

VERMONT HEALTH CARE EXPENDITURE ANALYSIS FORECAST: 2003 – 2007

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

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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: 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 used in connection with the hospital budget review process, 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.
- Forecast Model: The model uses as its base the expenditure levels reported in the *2002 Vermont Health Care Expenditure Analysis*.¹ The projected expenditures for 2003 – 2007 are computed primarily using the provider service projections reported by the U.S. Centers for Medicare and Medicaid Services (CMS) National Health Expenditure (NHE) model.² However, hospital projections for 2003, 2004 and 2005 are based upon data submitted to DHCA during the hospital budget review process. These community hospital data include actual 2003, projected 2004, and budgeted 2005 expenditures. Allocation of the sources of funds (e.g., Medicare, Medicaid) is done according to levels reported in the *2002 Vermont Health Care Expenditure Analysis*. The model assumes no significant changes in enrollment or significant program policy changes in Medicare or Medicaid. The 2003 - 2007 forecast model does not attempt to project the effects of the Medicare Prescription Drug, Improvement and Modernization Act (MMA) passed in December 2003, which includes a prescription drug benefit for seniors. Please see the technical documentation report (published December 2004) 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*.

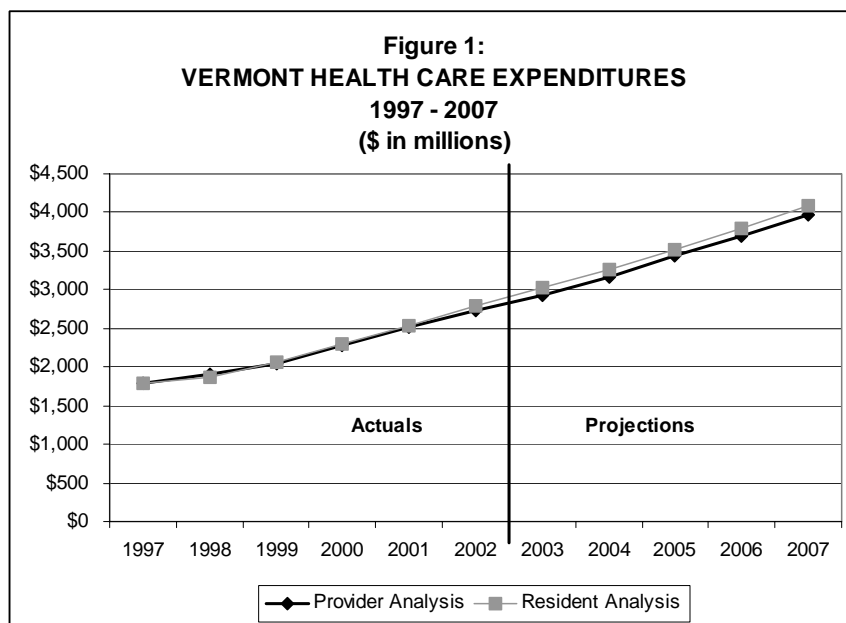
¹ 18 V.S.A. § 9406 also directs DHCA to prepare an annual accounting of the total amount expended for all health care services rendered by providers in Vermont and for all health care services provided to residents of Vermont. Please visit the Vermont Department of Banking, Insurance, Securities and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

² 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 2003 - 2007 VERMONT FORECAST

Vermont Health Care Expenditures – Over \$3.4 Billion by 2005

- 2005 Total Spending: The resident and provider analyses represent different populations and data sources and therefore have differences in total spending. Total Vermont health care costs are expected to reach over \$3.5 billion in the resident analysis and over \$3.4 billion in the provider analyses by 2005 (Figure 1).
- Per Capita: On a per capita basis, health care expenditures are projected to be approximately \$5,700 per person (resident analysis) in Vermont by 2005. In 2002, health care spending per Vermont resident was approximately \$4,500 (resident analysis).

