

**Minutes of the
Delaware Economic & Financial Advisory Council
Healthcare Spending Benchmark Subcommittee
April 12, 2024**

Webex/820 N French St., 8th Floor Wilmington, DE 19801

Attendance:

Member	Present
N. Batta	No
K. Dwyer (Vice Chair)	Yes
R. Geisenberger	Yes
M. Jack	Yes
J. Manning (Chair)	Yes
A. Sen	No
G. Siegelman	Yes
Z. Zhang	Yes

Members in Attendance: 6

Members Absent: 2

Others Present: C. Bryan, C. Cardillo, S. Constantino, B. Frazee, F. Gibson, R. Goldsmith, M. Marlin, E. Massa, E. Mitchell, D. Roose, M. Tweedie, J. Van Gorp, C. Vogel, and M. Williams.

Opening Business:

A quorum was established. Ms. Manning called the meeting to order at 1:02 pm. The minutes from the May 3, 2023 meeting were approved.

Overview of Spending Benchmark Trend Report CY 2022 Results:

Ms. Manning provided an overview of the spending benchmark and quality benchmarks, including the intent of the spending benchmark. An advisory group decided to use the Potential Gross State Product (PGSP) formula for establishing the spending benchmark. 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. The advisory group also recommended using variables that promoted stability over volatility.

Ms. Manning then presented the spending results of the CY 2022 benchmark trend report. The Department of Health and Social Services (DHSS) collected CY 2022 data from payers across all markets. Total Health Care Expenditures (THCE) increased by 7.7% from \$9.1 billion in CY 2021 to \$9.8 billion in CY 2022. Since Delaware's population also grew in CY 2022, the THCE per capita grew 6.3% from \$9,088 in CY 2021 to \$9,657 in CY 2022. This 6.3% growth was above the CY 2022 benchmark of 3.0% (see figure 1).

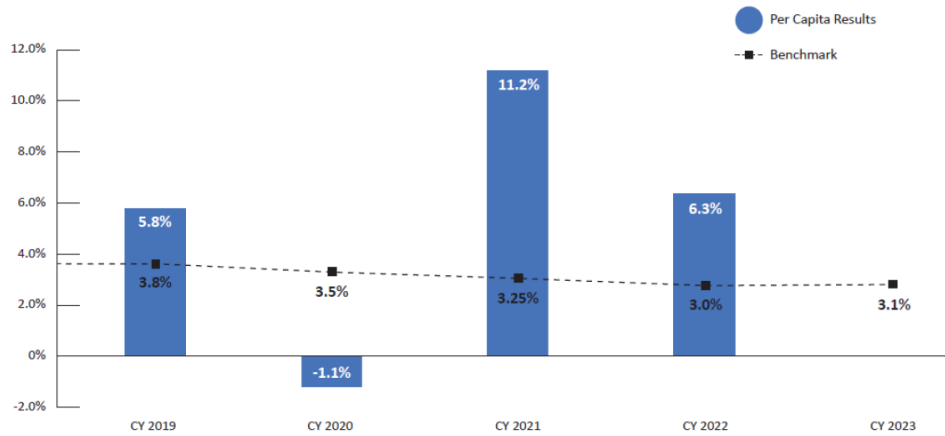


Figure 1 THCE Per Capita Change Versus Benchmark

THCE per member per year was 1.2% for Medicaid, 2.6% for Medicare, 8.7% for Commercial, and 24.3% for Veterans Health Administration. Ms. Manning also presented the Total Medical Expenditures (TME) by service category (see figure 2).

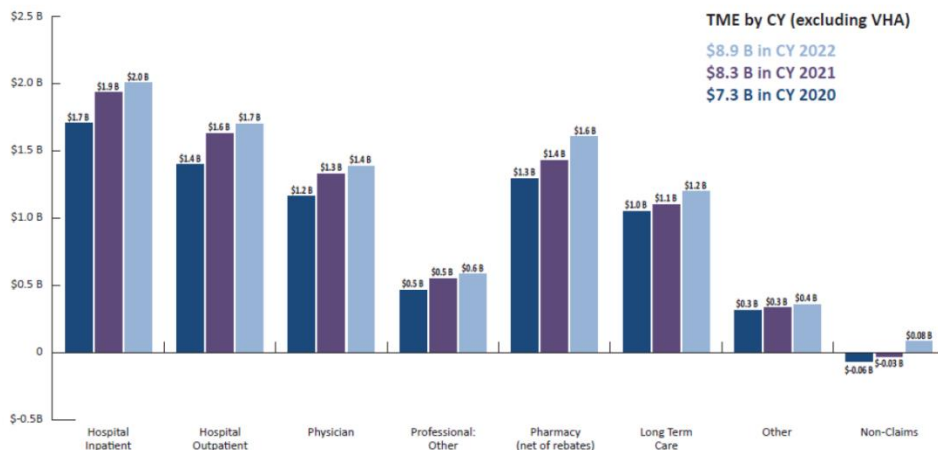


Figure 2 TME by Service Category

Discussion was had by members of the subcommittee. DHSS clarified what was included in the service categories and how the spend data was categorized. The subcommittee also discussed which service categories and markets were growing the fastest.

