Minutes of the
Delaware Economic & Financial Advisory Council
Healthcare Spending Benchmark Subcommittee
October 2, 2024

Teams/DHSS Chapel 1901 N DuPont Highway, New Castle, DE 19720

Attendance:

Member	Present
N. Batta	Yes
K. Dwyer (Vice Chair)	Yes
R. Ford	Yes
R. Geisenberger	Yes
M. Houghton	Yes
J. Manning (Chair)	Yes
G. Siegelman	Yes
D. Tam	Yes

Members in Attendance: 8
Members Absent: 0

Others Present: D. Bentz, C. Bryan, B. Frazee, R. Goldsmith, C. Judge Cardillo, B. Khanal, B. Leshine, M. Marlin, E. Massa, J. Nutter, P. Osborne, B. Price, D. Roose, M. Tweedie, J. Van Gorp, M. Walls.

Opening Business:
A quorum was established. Ms. Manning called the meeting to order at 1:03 pm. Members introduced themselves. The minutes from the May 3, 2024 meeting were approved.

Healthcare Spending Benchmark Background & Discussion:
Ms. Manning reviewed the charge of House Bill 350: 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. The Subcommittee also discussed their statutory powers under 16 Del. C. § 9903(k). Ms. Manning emphasized that the healthcare spending benchmark applies to the entire healthcare industry; there are not separate benchmarks for each sector of the healthcare industry.

Mr. Roose presented an overview of the growth of healthcare expenditures over time. Healthcare expenditures have grown 6.3% annually from 1984 to 2024, compared to a growth of 5.4% for total

personal consumption expenditures. As a share of household budgets, healthcare grew from 13% in 1983 to 21% in 2023. Per capita healthcare grew faster in Delaware compared to our neighboring states. Similar pressures are facing the state General Fund budget. Healthcare (Medicaid, state employee health insurance, and Department of Corrections medical services) increased from $950.1 million in FY 2013 to $1,579.7 million in FY 2024.

Ms. Ford asked to see a comparison of healthcare expenditure growth in Delaware to peer states, i.e. states with similar income and demographics. Mr. Tam pointed out that Delaware has a physician shortage, leading to more people going to hospitals for care and thus increasing hospital expenditures. Ms. Dwyer asked if covered population growth, utilization, or plan design changes caused the growth in General Fund healthcare expenditures in the state budget. The subcommittee had a discussion about how to reduce healthcare expenses and the impact of doing so.

Mr. Bentz provided an overview of the process that led to the development of the healthcare spending benchmark. In 2018, Governor Carney issued Executive Order 19 to establish the Health Care Delivery and Cost Advisory Group. The advisory Group agreed that the benchmark should meet the following criteria: be a predictable target; adjust for the effects of inflation; rely on independent, objective data sources; and 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. Executive Order 25 resulted from the work of the Advisory Group. EO 25 set initial spending and quality benchmarks and established the DEFAC Health Care Spending Benchmark Subcommittee. This was later codified by House Bill 442 with House Amendment 1 in August 2022. EO 25 was rescinded and replaced by Executive Order 62, which is condensed several different DEFAC-related executive orders. The structure of the Subcommittee is in EO 62, not in Delaware Code.

Ms. Marlin reviewed the purpose of the Subcommittee, as set out in Delaware Code, which includes setting the benchmark, reviewing the methodology, and advising the Governor and DEFAC on current and projected trends in healthcare and the healthcare industry. Ms. Dwyer noted that she doesn't remember the Subcommittee ever taking an active role in advising the Governor and DEFAC on healthcare trends and that she would like to see a presentation similar to one provided at the State Employee Benefits Committee meetings. Mr. Tam asked if previous discussions included an understanding of the quality of medical care versus the actuarial projections of healthcare costs. Ms. Manning noted that, in addition to a spending benchmark, the state has several healthcare quality benchmarks.

Mr. Bentz emphasized that the only way to make healthcare cost growth sustainable is to bring it in line with economic growth. He added that the subcommittee should consider what makes the healthcare industry unique compared to other industries that are growing slower or faster than the economy and that they should avoid creating a self-referencing benchmark. Mr. Tam noted that a fundamental difference between healthcare and other industries is that anything that someone wants or needs is provided regardless of price or else they are not providing care to their patients. Mr. Siegelman added

that costs are driven by clinical necessity and that the health of a population is due to choices and behaviors. Ms. Manning believes that Delaware having an older or less healthy population is a justification as to why we don't meet the spending benchmark, not factors that construct the benchmark which measures economic growth.

Ms. Marlin reviewed the current methodology as set forth in 16 Del. C. § 9903(k). The Potential Gross State Product (PGSP) is the sum of expected growth in US labor force productivity plus expected growth in DE's civilian labor force plus expected US inflation less DE's expected population growth. She noted that population growth is subtracted to make this a per capita growth rate, which is compared to the per capita total healthcare expenditure data collected by DHSS. The first benchmark was set equal to the budget benchmark for that year, 3.8%. The other benchmarks have ranged from 3.0% to 3.5% until last year when the Subcommittee voted to modify the inflation factor and recommended a benchmark of 4.2%.

Mr. Geisenberger explained how using the components forecasted for five to ten years out into the future produces a more stable benchmark. Ms. Ford asked if stability was a factor before the COVID pandemic, and Mr. Bentz responded that stability was one of the top requirements coming out of the 2018 Advisory Group. Mr. Geisenberger added that incorporating recency factors came as a result of the COVID pandemic. Mr. Houghton believes that stability should still be a priority. Ms. Dwyer questioned if the benchmark, calculated under its current methodology, is relevant to the cost of delivering healthcare. Mr. Bentz brought the Subcommittee's attention back to the charge of House Bill 350: what inputs do they want to add to the methodology related to macroeconomic and healthcare trends.

Public Comment:

Brian Frazee, of the Delaware Healthcare Association, provided comment.

Other Business:

There being no further business, Ms. Manning adjourned the meeting at 3:05 pm.

Respectfully submitted,
Melissa Marlin