

# **Healthcare Spending Benchmark Subcommittee**

October 2, 2024

# Agenda

---

- Introductions
- Approval of May 3, 2024 Minutes
- HB 350 Charge
- Importance of a Healthcare Spending Benchmark
- Development of the Healthcare Spending Benchmark
- Overview of Establishing EOs and Legislation
- Current Spending Benchmark Methodology
- Previously Approved Spending Benchmarks
- Subcommittee Discussion
- Public Comment

# Introductions

| Representative    | Role   |
|-------------------|--|
| Josette Manning   | Chair, DEFAC Member with Health Expertise      |
| Kristin Dwyer     | Vice Chair, DEFAC Member with Health Expertise |
| Rick Geisenberger | DEFAC Member                                   |
| Neeraj Batta      | DEFAC Member                                   |
| Michael Houghton  | DEFAC Member                                   |
| Rebecca Ford      | Health Economist                               |
| <i>vacant</i>     | Health Economist                               |
| David Tam         | Quality Improvement from Health System         |
| Gary Siegelman    | Quality Improvement from Health System         |

# HB 350 Charge

---

*The DEFAC Health Care Spending Benchmark 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.*

# Key Definitions

---

“Spending benchmark” means the target annual per capita growth rate for Delaware’s statewide total health-care spending, expressed as the percentage growth from the prior year’s per capita spending.

(3) Subject to paragraph (k)(4) of this section, the spending benchmark shall be the per capita potential gross state product (PGSP) growth rate which shall be calculated as follows:

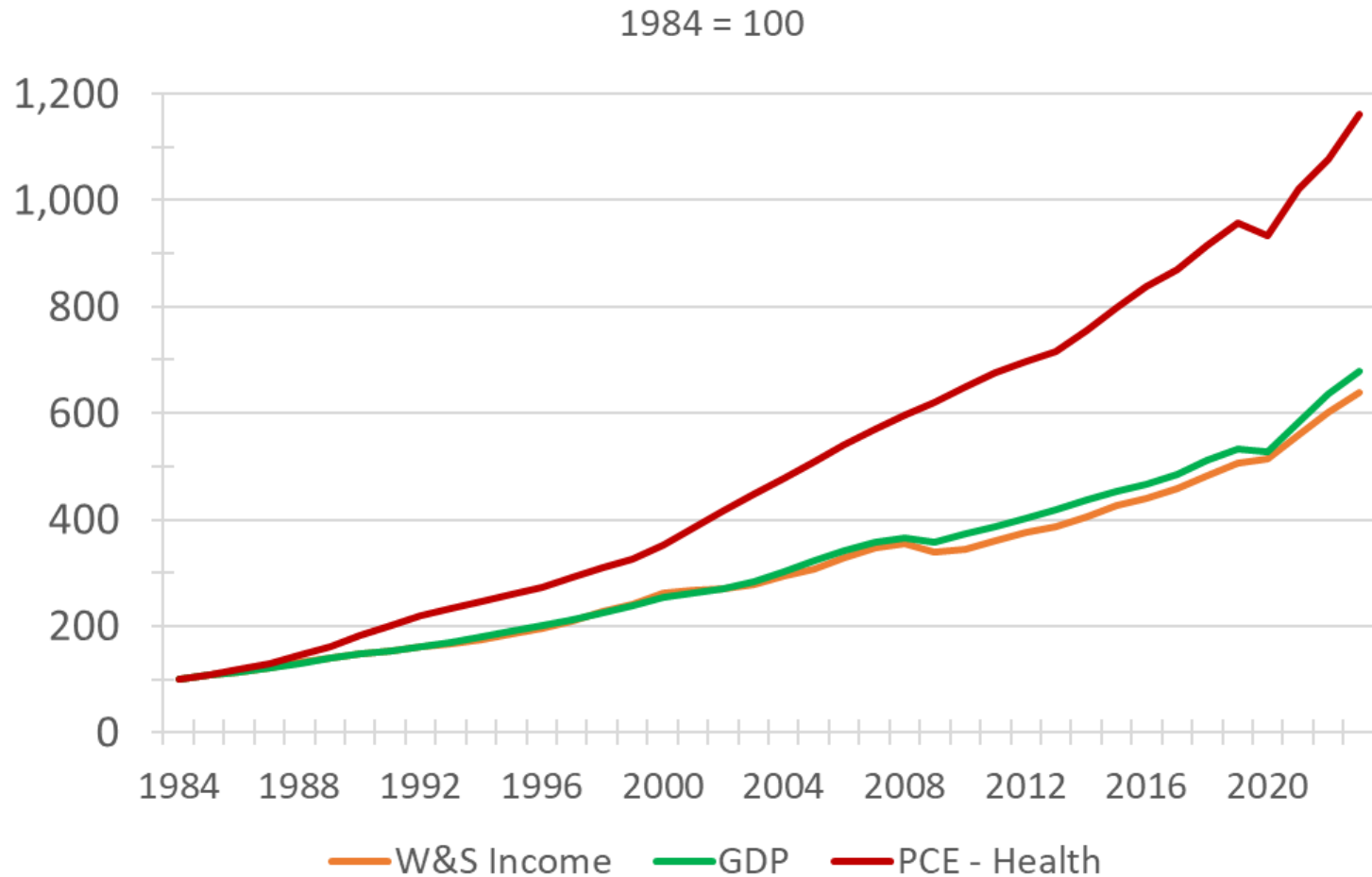
- a. The sum of the following: the expected growth in national labor force productivity; plus, the expected growth in Delaware’s civilian labor force; plus, the expected national inflation;
- b. Minus Delaware’s expected population growth.

