

Nevada Patient Protection Commission Advisory Subcommittee

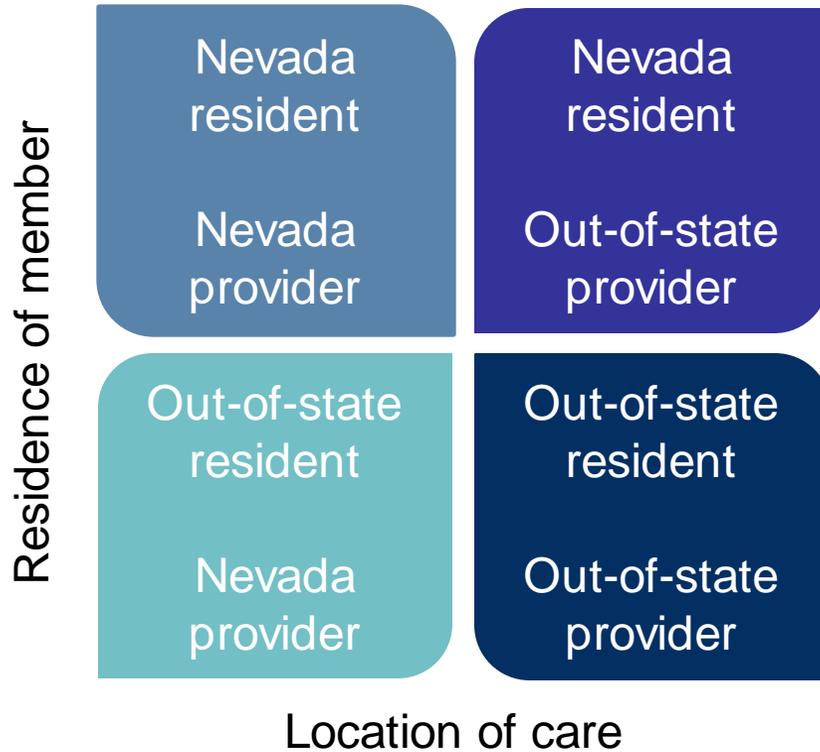
July 21, 2021

Commission Recommendations to Review Today

1. Whose health care costs should be measured?
 - Residence of individual and location of rendering provider
 - Sources of coverage
2. Criteria for choosing an economic indicator to inform the benchmark value
3. Economic indicator options
4. Using historical vs. forecasted data to inform the benchmark value

2. Determining Whose Total Medical Expense (TME) to Measure

- The Commission made recommendations on:
 1. The population whose Total Medical Expense (TME) should be measured



The Commission considered **individuals' state of residence** and **providers' location** in terms of determining whose spending to include in the definition of TME.

2. The sources of insurance coverage for that population

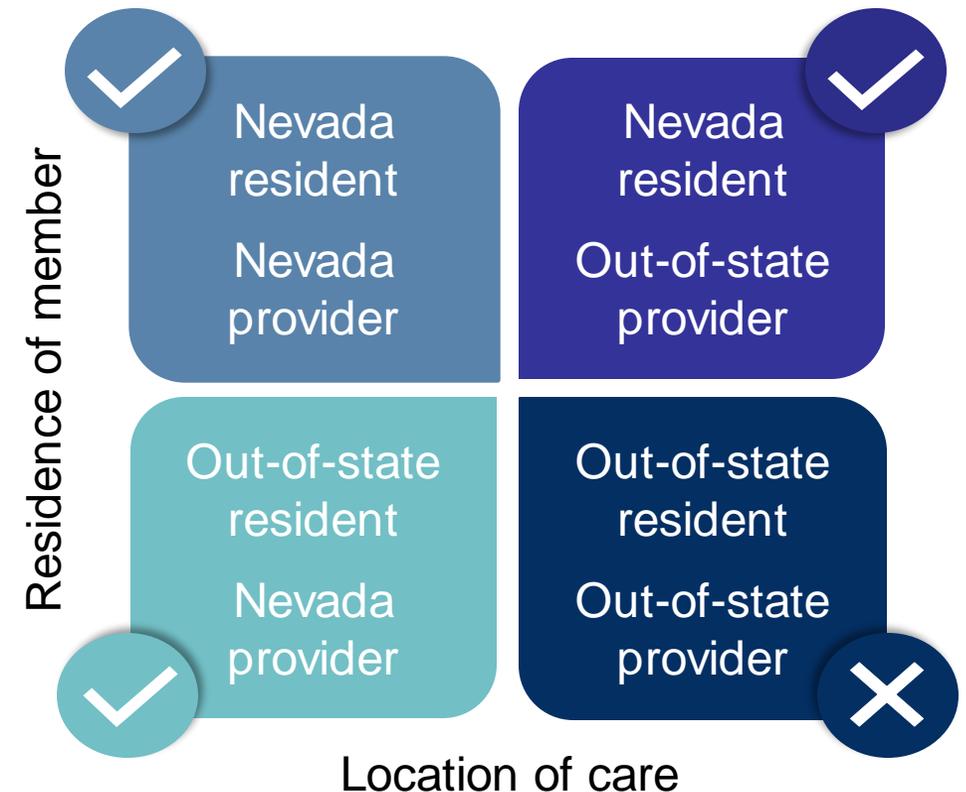
Preliminary Recommendations on Defining Whose Costs to Measure

