




State of Vermont
Department of Banking, Insurance,
Securities and Health Care Administration
89 Main Street
Montpelier, VT 05620-3101
www.bishca.state.vt.us

Consumer Assistance Only:
Insurance: 1-800-964-1784
Health Care Admin.: 1-800-631-7788
Securities: 1-877-550-3907

MEMORANDUM

TO: Donald G. Milne, Clerk of the House
David A. Gibson, Secretary of the Senate
Emily Bergquist, Director and Chief Counsel

FROM: Peter Santos, Health Care Analyst, Division of Health Care Administration (DHCA) of
the Department of Banking, Insurance, Securities and Health Care Administration
(BISHCA) 

RE: Three-Year Forecast of Vermont Health Care Expenditures

DATE: January 15, 2009

CC: Representative Steven Maier, Chair, House Health Care Committee
Senator Douglas A. Racine, Chair, Senate Health & Welfare Committee
Dr. James Hester, Director, Commission on Health Care Reform
Susan Besio, Director, Office of Vermont Health Access
Dennise Casey, Deputy Chief of Staff, Office of the Governor
Heidi Tringe, Secretary of Civil and Military Affairs
Paulette Thabault, Commissioner, BISHCA

Pursuant to 2 V.S.A. § 20, attached is a copy of a *Three-Year Forecast* of Vermont health care expenditures. This report was developed to meet the requirement under 18 V.S.A. § 9406 (b)(1-4) that directs the Department of Banking, Insurance, Securities and Health Care Administration (BISHCA) to annually prepare a three-year projection of health care expenditures made on behalf of Vermont residents. The statute also requires that the report be filed with the General Assembly on or before January 15th of each year.

The information contained in this analysis will also be included in the annual *Vermont Health Care Expenditure Analysis* report that BISHCA will be publishing in February. Also, as we were preparing this memorandum, we learned that ongoing revisions to the State budget, including rescissions to Medicaid spending, might change the projections in the attached *Three-Year Forecast*.

The *Vermont Health Care Expenditure Analysis*, detailing 2007 health care expenditures by Vermont residents and Vermont providers, will be filed with the General Assembly in early February.

Please feel free to contact BISHCA if you have any questions or concerns regarding this forecast report. Thank you for your assistance.



STATE OF VERMONT
DEPARTMENT OF BANKING, INSURANCE,
SECURITIES & HEALTH CARE ADMINISTRATION



LEGISLATIVE REPORT

DIVISION OF HEALTH CARE ADMINISTRATION

THREE-YEAR FORECAST of VERMONT HEALTH CARE EXPENDITURES 2008 – 2011

Submitted to the
Vermont General Assembly
In accordance with
8 V.S.A. § 9406 (b) (1-4)

January 15, 2009

2008-2011 Forecast

Three-Year Projections of Health Care Expenditures

This Forecast report describes projected expenditures for Vermont health care providers and on behalf of Vermont residents for the period 2008-2011.

Background

This forecast report was prepared to meet requirements under 18 V.S.A. § 9406 (b)(1-4) that directs the Department of Banking, Insurance, Securities and Health Care Administration (BISHCA) to prepare annually a three-year projection of health care expenditures made on behalf of Vermont residents, and file the report to the general assembly by January 15th.

The projections are considered in the evaluation of health insurance rate and trend filings that are submitted to BISHCA, as well as used in connection with the hospital budget review process and the Certificate of Need process. The projections of Vermont health care resident expenditures are also used in the development of the Unified Health Care Budget. See Appendix A for more detail on how the projections are used.

Expenditure Analysis Report

The information contained herein will also be included in the annual *Vermont Health Care Expenditure Analysis* report. That report, detailing 2007 health care expenditures by Vermont residents and Vermont providers, will be filed with the General Assembly in February.

Forecast Models

BISHCA forecasts health costs from two perspectives. These two perspectives represent two unique populations. The *provider* model measures expenditure increases from the Vermont provider perspective (services to Vermonters and out-of-state residents in Vermont). The *resident* model measures increases from the payer perspective (services to Vermont residents, wherever the care is rendered).

As their base, the models use the 2007 Vermont health care expenditures (resident and provider) as reported to and calculated by BISHCA. In both models, most of the projected expenditures for Vermont in 2008-2011 are estimated using the provider service projections reported by the U.S. Centers for Medicare and Medicaid Services (CMS) National Health Expenditure (NHE) model¹. Community hospital projections, however, are based upon data submitted to BISHCA during the annual hospital budget review process, and include projected 2008 and budgeted 2009 data.

