Diamond State Hospital Cost Review Board Meeting

Herman Holloway Health and Social Services Campus

The Chapel

1901 North DuPont Highway

New Castle, Delaware 19720

September 9, 2025

Agenda

I: WELCOME/CALL TO ORDER

II: REVIEW/APPROVAL OF August 12 MEETING MINUTES

III. BAILIT HEALTH PRESENTATION

IV. PUBLIC COMMENT

V: EXECUTIVE SESSION - LITIGATION

POSSIBLE EXECUTIVE SESSION UNDER **29 *Del. C.* § 10004(b)(4) for the purpose of a strategy session regarding pending litigation, *ChristianaCare Health Services, Inc., et al. v. Carney, et al.*, C.A. No. 2024-0802-LWW**

VI: CLOSING REMARKS

VII: ADJOURN

Welcome/Call to Order

Review/Approve August 12 Meeting Minutes

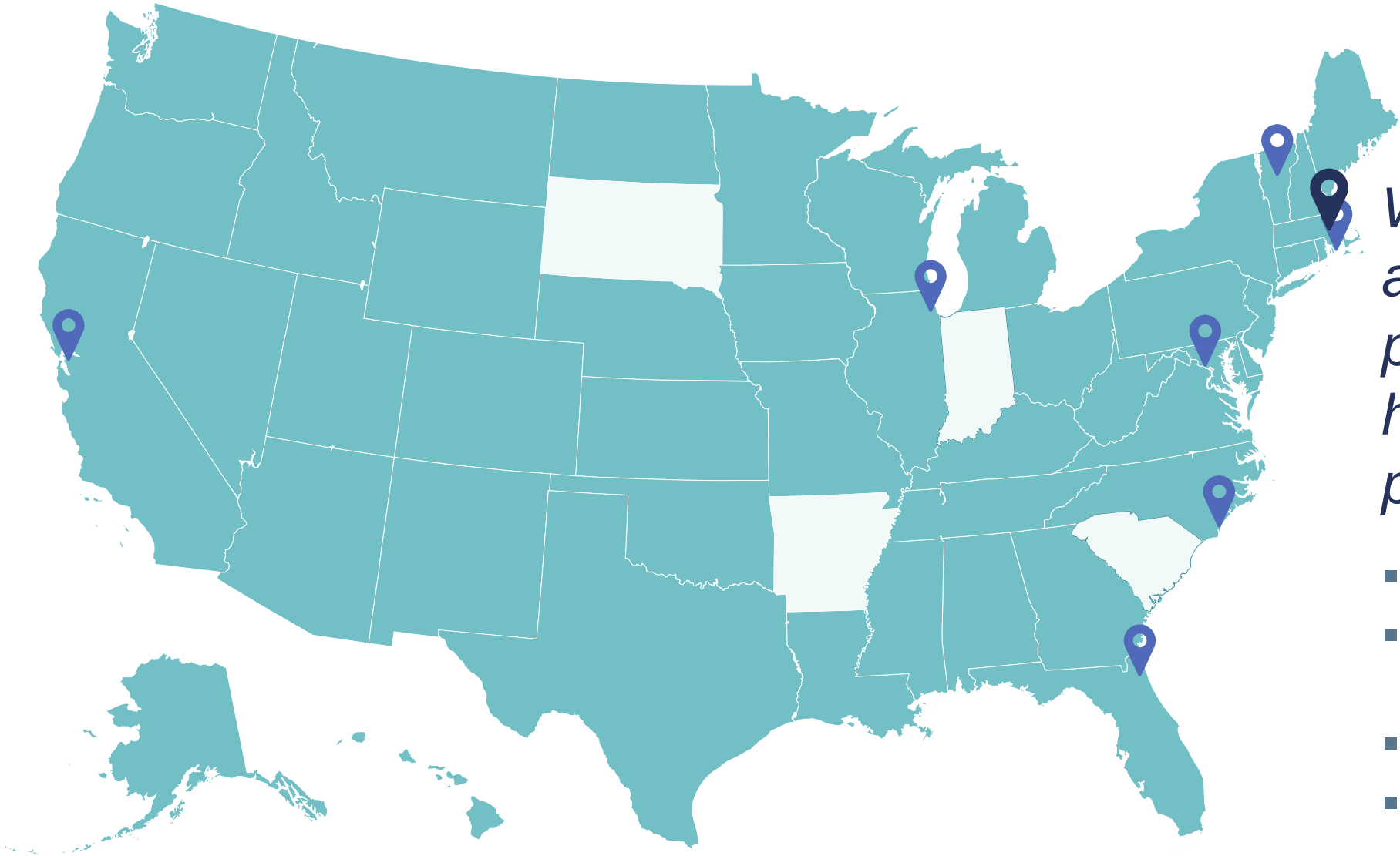
Bailit Health Presentation

State Strategies to Constrain Commercial Market Hospital Spending Growth

Michael Bailit

September 9, 2025

About Bailit Health



Past or current Bailit Health work

Working with state agencies and their partners to improve health care system performance for all.

- Founded in 1997
- Have worked in 46 states and Washington, DC
- Based in Needham, MA
- Team of 15 consultants based in 8 states

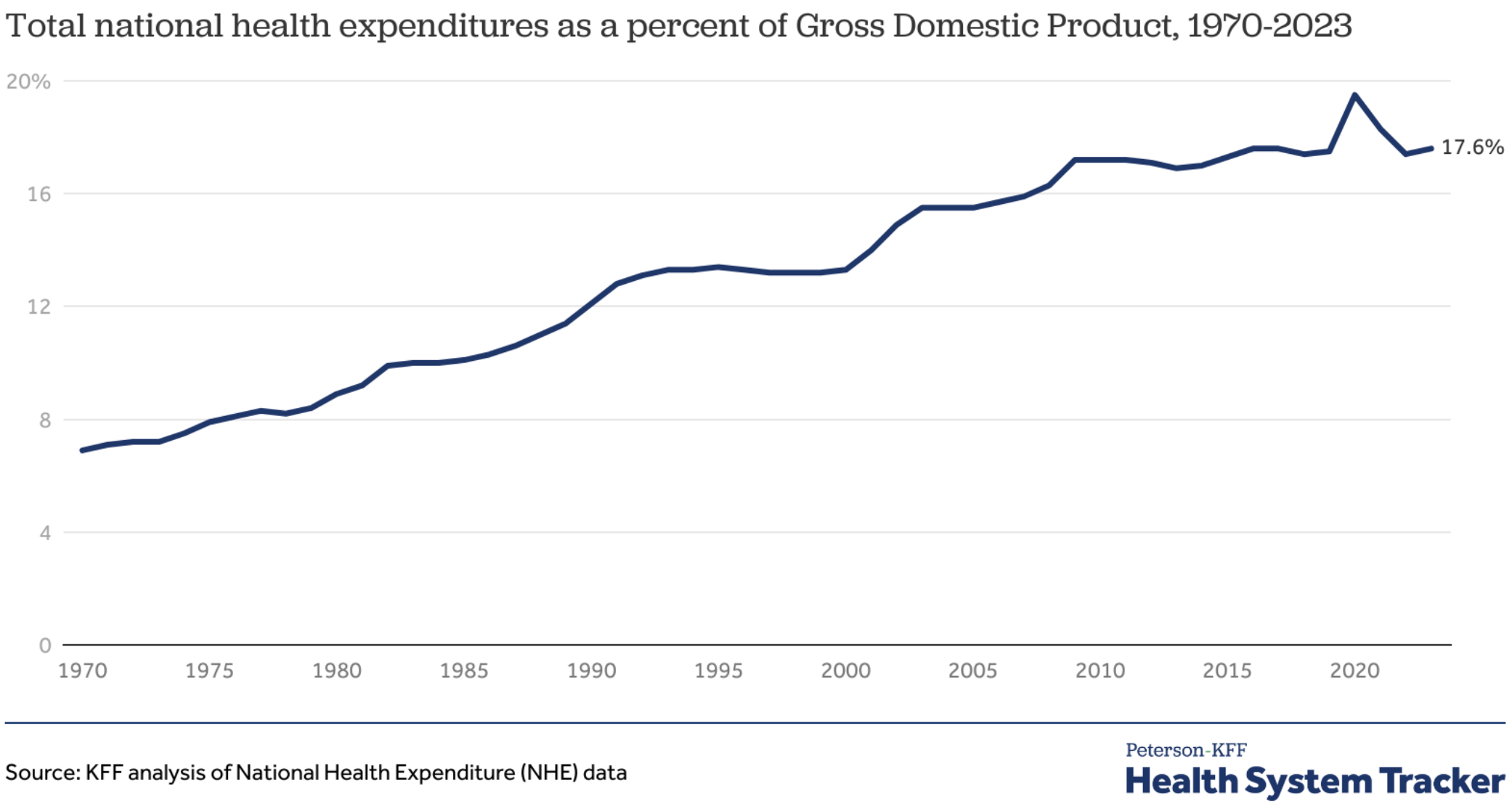
Agenda

1. Setting the Stage: Commercial Health Care Spending Growth
2. State Strategies for Managing Hospital Prices and Price Growth
   - Price Caps
   - Price Growth Caps
   - Prospective Hospital Budget Review
3. Wrap-up and Discussion