- The Commission recommended including spending for all Nevada residents, regardless of where they received their care.

This is consistent with other cost growth benchmark states (MA, DE, RI, OR, and CT).

- The Commission also recommended including spending for out-of-state residents with in-state providers.

This is NOT consistent with other cost growth benchmark states (MA, DE, RI, OR, and CT).



Preliminary Recommendations on Defining Whose Costs to Measure

- The Commission recommended including the following sources of coverage in its calculation of THCE, should the data be accessible:
 1. Medicare (FFS and Medicare Advantage)
 2. Medicaid (FFS and managed care)
 3. Commercial (fully- and self-insured)
 4. Veterans Health Administration
 5. State Correctional Health System
 6. Indian Health Service

Advisory Subcommittee Feedback: Whose TME to Measure?



Does the Advisory Subcommittee wish to provide the Commission with any input on:

1. The population for which the PPC will measure TME?
2. The sources of coverage for that population?

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Use of Economic Indicators as a Basis for the Benchmark Methodology

- The primary reason for establishing a health care cost growth benchmark is that high and rising health care costs have been having a harmful impact on consumers, employers, taxpayers and the non-health care economy.
- Using an economic indicator(s) as the basis for the benchmark would link health care spending growth to consumer and/or state economic wellbeing.

3. Preliminary Recommendations on Criteria for Selecting an Economic Indicator

Before considering specific economic indicators, the Commission recommended selecting an economic indicator that would meet the following criteria:

1. Provide a stable, and therefore, predictable benchmark.
2. Rely on independent, objective data sources with transparent calculations.
3. Lower health care spending growth.

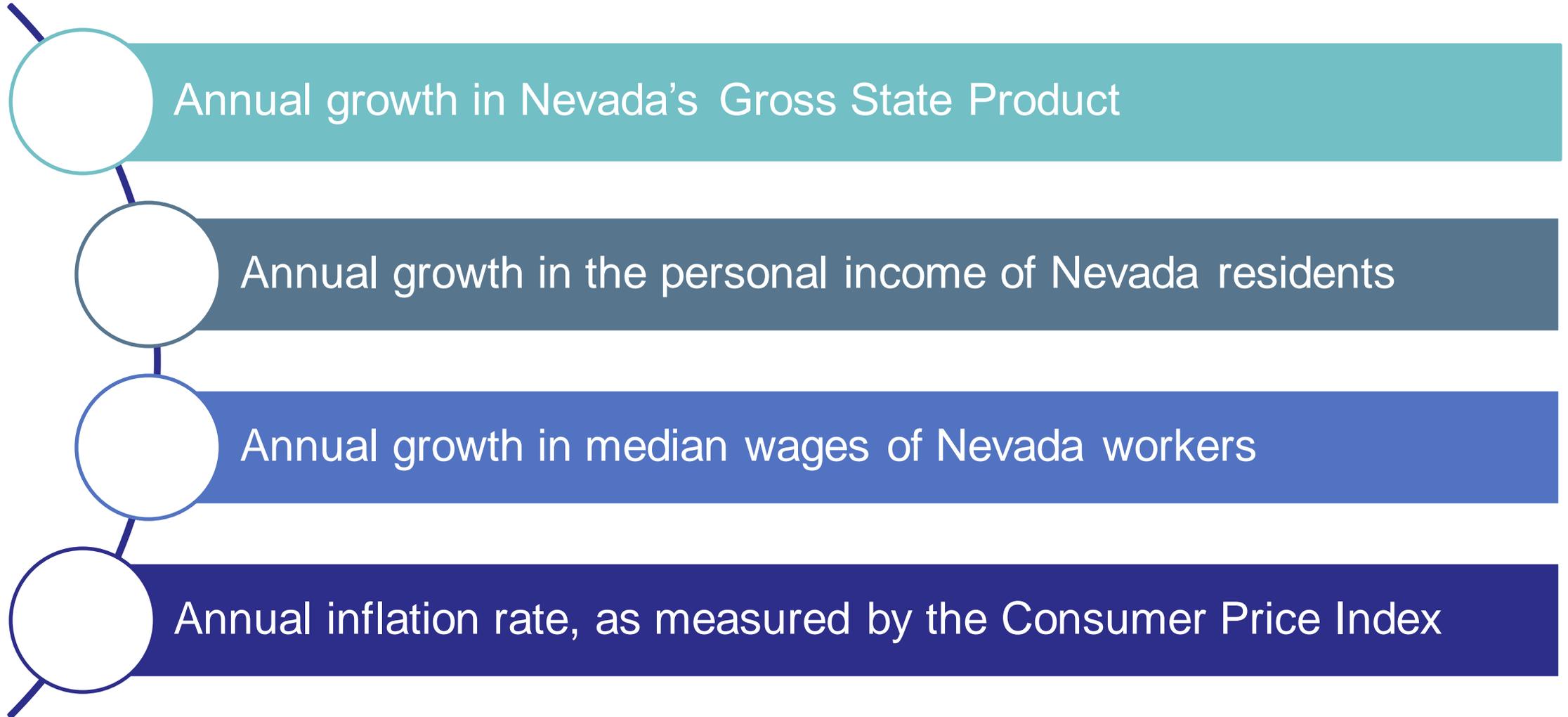
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4. Economic Indicators Considered for the Cost Growth Benchmark Methodology

