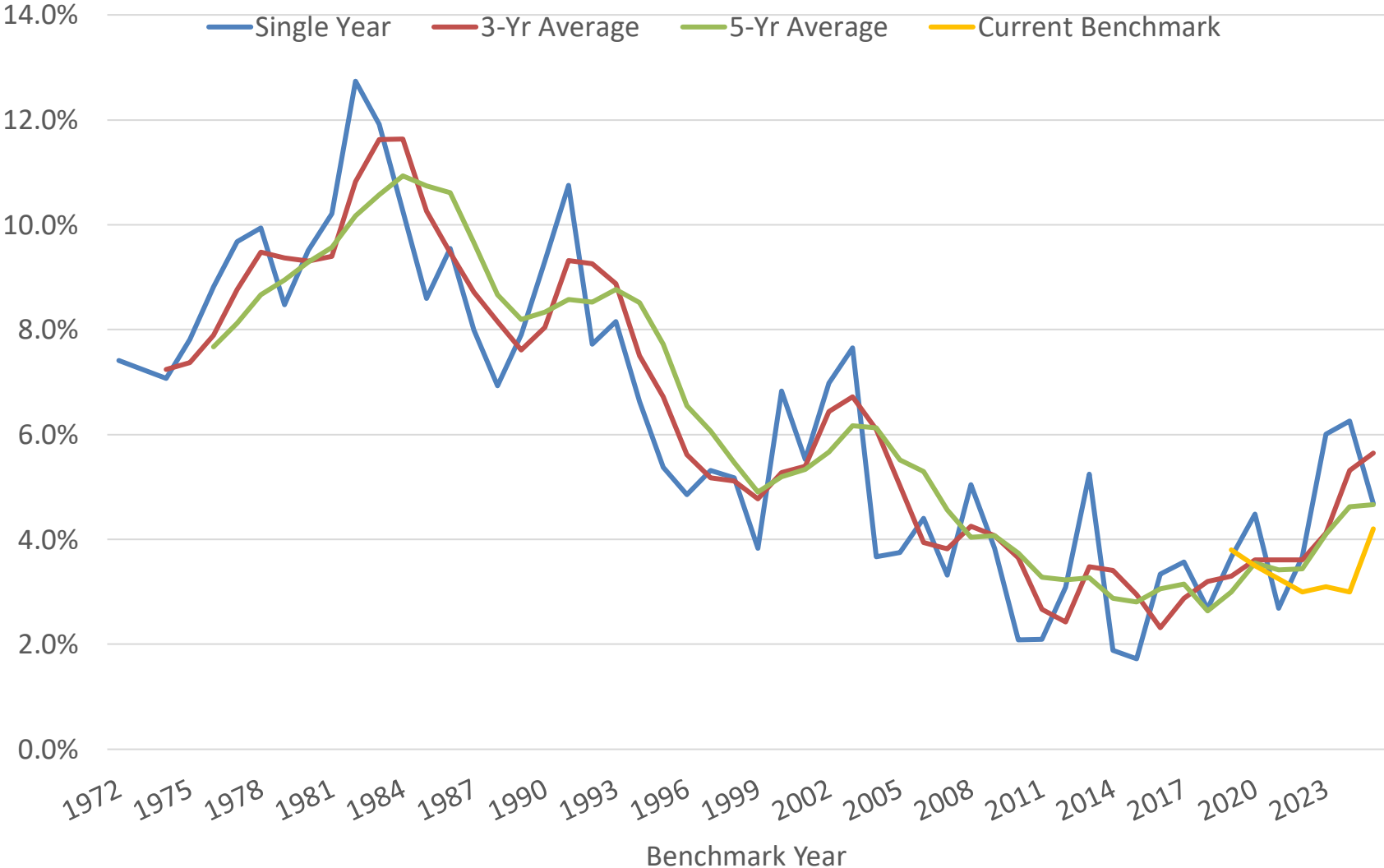
Data Year	Personal Income	Population	Healthcare PCE
2023	5.8%	1.4%	2.2%

