

# Healthcare Cost Growth Benchmark Steering Committee Meeting October 24, 2022

**"We collaborate, out of a shared concern and responsibility for all Connecticut residents, to develop consensus models that advance equity and consumer affordability of healthcare in our state."**



# Welcome and Roll Call

# Meeting Agenda

<u>Time</u>	<u>Topic</u>
3:00 p.m.	I. Welcome and Roll Call
3:05 p.m.	II. Public Comment
3:10 p.m.	III. Approval of September Meeting Minutes – Vote
3:15 p.m.	IV. Update on New Work Groups
3:20 p.m.	V. Process for Communicating Benchmark Performance Data to Insurers and Advanced Networks
3:25 p.m.	VI. Inflation Analysis and Approach to Benchmark Assessment
4:10 p.m.	VII. Office of the State Comptroller Presentation on Primary Care
4:55 p.m.	VIII. Wrap-Up and Next Steps
5:00 p.m.	IX. Adjournment

# Public Comment

# Approval of September 28th Meeting Minutes - Vote

# Update on New Work Groups

# Pharmacy Cost Mitigation Strategies Work Group

- Josh Wojcik, **Co-Chair**
- Kristen Whitney-Daniels, **Co-Chair**
- Ted Doolittle
- Fiona Scott Morton
- Lori Pasqualini
- Marie Smith
- Chris Ulbrich
- Dr. Robert Wenick (ProHealth)
- Gui Woolston (DSS)

The Pharmacy Cost Mitigation Strategies Work Group anticipates meeting the first week of November.

# Hospital Readmissions and Avoidable ED Visits Work Group

- Ayesha Clarke, **Co-Chair**
- Tiffany Donelson
- Judy Dowd
- Paul Grady
- Paul Kidwell
- Susan Millerick
- Alison Vail (CHA)

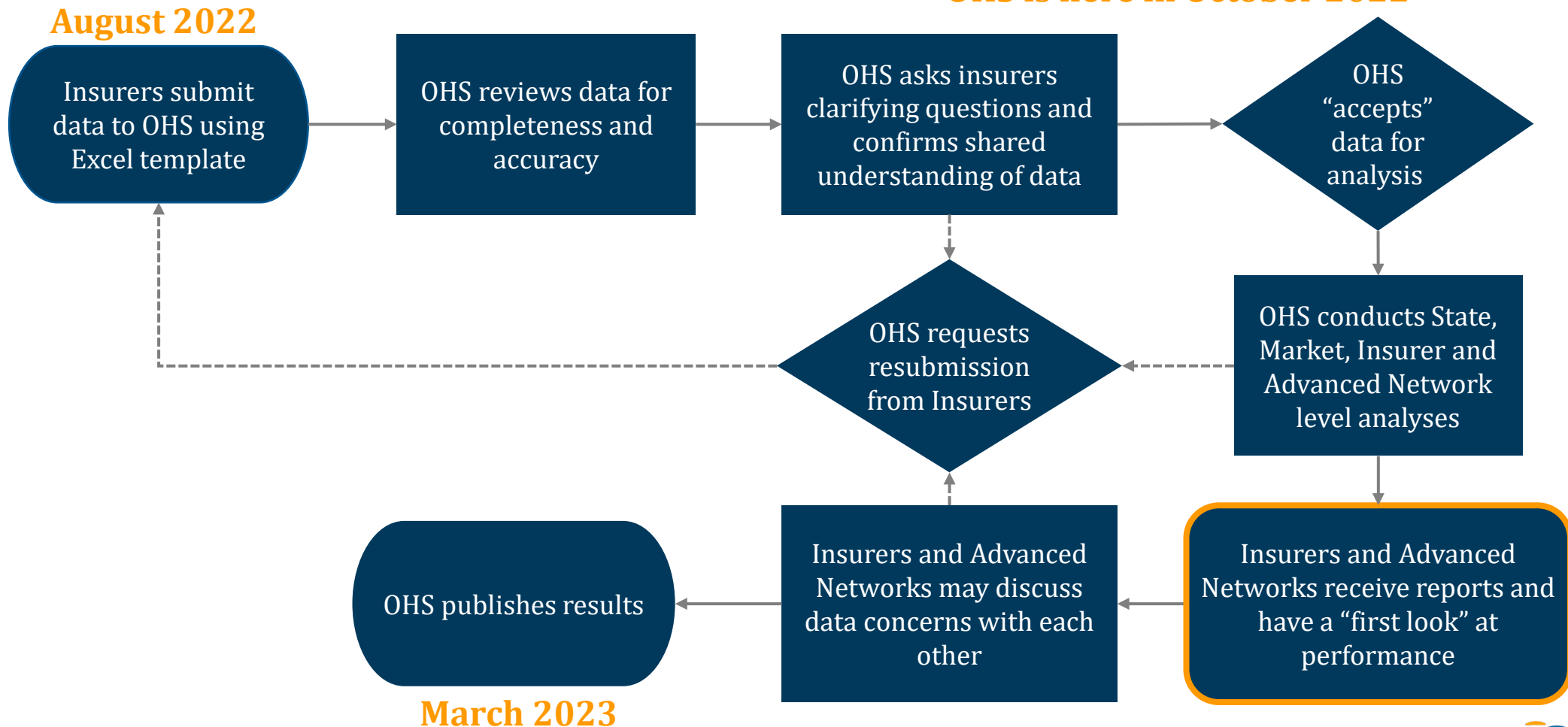
The Hospital Readmissions and Avoidable ED Visits Work Group anticipates meeting as soon as an SME co-chair is confirmed.



