Cost Growth Benchmark Technical Team Meeting #4
June 4, 2020

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Agenda

Time	Topic
1:00 p.m.	I. Call to Order
1:05 p.m.	II. Review and Approval of Prior Meeting Minutes
1:10 p.m.	III. Name of Project
1:15 p.m.	IV. Public Comment
1:25 p.m.	V. Feedback from the Stakeholder Advisory Board
1:30 p.m.	VI. Cost Growth Benchmark Methodology
2:35 p.m.	VII. Adjusting the Benchmark
2:55 p.m.	VIII. Wrap-Up and Next Steps
3:00 p.m.	IX. Adjourn

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II. Review and Approval of May 19, 2020 Meeting Minutes

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III. Name of Project

IV. Public Comment

V. Feedback from the Stakeholder Advisory Board

Feedback from the Stakeholder Advisory Board

- Board members expressed concern about the impact of COVID-19 on development of the benchmark
  - Provider member expressed commitment to addressing costs, but questioned whether benchmark and timeline are realistic due to pandemic
- Board members expressed concern that implementation of the quality benchmarks will not occur until 2022
- A Board member expressed concern that dental expenses are typically not included in development of cost growth benchmarks
- Board members provided suggestions for groups to reach out to as part of stakeholder engagement activities

VI. Cost Growth Benchmark Methodology

Determining the Cost Growth Benchmark Methodology

- At the May 19th meeting we began our discussion of how we will determine the methodology of the benchmark.
- The Technical Team agreed that the benchmark must meet the following three criteria:
  1. Provides a stable and therefore predictable target
  2. Relies on independent, objective data sources with transparent calculations
  3. Will lower growth in spending
- Does everyone support these three criteria?

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What Are the Options for the Cost Growth Benchmark?

1. Connecticut's Gross Domestic Product
2. Median household income of Connecticut residents
3. Average wage of Connecticut workers
4. Rate of inflation

NOTE: Indicators are presented in annualized growth terms.

What Will We Learn About Each of the Indicators?

What each of these indicators measure in the real world

What the "message" would be if the target was pegged to one of these indicators

Messaging is potentially important, as it provides the rationale for how and why the benchmark is chosen.

What the annual rate of change has been over the last 20 years (for informational purposes only)

Option 1:
Connecticut's Gross Domestic Product

Rate of Growth in Connecticut's Economy

Gross State Domestic Product (GSP): the total value of goods produced and services provided in a state during a defined time period.

- This is the state counterpart to Gross Domestic Product (GDP), which is measured at the national level, with a few methodological differences in how the figures are calculated.

The growth in GSP tells us how fast the state's economy is growing. By tying the benchmark to GSP, we would be recommending an expectation that **health care spending should not grow faster than the economy.**

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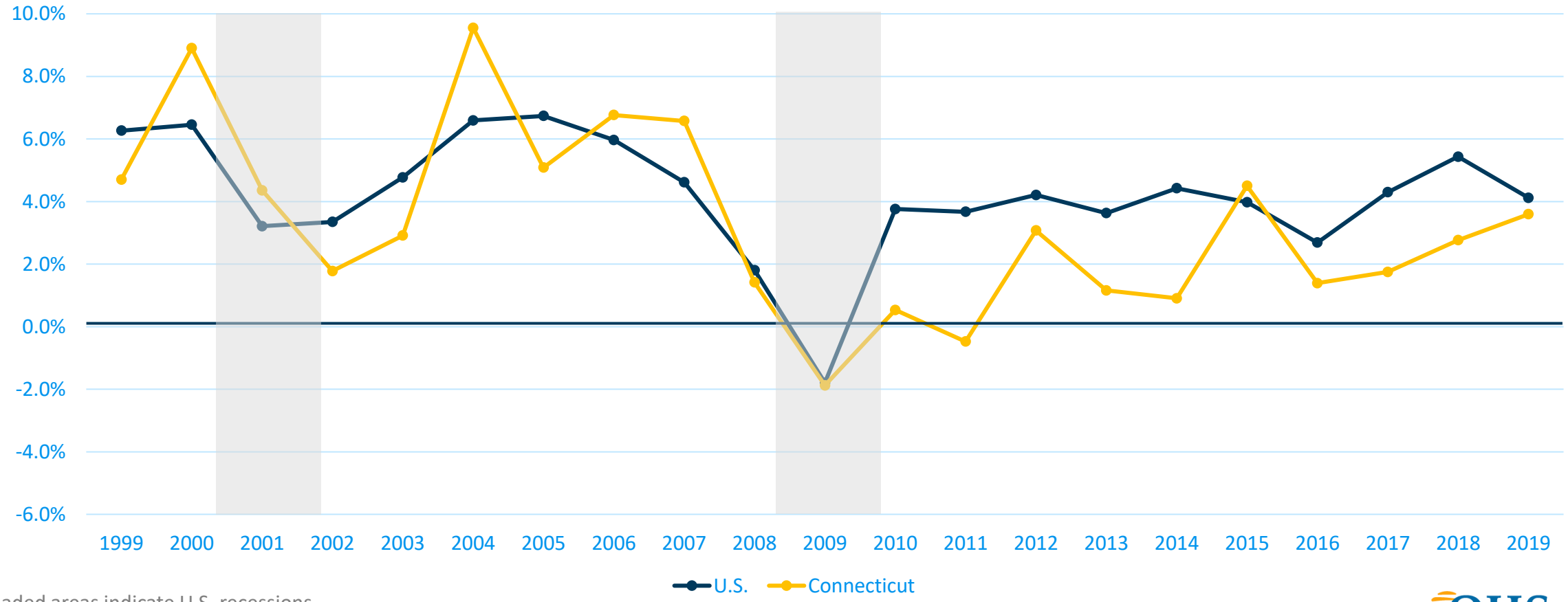
Annual Rate of Growth of the U.S. and Connecticut Total Gross Domestic Product, 1999-2019



Shaded areas indicate U.S. recessions.

SOURCE: U.S. Bureau of Economic Analysis, Total Gross Domestic Product for Connecticut [CTNGSP], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CTNGSP, May 4, 2020.