For the provider model, provider service expenditures are projected forward, and then allocated by payer based on the most recent payer distributions that have been reported through 2007. For

¹ For more information about the National Health Expenditure Data, please visit the Centers for Medicare and Medicaid Services' web site at www.cms.hhs.gov/NationalHealthExpendData/.

the resident model, each payer's (e.g., Medicare, private insurance) provider service expenditures are projected forward from the 2007 base. The one exception is that Medicaid is projected independently in the resident model based on their budgeted growth rates and other information from AHS.

The projections for the Global Commitment for Health (Medicaid) are included in the resident model. The projections only include rescission items that were identified before December 2008. However, we have learned that new changes to the State budget might affect this projection. Aside from that, the forecast model assumes no significant changes in enrollment or significant program policy changes in Medicare or Medicaid. A technical documentation report will be available on BISHCA's web site shortly and has a more complete discussion of the forecast model.

Vermont RESIDENT Health Care Expenditure Projections

Resident Expenditures by Provider			
(\$ in millions)	Actual 2007	Projected 2011	2008-2011 Average Annual Change
Hospitals	\$1,419.5	\$1,892.7	7.5%
Physicians	\$614.3	\$770.7	5.8%
Dentists	\$125.2	\$157.9	6.0%
Other Professional	\$158.9	\$199.2	5.8%
Home Health	\$91.3	\$116.7	6.3%
Drugs & Supplies	\$572.1	\$752.1	7.1%
Vision & DME	\$78.1	\$93.4	4.6%
Nursing Homes	\$224.6	\$289.0	6.5%
Admin/Net Cost Ins.	\$384.7	\$516.4	7.6%
Other/Unclassified	\$41.9	\$59.1	9.0%
Govt Health Activities	\$478.9	\$656.8	8.2%
TOTAL	\$4,189.6	\$5,504.2	7.1%

Resident Expenditures by Payer			
(\$ in millions)	Actual 2007	Projected 2011	2008-2011 Average Annual Change
Out-of-Pocket	\$503.7	\$638.3	6.1%
Private	\$1,722.3	\$2,238.5	6.8%
Medicare	\$796.5	\$1,033.9	6.7%
Medicaid	\$997.2	\$1,367.7	8.2%
Other Govt	\$169.9	\$225.7	7.4%
TOTAL	\$4,189.6	\$5,504.2	7.1%

Table 1

- Vermont *resident* health care expenditures in Vermont are expected to grow at an average annual rate of 7.1 percent from 2008 to 2011, reaching \$5.5 billion in 2011.

Vermont PROVIDER Health Care Expenditure Projections

Provider Expenditures by Provider			
(\$ in millions)	Actual 2007	Projected 2011	2008-2011 Average Annual Change
Hospitals	\$1,748.1	\$2,321.7	7.4%
Physicians	\$571.9	\$707.4	5.5%
Dentists	\$227.2	\$283.1	5.6%
Other Professional	\$174.8	\$216.2	5.4%
Home Health	\$97.6	\$121.9	5.7%
Drugs & Supplies	\$546.6	\$714.5	6.9%
Vision & DME	\$73.8	\$87.0	4.2%
Nursing Homes	\$227.0	\$274.1	4.8%
Admin/Net Cost Ins.	N/A	N/A	N/A
Other/Unclassified	\$30.1	\$42.5	9.0%
Govt Health Activities	\$478.9	\$656.8	8.2%
TOTAL	\$4,176.0	\$5,425.0	6.8%

Provider Expenditures by Payer			
(\$ in millions)	Actual 2007	Projected 2011	2008-2011 Average Annual Change
Out-of-Pocket	\$570.0	\$726.1	6.2%
Private	\$1,589.9	\$2,059.7	6.7%
Medicare	\$819.0	\$1,062.6	6.7%
Medicaid	\$978.3	\$1,287.2	7.1%
Other Govt	\$218.8	\$289.3	7.2%
TOTAL	\$4,176.0	\$5,425.0	6.8%

Table 2

- Vermont *provider* health care expenditures in Vermont are expected to grow at an average annual rate of 6.8 percent from 2008 to 2011, reaching \$5.4 billion in 2011.

Note: The differences between the resident and provider analyses are due to different populations, accounting techniques, reporting definitions, and fiscal year considerations.

