Minutes of the
Delaware Economic & Financial Advisory Council
Healthcare Spending Benchmark Subcommittee

Virtual Meeting – May 3, 2023

Attendance:

Member	Present
N. Batta	No
C. Bo	Yes
K. Dwyer	Yes
R. Geisenberger	Yes
M. Jack	No
M. Magarik	Yes
A. Sen	Yes
G. Siegelman	Yes
Z. Zhang	Yes

Members in Attendance: 7
Members Absent: 2

Others Present: S. Constantino, R. Goldsmith, S. Hartos, M. Marlin, E. Massa, D. Roose, and C. Vogel.

Opening Business: Ms. Magarik called the meeting to order at 12:05 pm.

The minutes from the January 27, 2023 meeting were approved and submitted.

Ms. Magarik summarized the purpose of today's meeting: to determine the methodology for calculating the healthcare spending benchmark. The original methodology was set by Executive Order 25, but it is the purview of this subcommittee to review the methodology and make a recommendation to the Delaware Economic and Financial Advisory Council (DEFAC).

Presentation of CY 2021 Total Health Care Expenditures:

Ms. Hartos presented the Calendar Year 2021 total health care expenditures (THCE). THCE represents the sum of all reported health care spending as well as insurers' administrative and operating costs and their respective gains/losses. For 2021, the total THCE was approximately $9.1 billion and THCE per capita was $9,088. The CY 2021 computed per capita represents a 11.2% increase from the CY 2020 per capita figure which is well above the 3.25% benchmark growth rate (see Figure 1). Ms. Hartos explained that the COVID-19 pandemic in 2020 impacted access and utilization of health care, but CY 2021 reflects a rebound in spending. Delaware is not unique in having significant increases in health care spending in CY 2021. The

hope is that spending is begin to balance over the next few years as utilization returns to normal. The commercial market had the largest increase in per capita expenditures, at 16.5%. Additional detail can be found in the CY 2021 Benchmark Trend Report.

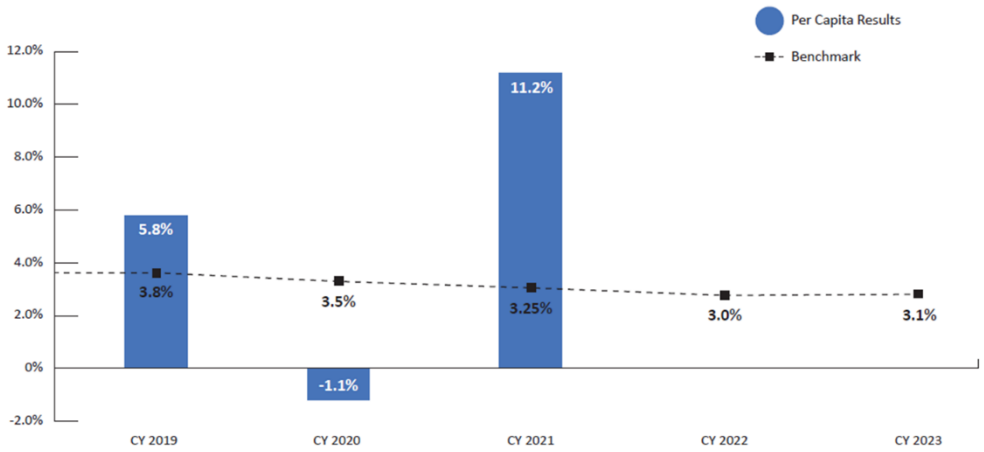

Figure 1 THCE per capita versus benchmark.

Mr. Geisenberger asked which payers are not included in the data collected. Ms. Hartos and Ms. Magarik explained that this is the most comprehensive data we have and it covers the vast majority of payers. Ms. Dwyer asked if the data includes value contracts and if they have an impact on the benchmark. Ms. Hartos answered that the data does include managed care organizations and traditional fee-for-service. She also noted that the Office of Value Based Health Care Delivery would have additional information.

Mr. Geisenberger commented that the health care spending benchmark was not created with a 100-year pandemic in mind, but it will be interesting to see if we continue to see elevated spending in 2022, 2023, and beyond.