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Option 2:
Median Household Income

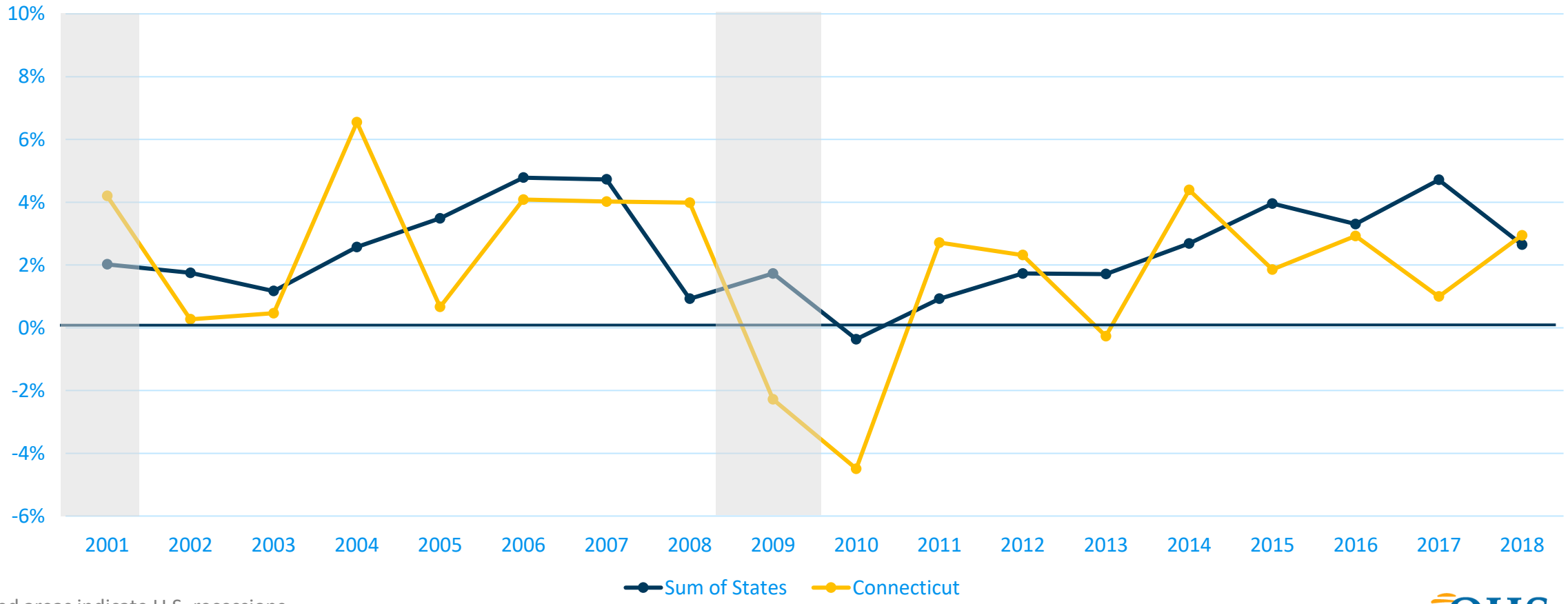
What Is Household Income?

Household income is the sum of all payments received by individuals 15+ within one household, even if unrelated.

- Sources of household income include wages, salaries, investment returns, income from estates and trusts, property income, retirement accounts, public assistance, child support or alimony.
- It is the most comprehensive measure of total income as it includes all sources income (not just wages).

By tying the benchmark to median household income growth, we would be recommending **health care not grow faster than household income growth**.

Annual Rate of Growth of Median Household Income in the U.S. and Connecticut, 2001-2018



Shaded areas indicate U.S. recessions.

SOURCE: CT Office of Policy and Management, using IHS Markit from May 21, 2020.

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Option 3:
Average Wage

What is Average Wage?

Wages + salaries (wages) is compensation received by individuals for work as an employee or as a contractor with an employer.

- Wage may be a more tangible indicator for most individuals than "household income" as it more closely represents "take-home pay."

Setting the cost growth target to the growth of Connecticut residents' wage growth implies that **health care should not grow faster than "take-home pay" of Connecticut residents**.

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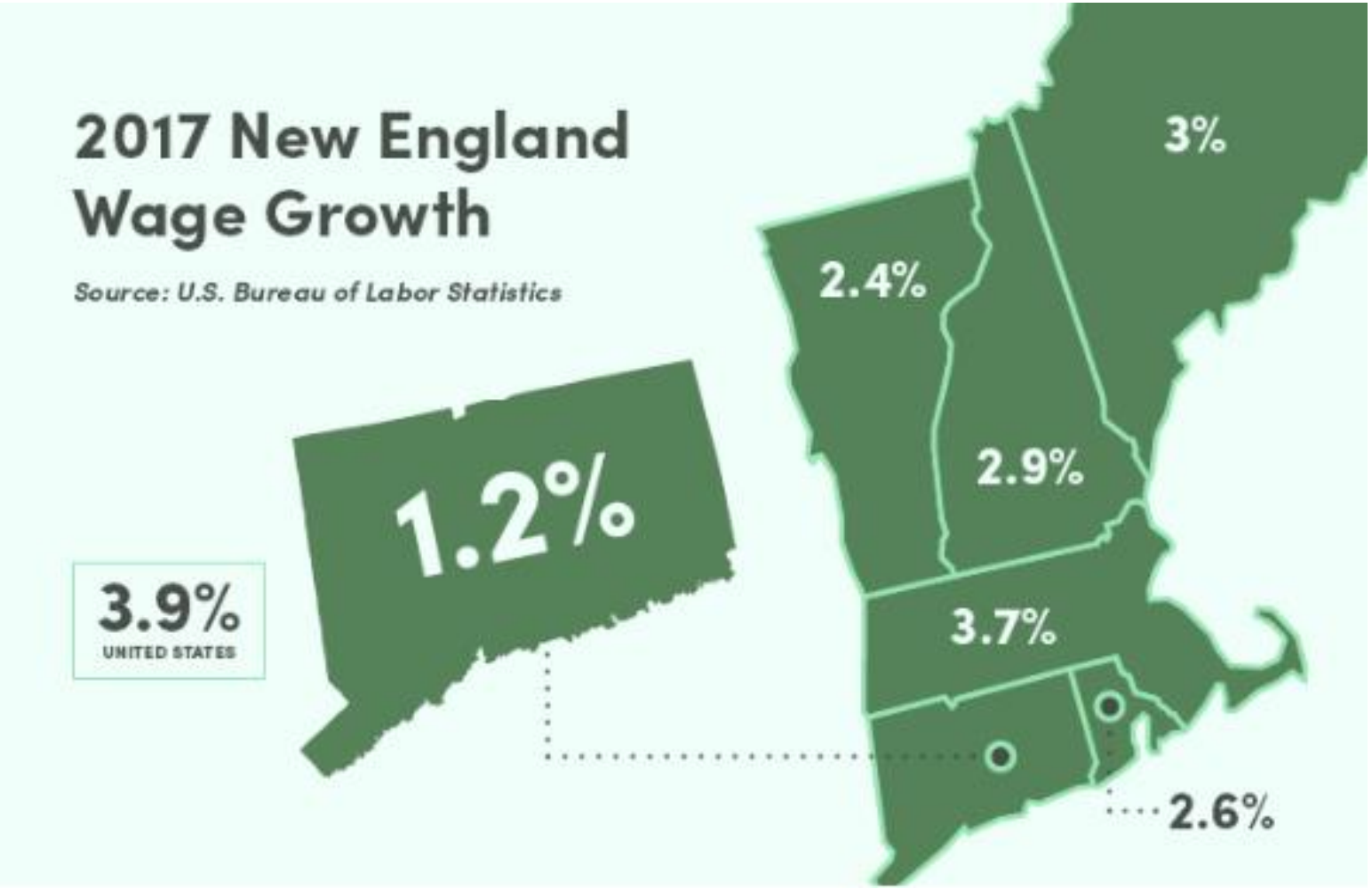
What It Means to Use Rate of Growth of Connecticut Average Wage