Vermont Health Care Expenditures

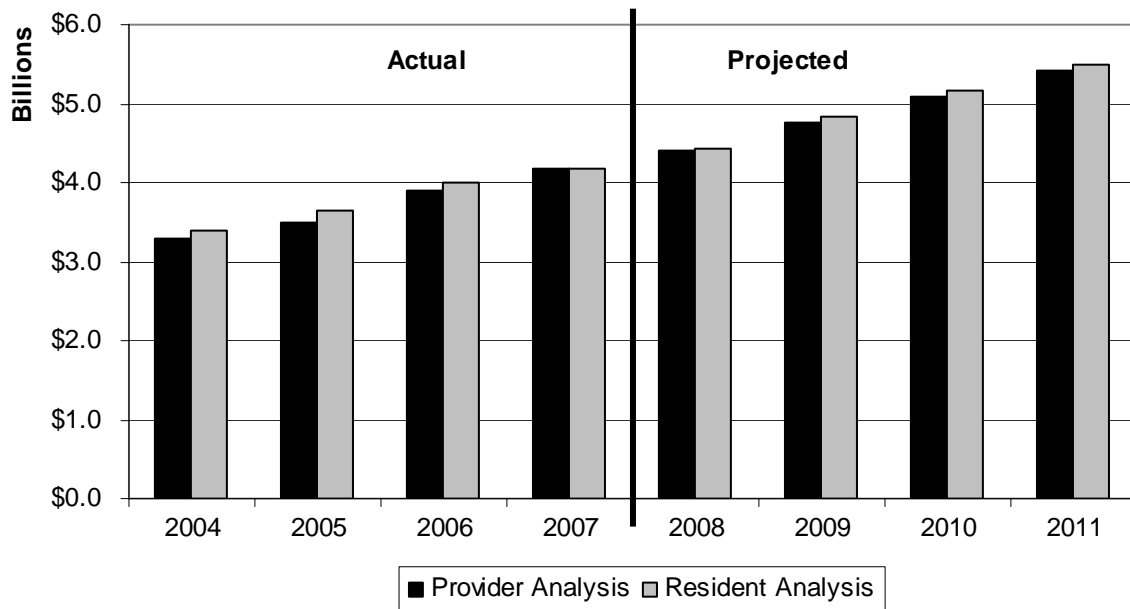


Figure 1

What are Vermont residents' total health care expenditures expected to be in the next few years?

- Total health care expenditures for Vermont residents are expected to reach \$4.4 billion in 2008 and close to \$5.5 billion by 2011. This results in an average annual increase of 7.1 percent.
- Vermont per capita health care expenditures (calculated based on the resident analysis) are projected to be approximately \$8,800 in 2011. This compares to \$6,744 per capita in 2007.
- The average annual increase in Vermont per capita health care expenditures over 2008-2011 is projected to be 6.9 percent. National per capita health care spending is projected to grow at an average annual rate of 5.8 percent during the same period.
- From 2004 to 2007, Vermont per capita health care expenditures grew at an average annual rate of 7.4 percent compared to 5.6 percent for the U.S. Some of the variance is explained because of differences in reporting by the federal National Health Expenditures data (CMS).

Note: The differences between the resident and provider analyses are due to different populations, accounting techniques, reporting definitions, and fiscal year considerations.