(4) The methodology used to determine the spending benchmark in paragraph (k)(3) of this section are subject to change if the Subcommittee determines that there is a more effective or precise methodology than paragraph (k)(3) of this section.

Impact on State and Personal Budgets

# **IMPORTANCE OF A HEALTHCARE SPENDING BENCHMARK**

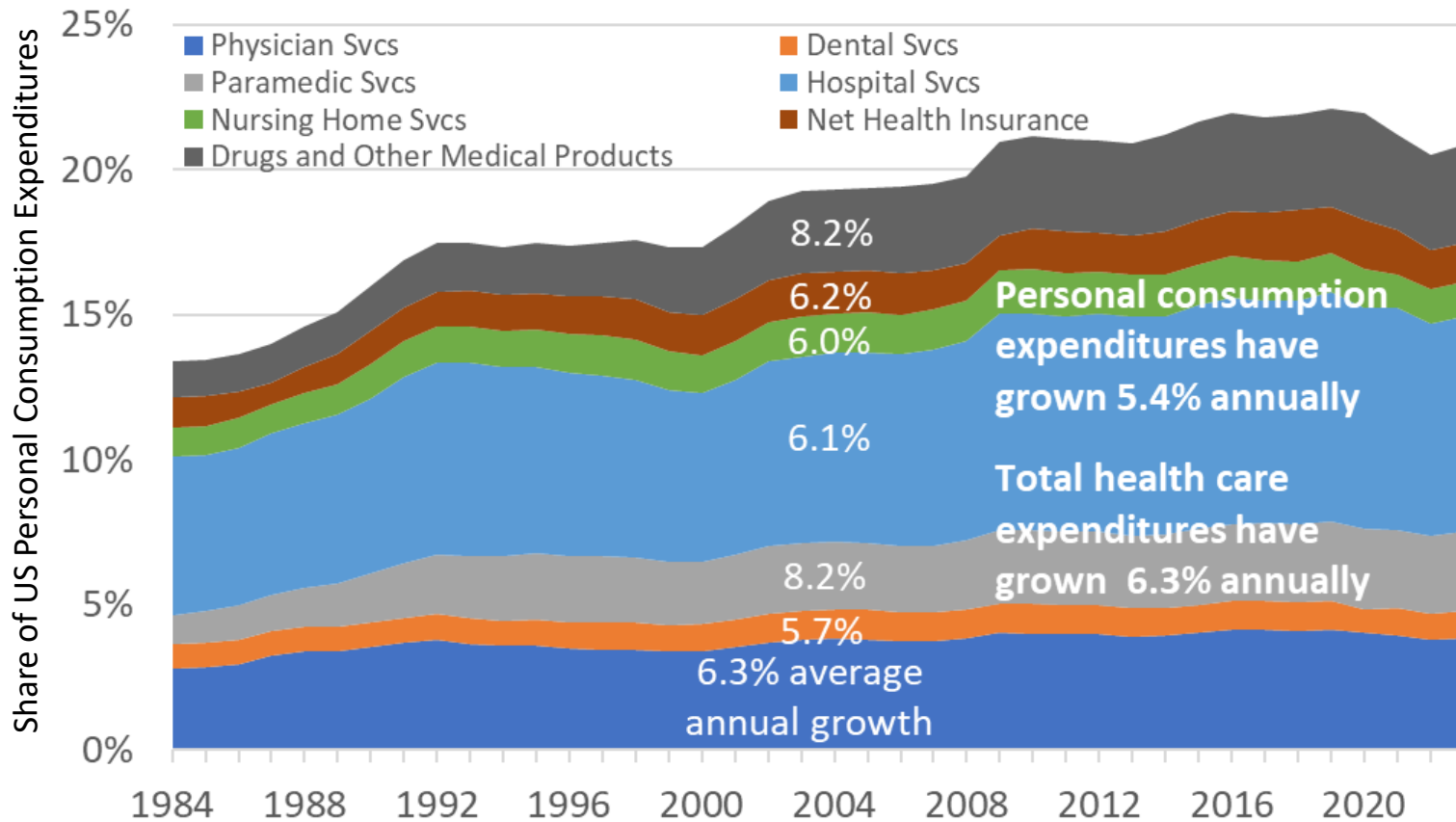
# Healthcare Costs Outpace US Economy



Source: US Bureau of Economic Analysis

# Healthcare as Share of US Personal Consumption

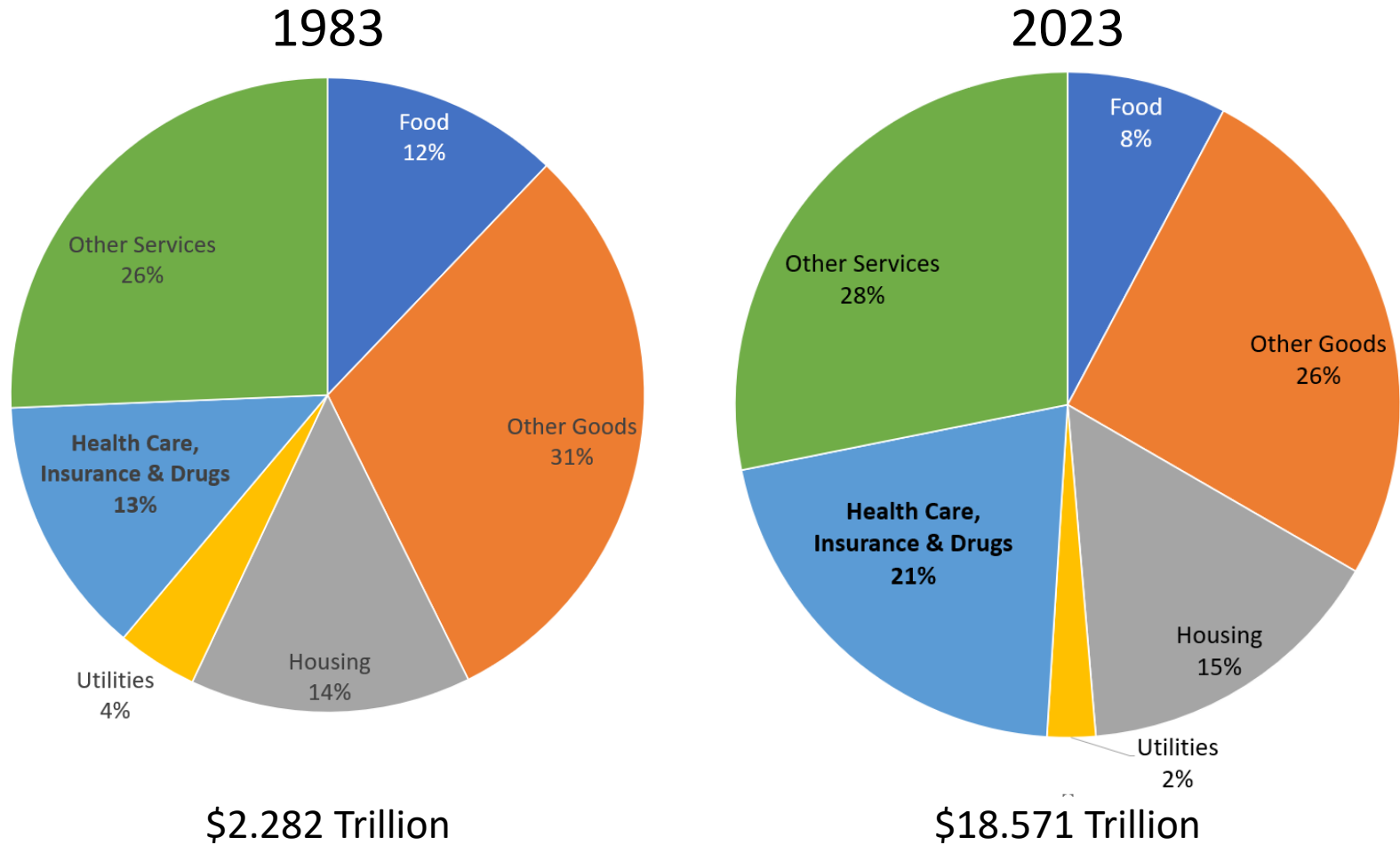
(Including Net Health Insurance and Drugs and Other Medical Products)