Setting the Stage

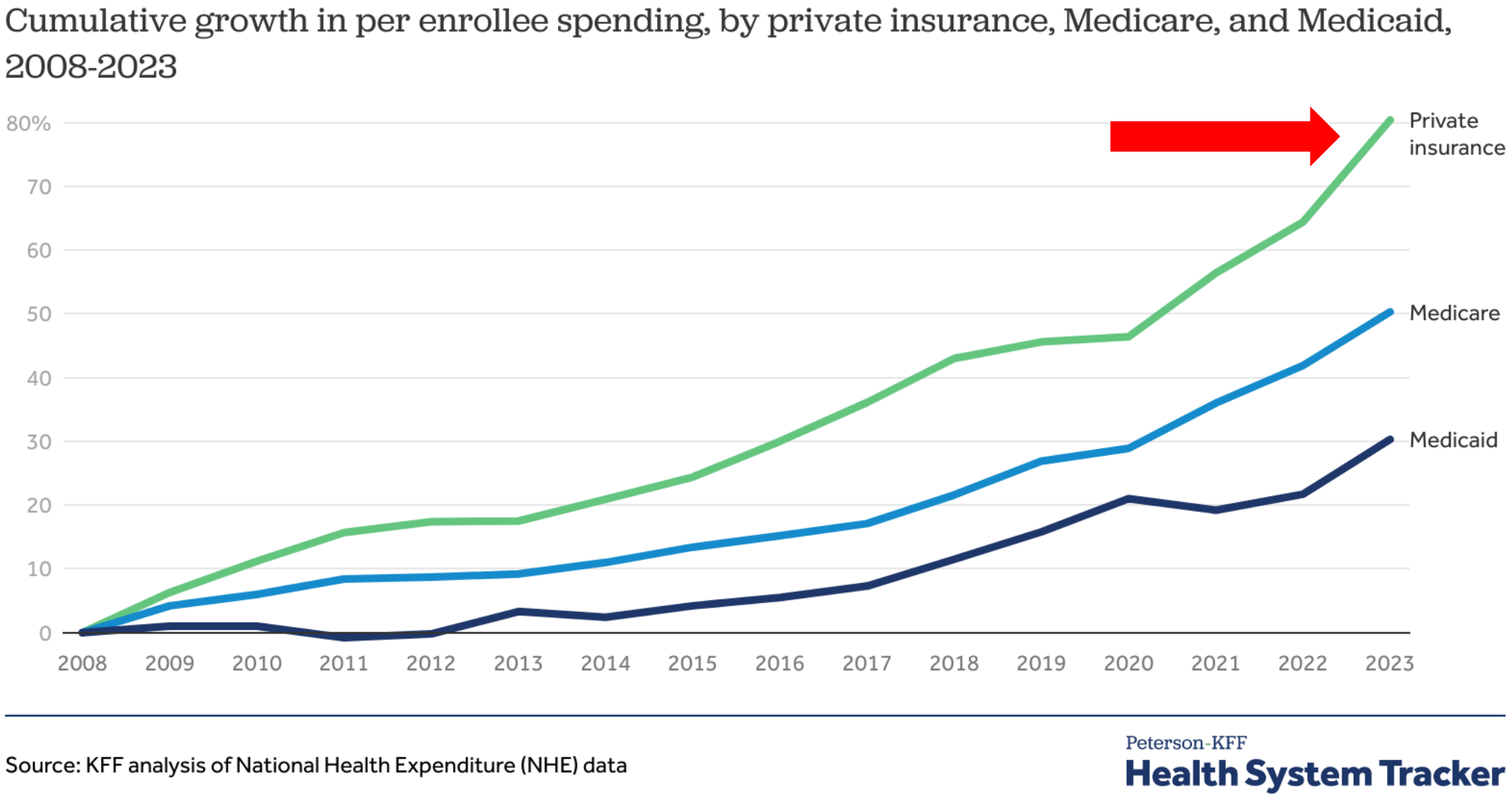
COMMERCIAL HEALTH CARE SPENDING GROWTH

Health care spending accounts for close to 20% of US GDP



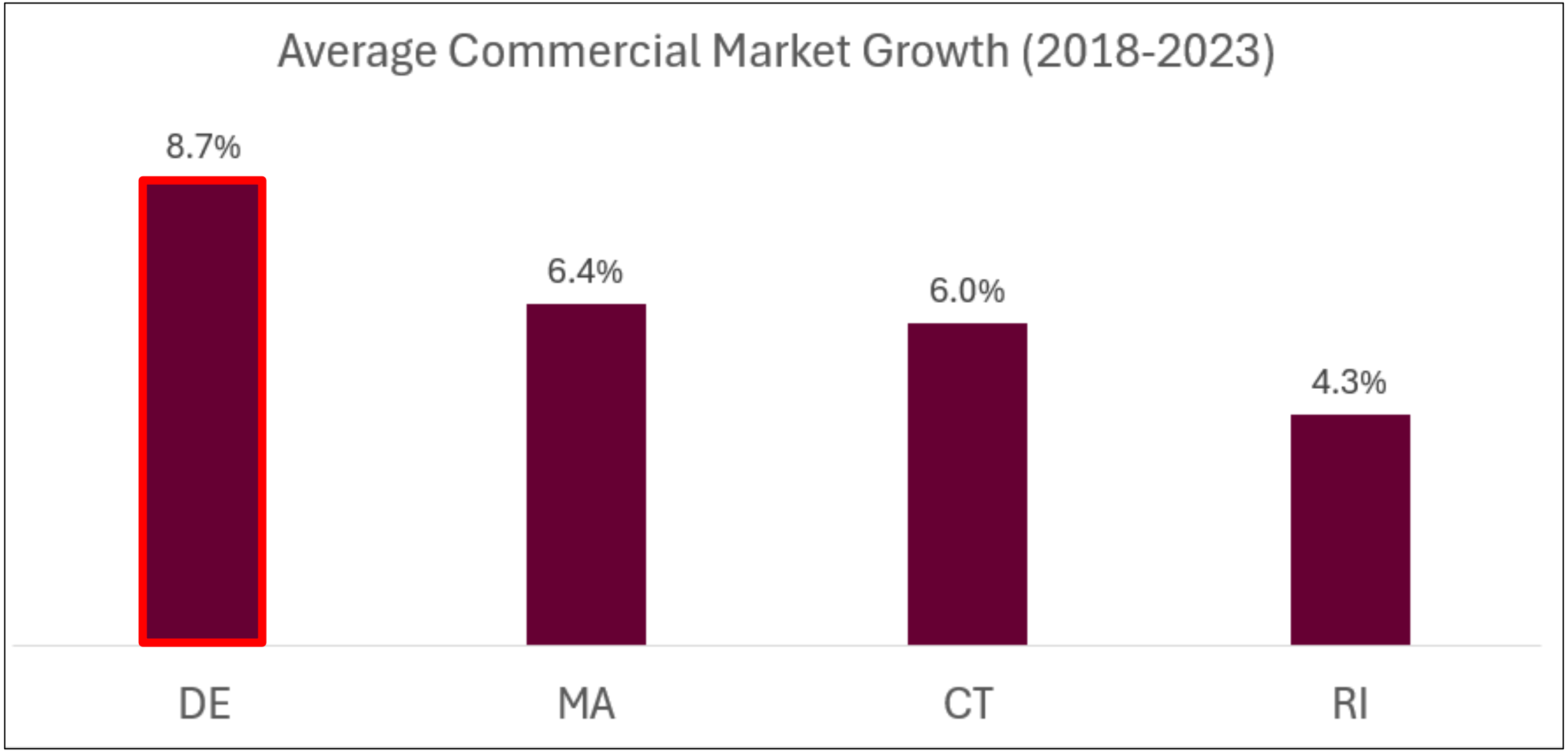
Source: Peterson KFF Health System Tracker. December 2024. https://www.healthsystemtracker.org/chart-collection/u-s-spending-healthcare-changed-time/.

Commercial market growth outstrips growth in other markets…



Source: Peterson KFF Health System Tracker. December 2024. https://www.healthsystemtracker.org/chart-collection/u-s-spending-healthcare-changed-time/.