**Vermont Resident Health Care Expenditures
Projected Average Annual Increase by Provider
(2008-2011)**

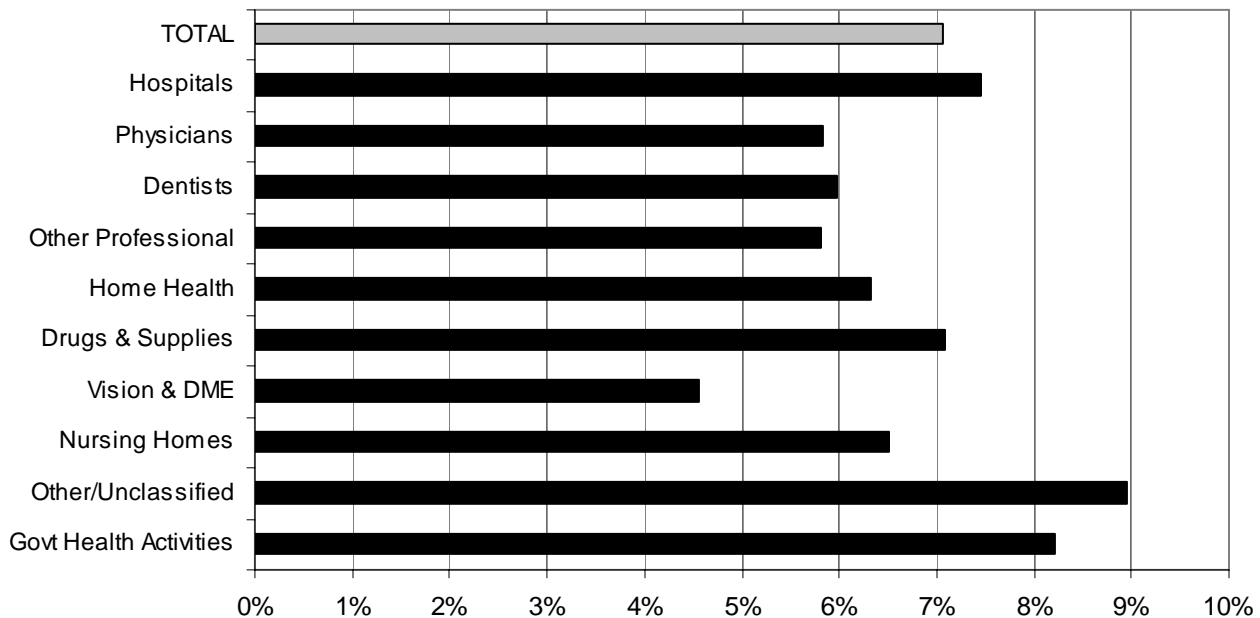


Figure 2

How fast are different health care provider services projected to grow?

- Overall, provider services for Vermont residents are projected to experience an average annual increase of about 7.1 percent in the 2008-2011 projection period.
- Other/unclassified services are projected to grow the fastest at close to 9 percent. However, they represent only about 1 percent of total resident spending so small expenditure changes can result in large percent changes for the category.
- The next highest growing category is government health activities, which showed an average annual growth of 8.2 percent. Over 90 percent of the expenditures in this category are funded by Medicaid. We have learned that new changes to the State budget may affect this projection. The projections only include rescission items that were identified before December 2008. The full 2007 *Expenditure Analysis* report will have more information on spending on government health activities.
- Expenditures for vision and durable medical equipment suppliers are projected to grow the least among the providers, less than 5 percent annually from 2008 to 2011.
- The increases in Vermont *provider* expenditures by provider are similar to the increases in Vermont *resident* expenditures in the figure above since both models are primarily dependent upon provider growth projections. The increases in the totals of the two models (resident and provider), however, can be different because of the relative weighting of their respective populations.

Vermont Health Care Expenditures January 2006 Forecast Report and Actuals Comparison			
(in millions)	2005	2006	2007
Projected Resident Expenditures - Jan. 2006 Report	\$3,548.7	\$3,835.7	\$4,125.6
Actual Resident Expenditures - Jan. 2009 Report	\$3,633.9	\$4,010.4	\$4,189.6
Resident Percent Difference	2.4%	4.6%	1.6%
Projected Provider Expenditures - Jan. 2006 Report	\$3,367	\$3,635	\$3,900
Actual Provider Expenditures - Jan. 2009 Report	\$3,501	\$3,908	\$4,176
Provider Percent Difference	4.0%	7.5%	7.1%

Table 3

How do previous forecasts compare with actual results?

- The table above shows resident and provider expenditure levels and percent differences of what was projected less than three years ago compared with current data. Variability can be greater than the aggregate totals for individual payers and providers.
- There have been revisions to the data since the January 2006 forecast was published. We have identified new costs that were not previously captured. This resulted in higher actual expenditures compared to the forecast.
- Additions since the January 2006 forecast include workers' compensation expenditures added to the resident analysis for 2005-2007 and some previously omitted government health activities spending added to both the resident and provider analyses for 2006 and 2007.
- Further detail will be provided in the *2007 Expenditure Analysis* report when it is published.

Appendix A

Use of the Three-Year Forecast

The *Three-Year Forecast*, the *Expenditure Analysis* and the *Unified Health Care Budget* are distinct products used by BISHCA in administering its statutory obligations. The following outlines the purposes currently planned for the *Three-Year Forecast* and how they interrelate with different BISHCA tasks.

