

# **VERMONT HEALTH CARE EXPENDITURE ANALYSIS FORECAST: 2002 – 2006**

A report to the Vermont General Assembly as required under 18 V.S.A. § 9406 (b)(1)-(4)

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**Department of Banking, Insurance, Securities and Health Care  
Administration  
89 Main Street, Drawer 20  
Montpelier, VT 05620-3601  
(802) 828-2900  
[www.bishca.state.vt.us](http://www.bishca.state.vt.us)**

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## FORECAST BACKGROUND

- **Statute Requirement:** This report and accompanying technical documentation report was developed to meet the requirement under 18 V.S.A. § 9406 (b)(1)-(4) that directs the Division of Health Care Administration (DHCA) to annually prepare a three-year projection of health care expenditures made on behalf of Vermont residents.
- **Use of the Forecast Model:** Mandated use of the projections are described under 18 V.S.A. § 9406. The statute requires that the projections be considered in the evaluation of health insurance rate and trend filings that are submitted to the DHCA, as well as in the certificate of need process and in the development of the health resource allocation plan. The projections of Vermont health care expenditures are also used in the development of the Unified Health Care Budget.
- **Building the Forecast Model:** The model uses as its base the expenditure levels reported in the *2001 Vermont Health Care Expenditure Analysis*.<sup>1</sup> The projected expenditures for 2002 – 2006 are computed using the provider service projections reported by the U.S. Centers for Medicare and Medicaid Services (CMS) National Health Expenditure (NHE) model.<sup>2</sup> However, hospital projections for 2002, 2003 and 2004 are based upon data submitted to DHCA during the hospital budget review process. Allocation of payment funds (e.g., Medicare, Medicaid) is distributed according to levels reported in the *2001 Vermont Health Care Expenditure Analysis*. The model assumes no significant changes in enrollment or significant program policy changes in Medicare or Medicaid. The 2002 - 2006 forecast model does not take into account the effects of the new Medicare legislation (HR1) passed in December 2003, which includes a prescription drug benefit for seniors. Please see the technical documentation report (published December 2003) for a more complete discussion of the forecast model.
- **Two Analytical Constructs:** The forecast summarizes data in two forms: the **resident analysis**, which includes expenditures on behalf of Vermont residents, regardless of where the health care was rendered, and the **provider analysis**, which includes all revenue received by Vermont health care providers, regardless of where the patient lives. Both of these analytical constructs are contained in the *Vermont Health Care Expenditure Analysis*.

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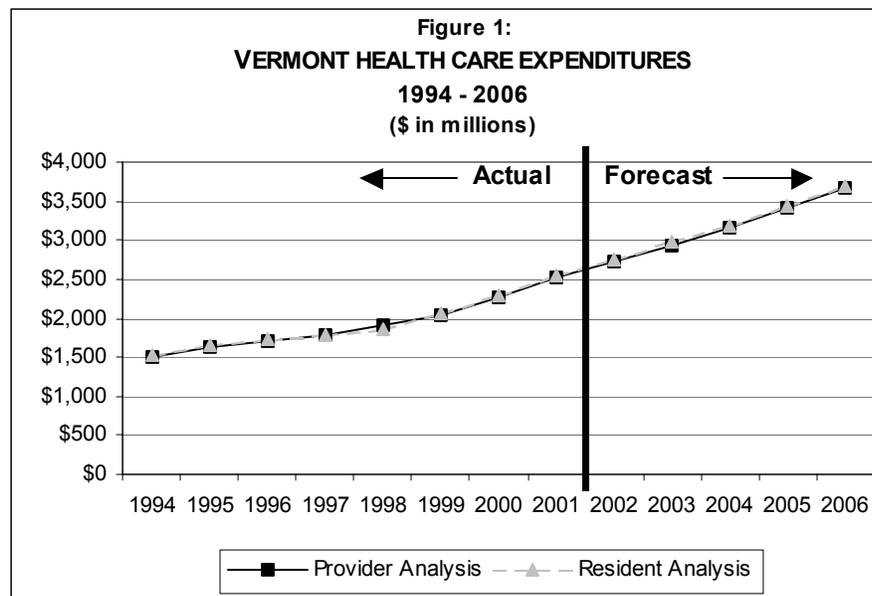
<sup>1</sup> 18 V.S.A. § 9406 also directs DHCA to prepare an annual accounting of the total amount expended for all health care services rendered by providers in Vermont and for all health care services provided to residents of Vermont. Please visit the Vermont Department of Banking, Insurance, Securities and Health Care Administration's web site at <http://www.bishca.state.vt.us> to obtain copies of the *Vermont Health Care Expenditure Analysis* reports.