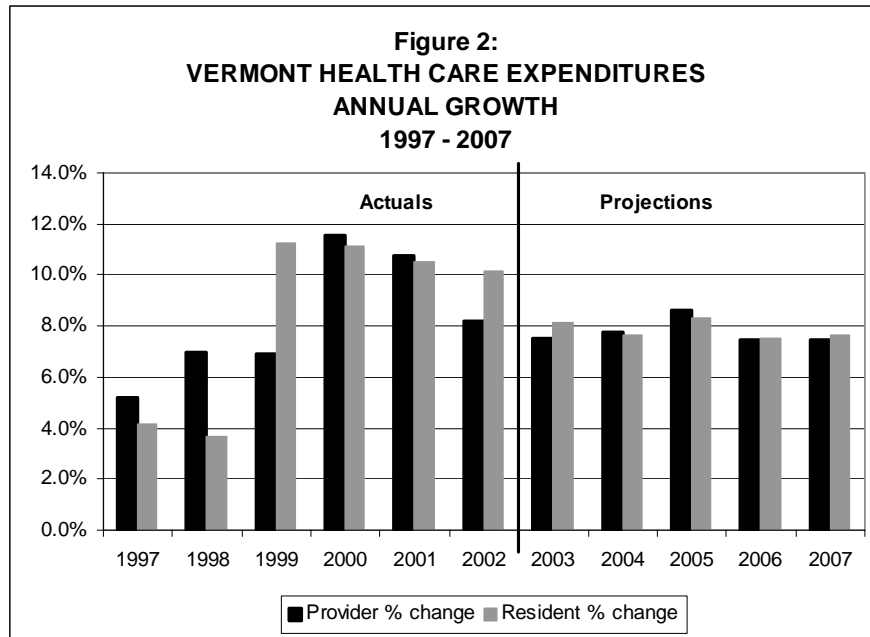


Moderation in Health Care Spending Predicted

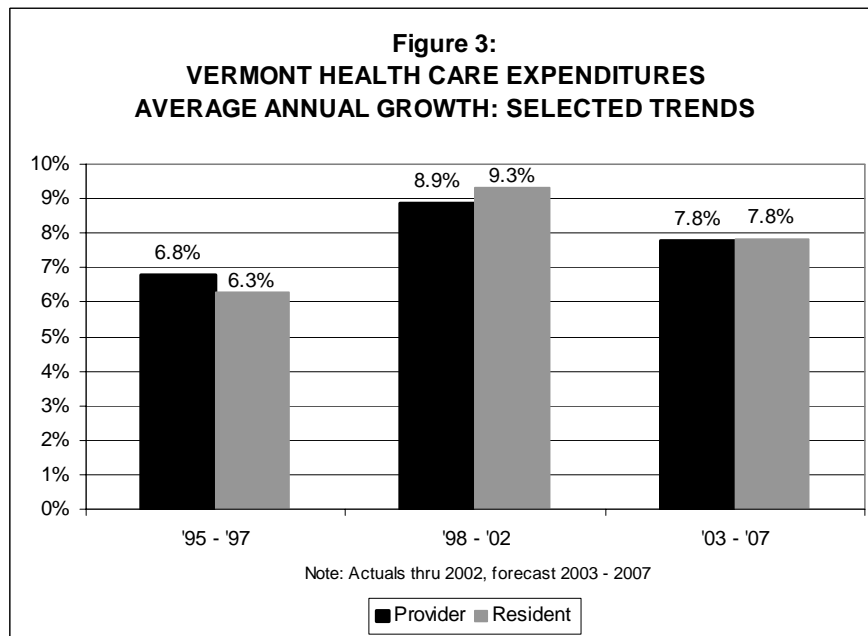
- Annual Growth Rates: Figure 2 highlights the projected annual rates of growth in health care spending for both the provider and resident views in Vermont through 2007. Beginning in 2003, the forecast predicts a slight moderation in health care spending growth when compared to the previous three years.
- Health Care as a Percent of Gross State Product: 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 14.9 percent in 2002 to 15.7 percent in 2005.³ Vermont is experiencing a similar trend.

³ Heffler et al., "Health Spending Projections Through 2013," *Health Affairs* Web Exclusive, February 11, 2004, <http://content.healthaffairs.org/cgi/reprint/hlthaff.w4.79v1>, p. W4-79 to W4-93. Detailed data table at <http://www.cms.hhs.gov/statistics/nhe/projections-2003/t1.asp>.

In 2002, health care spending (resident analysis) accounted for 14.3 percent of the gross state product in Vermont. In 2005, it is projected to increase to 16.3 percent.



- Selected Trends:** 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 accelerated in the late 1990s through 2002: the average annual growth rate grew to approximately 9 percent for both the provider and resident views. Because the forecast is based upon CMS’s forecast model, which projects a moderation of national health care spending, health care growth in

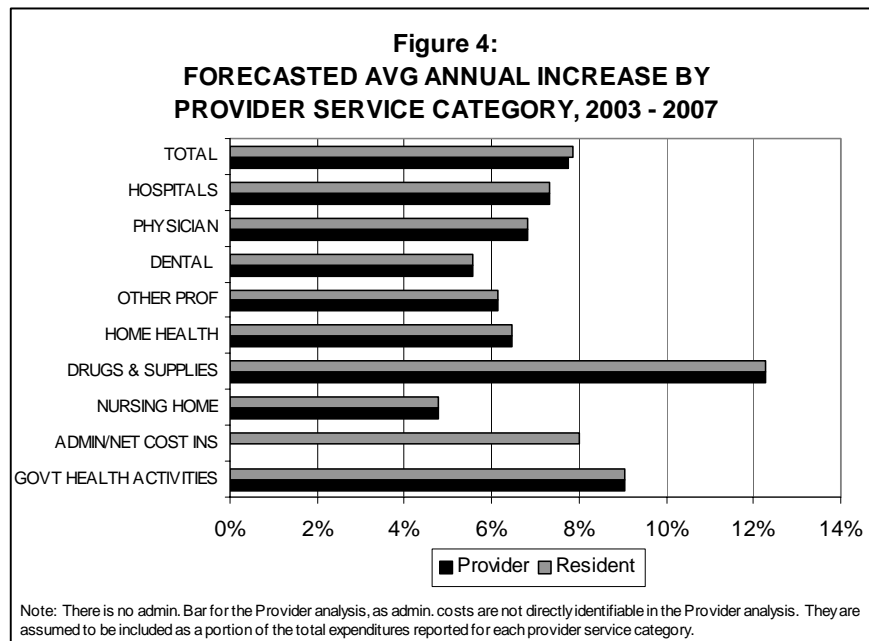


Vermont is projected to moderate over the next few years as well, rising at an average annual rate of 7.8 percent from 2003 to 2007.