# Process for Communicating Benchmark Performance Data to Insurers and Advanced Networks

# Data Validation, Analysis and Reporting Process

OHS is here in October 2022



# Communicating Benchmark Performance to Insurers and Advanced Networks

- **OHS will share a first look at performance against the benchmark with insurers and Advanced Networks prior to public reporting:**
  - **Insurers** will receive their performance overall and by Advanced Network (all by market). OHS will invite insurers to raise any questions about their performance with OHS.
  - **Advanced Networks** will receive their performance overall and by insurer (all by market). OHS will invite Advanced Networks to reach out to individual payers with questions about underlying individual payer data.
  - If additional questions about data validity arise during this process, individual payers may be asked to resubmit and OHS will share updated findings with insurers and Advanced Networks prior to public reporting.
- The table on the following slides details which analyses will be shared internally with insurers and Advanced Networks and which are reported publicly.

# Inflation Analysis and Approach to Benchmark Assessment

# Inflation and Approach to Benchmark Assessment

- Before considering options for how to account for the implications of inflation on assessing performance against the Cost Growth Benchmark, let's consider and discuss the following questions:
  - *What values and objectives should guide considerations of any potential adjustments to benchmark assessment to account for inflation?*
  - *What key context might you have to share that you feel should inform this decision?*

# Background (1 of 3)

- During 2020 OHS convened a Technical Team to advise OHS in the development of the HealthCare Cost Growth Benchmark methodology and values.
- The Technical Team establish these criteria for adoption of economic indicators for the Benchmark methodology:
  - provide a stable and therefore predictable target;
  - rely on independent, objective sources with transparent calculations; and
  - result in a benchmark value that lowers growth in healthcare spending for consumers, employers and taxpayers.

# Background (2 of 3)

- The Technical Team recommendations adopted by OHS were for a blended rate of economic growth as measured by the potential gross state product (PGSP) and the forecasted growth in median household income.
  - *PGSP = (expected growth in national labor force productivity + expected growth in the state's labor force + forecasted inflation as measured by personal consumption expenditures (PCE)) – expected state population growth*
  - *Forecasted median household income = average annual growth rate from 2026-2030 as calculated by IHS Markit for the Connecticut Office of Policy and Management*

# Background (3 of 3)

The former OHS Technical Team recommended that the cost growth benchmark use a **20/80 weighting of the growth in CT Potential Gross State Product and growth in CT Median Income.**

The resulting benchmark value was **2.9%**. OHS adopted this recommendation.

**The Technical Team recommended increasing the benchmark value for the first two years, before settling at 2.9% for the latter years.**

2021 (Base Value + 0.5%)	3.4%
2022 (Base Value + 0.3%)	3.2%
2023–2025 (Base Value)	2.9%



# Public Act 22-118, Inflation and the Benchmark

- §219 of Public Act 22-118 requires the following of OHS:
  1. Conduct an annual review of the current and projected rate of inflation.
  2. Determine whether the rate of inflation requires modification of the Healthcare Cost Growth Benchmark.
- The information that follows responds to this legislative directive.

# What is Inflation?

- Inflation measures how prices of goods and services increased from a prior time period. There are several indices that measure inflation and the choice of which one to use should reflect the questions at hand.
- The Benchmark uses **Personal Consumption Expenditures (PCE)**, which is defined as “*a measure of the prices that people living in the U.S. pay for goods and services.*” It is derived from a survey of businesses and what they sell. It is the Federal Reserve’s preferred measure when setting monetary policy.