<sup>2</sup> For more information about the National Health Care Expenditure projections, please visit the Centers for Medicare and Medicaid Services' web site at: <http://www.cms.hhs.gov/statistics/nhe/>.

## HIGHLIGHTS OF THE 2002 - 2006 VERMONT FORECAST

### Vermont Health Care Expenditures – Over \$3.0 Billion by 2004

- Although the resident and provider analyses represent different populations and data sources, total Vermont health care costs are expected to reach over \$3.0 billion for both the resident and provider analyses by 2004 (Figure 1).
- On a per capita basis, health care expenditures are projected to be approximately \$5,400 per person (resident analysis) in Vermont by 2005. In 2001, health care spending per Vermont resident was approximately \$4,100 (resident analysis).

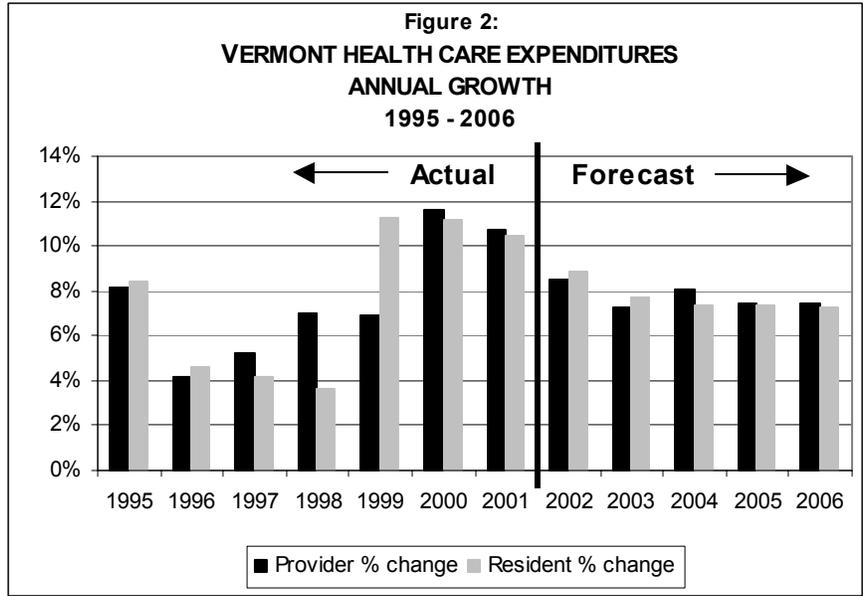


### Moderation in Health Care Spending Predicted

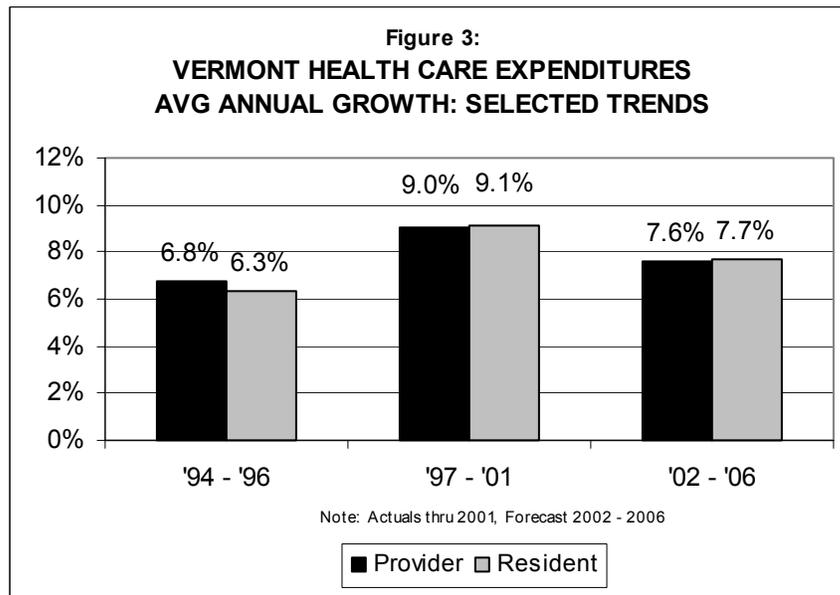
- Figure 2 highlights the projected annual rates of growth in health care spending for both the provider and resident views through 2006. Beginning in 2002, the forecast predicts a slight moderation in health care spending growth when compared to the previous three years.