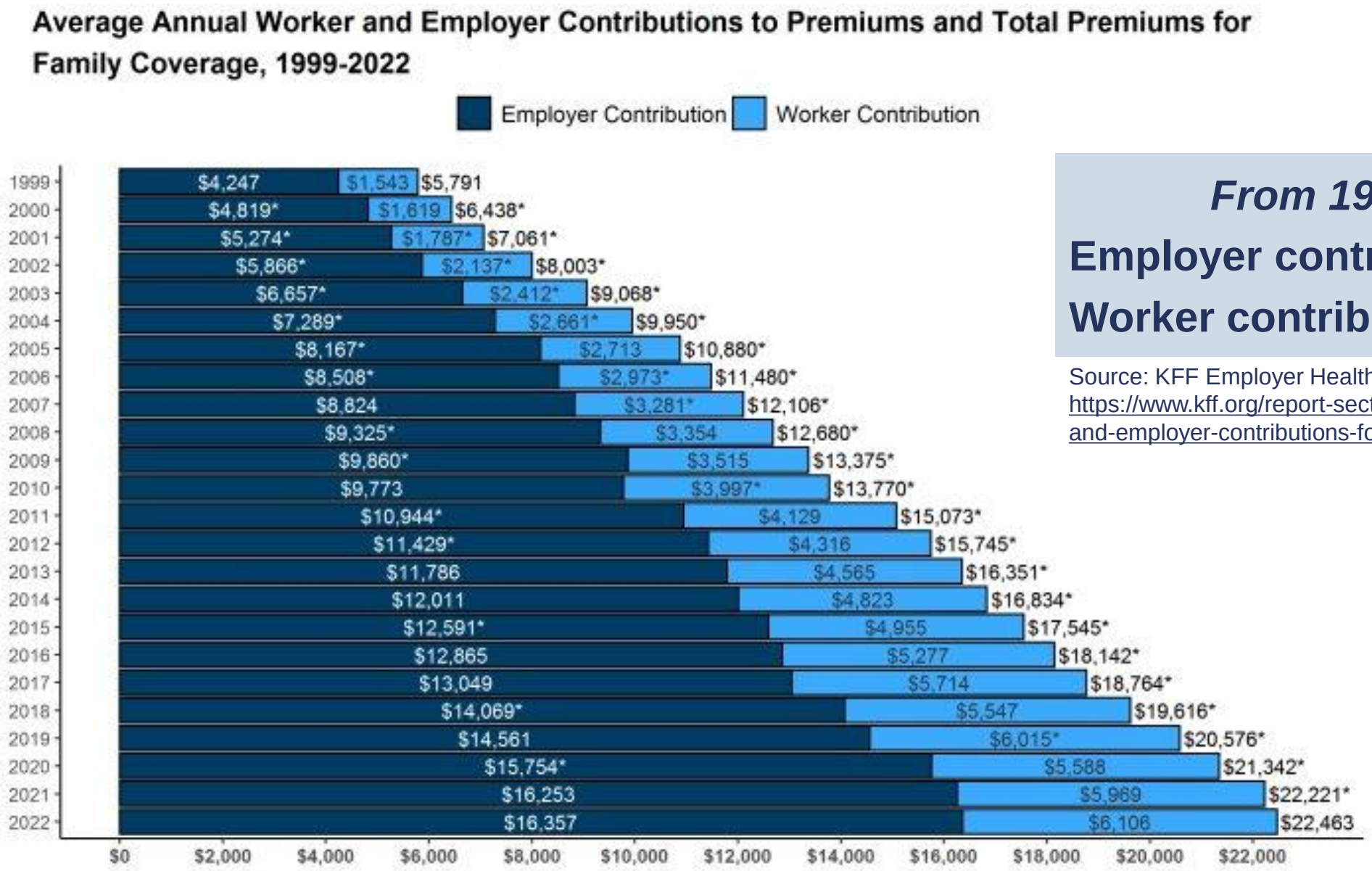
…and health care spending in Delaware is growing especially fast



Setting the Stage

WHAT DOES THIS MEAN FOR CONSUMERS AND EMPLOYERS?

U.S. employees and employers are paying more for health insurance premiums



From 1999-2022…

Employer contribution: ▲ 285%

Worker contribution: ▲ 295%

Source: KFF Employer Health Benefits Survey, 2018-2022. https://www.kff.org/report-section/ehbs-2022-section-6-worker-and-employer-contributions-for-premiums/

What do rising healthcare costs do to the economy?

- A national study found that at the county level, a **1%** increase in healthcare prices is associated with…

$0.27% reduction in per capita income

1% decrease in jobs

0.40% reduction in federal tax revenue

Source: Brot-Goldberg Z, Cooper Z, et al. Who Pays for Rising Health Care Prices? Evidence from Hospital Mergers. National Bureau of Economic Research. Working Paper. June 2024.

When faced with competing needs…

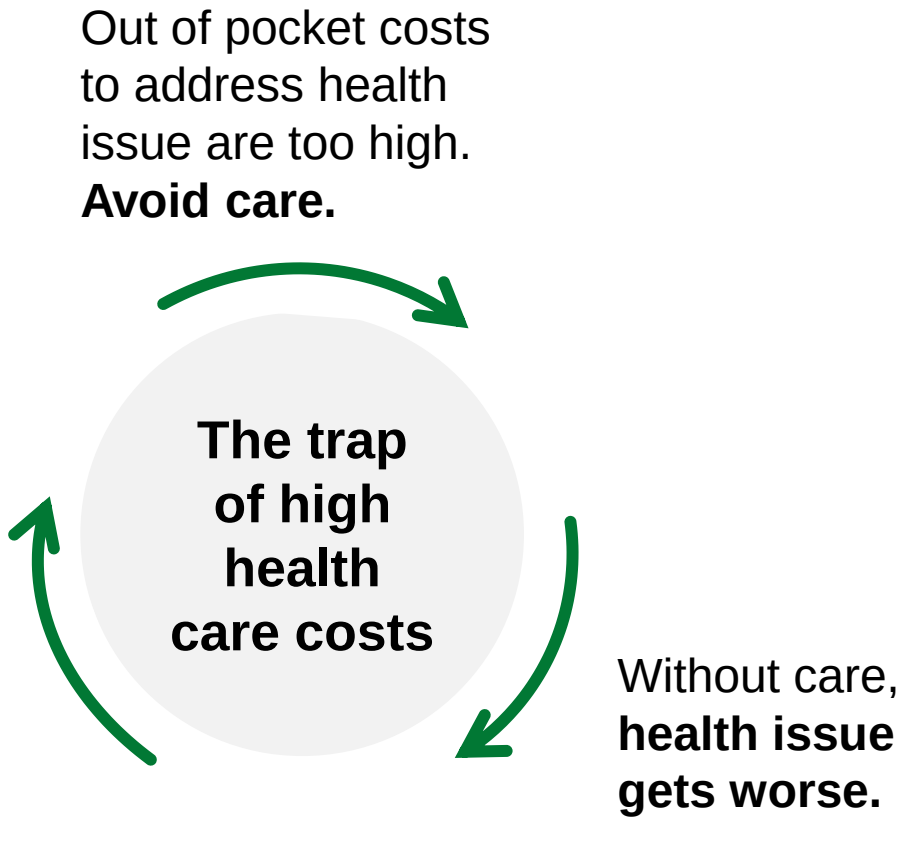
… many people prioritize health care last.

- **One in four adults** say that in the past 12 months, they *skipped or postponed* getting needed health care because of costs.
- High costs are a major barrier to accessing health care.
- As a result, high health care costs are **harming public health**.

Source: Americans' Challenges with Health Care Costs. KFF. March 2024. https://www.kff.org/health-costs/issue-brief/americans-challenges-with-health-care-costs/

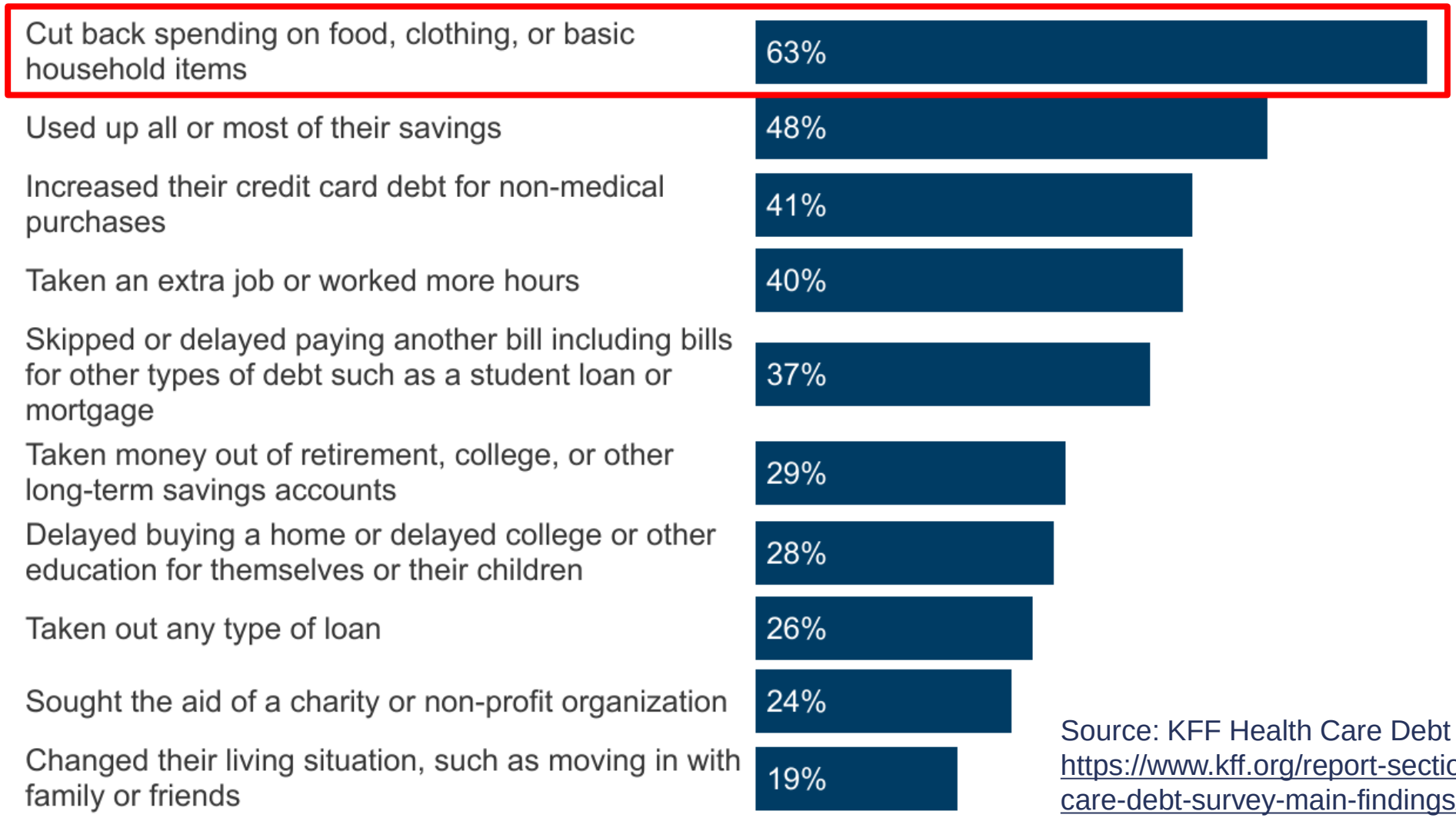
High health care costs make people sicker