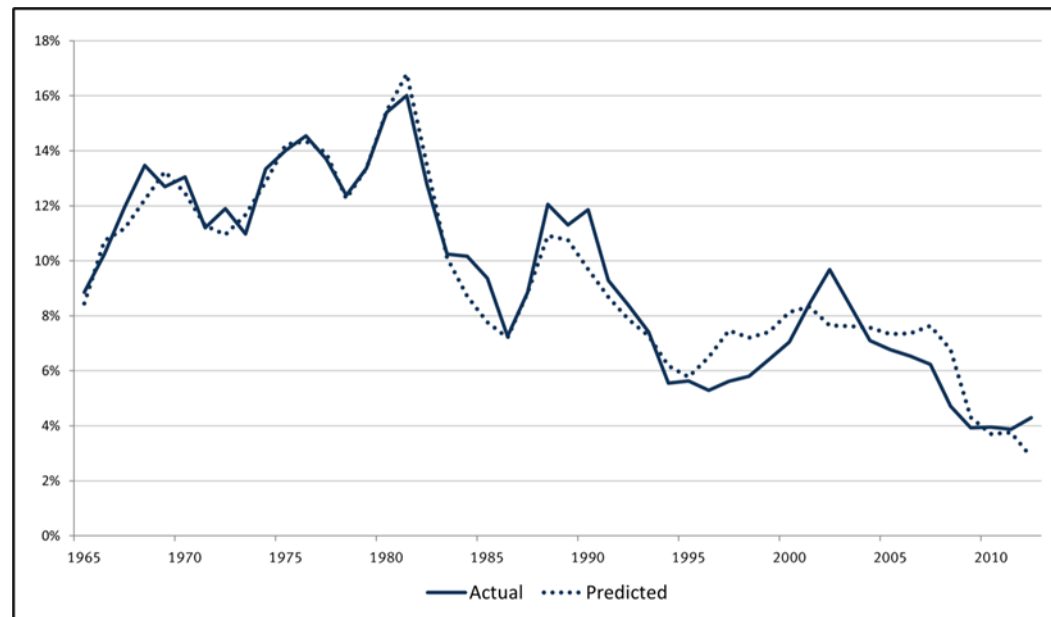
# Inflation in the Benchmark

- Inflation is a small factor of the overall calculation of the Healthcare Cost Growth Benchmark.
- The Benchmark gives the greatest weight to the experience of wage earners, with 80% of the value being tied to the forecasted median household income.

# Statistical Relationship Between Inflation and Healthcare Spending

- Inflation and growth in real GDP are highly predictive of growth in healthcare spending.

**Growth in Healthcare Spending, Actual and Predicted**



*Source: Analysis by the Kaiser Family Foundation and the Altarum Center for Sustainable Health Spending, 2013.*

# Statistical Relationship Between Inflation and Healthcare Spending

- While there is a close relationship, the effects of inflation and real GDP aren't seen in healthcare spending immediately.
- The effect of inflation on healthcare spending lags over two years. This is due to the prospective nature by which prices are set for healthcare services.
  - Commercial payer prices are often established in multi-year contracts.
  - Public payers set prices prospectively and don't always change them frequently.

# Inflation in the U.S., 2011-2022

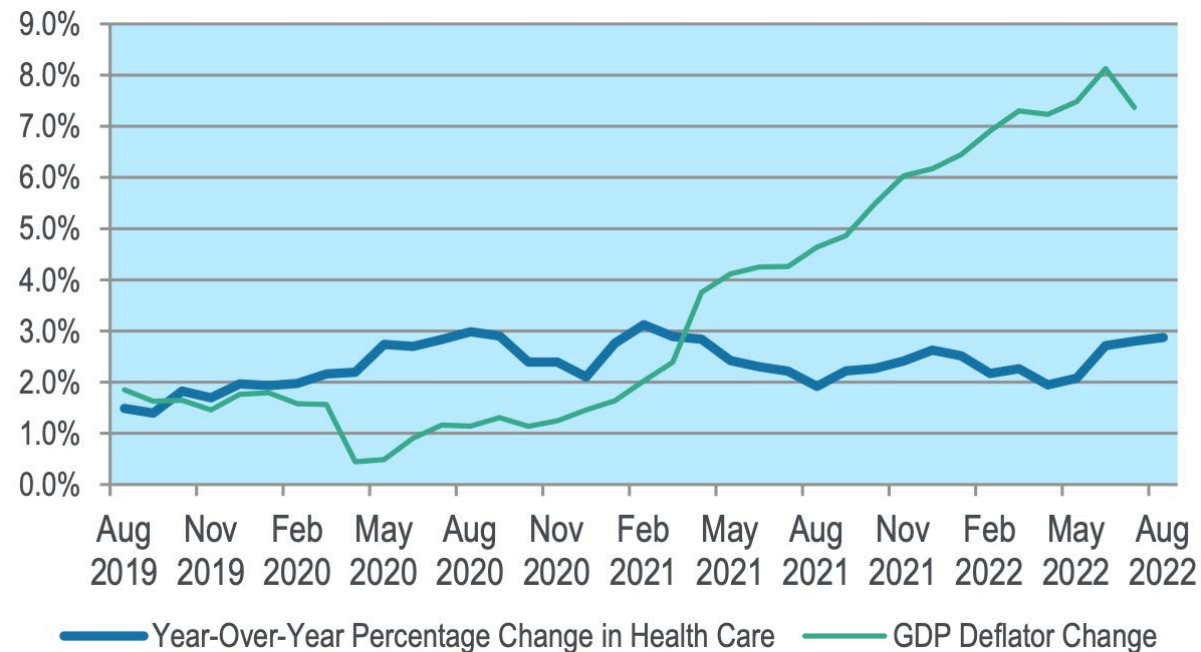
- Inflation (PCE) has climbed dramatically since late 2021.