- Health care growth is predicted to continue to outpace the rate of overall economic growth. The Centers for Medicare and Medicaid Services (CMS) projects that health care's share of the gross domestic product will increase from 14.1 percent in 2001 to 15.9 percent in 2006.<sup>3</sup> If Vermont continues to experience moderate to significant growth in health care spending, Vermont can also expect that health care will account for a larger proportion of its gross state

<sup>3</sup> Heffler et al., "Health Spending Projections For 2002-2012," *Health Affairs* Web Exclusive, February 7, 2003, <http://www.healthaffairs.org/readeragent.php?ID=/usr/local/apache/sites/healthaffairs.org/htdocs/Library/v22n2/s3.pdf>, p.W3-65. Detailed data tables at <http://www.cms.hhs.gov/statistics/nhe/projections-2002/t1.asp>.

product by 2006. In 2001, health care spending accounted for 13.3 percent of gross state product in Vermont.

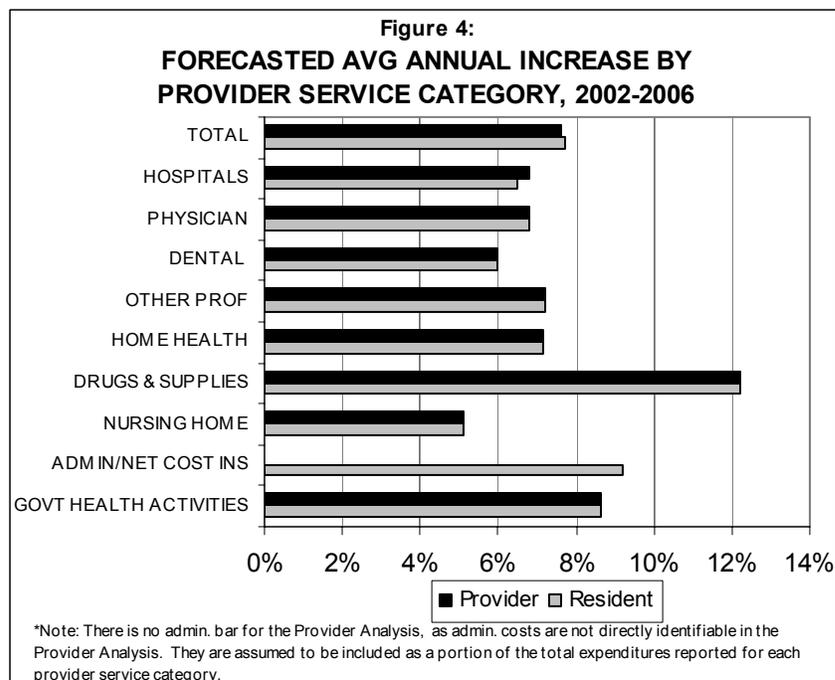


- Figure 3 highlights the average annual rates of growth for three selected time periods in Vermont. In the mid-1990s, the average annual rate of growth was between 6 and 7 percent for both the provider and resident views. Health care spending markedly accelerated in the late 1990s through 2001: the average annual growth rate grew to around 9 percent for both the provider and resident views. Based upon CMS’s forecast model, health care growth is projected to moderate in Vermont over the next few years, rising 7.6 percent on average annually in the provider analysis and 7.7 percent on average annually in the resident analysis between 2002 and 2006.