Source: US Bureau of Economic Analysis, "Table 2.4.5. Personal Consumption Expenditure by Type of Product" (accessed Wednesday, September 11, 2024)



# Health Care Increasing Share of Household Budgets



Source: US Bureau of Economic Analysis, Table 2.4.5 "Personal Consumption Expenditures by Type of Product" (accessed Wednesday, September 11, 2024)

# Per Capita Costs Grew Faster in DE

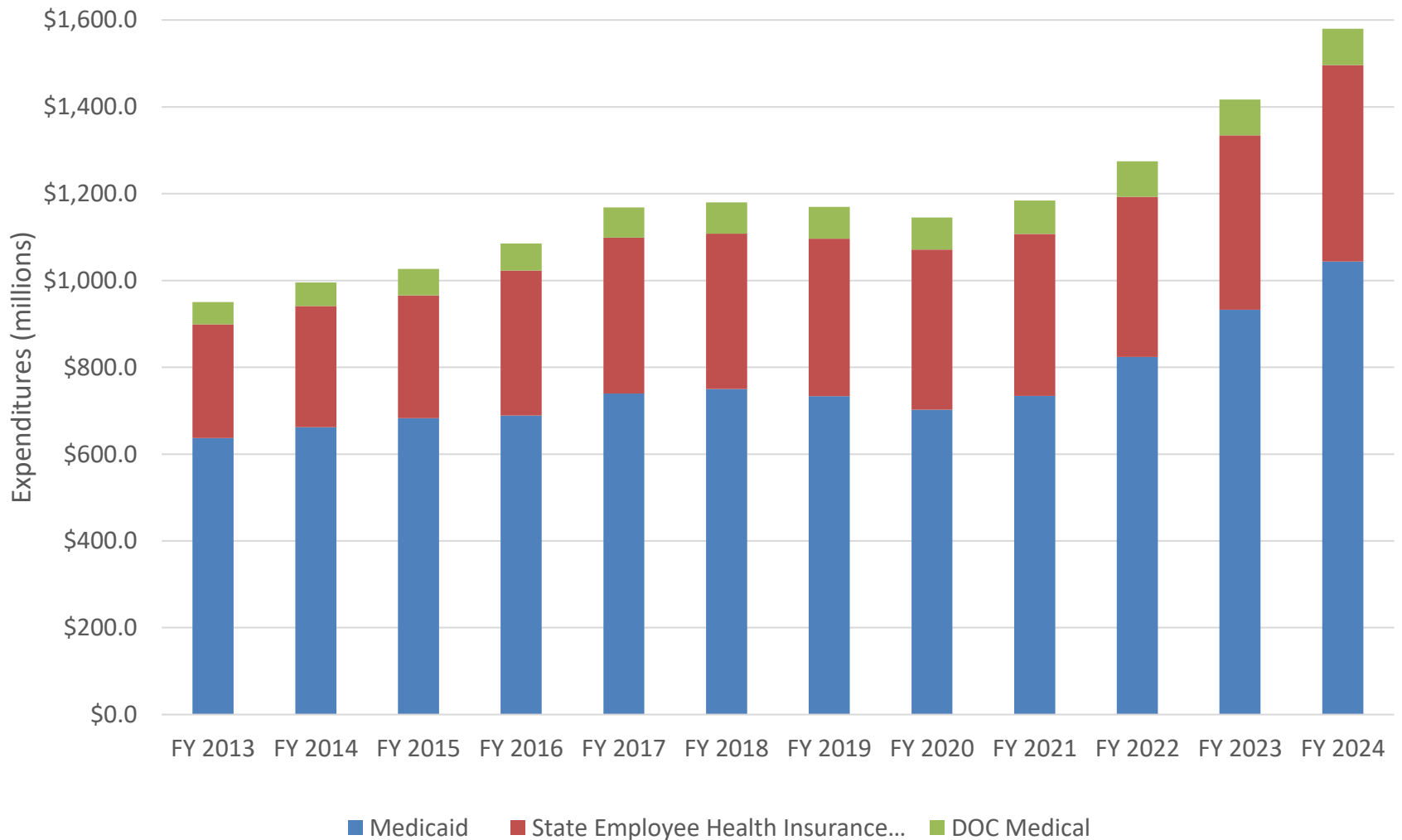
(Rank Among 50 States and DC, 1991 – 2020)