Of those who said they delayed or skipped care because of costs in a national survey, **more than half saw their health problem get worse,** which may lead to more costly care later.



To pay for care, people often must make difficult trade-offs

Percentage who say in the past five years, they or someone else in their household has... due to their health care debt:



Source: KFF Health Care Debt Survey. 2022. https://www.kff.org/report-section/kff-health-care-debt-survey-main-findings/

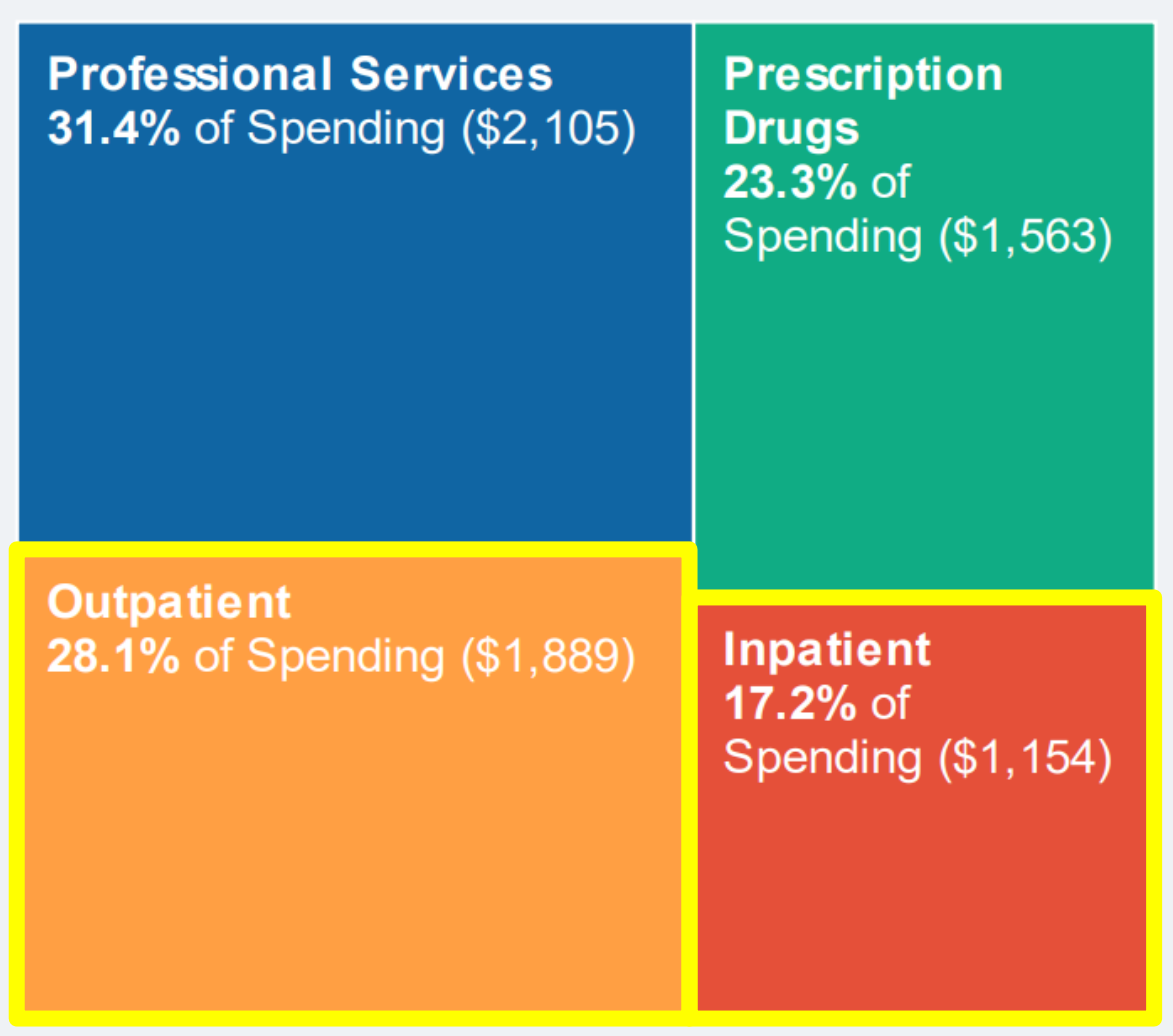
Setting the Stage

HOSPITAL SPENDING HAS BEEN DRIVING HEALTH CARE COST GROWTH

Commercial Health Care Spending by Service Type

- Nationally, **hospital spending makes up nearly half of total health care spending**.
- Pharmacy is also a significant driver of spending growth.

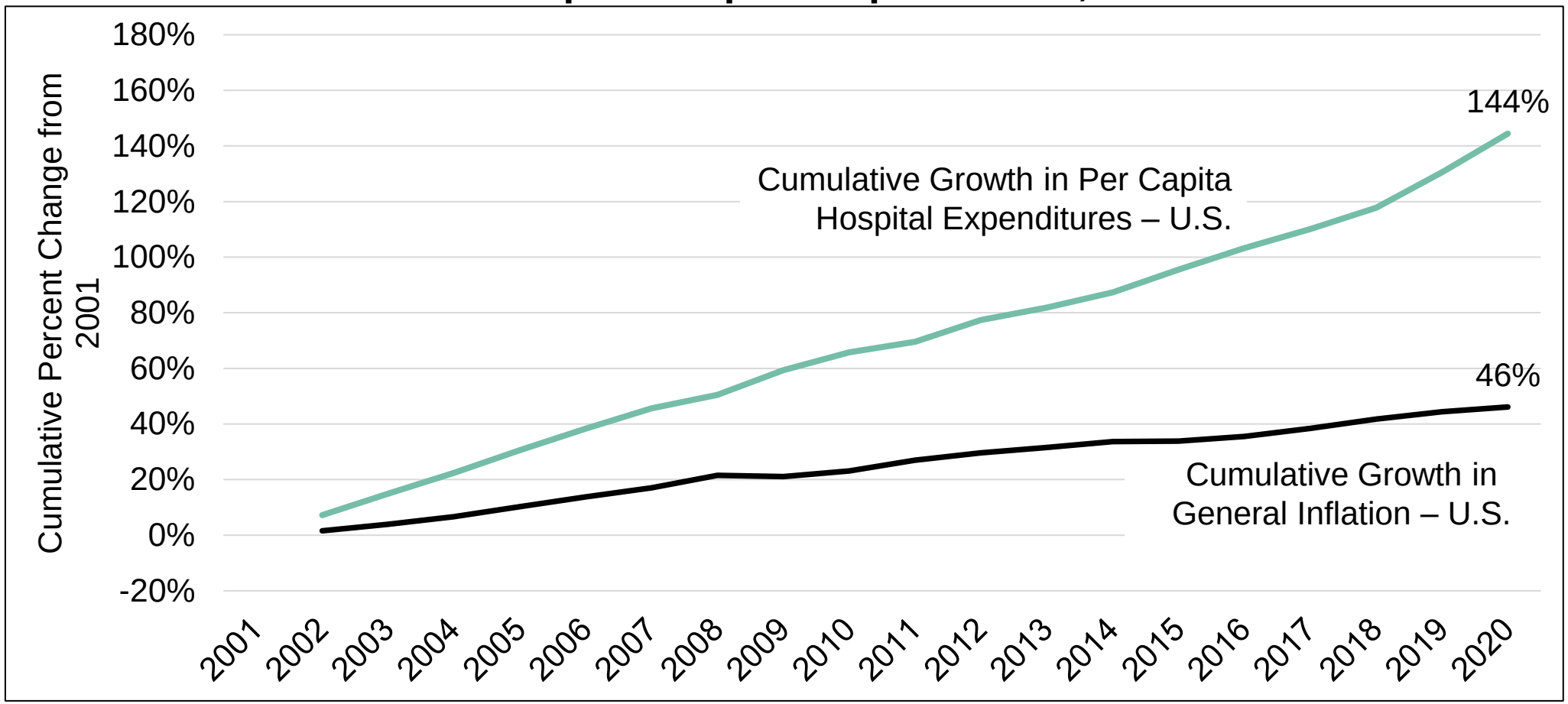
Share of Per Capita Spending in 2022



Source: Health Care Cost Institute. 2022 Health Care Cost and Utilization Report. April 2024.