$$(5.8 + (1.4 + 2.2))/2 = 4.7\%$$

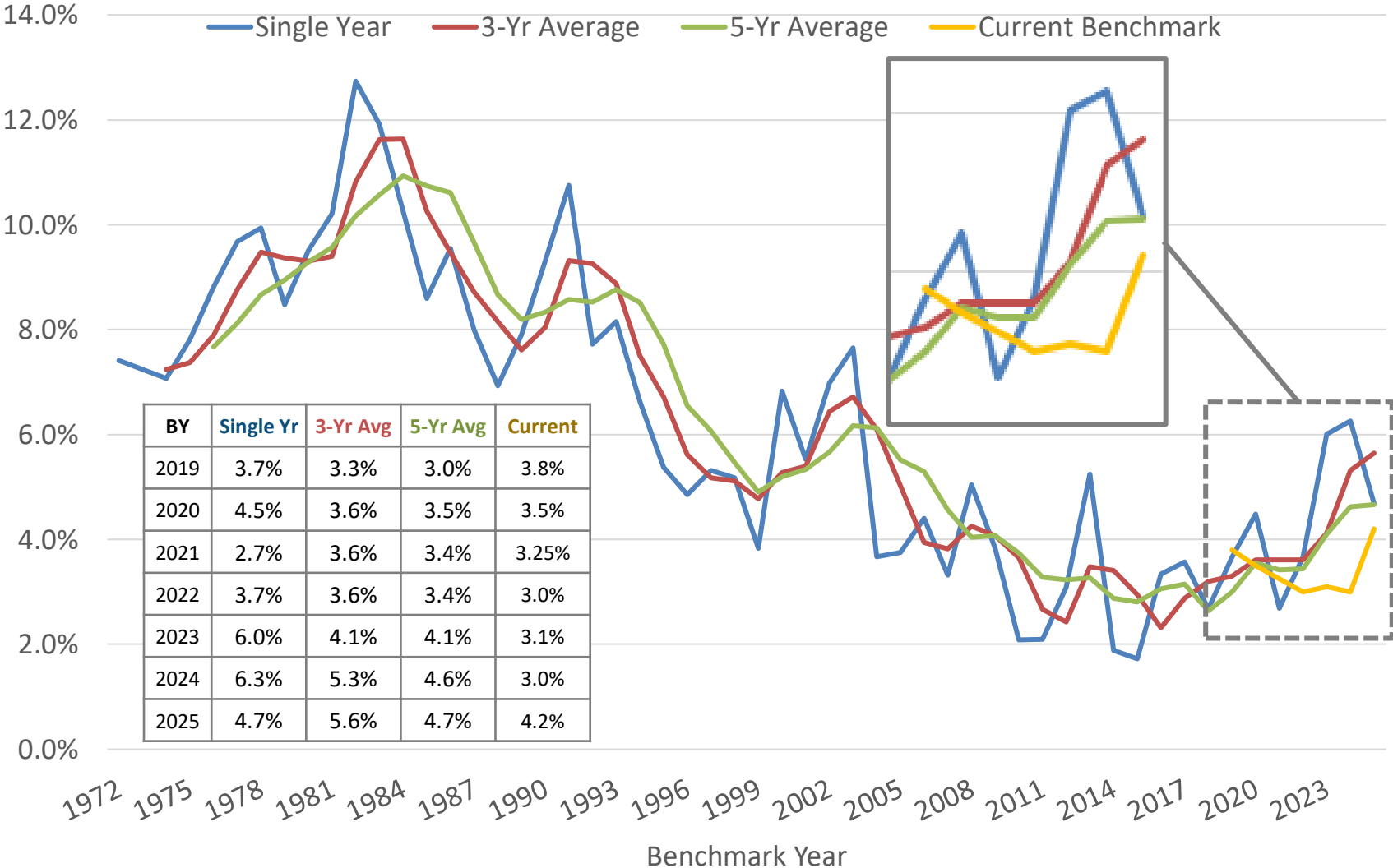
Data Sources & Limitations

- Delaware Personal Income Growth
 - Data released at the end of March
 - Forecast available from private economic consultants
- Delaware Population Growth
 - Delaware Population Consortium
 - Report released at the end of October includes historical and forecast data
- National PCE Healthcare Price Index
 - Bureau of Economic Analysis
 - Data released at the end of March
 - No direct forecast available
- Data lagged at least two years, i.e. CY 2026 benchmark will be based on CY 2024 actuals at the latest

Potential Benchmark Historical Calculations



Potential Benchmark Historical Calculations



Comparison to Current Methodology

- Does not stray from current premise: *healthcare spending growth should not outpace objective measures of growth of the State's economy*
- Different measure of economic growth:
 - Historical data instead of long-term forecast
 - Healthcare-specific inflation measure
 - Personal income emphasizes consumer affordability
- Will be more volatile and difficult to project benchmark for out-years
- But more responsive to immediate conditions without straying from the concept of economic stability
- Is this a per capita benchmark?

Potential Recommendation

- DEFAC and the Subcommittee should consider revising the healthcare spending benchmark to be comprised of equal weightings of the **3-year average** of all of the following:
 - a. Delaware **personal income** growth, and
 - b. Delaware population growth plus the growth in the price index for relevant healthcare Personal Consumption Expenditures weighted by total expenditures.
- The Subcommittee should convene in March 2025 for a report from DHSS and DOF staff on 1) how the BEA compiles and publishes healthcare PCE price index data and 2) whether and how to address “per capita” growth to ensure that the spending benchmark methodology is aligned with the methodology for how actual spending growth is or will be reported. Pending satisfaction with such information, the Subcommittee and DEFAC should adopt the revised methodology for the 2026 benchmark and make corresponding adjustments to the 2025 benchmark calculation. The Chair and Vice Chair are authorized to send a report to DEFAC by December 31, 2024 reflecting these recommendations.

SUBCOMMITTEE DISCUSSION

PUBLIC COMMENT