- Public Act 19-4 sets the minimum wage to increase gradually to from $11 in 2019 to $15 by 2023 and therefore a small increase in average wage may occur.
- However, “average wage” has risen significantly in 2020 due to the high unemployment rates associated with the pandemic – the fewer workers employed with modest wages skews the average toward those workers still employed.
- Median wage is not an available indicator, hence the use of median household income as a close proxy.

In 2017, Connecticut Wage Growth was the Fifth Slowest in the U.S., and Slowest in New England



Wages were the fifth highest in the country – 20% above the national level – but growth was slow.

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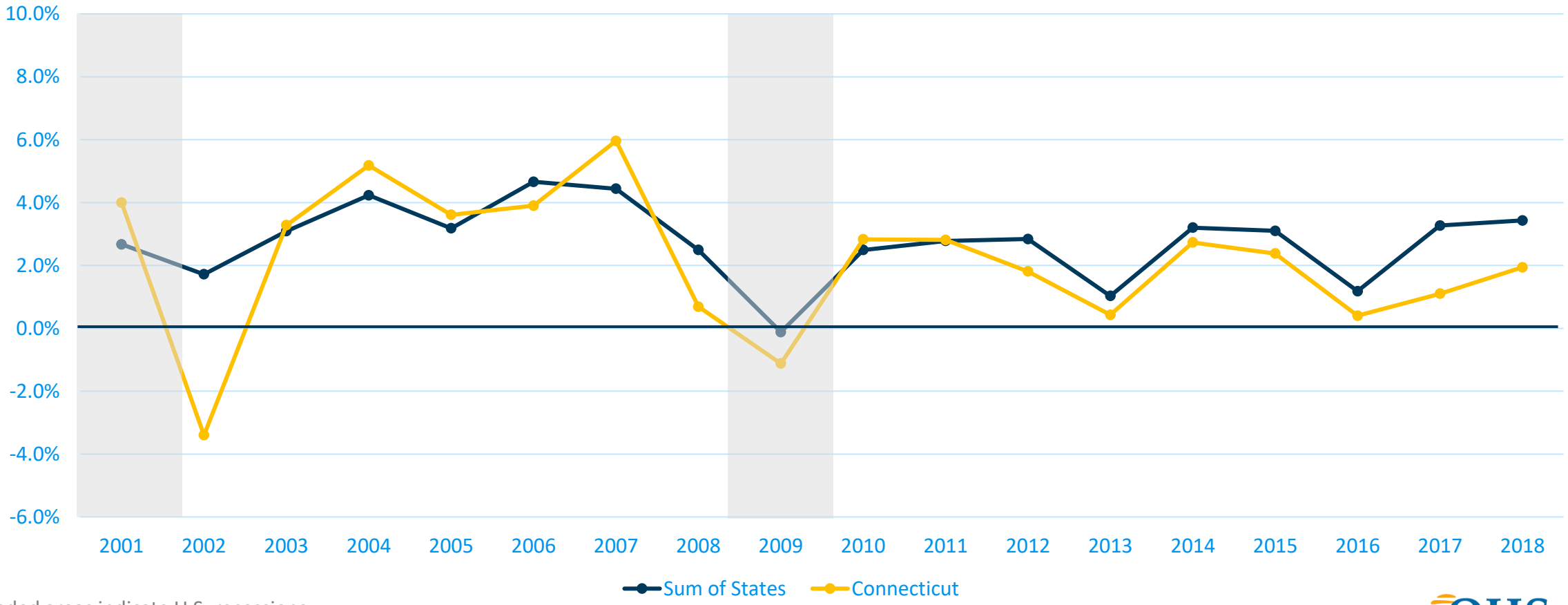
Annual Average Wage Growth in the U.S. and Connecticut, 2001-2018



Shaded areas indicate U.S. recessions.

SOURCE: Connecticut Office of Policy and Management, using IHS Markit data from May 21, 2020.

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Option 4:
Inflation, as Measured by Consumer Price Index

What It Means to Use the Consumer Price Index

The **Consumer Price Index** looks at prices paid by typical consumers for a "market basket" of retail goods and other items.

- It is most often measured using "CPI All Urban or CPI-U," which captures the experience of 94% of Americans.

It includes prices related to:

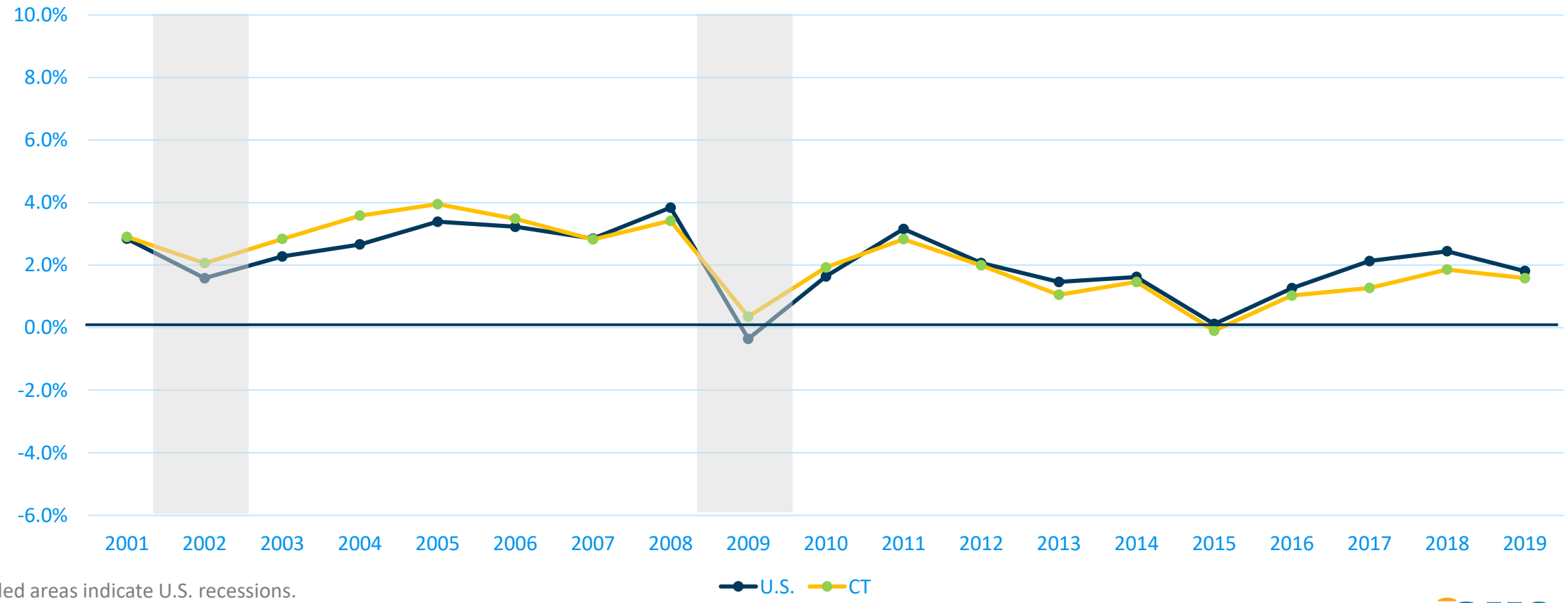
- Food
- Clothing
- Shelter
- Fuel
- Transportation
- Medical care
- Prescription drugs
- Other goods and services that people buy for day-to-day living