Growth in Per Capita Hospital Spending: National

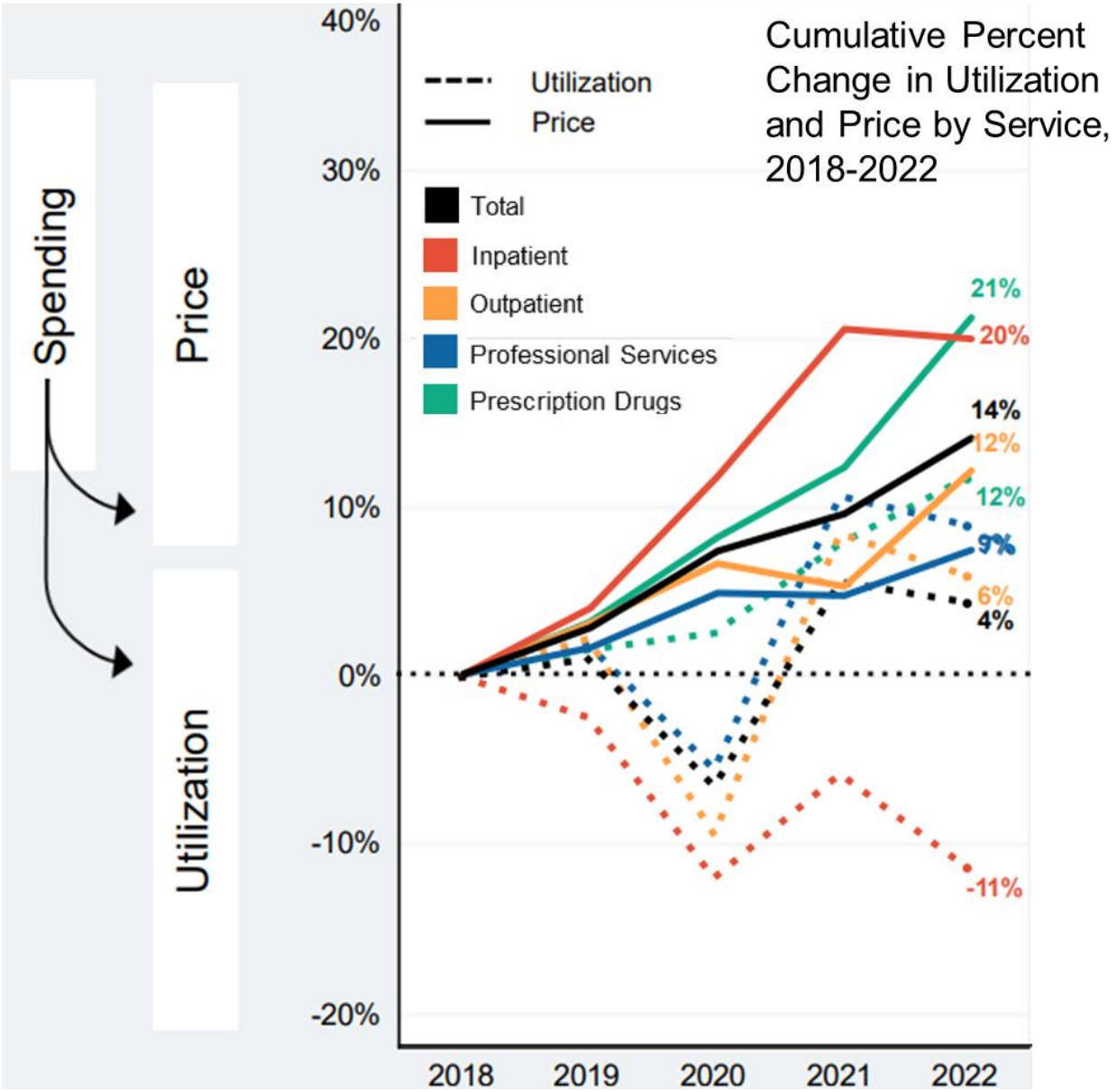
Cumulative Growth in Per Capita Hospital Expenditures, 2001-2020



Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group. (2024). *National Health Expenditure Data: Health Expenditures by State of Residence, August 2022.* and Federal Reserve Bank of St. Louis. (2024).
Adapted from 2024 Office of Affordable Health Care Public Hearing.

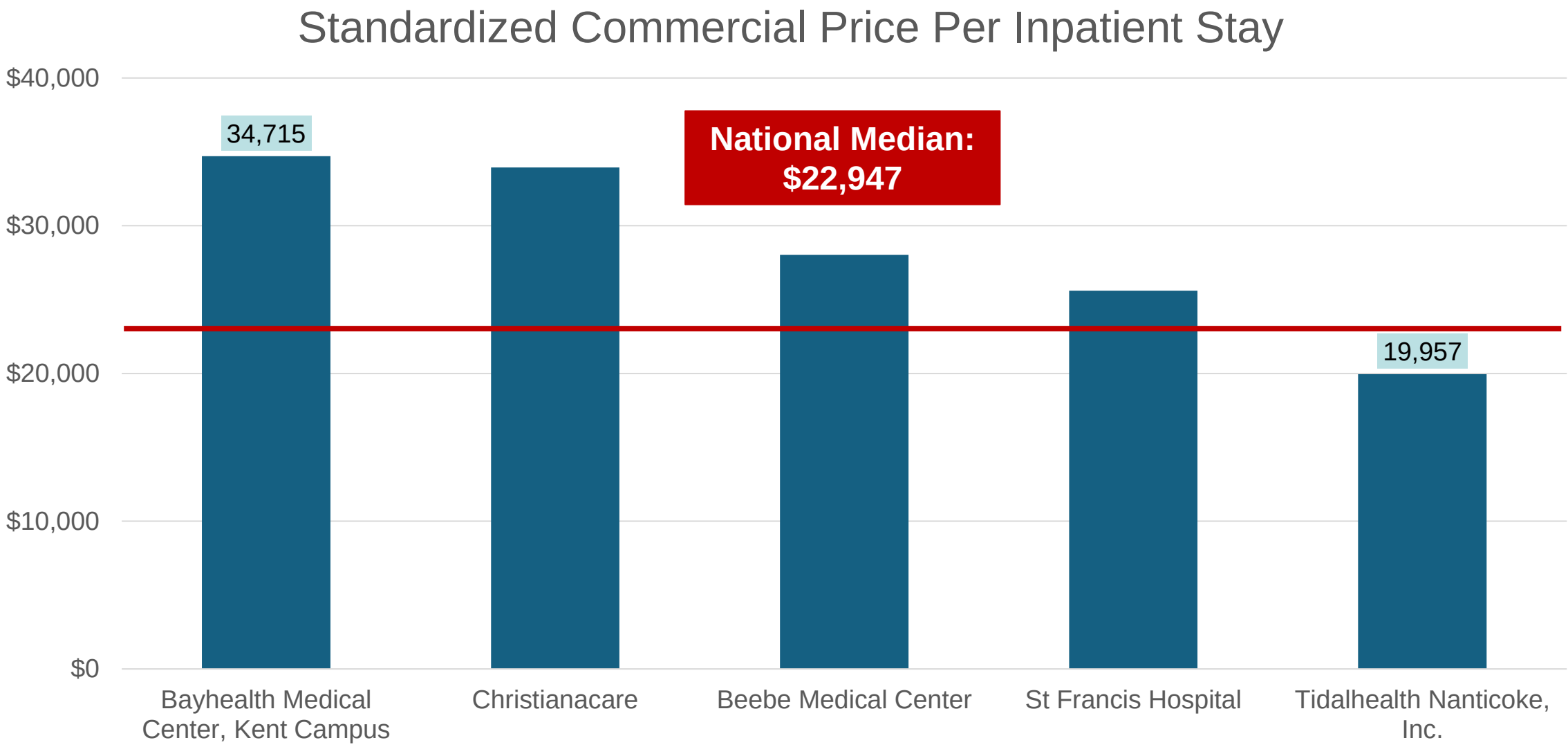
Why is hospital spending increasing? “It’s the prices, stupid!”