|                               | US Share (2005) | DE       | MD        | NJ        | PA        |
|-------------------------------|-----------------|----------|-----------|-----------|-----------|
| Hospital Services             | 35.9%           | 8        | 38        | 35        | 45        |
| Physician & Clinical Services | 24.2%           | 20       | 23        | 11        | 22        |
| Other Professional Services   | 3.1%            | 37       | 31        | 47        | 43        |
| Dental Services               | 5.1%            | 23       | 41        | 46        | 42        |
| Home Health Care              | 2.9%            | 22       | 38        | 41        | 13        |
| Nursing Homes                 | 6.6%            | 7        | 10        | 18        | 11        |
| Drugs & Nondurable Equip.     | 14.4%           | 6        | 35        | 10        | 19        |
| Durable Equipment             | 2.1%            | 35       | 28        | 19        | 17        |
| Other                         | 5.6%            | 28       | 8         | 17        | 26        |
| <b>Total</b>                  | <b>100.0%</b>   | <b>8</b> | <b>31</b> | <b>18</b> | <b>34</b> |

Source: Centers for Medicare and Medicaid Services, National Health Expenditure Data, Health Expenditures by State of Residence, 1991 - 2020

Note: Dental services and nursing homes are generally not considered in the health care spending benchmark

# Delaware General Fund Health Care Expenditures



# **DEVELOPMENT OF HEALTHCARE SPENDING BENCHMARK**

# Creation of Advisory Group

---

In response to the growing health care costs in Delaware, the Delaware General Assembly passed House Joint Resolution 7 (HJR 7) in 2017.

---

This resolution directed the Delaware Department of Health and Social Services (DHSS) to establish a health care benchmark focused on improving health outcomes, transparency, and accountability in costs.

---

Governor Carney issued Executive Order 19 in 2018, forming the Health Care Delivery and Cost Advisory Group. The group was tasked with advising DHSS on creating health care spending and quality benchmarks.

# Advisory Group Membership

| Representative                                 | Role                                 |
|--|--------------------------------------|
| Secretary, Dept. of Health and Social Services | Dr. Kara Odom Walker (Chair)         |
| Director, Office of Management and Budget      | Michael Jackson                      |
| Chair, Delaware Healthcare Commission          | Dr. Nancy Fan                        |
| Chair, DE Center for Health Innovation         | Matthew Swanson                      |
| Director, State Employee Benefits Office       | Brenda Lakeman                       |
| Dir., Div. of Medicaid and Medical Assistance  | Steve Groff                          |
| Healthcare System/Hospital Member              | Dr. Janice Nevin, CCHS               |
| Pediatric Healthcare System Member             | Dr. Roy Proujansky, Nemours          |
| Independent Primary Care Physician             | Dr. James Gill                       |
| Insurance Industry Member                      | Tim Constantine, Highmark            |
| Insurance Brokerage Industry Member            | Nicholas Moriello, HIA               |
| Business Community Member                      | Richard Heffron, Chamber of Commerce |
| Health Economist                               | David Cutler, Harvard University     |

# Advisory Group Charge

---

1. Feedback on Health Care Cost Methodologies and Benchmark:
  - Advising the DHSS Secretary on selecting methodologies to measure and report total health care costs in Delaware, including data sources.
  - Establishing a health care spending growth target, which will serve as the cost benchmark.
2. Determining Quality Metrics and Health Care Commission Scope
  - Identifying quality metrics across Delaware’s health care system to develop quality benchmarks.
  - Assessing potential changes to the Delaware Health Care Commission to:
    - Ensure it receives the necessary data for calculating benchmarks.
    - Implement the benchmark methodology.
    - Evaluate the performance of various stakeholders annually relative to cost and quality benchmarks.
3. Advising on Reporting Health Care Variations
  - Proposing methods for analyzing and reporting on variations in health care delivery and costs across Delaware.

# Methodology Recommendation

---

The Advisory Group agreed the benchmark should meet the following criteria:

1. Be a predictable target
2. Adjust for the effects of inflation
3. Rely on independent, objective data sources.
4. Account for significant events

The Advisory Group agreed that a prospective economic measure should be the basis for the benchmark.