What It Means to Use the Consumer Price Index

Generally, if the cost growth target is tied to inflation, then the target would imply that **healthcare should not grow faster than the average rise in consumer prices**.

- This would tie the healthcare cost growth target to the experience of consumers at the grocery store or shopping mall.
- The U.S. Bureau of Economic Analysis no longer measures CPI specifically for Connecticut, but does so for the "Northeast Region" and the "CT-NJ-NY-PA Area." However, we obtained historical and forecasted data from the State's economics data firm, IHS.

Annual Growth in CPI-U in the U.S. and CT, 2001-2019



Shaded areas indicate U.S. recessions.

SOURCES: Connecticut Office of Policy and Management, using IHS Markit data from May 29, 2020 and U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPIAUCSL, May 30, 2020.

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Comparison of Options for Establishing a Cost Growth Benchmark

Discussion of Options

- We have presented 4 options for your consideration. Next, we will provide you with pros and cons to each option to help you answer these questions:
  - Do you want to tie the health care cost growth benchmark to any of the aforementioned economic indicators?
  - If so, which one, and why?
- We will proceed with the discussion first on a more theoretical basis, focusing on the rationale for tying the benchmark to one of the indicators.

Discussion of Options

- How can we make a decision if the criterion of "lowering growth in health care spending" requires us to know the value?
  - After this discussion we will walk you through options for how these economic indicators can be calculated.
  - We will then share a table with values of each economic indicator.
  - We will conclude with a discussion about ways in which the benchmark value can be adjusted should a chosen economic indicator yield a problematic value.

Discussion of Options:
A Reminder of Other State Approaches

- MA, DE and RI tied their health care cost growth targets to Potential Gross State Product.

- OR based their decision on historical GSP and median wage data, and in consideration of the growth "cap" in OR's Medicaid and publicly purchased programs – but did not specifically "tie" their target to an indicator.

Discussion of Options: Advantages and Disadvantages

	Advantages	Disadvantages
1. Gross State Product/Potential Gross State Product	Used by most other states with cost growth targets; there may be value to applying a consistent approach.	This is an abstract economic concept that may not resonate with citizens.
2. Median Household Income	Recognizes that income is more than just wages.	There is no link to the price of goods.
3. Average Wage	A consumer-oriented reference to "take-home pay."	There is no link to the price of goods. Does not include other income and therefore may not reflect consumers' true purchasing power. Averages are skewed by high income earners.
4. Inflation – PCE	Treats health care as another consumer household expense, much as consumers do.	Would assess health care on price and not service volume only.

Calculating an Indicator to Derive a Cost Growth Benchmark

How Can These Indicators Be Calculated to Derive a Cost Growth Benchmark?

- Now that we have discussed the options and your preferences, we need to discuss how to calculate an economic indicator to derive a cost growth benchmark.
- There are two ways to calculate an economic indicator
  1. Based on historical experience
  2. Based on a forecasted projection
- We will weigh each of these options and ask your preferences. Then, we will review a table with the options for continued discussion.

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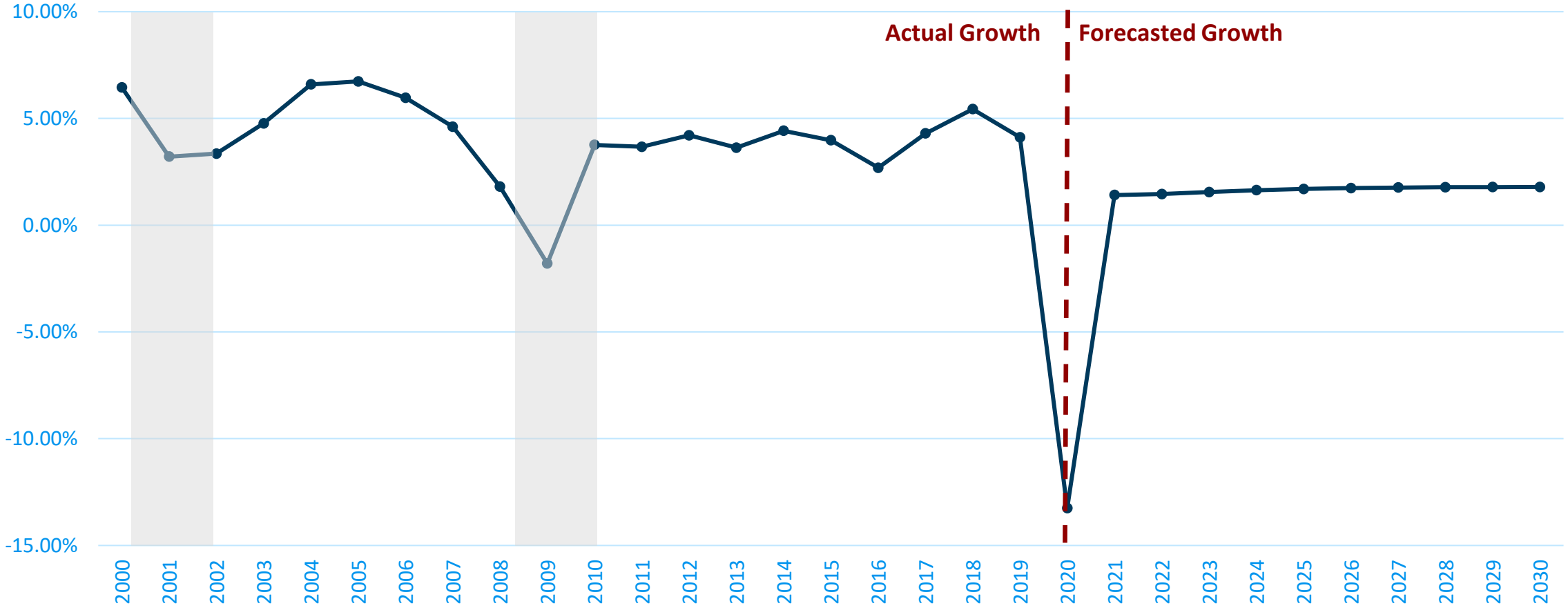
Calculating a Target Based on Historical Experience