- From 2017-2022, spending increases across service categories were largely driven by **rising prices**.



Source: Health Care Cost Institute. 2022 Health Cost and Utilization Report, April 2024, https://healthcostinstitute.org/health-care-cost-and-utilization-report/annual-reports

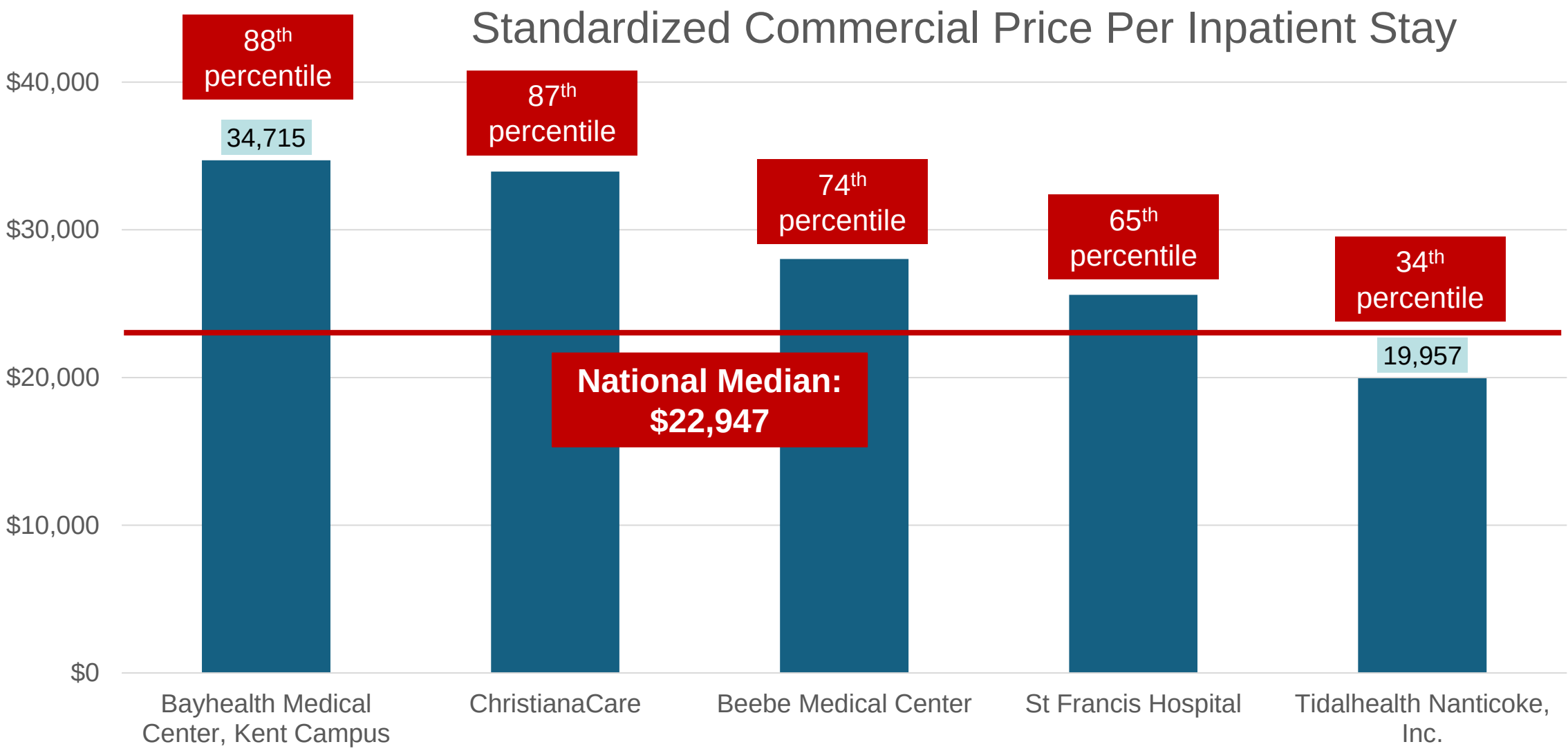
High Commercial Prices at Delaware Hospitals



Source: RAND (2024). Prices Paid to Hospitals by Private Health Plans: Findings from Round 5.1 of an Employer-Led Transparency Initiative.

Commercial Prices at Delaware Hospitals

Compared to National



Source: RAND (2024). Prices Paid to Hospitals by Private Health Plans: Findings from Round 5.1 of an Employer-Led Transparency Initiative.

STATE STRATEGIES FOR MANAGING HOSPITAL PRICES AND PRICE GROWTH

OPTION #1: HOSPITAL PRICE CAP

Overview of Hospital Price Cap

- A price cap, also referred to as a *payment limit*, *payment cap,* and *provider-based reference pricing*, limits the payment amounts for hospital services.
  - These limits are established in reference to an external payment benchmark, usually a percentage of Medicare.
  - They typically apply to inpatient and outpatient hospital services, although the scope of services could vary.

Hospital Price Cap: State Options

States have three options for implementing a price cap:

1. **State purchasing authority:** The state caps prices for care purchased through public programs (e.g., the state employee health plan).
2. **Insurance regulation:** The state regulates maximum reimbursement rates for services covered by fully insured private plans.
3. **Provider price regulation:** The state limits prices providers can charge.

State Model: Oregon's Hospital Price Cap (1 of 2)

- Oregon implemented a price cap for its state and school-based employee health plan. The price cap was mandated through legislation, giving it durability.
  - Cap level: 200% of Medicare.
  - Oregon exempted small, rural, critical access, and certain sole community hospitals to protect the financial stability of vulnerable facilities and maintain network participation. As a result, the cap applies to 24 of 62 hospitals.

State Model: Oregon's Hospital Price Cap (2 of 2)

- Oregon's price cap requirements are included in contracts with public employee health plan carriers; the State monitors and audits compliance.
- The State's requirements include a cap on payments for out-of-network services to discourage providers from leaving plan networks.
  - The out-of-network cap is 185% of Medicare, compared to 200% of Medicare for in-network providers.

Evidence: Oregon's Hospital Price Cap

In the first 27 months, this policy resulted in an estimated **$107.5 million in savings** for the state, amounting to 4% of plan spending.

- Researchers found no evidence of hospitals leaving state employee health plan networks or increasing prices to other commercial health plans.

Source: Murray RC, Brown ZY, Miller S, Norton EC, Ryan AM. Hospital Facility Prices Declined as a Result of Oregon's Hospital Payment Cap. Health Affairs. 2024;43(3):424–32.

Hospital Price Cap: Pros and Cons

Pros	Cons

• Can deliver meaningful savings to commercial ratepayers
• Highly customizable
	• Cap level is critically important:
	  • Too high = limited impact
	  • Too low = excessive financial pressure on hospitals.

New Legislative Action in 2025

- **Washington** – Will institute a price cap for the public employee health plan in 2027.
  - Modeled after Oregon.
  - Cap set at 200% of Medicare for in-network providers and 185% for out-of-network providers
  - Includes a floor for primary care and non-facility behavioral health services: 150% of Medicare
  - Exempts critical access hospitals and sets a Medicaid-based cap for children's hospitals.
  - See Engrossed Second Substitute Senate Bill 5083. Chapter 373, Laws of 2025.

New Legislative Action in 2025

- **Indiana** – Uses state nonprofit status as a lever to push prices toward the state average, with a focus on the largest hospital systems in the state.
  - Hospitals whose prices remain above the state average by mid-2029 forfeit their non-profit status for at least one year.
  - Threshold of $2 billion in net patient revenue results in a focus on the state's five largest not-for-profit hospital systems.
  - See House Enrolled Act No. 1004. 2025 Session.

Hospital Price Cap: Lessons (1 of 2)

- Hospital price caps can be customized in many ways:
  - Can be combined with other hospital pricing policies, including…
    - Price growth caps
    - Price floors for certain high-priority services (e.g., primary care)
    - Out-of-network cap
  - Glide path to compliance for hospitals with prices above the cap
  - Temporary or permanent exemptions for some facilities based on type or performance (e.g., financially distressed hospitals)

Hospital Price Cap: Lessons (2 of 2)

- An out-of-network cap is likely necessary if using state purchasing authority.
- Ongoing monitoring for unintended consequences will be important (e.g., cost-shifting to non-capped services or plans, network disruptions).
- Oregon's cap applies only to state employee and teacher health plans; this does not impact most employers or commercial plan members.
  - A price cap implemented through insurance regulation or provider price regulation would impact more purchasers and plan members.

OPTION #2: HOSPITAL PRICE GROWTH CAP

Overview of Hospital Price Growth Cap

- A price growth cap limits how much provider payments can grow each year; the cap can be linked to an economic indicator such as Consumer Price Index (CPI) or gross state product (GSP) growth.
  - It can be applied to all hospitals, or to certain classes of hospitals where price growth has been problematic.
  - It can be applied differentially based on relative baseline prices.
  - It can be applied to each provider contract individually or across all of a given payer's contracted providers.
  - It is usually implemented and enforced through insurance regulation.