- The Moderation in Health Care Spending According to CMS: CMS attributes 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.⁴ Private-sector spending is expected to decelerate in the forecast period in part due to a slowing of growth in medical prices and use and a downturn in the underwriting cycle. In addition, a lack of growth in private health insurance enrollment is expected.⁵ The CMS projections have not yet accounted for the effects of the passage of the Medicare Prescription Drug, Improvement and Modernization Act (MMA). This year's 2003 – 2007 forecast does not include these effects either.

Key Provider Services Spending

- Hospitals: 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 7.3 percent annually from 2003 to 2007 in both the provider and resident analyses.



⁴ Heffler et al., "Health Spending Projections Through 2013," *Health Affairs* Web Exclusive, February 11, 2004, <http://content.healthaffairs.org/cgi/reprint/hlthaff.w4.79v1>, p. W4-79 to W4-93.

⁵ Ibid.

- Drugs and Supplies: Between 2003 and 2007, spending on drugs and supplies is expected to continue to grow in the double-digits (12.3 percent) every year (Figure 4). By 2007, this category is expected to account for 15.6 percent of the total health care dollar in Vermont (provider analysis). This compares to 12.7 percent in 2002 (provider analysis).
- Other Categories: Other categories forecasted with growth greater than the total average growth include government health activities, rising on average 9.0 percent per year between 2003 and 2007 and administrative costs, which are projected to increase on average 8.0 percent annually between 2003 and 2007.
- Payer Categories: 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.
- Technical Notes: Please see the technical documentation report for definitions of the payer and provider categories and complete forecast data.

Comparison of Previous Forecasts to Actual Expenditures

- Expenditure Comparisons: Comparisons between previous forecasts and actual expenditures have been relatively close when comparing aggregate health care totals. For example, the projections of Vermont health care expenditures for 2002, based on 2000 actual expenditures, were approximately \$2.8 billion and \$2.7 billion (resident and provider analyses respectively), less than one percent off from the actual expenditures for that year.
- Trend Comparisons: Comparisons between projections of three-year average annual growth rates and actual growth rates have varied. 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. This is a low variance compared to the projection of average annual growth from 1999 to 2002 (based on 1999 actual expenditure data) which was 4.0 percent and 3.4 percent lower than the actual average annual growth rate for the same time period for the resident and provider analyses respectively. Some of the reasons for the higher variance for the latter growth rates include higher than expected Medicaid and government health activity spending due to the expansion of programs funded by the Agency of Human Services, and higher than expected utilization of hospital services and drugs.
- Last Year's 2002 Forecast: Last year's estimates of 2002 growth rates (based on actual 2001 data) were 8.5 percent in the provider analysis and 8.8 percent in the resident analysis. Actual 2002 data reflected growth rates of 8.2 percent and 10.2 percent respectively for the provider and resident analyses.
- 2005 Forecast Comparison – Provider: Last year's 2002 – 2006 forecast of provider expenditures projected a total increase of 7.4 percent for 2005. This year's 2003 – 2007 forecast of provider expenditures projects an 8.6 percent increase for 2005. The growth

difference is primarily due to more recent data from the community hospitals, which represent about 37 percent of total expenditures. Community hospitals were projected to grow 6.3 percent in 2005 in last year's forecast (based on available CMS projections), compared to 9.6 percent in 2005 in this year's forecast (based on data collected through the Vermont hospital budget process). Vermont specific 2005 hospital budget data was not available last year.

- 2005 Forecast Comparison – Resident: Similarly, for total resident expenditures, growth in 2005 was almost one percent higher in this year's forecast when compared to last year's forecast for the same year. This also can be primarily attributed to the higher growth in community hospitals because both the resident and provider analyses are projected based on provider growth despite starting from a different base of data.
- 2006 Projections: Projected growth for 2006 for both resident and provider total expenditures remained approximately 7.5 percent in this year's forecast when compared to last year's forecast. There is more uncertainty when projecting further than one year into the future and both forecasts are more dependent on national projections further out in time. This indicates that the national model did not change significantly for the 2006 projection period in both forecasts.
- Payer Categories: The Division does not attempt to forecast any changes in the sources of funds. The projected distribution of these payer categories is based on the share of total expenditures of the most recent actual resident expenditure categories. There were no significant changes in these categories from 2001 to 2002. As stated above, the forecasts do not assume any considerable enrollment changes across the payers. See the *2002 Vermont Health Care Expenditure Analysis* for more information.