- A benchmark figure could be calculated based on the **historical experience** of a given economic indicator.
  - 5 years, 10 years, 20 years, etc.
- In so doing, it would reflect to varying degrees the volatility of year-over-year changes, including booms and busts.
- Historical figures are a relatively easy mathematical calculation (straight average of growth over prior time periods).

Calculating a Benchmark by Using a Forecast

- A benchmark figure could also be calculated based on **forecasts**, which are designed to predict **stable** future figures.
- There are government forecasts (e.g., Connecticut Department of Labor, Congressional Budget Office) and private forecasts (e.g., Moody's, IHS).
  - The figures and methods of calculation vary.
  - Typically private forecast methodologies are not available for scrutiny and can vary by the philosophy and outlook of the chief economists at each organization.

Example of Historical vs. Forecast: Actual Growth Varies, While Forecasts are Intended to Be Stable – US GDP 2000-2030



Shaded areas indicate U.S. recessions.

SOURCE: U.S. Bureau of Economic Analysis, Gross Domestic Product [GDP], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GDP, May 4, 2020; and OECD (2020), Real GDP Long-Term Forecast (indicator). doi: 10.1787/d927bc18-en, accessed May 10, 2020.

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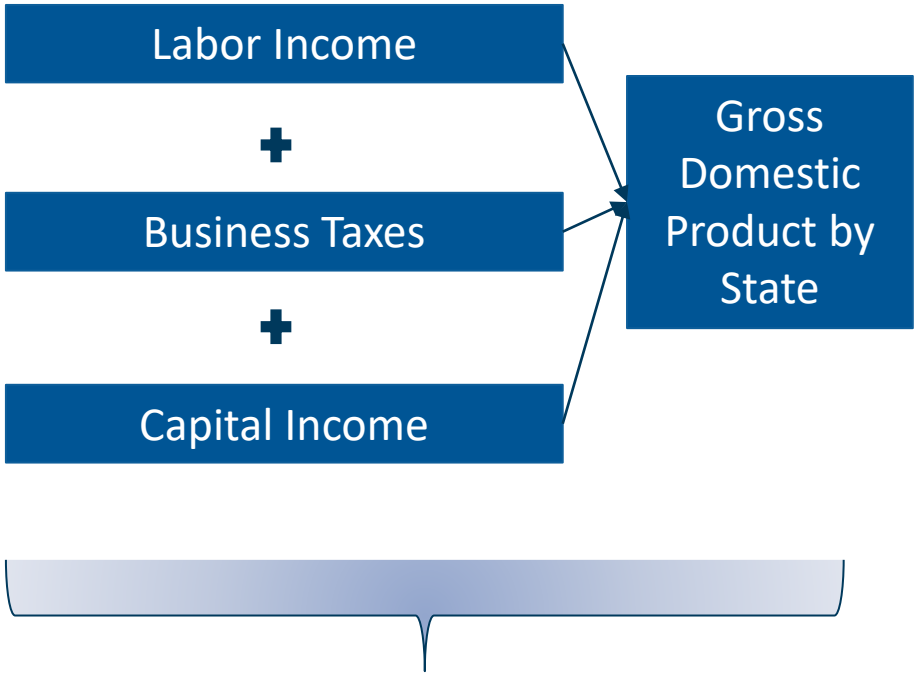
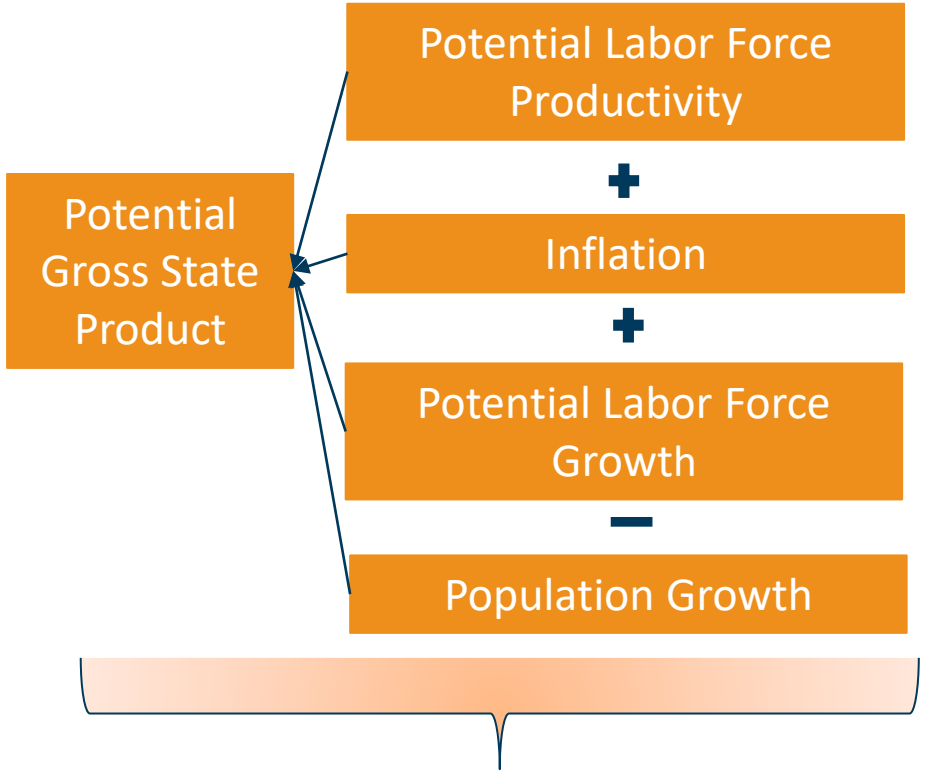
Forecasting Gross State Product

- As you recall, DE, MA and RI are all using a forecasted Gross State Product measure called the **potential gross state product (PGSP)**.
- PGSP measures the long-run average growth rate of a state economy *excluding* fluctuations that may occur due to the business cycle. It is forecasted for year 5 to year 10 in the future. It is also calculated on a per capita basis.
- This is the only economic indictor discussed that has a publicly available **forecasted** calculation, but is not forecasted GSP, per se.
- Because 3 of the 4 other cost growth benchmark states use this calculation, we want to pause to explain this important nuance.

