

# Rhode Island Health Care Cost Trends Steering Committee

July 27, 2022



# Agenda

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1. Welcome
2. Approval of June Meeting Minutes
3. Options for 2023-27 Target Values
4. New Cost Trends Compact for 2023-27
5. Public Comment
6. Next Steps and Wrap-up

Welcome

# Approval of Meeting Minutes

# Approval of Meeting Minutes

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- Project staff shared minutes from the June 23<sup>rd</sup> Steering Committee meeting in advance.
- **Does the Steering Committee wish to approve the June meeting minutes?**

# Options for 2023-27 Target Values

# Note on Options

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- During the June meeting, members expressed a desire to account for the impact of the current spike of **inflation** in the target values. OHIC opted to do so, and also to incorporate economic measures that reflect **consumers' experience** into the cost growth target methodology, as other states are now doing.
- The following slides present a series of **six options** for the 2023-27 period, presented in pairs. For each set of options, we will first describe the methodology and rationale before considering the associated values. We will present all six options before opening the floor for discussion.



# Options 1 and 1A: Methodology & Rationale

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- **Option 1** is the methodology used for the 2019-2022 targets, updating the inputs of the formula for **Potential Gross State Product (PGSP)** using the most current 2022 data sources.
  - The resulting value is **3.4%**.
- **Option 1A** uses a **50/50 blend** of the updated PGSP calculation (from Option 1) and the **annual average of forecasted median household income growth**.
  - As with the PGSP calculation, we used the projected average annual in median household income growth for 5-10 years into the future.
  - The resulting value is **3.6%**.



# Options 1 and 1A Values

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<b>Option #</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
<b>Option 1</b>	3.4%	3.4%	3.4%	3.4%	3.4%
<b>Option 1A</b>	3.6%	3.6%	3.6%	3.6%	3.6%

# Options 2 and 2A: Methodology & Rationale

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- **Option 2** is similar to Option 1 but modifies the ‘forecasted inflation’ input of PGSP by adjusting for the **2-year lagged impact of inflation\*** on health care costs for **three years (2023-25)** and uses the long-term forecast for two years (2026-27). The other PGSP inputs remain the same from Option 1.
- **Option 2A** uses a 50/50 blend of PGSP from Option 2 and forecasted median household income growth. We used the actual forecast for median household income growth for **three years (2023-25)**, which reflects higher income than in later years. We used the long-term forecast (5-10 years into the future) for two years (2026-27).
- These options reflect a return to normal inflation levels in **2026**.

\*The adjustment is the application of the Fed’s calculation of 2021 change in Personal Consumption Expenditures (PCE) and its most recent projections for 2022 and 2023.

# Options 2 and 2A Values

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<b>Option #</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
<b>Option 2</b>	6.9%	5.4%	3.7%	3.4%	3.4%
<b>Option 2A</b>	5.4%	5.0%	3.8%	3.6%	3.6%

# Options 3 and 3A: Methodology & Rationale

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- Option 3 is similar to Option 2 but modifies the ‘forecasted inflation’ input of PGSP by adjusting for the **2-year lagged impact of inflation** on health care costs for **two years (2023-24)** and uses the long-term forecast for three years (2025-27). The other PGSP inputs remain the same from Option 1.
- Option 3A uses a 50/50 blend of PGSP from Option 3 and forecasted median household income growth. We used the actual forecast for median household income growth for **two years (2023-24)**, which reflects higher income than in later years. We used the long-term forecast (5-10 years into the future) for two-years (2025-27).
- These options reflect an anticipated to normal inflation levels in **2025**.

# Options 3 and 3A: Values

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<b>Option #</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
<b>Option 2</b>	6.9%	5.4%	3.4%	3.4%	3.4%
<b>Option 2A</b>	5.4%	5.0%	3.6%	3.6%	3.6%

# Summary of Options

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<b>Option #</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
<b>Option 1</b>	3.4%	3.4%	3.4%	3.4%	3.4%
<b>Option 1A</b>	3.6%	3.6%	3.6%	3.6%	3.6%
<b>Option 2</b>	6.9%	5.4%	3.7%	3.4%	3.4%
<b>Option 2A</b>	5.4%	5.0%	3.8%	3.6%	3.6%
<b>Option 3</b>	6.9%	5.4%	3.4%	3.4%	3.4%
<b>Option 3A</b>	5.4%	5.0%	3.6%	3.6%	3.6%

# Impact of Cost Growth Target Options on Total RI Health Care Spending, 2023-27

	CY2019 Spending (Baseline)	
Rhode Island Overall	\$8.27 B	
Option #	Potential Aggregate RI Health Care Spending, 2023-27	Δ with Option 1 (lowest spending)
Option 1	\$45.73 B	-
Option 1A	\$45.98 B	\$0.25 B
Option 2	\$48.11 B	\$2.38 B
Option 2A	\$47.40 B	\$1.67 B
Option 3	\$48.02 B	\$2.29 B
Option 3A	\$47.32 B	\$1.59 B

# Impact of Cost Growth Target Options on RI Commercial Health Care Spending, 2023-27

	CY2019 Spending (Baseline)	
Rhode Island Overall	\$2.24 B	
Option #	Potential Commercial RI Health Care Spending, 2023-27	Δ with Option 1 (lowest spending)
Option 1	\$12.41 B	-
Option 1A	\$12.48 B	\$0.07 B
Option 2	\$13.06 B	\$0.65 B
Option 2A	\$12.86 B	\$0.45 B
Option 3	\$13.03 B	\$0.62 B
Option 3A	\$12.84 B	\$0.43 B



# Discussion

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- The original 2018 compact stated:
  - *“We, the undersigned...have developed a set of recommendations...which we believe will help Rhode Island reduce the growth in health care costs and state health care spending.”*
- Will these target values effectively serve that purpose? Why or why not?
- What, if any, changes do you recommend?

# New Cost Trends Compact for 2023-27

# Public Comment

# Next Steps and Wrap-up