## Key Provider Services Spending

- The 2002 - 2006 forecast was completed before final passage of the federal Medicare reform legislation (HR 1) passed in December 2003. As such, the effects of this legislation have not been accounted for in the expenditure projections. Prior to passage of HR 1, CMS attributed the moderation in health care growth to slower projected Medicare and private-sector spending. Medicare growth was expected to slow due to the expiration of many of the provisions of Balanced Budget Refinement Act of 1999 and SCHIP Benefits Improvement and Protection Act of 2000, which temporarily increased payment levels for some providers.<sup>4</sup> Private-sector spending is expected to decelerate due to a slowing of real per capita income growth, an increase in the number of people without health insurance, and increased consumer cost-sharing.<sup>5</sup>
- Between 2002 and 2006, spending on drugs and supplies is expected to continue to grow in the double-digits (12.2 percent) every year (Figure 4). By 2006, this category is expected to account for 16.0 percent of the total health care dollar in Vermont (provider analysis). This compares to 12.6 percent in 2001 (provider analysis).



<sup>4</sup> Heffler et al., "Health Spending Projections For 2002-2012," *Health Affairs* Web Exclusive, February 7, 2003, <http://www.healthaffairs.org/readeragent.php?ID=/usr/local/apache/sites/healthaffairs.org/htdocs/Library/v22n2/s3.pdf>, p.W3-65.

<sup>5</sup> Ibid.

- Hospital spending growth will remain the most important driver of total health care expenditure growth since hospital expenditures account for about 41 percent of the total health care dollar. Hospital growth is expected to increase on average 6.8 percent annually from 2002 to 2006 in the provider analysis and 6.5 percent in the resident analysis.
- Other categories forecasted with growth greater than the average for all categories include government health activities, rising on average 8.6 percent per year between 2002 and 2006 and administrative costs, which are projected to increase on average 9.2 percent annually between 2002 and 2006. (Government health activities primarily include expenditures for direct care programs administered by the Vermont Agency of Human Services, such as community health initiatives. Administrative costs include the net difference between benefits incurred and premiums earned by private health insurers (this difference may include administrative expenses, additions to reserves, premium taxes, etc), as well as the administrative expenses of government programs.)
- Growth in payer sources categories is not reported here, since the Vermont forecast is built upon growth reported in the provider service categories by CMS and assumes no significant changes in enrollment among the payer categories.
- Please see the technical documentation report for complete forecast data by payment and provider service categories.

### **Comparison of Previous Forecasts to Actual Expenditures**

- Comparisons between previous forecasts and actual expenditures have generally been relatively close, especially when comparing aggregate health care totals. For example, the forecast published in January 1999 (based on 1996 actual expenditures) for projections of Vermont health care expenditures for 2001 were approximately \$2.4 billion (resident and provider analyses), just below the actual expenditures of approximately \$2.5 billion (resident and provider analyses) for that year.
- Comparisons between projections of three-year average annual growth rates and actual growth rates, however, have varied. For example, the projection of average annual growth from 1996 to 1999 (based on 1996 actual expenditure data) was 0.2 percent and 0.3 percent higher than the actual average annual growth reported for the resident and provider analyses respectively, while the projection of average annual growth from 1998 to 2001 (based on 1998 actual expenditure data) was 3.1 percent and 2.9 percent lower than the actual average annual growth rate for the same time period for the resident and provider analyses respectively. The reason for the higher variance for the latter growth rate may in part be explained by higher than expected utilization and new technology.
- As one would expect, short-term projections tend to be more accurate than long-term projections. For example, the Vermont forecast published in 2002 predicted a 2001 growth rate of 10.5 percent in the resident analysis and 10.1 percent in the provider analysis. The actual rate of growth for 2001 was 10.5 percent and 10.8 percent respectively for the resident and provider analyses.