Consider of Methodology for the CY 2025 Benchmark:

Ms. Marlin explained that the CY 2025 benchmark would be 3.1% under the current PGSP methodology. She noted that the Congressional Budget Office’s inflation, as measured by the Personal Consumption Expenditures (PCE), for 5 to 10 years into the future is at 1.9%. Inflation peaked at 6.5% in CY 2022, but

the CBO expects long-term trends to revert towards the Federal Reserve’s 2% target. Ms. Marlin also reviewed the difference between PCE and the Consumer Price Index (CPI).

Ms. Marlin noted that 9 other states have health care spending benchmark. In preparation for this meeting, the Department of Finance (DOF) and DHSS met with counterparts in Rhode Island and Connecticut to discuss recent changes to their benchmarks. Rhode Island updated their 2023-2025 benchmarks using actual two-year lagged inflation measures instead of long-term forecasts in the PGSP formula. They then blended 75% PGSP figure with 25% of median household income. Similarly, Connecticut increased their previously announced 2024 benchmark. The new rate maintained the spirit of the original benchmark but incorporated actual 2022 PCE and updated median household income projections.

Ms. Marlin presented what Delaware’s benchmark would look like if we chose to follow a similar methodology of using lagged inflation measures and blending the PGSP growth with median household income growth (see figure 3).

Components	CY 2024		CY 2025		CY 2026	
	5 to 10 Years Out	2022 Actual Inflation	5 to 10 Years Out	2023 Actual Inflation	5 to 10 Years Out	2024 Actual Inflation
Expected growth in national labor force productivity	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%
+ Expected growth in Delaware's civilian labor force	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%
+ Expected national inflation	2.0%	6.5%	1.9%	3.8%	1.9%	2.2%
- Expected population growth in Delaware	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%
= PGSP growth	3.0%	7.7%	3.1%	5.0%	3.1%	3.4%
Median household income (5-10 years out) <small>Source: S&P Global</small>	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
25/75 blend of PGSP and Household Income	3.1%	4.3%	3.1%	3.6%	3.1%	3.2%
50/50 blend of PGSP and Household Income	3.1%	5.4%	3.1%	4.1%	3.1%	3.3%
75/25 blend of PGSP and Household Income	3.0%	6.6%	3.1%	4.5%	3.1%	3.3%

Figure 3 Lagged Inflation with Blended PGSP/Income

Discussion was had by members of the subcommittee. Mr. Roose explained how median household income growth relates to tax collections. Ms. Marlin explained that choosing a blend of PGSP and income that has a higher proportion of PGSP suggests a benchmark that prioritizes health care spending growth limited by economic growth. Whereas a blend that has a higher proportion of income suggests a benchmark that prioritizes health care spending growth limited by affordability. Mr. Geisenberger expressed that the subcommittee should be consistent in changing the methodology and that adding near-term components adds more volatility to the benchmark. Mr. Geisenberger asked to see the benchmark with a two-year average of inflation, as opposed to a single year component. Ms. Dwyer believes that having the actual inflation reflected in the benchmark is important. She noted that the industry is still facing double-digit inflation in some areas. Ms. Manning noted that the pandemic and recent high inflation could be explainable reasons why the benchmark was not met, not necessarily reasons to increase the benchmark. Ms. Jack agreed, but also expressed that the benchmark should be reasonable so that people don’t feel defeated from the start.

Public Comment:

Briand Frazee of the Delaware Health Care Association provided comment.

Tentative Vote on the CY 2025 Benchmark:

The subcommittee did not feel ready to vote on the CY 2025 health care spending benchmark. A subsequent meeting was planned for May 3. In order to be prepared to vote at that meeting, they requested additional information. They asked for additional stakeholder input from the physician, long-term care and pharmacy service categories. They also asked to see the impact of two-year average inflation in the benchmark and some additional information on median household income. The subcommittee members were asked to send any additional questions to DOF in advance of the next meeting.

Other Business:

There being no further business, Ms. Manning adjourned the meeting at 2:18 pm.

Respectfully submitted,
Melissa Marlin