Source: Bureau of Economic Analysis

# Healthcare Prices in the U.S., Aug. 2019 - Aug. 2022

- Healthcare prices began to rise slightly in the summer of 2022.



Source: Altarum analysis of monthly BLS price data and monthly GDPD data published by Macroeconomic Advisors.

# In Summary

1. Inflation impacts healthcare spending growth.
2. The impact is not immediate, but is delayed or “lagged.”
3. General inflation in the U.S., as measured using PCE, is dramatically higher than it has been for the past two decades.
4. Healthcare prices in the U.S. have grown at slightly elevated rates the last few months. We can anticipate elevated growth into 2023.

Finally, we note that general inflation is forecast to significantly drop in 2023, largely in response to rising interest rates.



# Potential OHS Responses to the Rise in Inflation

OHS identified a full range of possible response to the rise in inflation.

Alternatives	Possible Rationale
1. Make no adjustments. Hold insurers and Advanced Networks to current benchmark values	With inflation high and a possible recession looming, consumers can't afford high rates of cost growth.
2. Make no adjustments. Commit to acknowledge the impact of inflation and labor shortages when interpreting results.	OHS can contextualize findings when they are reported publicly.
3. Create a specific allowance for exceeding the benchmark on a time-limited basis for those years with very high inflation.	Retains the adopted benchmark values while recognizing the impact on providers and payers of what is expected to be a time-limited period of elevated inflation.
4. Redefine the benchmark values on a time-limited basis for those years with very high inflation.	Recognizes the impact on providers and payers of what is expected to be a time-limited period of elevated inflation.
5. Waive the benchmarks during the period of high inflation.	Holds it is unreasonable for providers and payers to be accountable for cost control at the present time.

# OHS' Selected Response

- Following consideration of the five preceding alternatives, OHS has decided that #3 (*“Create a specific allowance for exceeding the benchmark on a time-limited basis for those years with very high inflation”*) is the best course of action.
- This approach retains the policy intent and policy integrity of the statute while responding to the recent significant growth in inflation.
- OHS has modeled the following two options for defining the allowance. We presented them now for Steering Committee consideration.

# Two Options for a Benchmark Allowance

OHS has decided that any allowance should consider the specific impact of recent economic changes.

- **Option 1:** Calculates the difference between a) the benchmark with updated PGSP inflation values and median income values and b) the benchmark with the original 2020 long-term forecast values.
- **Option 2:** Calculates the difference between a) 2021 PCE and forecasted 2022 and 2023 PCE and b) the current long-term PCE forecast for 2026-2030.

# Benchmark Allowance Option 1

**Option 1:** the difference between a) the benchmark with updated PGSP inflation values and median income values and b) the benchmark with the original 2020 long-term forecast values

Year	OHS Adopted Benchmark Values	Option 1: Inflation Allowance	Option 1: Benchmark + Allowance
2023	2.9%	0.5%	3.4%
2024	2.9%	1.0%	3.9%
2025	2.9%	0.3%	3.2%

# Benchmark Allowance Option 2

**Option 2:** the difference between a) 2021 PCE and forecasted 2022 and 2023 PCE and b) the current long-term PCE forecast for 2026-2030

Year	OHS Adopted Benchmark Values	Option 2: Inflation Allowance	Option 2: Benchmark + Allowance
2023	2.9%	2.0%	4.9%
2024	2.9%	3.5%	6.4%
2025	2.9%	0.9%	3.8%

# Discussion Questions

- How do these options balance protecting consumers who face slower income growth and a potential recession with being fair to provider organizations and insurers in light of greatly increased costs?
- How do these options match with the values and objectives we discussed earlier for guiding OHS' consideration of any potential adjustments to benchmark assessment to account for inflation?
- How do you recommend OHS act?

# Office of the State Comptroller Presentation on Primary Care

# Wrap-Up and Next Steps



# Wrap-Up and Next Steps

- The next meeting will be held virtually on Monday, **November 28<sup>th</sup>** from 3–5:00 p.m.