1. Expenditure Analysis

The *Vermont Health Care Expenditure Analysis* is an annual publication that provides a description of the dollars that were spent for health care on behalf of Vermonters. The analysis is broken out to show how dollars were spent from both a payer and provider perspective. The *Expenditure Analysis* enables BISHCA to examine the system on a number of levels. Some examples of its use as an analytical tool include identifying the fastest growing sectors and shifts in Vermont's health system, and demonstrating the relative contributions of private health insurance and government programs such as Medicaid and Medicare. The *Expenditure Analysis* helps in understanding cause and effect within the system and facilitates more effective and meaningful debate for public policy development.

The *Expenditure Analysis* also serves as the base from which projections of future health care expenditures are developed. It provides the definitional guideline for recording health care expenditures and provides trend data, which, along with the forecast, supports ongoing analysis of health care expenditures.

2. Unified Health Care Budget²

BISHCA is required by law to establish a *Unified Health Care Budget* (UHCBC) each year. The budget is intended to serve as the basic guideline within which Vermont can control health care costs, direct resources, and ensure that Vermonters have access to high-quality services. **Development of the *Unified Health Care Budget* is based upon the annual *Expenditure Analysis* along with the formal hospital budget reviews.**

A draft UHCBC and *Three-Year Forecast* is presented through a public comment process, which takes place concurrently with the hospital budget review process. Interested parties, provider bargaining groups, and hospitals are asked to provide input. The final UHCBC is then established once the Commissioner of BISHCA approves the hospital budgets. The final UHCBC for each year is comprised of the total amount of money approved for hospital budgets through the hospital budget

² See 18 V.S.A. § 9406(a)

review process, together with the expenditure forecasts for other sectors of the health care system.

The development of the UHCB, including discussions with health care plans regarding forecasted costs, should help improve the process and projections of future health care expenditures. Understanding trends and changes in costs from the perspective of the payers should improve forecast accuracy.

The *Three-Year Forecast* includes a certain dependence on growth trends experienced at the national level that may not be similar to what occurs in Vermont. BISHCA recognizes that the forecast needs more current Vermont-specific data to replace the dependence on national data in order to reflect trends that are unique to the state. Our strong reporting system for the Vermont community hospitals allows BISHCA to modify the report to be more Vermont-specific, but other Vermont-specific data would improve the model.

3. Uses with Insurance Rate Filings

Vermont law provides that insurance rates shall not be unjust, unfair, inequitable, excessive, inadequate, unfairly discriminatory, or otherwise contrary to the law.³ BISHCA analyzes utilization and cost trends as well as the historical financial performance of each insurance product when it reviews proposed insurance premiums. A key issue in establishing a future rate is making a projection of future trends based upon current cost and utilization data. Traditionally, this prediction relies heavily on historical patterns. National factors can also play a large role in this prediction, especially for businesses that write insurance outside of Vermont.

The Department and its contracted actuaries consult the data contained in the forecast when reviewing health insurance rate filings. This data also aids BISHCA and its actuaries when analyzing the relationship between hospital rate increases and increases in insurance premiums.

The Cost Shift Task Force Report⁴ discusses some current limitations in analyzing the reporting from hospitals and insurance companies. This report was filed in December 2006 with The Commission on Health Care Reform and was updated in March 2008. The Task Force acknowledged that the reporting taxonomies used to support insurance and budget regulatory systems are not currently compatible. It was expressed that additional work will need to be completed to gain a better understanding of how to make regulatory and reporting requirements more consistent. BISHCA is continuing to review the insurance data reported with its filings to further understand and improve this analysis.

³ See e.g., 8 V.S.A. §§ 4062, 4513, 4584 and 5104.

⁴ See “Act 191 Cost Shift Task Force Report” under “Legislative Initiatives/Reports” on the Health Care Administration page of BISHCA’s web site, <http://www.bishca.state.vt.us/HcaDiv/hcdefault.htm>

4. Act 53

The passage of Act 53 in 2003 required BISHCA to prepare a four-year capital budget and a health resource allocation plan. The *Three-Year Forecast* served as a contextual framework in developing the *Health Resource Allocation Plan* (HRAP), which was adopted by the Governor in August 2005. The forecast will help inform the development of other plans, including an update to the HRAP to be published in 2009, and can also be used in the Certificate of Need (CON) process that BISHCA administers. BISHCA continues to review how these projects should be coordinated as part of the overall health care planning envisioned in Act 53.