- The Commission considered possible five economic indicators to which to tie the benchmark.
- Each of the indicators has a different meaning and would convey a different message if used to set the benchmark value.

Options for the Cost Growth Benchmark



Option 1: Rate of Growth in Nevada's Gross State Product

- **Gross State Product (GSP)** is the total value of goods produced and services provided in a state during a defined time period.
- This is the state counterpart to Gross Domestic Product (GDP), which is measured at the national level, with a few methodological differences in how the figures are calculated.

What It Means to Use the Rate of Growth in Nevada's Economy

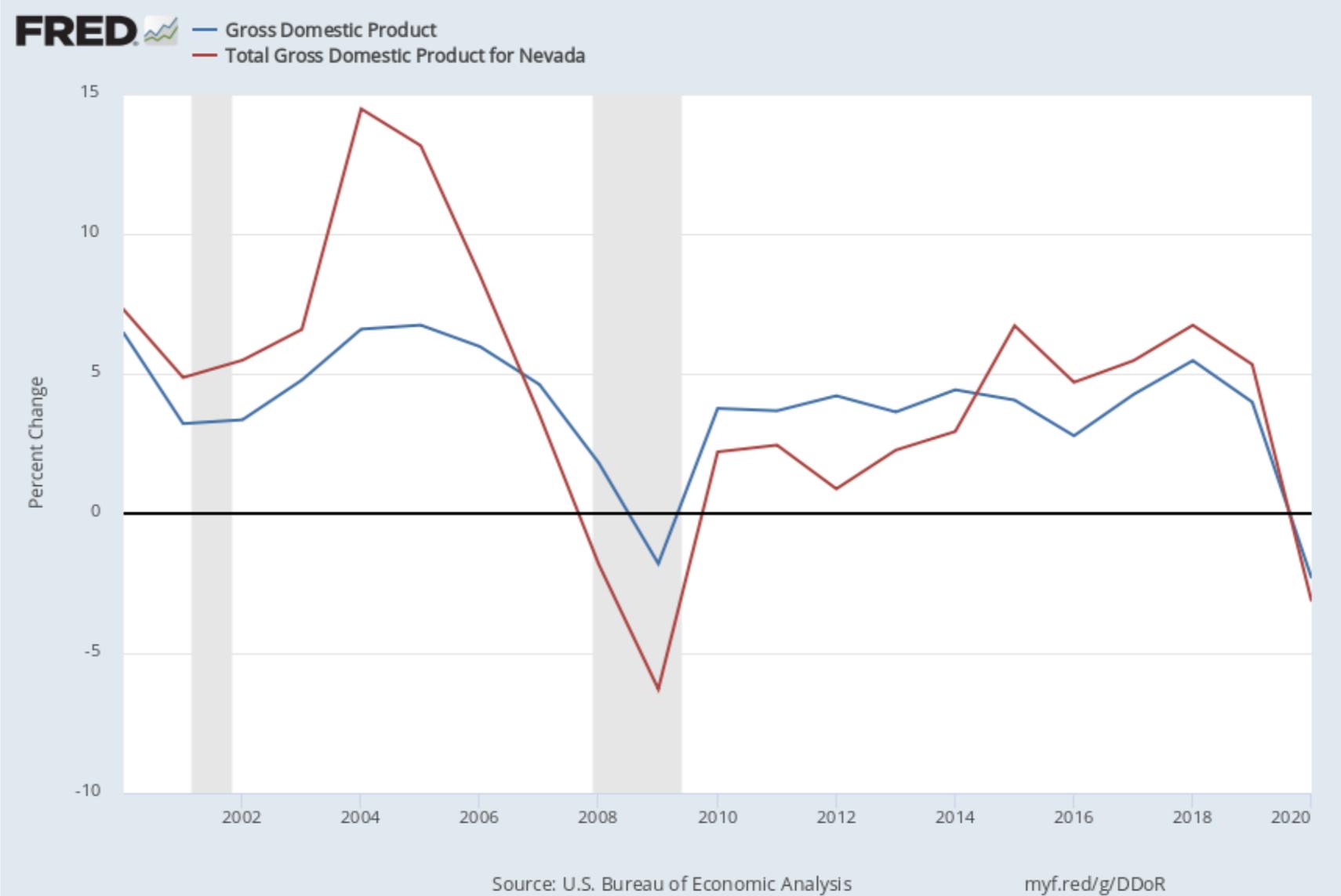


GSP is often considered the main measure and key target of economic policy at all levels of government. The growth in GSP tells us how fast the state's economy is growing.



By tying the benchmark to GSP, we would be recommending an expectation that health care spending should not grow faster than the economy.