The Advisory Group had no objections raised to the concept of a potential Delaware GSP to be calculated by the DEFAC subcommittee.



# **OVERVIEW OF EOs AND LEGISLATION**

# Review of Executive Order 25

---

- Resulted from work of the Health Care Delivery and Cost Advisory Group established by Governor Carney under Executive Order 19
- Set initial spending and quality benchmarks for CY 2019 through CY 2023
- Established the DEFAC Health Care Spending Benchmark Subcommittee
- Tasked the Delaware Health Care Commission with setting the quality benchmarks, reporting on performance relative to both benchmarks, and engaging providers and community partners
- Codified by HB 442 w/ HA 1 in August 2022
- EO 25 rescinded and replaced by EO 62

# Purpose of the Subcommittee

---

- The Subcommittee sets the benchmark
  - Each year through 2023, review and recommend whether the forecasted PGSP growth rate has changed in such a material way that it warrants a change in the spending benchmark
  - After 2023, Subcommittee must evaluate results of PGSP benchmark and PGSP methodology, and recommend any appropriate changes
- Advise the Governor and DEFAC on current and projected trends in health care and the health care industry, as they affect the expenditures and revenues of the State, its citizens, and industries

# Benchmark Timeline

## Continuous

Subcommittee advises on trends in health care and health care industry

## March/April

Annual review of benchmark methodology for the following calendar year

## May

Subcommittee presents recommendations by May 31 to DEFAC

## June

DEFAC approves benchmark and reports to Governor and DHCC by June 30

# **CURRENT BENCHMARK METHODOLOGY**

# PGSP Methodology

---

- The sum of:
  - expected growth in US labor force productivity
  - expected growth in DE's civilian labor force
  - expected US inflation
- Less DE's expected population growth
- Initially included a transitional market adjustment set at 0.5% for calendar year 2020, 0.25% for calendar year 2021, and 0% for calendar year 2022 and beyond

# PGSP Data Sources

## Components

| set by 16 Del. C. §9903(k)(3)                               | Data Source   | Forecast   |
|---|---|--|
| <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 <b>5 through 10 years in the future</b>                |
| <b>+ Expected growth in Delaware's civilian labor force</b> | Delaware Population Consortium<br><i>Population Projections by Single Year, Age, Race and Sex</i> | Calculate growth by averaging the forecasted increase of <b>years 5 through 10 in the future</b> |
| <b>+ Expected national inflation</b>                        | Congressional Budget Office<br><i>Budget and Economic Outlook Report</i>                          | Utilize the personal consumption expenditure growth for <b>5 through 10 years in the future</b>  |
| <b>= Nominal PGSP growth</b>                                |   |  |
| <b>– Expected population growth in Delaware</b>             | Delaware Population Consortium<br><i>Population Projections by Single Year, Age, Race and Sex</i> | Calculate growth by averaging the forecasted increase of <b>years 5 through 10 in the future</b> |
| <b>+ Transitional Market Adj.</b>                           | Set by EO 25  |  |
| <b>= PGSP growth/Spending Benchmark</b>                     |   |  |

# **PREVIOUSLY APPROVED SPENDING BENCHMARKS**



# 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    | Approved    |
| 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%        | 3.0%        |
| <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>4.8%</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>4.2%</b> |

# CY 2025 Adjustment

| Components  | CY 2025 |
|---|---------|
| Expected growth in national labor force productivity    | 1.5%    |
| + Expected growth in Delaware's civilian labor force    | 0.3%    |
| + Expected national inflation<br>(Average of 2023-2024) | 3.0%    |
| – Expected population growth in Delaware                | 0.6%    |
| = PGSP growth   | 4.2%    |

- Adjusted inflation component to account for recent high inflation with lagged impact on healthcare expenditures
- Structure and remaining components unchanged
- Subcommittee agreed year-to-year *ad hoc* changes are undesirable

# **SUBCOMMITTEE DISCUSSION**

# Potential Topics for Discussion

---

- Is stability in the benchmark still a priority?
- Is it reasonable to expect health care spending to grow no faster than the economy?
- Should the benchmark include adjustments for demographics (age), health status, *etc.*?
- Others?
  
- Next steps?

# **PUBLIC COMMENT**

# Meeting Schedule

---

- October 24 from 10:30am – 12:00pm
- November 18 from 1:00pm – 3:00pm
- December 18 from 2:00pm – 4:00pm (if necessary)