Memo

To: Vermont JFO

From: Chrissy Eibner, Chapin White

Regarding: Preliminary Health Care Spending Trends

Date: October 28, 2014

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As a starting place for predicting future trends in health spending growth in Vermont, we analyzed trend projections developed by the CBO and the Medicare Office of the Actuary (OACT). The 2012 to 2013 inflation factors derived from these sources are shown in Table 1. Because CBO's projections for Medicare spending have been more accurate than OACT's projections in recent years, we relied on CBO for the Medicare growth rates. Trends in Medicaid growth and growth for "all else" (primarily commercial insurance) are based on the OACT projections, which can be found in the National Health Expenditure Account Reports.

Table 1: NHEA and CBO-Based Growth Rates in Health Spending Per Capita

	Medicare	Medicaid	All Else
2012-2013	6.6%	0.4%	4.5%
2013-2014	0.6%	6.7%	5.0%
2014-2015	0.7%	1.1%	6.2%
2015-2016	2.8%	2.9%	6.1%
2016-2017	-0.7%	3.9%	7.7%

Medicare trends are based on the CBO's projections; trends for Medicaid and all else are based on CMS/OACT's projections.

Using the national figures in Table 1 as a starting point, we then made several adjustments to address Vermont-specific issues:

Medicare

Based on Medicare spending data obtained from the Medicare Hospital Referral Region (HRR) data-base, we found that per-capita Medicare spending growth in Vermont has trended at about 1 percentage point above the national growth rate. In an additional analysis, we found that about 0.4 points of the 1 percentage point difference is explained by Medicare Advantage penetration, and the remaining 0.6 points are explained by a general convergence phenomenon (explained in more detail below). Payment cuts to Medicare Advantage plans, which are being phased in by the ACA, have reduced the national rate of growth in health spending. Vermont has very low Medicare Advantage

penetration, so has not been affected by these trends. The Medicare Advantage effect will likely disappear after 2017, when the Medicare Advantage cuts have reached their maximum levels. However, the cuts are relevant for our projection window, which spans from 2012 to 2017.

The remaining difference between Medicare growth rates in VT and national trends can be explained by a general convergence phenomenon. Historically, VT had lower spending than the national average. Recent evidence shows that states with historically low spending have had higher growth rates in recent years.

To address these issues, we propose to add 1 percentage point to the Medicare trends projected by the CBO.

Medicaid

One alternate approach for accounting for Vermont-specific trends in Medicaid is to use projected spending from Medicaid Eligibility Groups (MEGS), which are forecasts prepared by the Department of Vermont Health Access (DVHA), and report actual and projected Medicaid growth rates for Vermont from 2012 to 2015. Table 2 shows the MEGS growth rates compared to the NHEA projections. These estimates reflect trend after removing costs associated with the medical education program ($60 million in 2013, $30 million in 2014, and an estimated $30 million in 2015). We show columns separately for newly eligible adults and all other Medicaid enrollees. Newly eligible adults have lower spending than traditional Medicaid enrollees (e.g. general adults, dual eligibles, choices for care enrollees), because they tend to be healthier. Thus, if we incorporated newly eligible adults into a single trend factor for all Medicaid enrollees, we'd see a one-time drop in 2014. We are less certain about the trend for newly eligible adults because the state Medicaid agency does not yet have a full year of data to assess spending patterns in this group.

Table 2: Medicaid per Enrollee Spending Growth

	MEGS Previously Eligible	MEGS Newly Eligible Adults	NHEA
2012-2013	1.4%	NA	0.4%
2013-2014	3.1%	NA	6.7%
2014-2015	3.8%	7.1%	1.1%
Average	2.8%	7.1%	2.8%

Trends for previously eligible adults look similar on average to the NHEA, although the annual increases between 2012 and 2015 are more stable in the MEGS data. The MEGS projected growth in spending among newly eligible adults—a 7.1% increase between 2014 and 2015—is very high. We are concerned with using this estimate because it is derived entirely from forecasted spending among newly eligible adults. Instead, we propose to apply the growth rate for previously eligible individuals to all Medicaid

enrollees, including the newly eligible adult population. We propose to use the MEGS trends for 2012-2015, and revert to the NHEA trends after 2015, due to the lack of MEGS estimates in the out-years.

Commercial

In a separate analysis for Vermont, the Wakely Consulting Group found that growth in per-capita commercial expenditure in Vermont ranged from 5.3 percent to 7.1 percent over the past 5 years. These trends are roughly consistent with the "All Else" trend found in the national data (Table 1), with the exception that the 2012 to 2013 growth rates in the national data (4.5 percent) are low relative to Vermont's past experience.

Because Vermont currently has full-year expenditure data from VHCURES for both 2012 and 2013, there is no need to rely on the national projections for the 2012-2013 growth factor. Instead, we proposed to replace this factor with the 2012 to 2013 growth rate in average per member per month spending, as calculated based on spending reported in VHCURES, which is 6.5 percent. While Vermont-specific data on commercial spending in 2014 is incomplete at the time of this writing, early evidence suggests that the growth in health spending in commercial plans exceeded the 5 percent estimate found in the national data. As a result, we use the 6.5 percent growth trend estimated from the 2012-2013 for the 2013-2014 trend as well.

Final Trends

After implementing the modifications to the national data described above, our final trend factors are shown in Table 3.

Table 3: Proposed Growth Rates in Health Spending Per Capita

	Medicare	Medicaid	All Else
2012-2013	7.6%	1.4%	6.5%
2013-2014	1.6%	3.1%	6.5%
2014-2015	1.7%	3.8%	6.2%
2015-2016	3.8%	2.9%	6.1%
2016-2017	0.3%	3.9%	7.7%

Notes: Medicare spending trends are derived based on CBO projections, plus 1 percentage point per year. Medicaid spending trends are derived using the MEGS for 2012-2015; we use the OACT trend for 2015-2016 and 2016-2017 because MEGS projections do not go beyond 2015. Trends for all else are derived based on OACT's projections, but we replace the 2012-2013 and 2013-2014 trend factors with a Vermont-specific number obtained from the VHCURES data.

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