Growth in the Nevada and U.S. Gross State/Domestic Product, 2000-2020 (nominal)



Shaded areas indicate U.S. recessions.

Option 2: Rate of Growth in Personal Income of Nevada Residents

- **Personal income** is the sum of all payments received by individuals within the state.
- It includes:
 - Earnings such as wages and salaries, proprietor's income (farm and non-farm), and other income (employee benefits)
 - Property income (dividends, rent, and interest)
 - Transfer payments (pensions, Social Security, and other government benefits)
- It does not include some other sources of income, such as capital gains.

What It Means to Use Rate of Growth in Nevada Residents' Personal Income

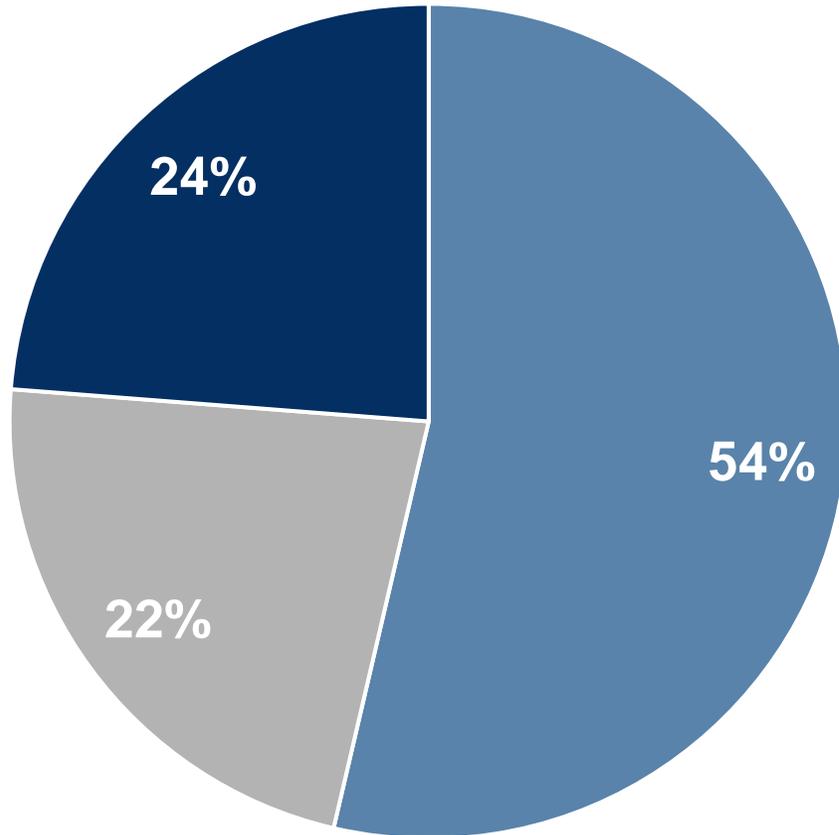


State revenue and spending on government assistance programs depends on personal income. Personal income growth can offer clues to the financial health of Nevada residents and future consumer spending.