State Model: Rhode Island's Hospital Price Growth Cap (1 of 2)

- In 2010, Rhode Island's Office of the Health Insurance Commissioner implemented "Affordability Standards" for all commercial insurers in the state.
- Among other requirements, the standards limit the average annual payment increases for both inpatient and outpatient hospital services within each insurer-provider contract.
  - Current hospital price growth cap level: CPI +1%
  - Enforcement is through health insurer rate review and periodic market conduct exams.

State Model: Rhode Island's Hospital Price Growth Cap (2 of 2)

- The State enforces the hospital price growth cap through health insurer rate review; this mechanism gives state regulators the opportunity to review, and in some cases disapprove or modify, the proposed health insurance rate increases.
- While it is limited to the fully insured market segment (not self-insured employers), Rhode Island insurers typically negotiate on behalf of fully insured business and self-insured/third party administrator business together, so the cap extends to the self-insured market in practical application.

Evidence: Rhode Island's Hospital Price Growth Cap (1 of 2)

- A 2025 study found that the Affordability Standards resulted in an average of $87.7M in *annual* savings; $64.1M of this accrued to employers, while $23.7M accrued to plan members in the form of premium and out-of-pocket cost savings.
  - The study found that hospital prices decreased by 9.1% on average from 2012-2022 (vs. comparison states).
  - After two years of implementation, Rhode Island hospital prices were above the national average (106% in 2012); by the end of the study period, they were below the national average (84% in 2022).

Source: Ryan AM, Whaley CM, Fuse Brown EC, Radhakrishnan N, and Murray RC. Rhode Island's Affordability Standards Led To Hospital Price Reductions And Lower Insurance Premiums. *Health Affairs* 2025 44:5, 597-605.

Evidence: Rhode Island's Hospital Price Growth Cap (2 of 2)

- An earlier published evaluation found that the Affordability Standards were associated with a **$55, or 5.8%, net decrease in quarterly total health care spending per commercially insured enrollee**, relative to a control population.

Source: Baum A, Song Z, Landon BE, Phillips RS, Bitton A, and Basu S. Health Care Spending Slowed After Rhode Island Applied Affordability Standards To Commercial Insurers. *Health Affairs*. 2019;38(2):237–45.

Hospital Price Growth Caps: Pros and Cons

Pros	Cons
• An effective way to slow commercial spending • Easy to administer • Less aggressive than a price cap (it doesn't lower any hospital's rates) • Highly customizable (see overview slides)	• Doesn't reduce insurance rates • Can only be directly applied to the insured market* • Changes in provider coding and billing practices may lessen the effect of a hospital price growth cap.

* In Rhode Island, insurers have elected to also apply the cap to the self-insured market, greatly expanding price caps' impact. Insurers may or may not do the same in other markets.

OPTION #3: PROSPECTIVE HOSPITAL BUDGET REVIEW

Overview: Hospital Budget Review

- Prospective review of hospital revenue and/or price growth by regulators can be an effective cost containment measure.
  - It could include a hospital-specific cap on net patient revenue growth or total revenue growth)
  - It could include a cap on price growth, based either on negotiated prices or on growth in the hospital chargemaster (the hospital's standard list prices).
- Options:
  - Comprehensive prospective hospital budget review *OR*
  - Limited review of revenue targets and aggregate prices.

State Model: Vermont's Hospital Budget Review

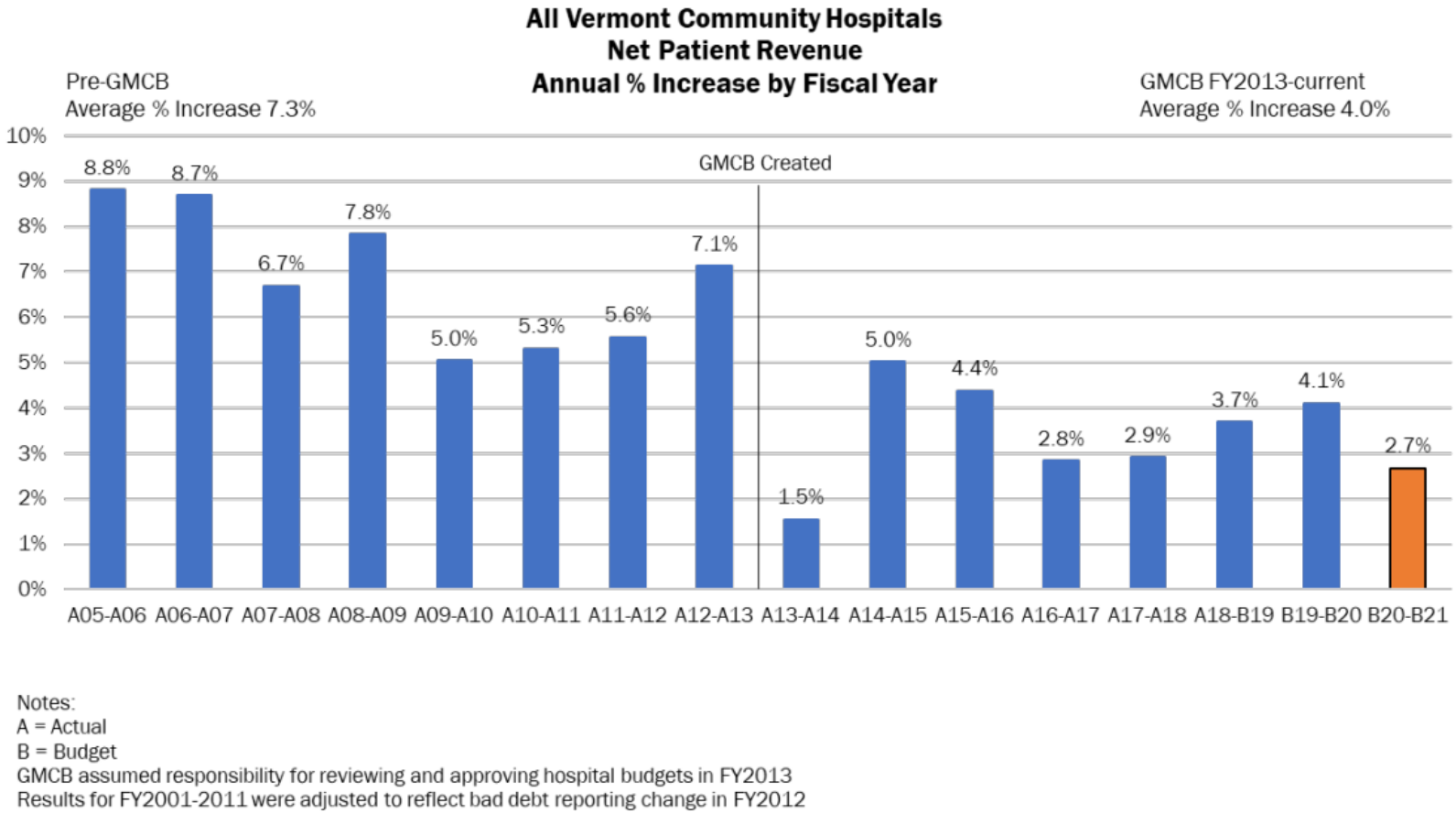
- The Green Mountain Care Board (GMCB) annually reviews and establishes budgets for hospitals for the fiscal year beginning 10/1.
  - Vermont hospitals' budgets have been subject to state review since 1983 and regulated by GMCB since hospital fiscal year 2013.
  - The process excludes specialty hospitals (e.g., psychiatric).
- Hospitals' annual budget submissions are shaped by State-issued guidance, which provides instructions for how hospitals should build their budgets. Guidance includes targets the State sets for hospital net patient revenue growth and negotiated commercial price growth.

State Model: Vermont's Hospital Budget Review

- Hospitals present their budgets to the GMCB at public hearings to make a case for why increases are necessary; some hospitals may be exempted from the hearing if they have met targets laid out in budget guidance.
- GMCB monitors and enforces hospital compliance:
  - Hospitals submit quarterly financial information to GMCB.
  - Enforcement hearings related to the hospitals' performance in the prior budget year are held for hospitals with significant budget variances; hospitals' prices may be reduced in future budget years if they exceed their revenue target or price growth target.

Evidence: Vermont's Hospital Budget Review

- According to GMCB data, from average hospital revenue growth was 7.1% for hospital fiscal years 2005-2013 (when GMCB began regulating hospital budgets); from hospital fiscal years 2013-2021, the average increase was 4.0%.



Notes:
A = Actual
B = Budget
GMCB assumed responsibility for reviewing and approving hospital budgets in FY2013
Results for FY2001-2011 were adjusted to reflect bad debt reporting change in FY2012

Source: Green Mountain Care Board. Annual Report for 2020. June 2021. http://gmcboard.vermont.gov/sites/gmcb/files/documents/AnnualReport_2020_Resubmitted_June2021_FINAL.pdf.