GSP and PGSP are Different Measures and Therefore Forecasts Will be Different



GSP can be calculated using historical averages, or forecasted. If GSP is forecasted, it will not equal PGSP



By definition, PGSP is a forecast

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Discussion of Options

	Historical	Forecasted
Advantages	• Easy to calculate. • Reflects actual experience.	• Smooths out historical variability and provides more stability and predictability.
Disadvantages	• Highly variable, reflecting economic booms and busts. • Unclear rationale for which time period to choose.	• Forecasts are predictions and may be incorrect. • Some forecast methodologies are opaque.

Historical and Forecasted Values

- Historical averages were calculated by taking 20-year straight averages of annual percent growth.
  - 20 years was the timeframe chosen to ensure there were a sufficient number of business cycles to reduce the influence of any one particular boom or bust period.
  - Using the 10-year average would have overvalued the Great Recession.
- The forecasted values for all but PGSP were obtained from the Connecticut Office of Policy and Management, which uses IHS Markit projections – a popular economic data and forecasting firm used by many states.
- PGSP was calculated by project staff using the aforementioned formula.

But Before We View the Options, Here is a Reminder:

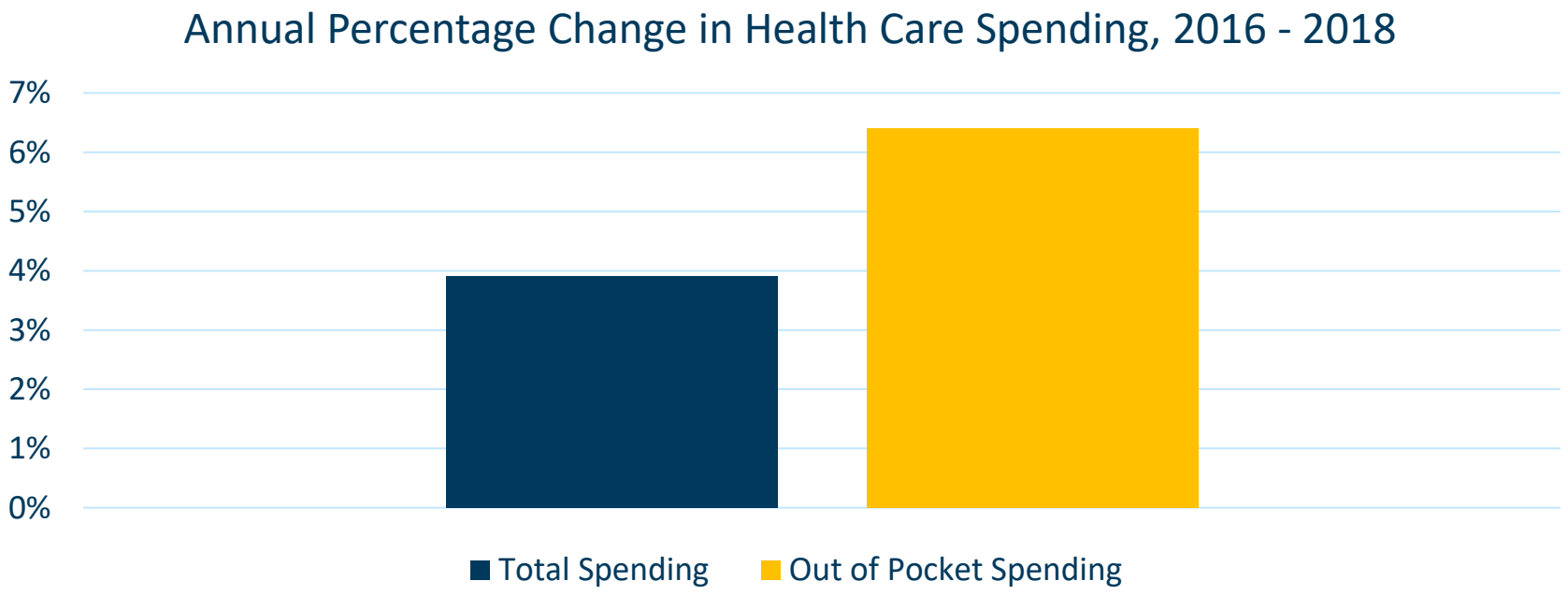
Recent Spending Trends in Connecticut

Medicaid

- Forthcoming

At a Glance: CT's Growth in Commercial Health Care Spending

- Much of CT's growth in health care spending has fallen onto consumers. From 2016-2018, annual growth in total spending was 3.9% and growth in out-of-pocket spending nearly doubled at 6.4%.



SOURCE: Health Care Cost Institute. "2018 Health Care Cost and Utilization Report."

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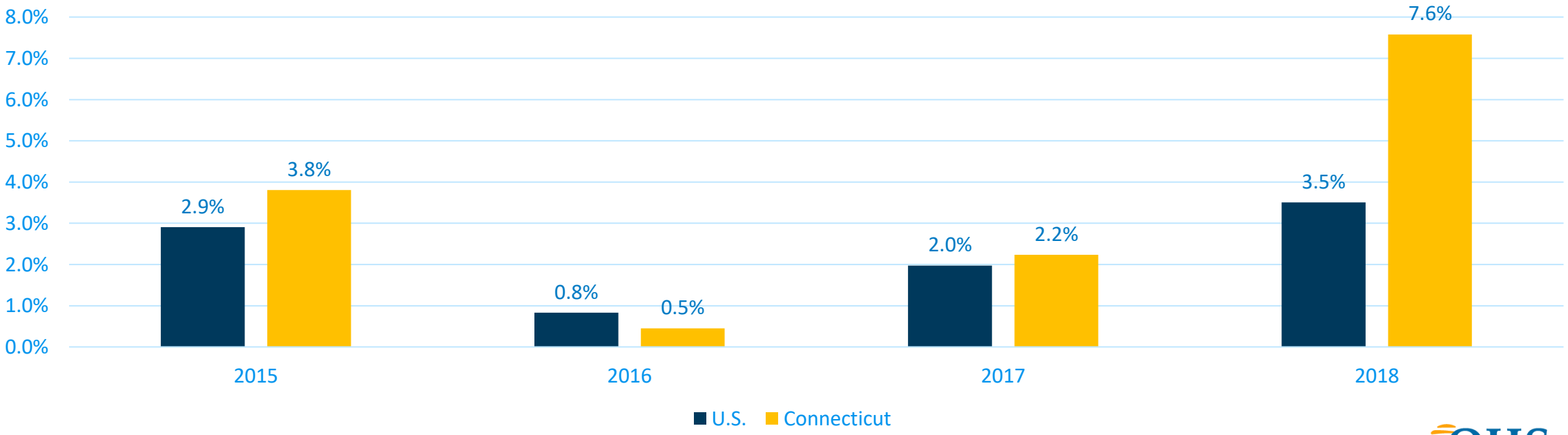
Annual Growth in Per Capita Medicare Spending in the U.S. and Connecticut (2015-2018)

- Medicare spending has risen faster in CT compared to the nation as a whole. From 2015-2018, growth in CT's Medicare spending averaged 3.5% per year.