Discussion of Benchmark Methodology:

Ms. Marlin began the discussion by reviewing the benchmarks adopted by other states. Nine other states have adopted health care spending benchmarks. Early adopter states tied their benchmark to state economic output through the Potential Gross State Product (PGSP), but other states have chosen to use inflation or income/wage indicators. Although some states are adding specific adjustments for inflation, all of the states do include some form of inflation measure in their PGSP calculation. Ms. Marlin went into further detail on two of the states: Rhode Island and Massachusetts. Rhode Island's benchmark was a compromise between various stakeholders. To account for the two-year lag in health care inflation, Rhode Island swapped their 5-10 year inflation forecast in their PGSP formula for the 2022 inflation value for the 2024 benchmark. To incorporate consumer advocates' fears that rapidly increasing costs would impact families, they included annual growth in median household income. The benchmark is 75% PGSP with short-term inflation and 25% median household income, resulting in a benchmark of 5.1% for CY 2024. Massachusetts, on the other hand, still believes that their strict PGSP method is sound and there is no compelling reason to move away from

it. Even if they were to incorporate median household income, the forecasted value is roughly the same as the current PGSP benchmark. Mr. Constantino added that Rhode Island's benchmark is more regulatory than statutory and set by the consensus of a group of health systems, payers and consumer advocates.

Ms. Marlin presented the healthcare spending benchmark as calculated under the current Potential Gross State Product (PGSP) methodology, which results in a benchmark of 3.0% for Calendar Year 2023 (see figure 2). She noted that using components that are forecasted out for 5 to 10 years in the future means the benchmark calculation will remain relatively stable.

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

Figure 2 Benchmark for CY24 under current PGSP methodology

In the previous meeting, Michael Bailit presented on how other states are using median household income as a proxy for affordability. There is no government forecast of median household income, S&P Global provides a forecast for Delaware. Delaware median household income for 5 to 10 years in the future is forecasted at 3.1% (see figure 3). The annual growth can swing significantly from year to year, but the long-term forecast is fairly stable. Since the PGSP benchmark of 3.0% and the median household income of 3.1% are so close, a benchmark that blends the two would not be significantly different than the current methodology.

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

Figure 3 Measures of median household income

Ms. Magarik opened up discussion among the subcommittee members. Mr. Siegelman asked if using national inflation made the most sense given that healthcare inflation has been significant in terms of labor and wages. Mr. Geisenberger noted that the Federal Reserve's inflation target is 2%, and he isn't aware of any other sources forecasting a different long-term inflation forecast. He asked staff to look for other sources for the inflation forecast in the coming year. Ms. Magarik added that one of the core tenants of the benchmark was to look to the future and not have a whipsawing benchmark. Also, the benchmark was set-up to not be self-referencing so it does not use healthcare-specific inflation. As healthcare costs out-pace the State's budgets or personal budgets, that becomes an issue.

Ms. Bo asked how other states are looking at the inflation component. Mr. Constantino responded that only Rhode Island adjusted for inflation, which was more of a process issue. Healthcare inflation lags because hospitals are generally in multi-year contracts. Many states have decisions not to account for higher inflation in this one year, but it's part of an ongoing discussion states are having.

Ms. Sen added a lot of states have probably leaned towards keeping their existing methodology stable, acknowledging that this will be a one-year blip in the trend. National research suggests there is a bounce back to healthcare spending growth trends after the aberration that was 2020.

Ms. Magarik summarized that the consensus of the subcommittee seemed to be that they have more work to do digging into the inflation forecast and watching what other states are doing, but that there is a level of comfort with sticking with the existing PGSP methodology as opposed to incorporating the median household income component.

Ms. Magarik asked for public comment, but there was none.

Mr. Geisenberger made a motion to stick with the current PGSP methodology resulting in a Calendar Year 2024 healthcare spending benchmark 3.0%. Ms. Bo seconded the motion. There was no further discussion on the motion. The motion passed (Voting yes: Bo, Dwyer, Geisenberger, Magarik, Sen, Zhang. Voting no: Siegelman. Absent: Batta, Jack).

Other Business:

Mr. Geisenberger explained that the recommended benchmark of 3.0% will be presented to DEFAC at their May meeting at which they will vote to approve the benchmark for Calendar Year 2024.

There being no further business, Ms. Magarik adjourned the meeting at 1:03 pm.

Respectfully submitted,
Melissa Marlin