Evolution: Vermont's Hospital Budget Review

Vermont Public — April 1, 2025

'We are in a crisis situation,' Vermont's top health care regulator says

May 7, 2025 — vtdigger

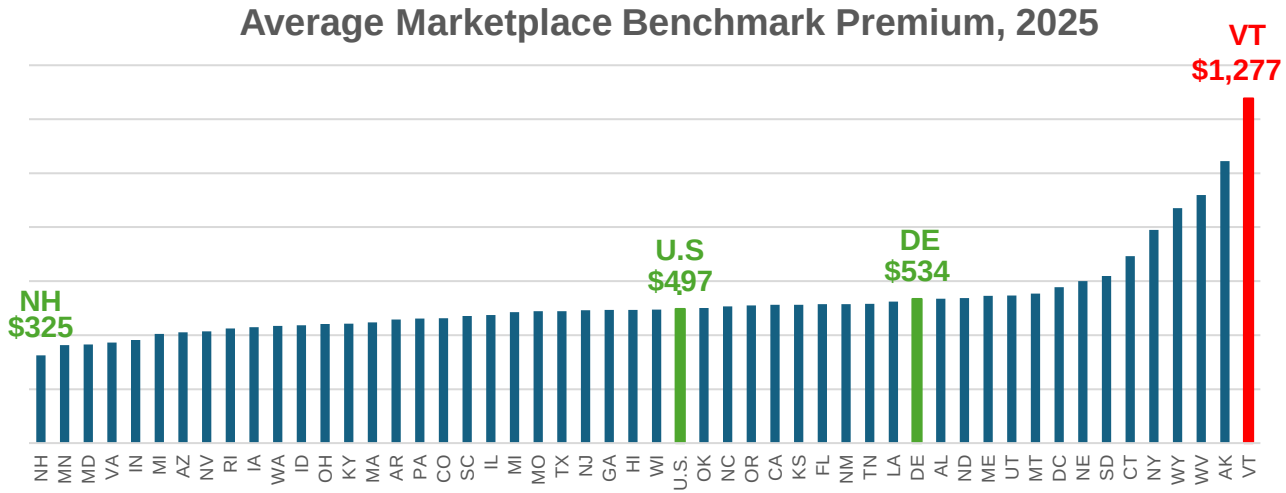
Financial struggles have pushed Vermont's largest health insurer to the brink

Blue Cross and Blue Shield of Vermont has lost over $150 million in the past four years. If it fails, the state's entire health

Vermont Public — June 23, 2025

Copley Hospital will stop delivering babies

- **Vermont's health care system is experiencing very public struggles**
  - Insurer solvency concerns
  - Core hospital service cuts
  - Highest commercial premiums in the nation.



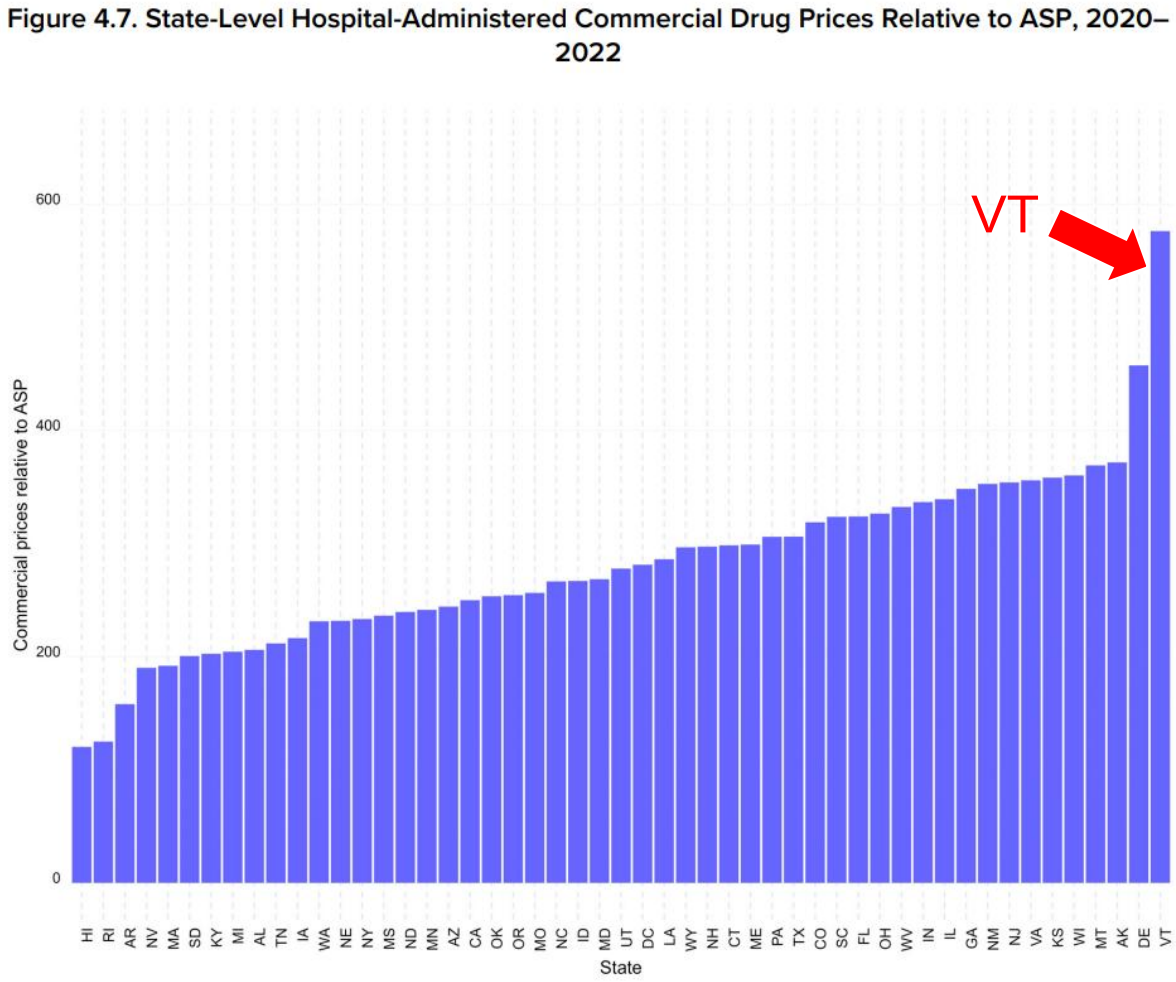
Source: KFF State Health Facts. https://www.kff.org/affordable-care-act/state-indicator/average-marketplace-premiums-by-metal-tier/

Evolution: New Legislative Action in 2025

- While some of these may be specific to Vermont's status as a rural, aging state, these concerns have sparked a reckoning focused on insurer solvency and consumer affordability, along with supporting hospital and health system transformation.
  - In 2023, Vermont's Agency of Human Services was given authority and funding to work with hospitals on transformation projects.
- In 2025, the Vermont General Assembly passed two new laws which will introduce more direct provider price regulation, to be administered by GMCB.
  - Commercial price caps for outpatient physician-administered drugs
  - Commercial price caps for hospital services

Act 55 – Commercial price caps for outpatient administered drugs

- Legislation was prompted by a RAND study finding that Vermont is a national outlier for hospital outpatient administered drug prices.
- Uses the GMCB's existing provider price-setting authority.
- Implementation starting in January 2026.
- Act 55 of 2025



Source: RAND (2024). Prices Paid to Hospitals by Private Health Plans: Findings from Round 5.1 of an Employer-Led Transparency Initiative.

Act 68 – Price caps for hospital services

- Also uses the GMCB's existing provider price-setting authority; applies broadly to all hospital facility services.
  - GMCB will set "maximum amounts that hospitals shall accept as payment"; not limited to fully insured commercial market.
  - Also allows GMCB to set commercial price floors for non-hospital services.
  - Prohibits balance billing of patients or insurers.
- Implementation starting in September 2026.
- Act 68 of 2025

Lessons: Hospital Budget Review

- This is a labor-intensive process and requires appropriate State staff knowledge and expertise.
- Ongoing detailed financial monitoring and oversight provides an opportunity to identify financially precarious hospitals and intervene if necessary.
- Overall, Vermont's health care system is struggling – insurers, providers, and consumers alike. It's hospital budget review, while impactful over time, did not have enough accountability. Vermont is working to evolve its regulatory infrastructure to address each of these concerns.

WRAP-UP

Wrap-up

High and rising hospital prices are a major contributor to unaffordability for employer-sponsored plans…

…but states are now taking decisive action to address the problem of commercial hospital prices.

QUESTIONS AND DISCUSSION

Executive Session

Executive Session under **29 *Del. C.* § 10004(b)(4) for the purpose of a strategy session regarding pending litigation, *Christiana Care Health Services, Inc., et al. v. Carney, et al.*, C.A. No. 2024-0802-LWW**

Closing Remarks

Next Meetings

Board will meet the second Tuesday of the month.

Time:

10:00 a.m. – 12:30 p.m.

Dates

- October 14, 2025
- November 18, 2025
- December 9, 2025

Adjourn