SOURCE: Centers for Medicare & Medicaid Services Office of Enterprise Data and Analytics.

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Comparison of Historical and Forecasted Values of Potential Indicators

	Historical ~20-Year Lookback	Forecast (2026-2030)
Gross State Product and Potential Gross State Product	Values to be shared during June 4, 2020 Technical Meeting	
Median Household Income		
Average Per Worker Wage		
Consumer Price Index		

*The CT specific inputs to PGSP are using forecasts calculated May 21, 2020 but the national inputs are generally updated each January and August.

**Forecasts were made May 2020 and therefore inclusive of the COVID-19 impact through such time.

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VII. Adjusting the Benchmark

Adjusting the Health Care Cost Growth Benchmark

- Executive Order #5 requires OHS "to develop such initial annual benchmarks for calendar years 2021 through 2025."
- The benchmark we just discussed can be adjusted over the five years, both in terms of value and in terms of methodology.
- In this discussion, we will walk you through the potential options as well as remind you of the decisions made in the four other cost growth benchmark states.

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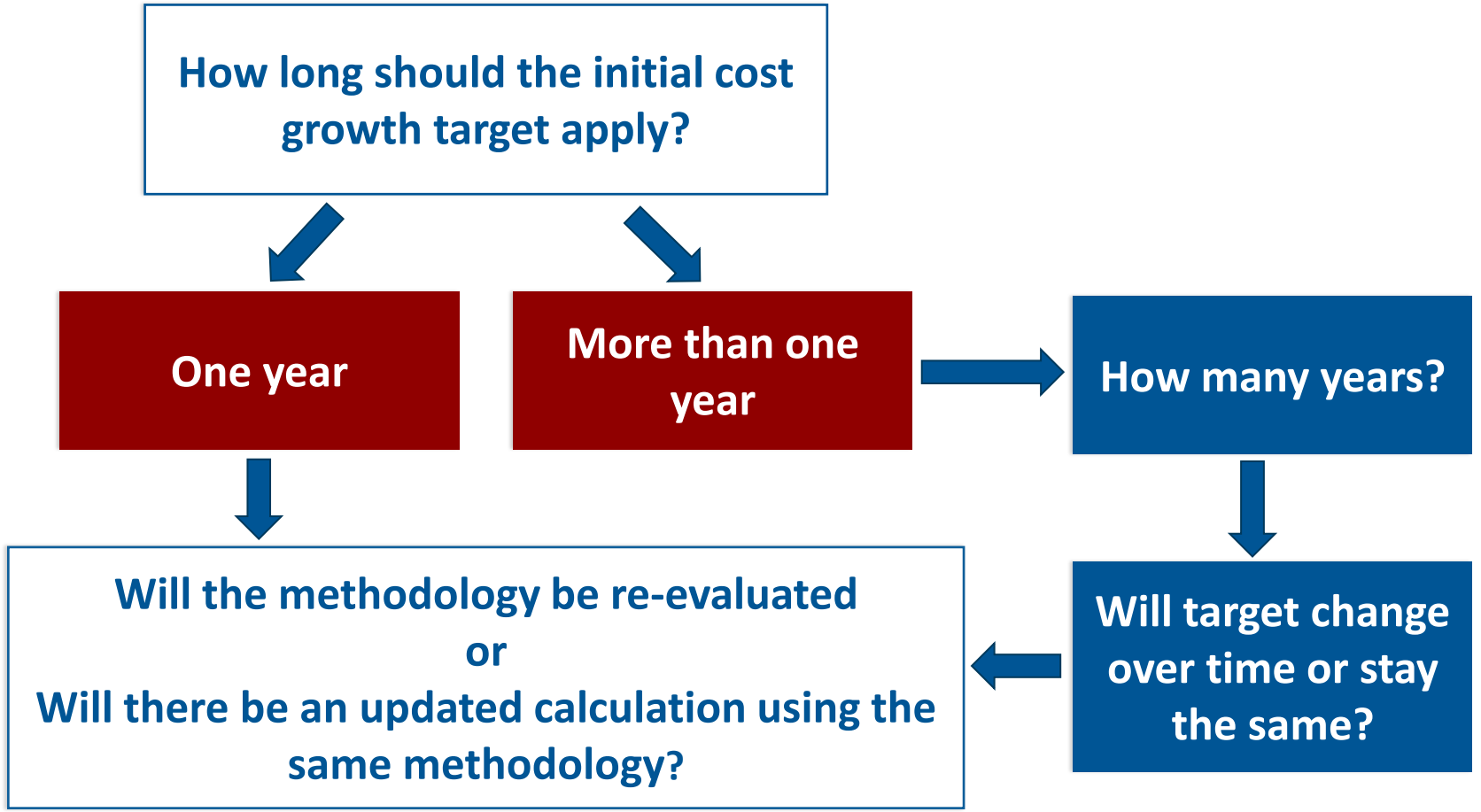
In determining adjustments to the benchmark, we will walk you through the following questions:



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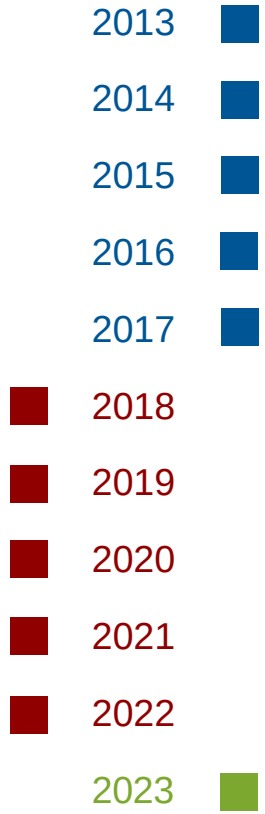
MA Planned 10 Years' Worth of Cost Growth Target Values



Law required the target to be equal to **PGSP** (3.6%)

Law required the target to be **PGSP minus 0.5%** (e.g., 3.1%) **unless** the Board votes to modify the target (requires 2/3 vote).

Law required the target to be equal to **PGSP** (3.6%), but gives the HPC authority to adjust it to any value.

Source: Introduction to the Massachusetts Health Care Cost Growth Benchmark, HPC Slide July 13, 2018

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DE Planned for 5 Years of Cost Growth Target Values (with an Emergency Escape Hatch)

2019	**3.8%**	PGSP + 0.8%
2020	**3.5%**	PGSP + 0.5%
2021	**3.25%**	PGSP + 0.25%
2022	**3.0%**	PGSP
2023	**3.0%**	PGSP

- Delaware's cost growth target is based on the state's PGSP with a "transitional market adjustment" for the first three years.
- In addition, the state's Finance Committee annually reviews the target methodology and has the right to make changes to the target in the event the forecast has changed in a "material way."

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RI Planned for Four Years' Worth of Cost Growth Target Values (with an Emergency Escape Hatch)

- RI set its health care cost growth target at PGSP (3.2%) for four years (2019-2022).
- According to the State's compact, only "highly significant" changes in the economy will trigger re-visiting of the target methodology.
- RI's oversight Steering Committee opted (pre-COVID-19) to not define what constitutes "highly significant" changes in the economy.
  - Several members of the Steering Committee, including both stakeholder co-chairs, believed that *no* economic changes should trigger a re-visit.

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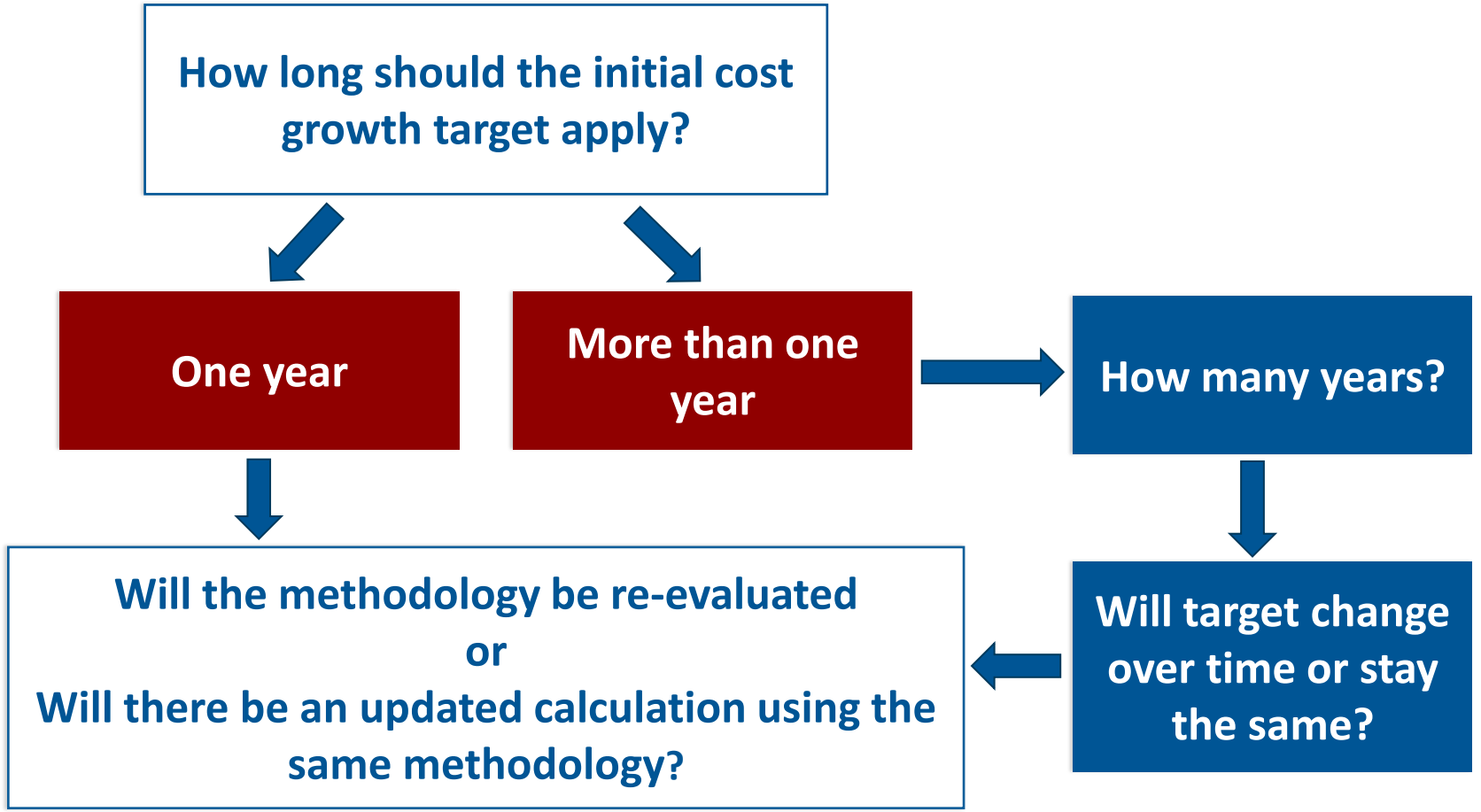
Oregon's Proposed Approach

- Oregon's governance body has not met since March 2020, due to the pandemic. At that time, the committee had just proposed that the cost growth target be:
  - 3.4% for 2021-2025
  - 3.0% for 2026-2030.
- In 2024, a to-be-determined advisory body would review 20-year historic values of OR's per capita gross state product trend, median wage trend, and health system performance against the target to determine whether the annual 2026-2030 target is appropriately set.
- After reviewing the data, a recommendation would be made to the Oregon Health Policy Board to maintain or revise the 3.0% target.
- When the committee reconvenes, it may revisit this recommendation.

Adjusting the Benchmark, Discussion of Key Questions



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Finalizing the Cost Growth Benchmark Methodology and Adjustments

- We will finalize our discussion of the benchmark methodology at the next Technical Team meeting after we consider input received from the Stakeholder Advisory Board.

Wrap-Up & Next Steps

Next Meeting: June 16, 2020

- At our next meeting, we will discuss measuring performance relative to the cost growth benchmark.

- We will also begin our discussions on the primary care target, beginning first with a review of other states' targets.

Meeting Schedule

Meeting #	Date	Time
5	Tuesday, June 16	2-4pm
6	Thursday, July 2	1-3pm
7	Wednesday, July 29	1-3pm
8	Thursday, August 13	1-3pm
9	Thursday, August 27	1-3pm
10	Thursday, September 24	1-3pm