By tying the benchmark to personal income growth, we would be recommending health care not grow faster than a measure of consumer financial wellbeing.

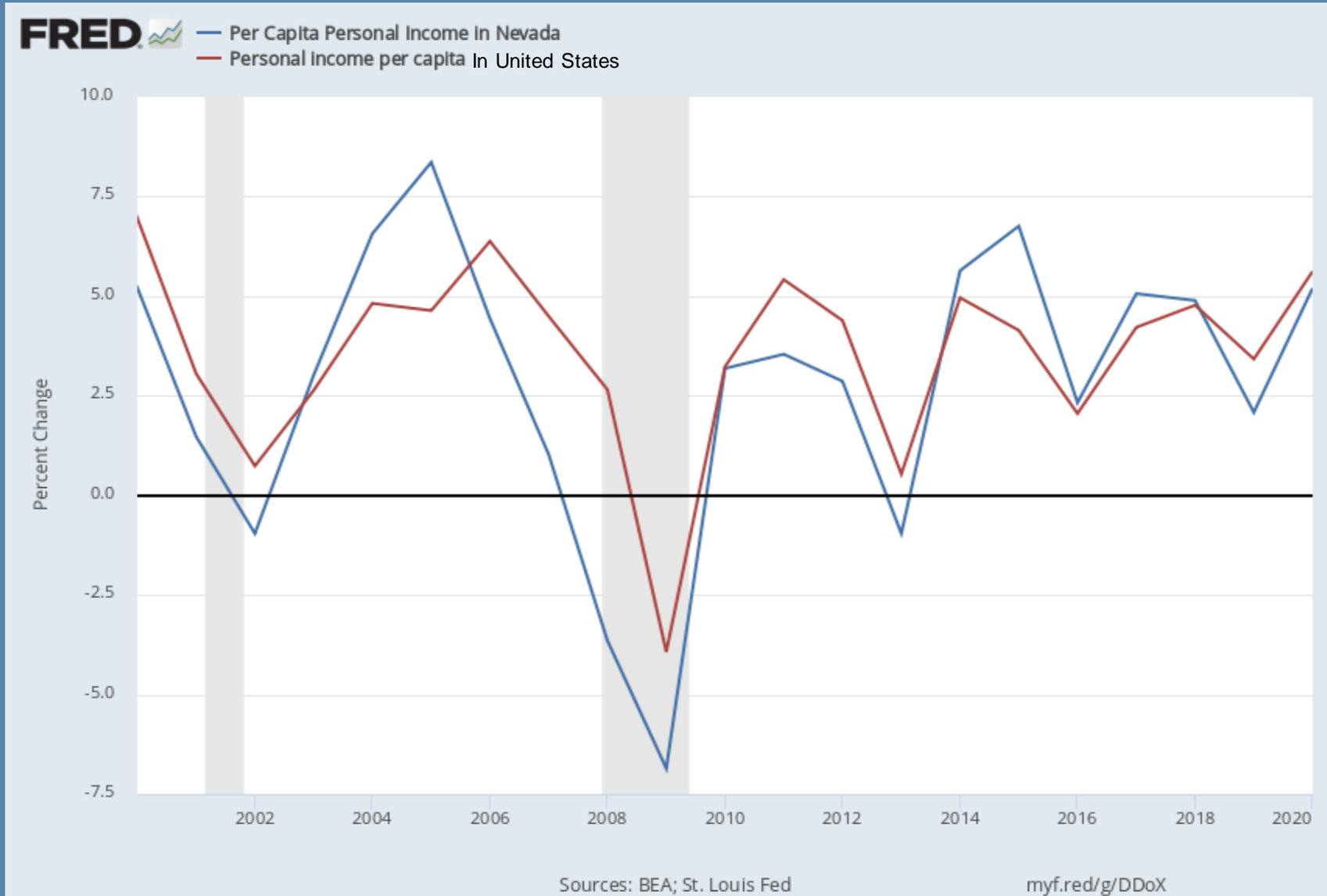
Personal Income in Nevada by Type¹



- Net earnings (wages, supplement to wages, and proprietor's income less contributions to social insurance)
- Property income (dividends, interest, and rent)
- Transfer payments (pensions, Social Security, and other government benefits)

¹ Bureau of Economic Analysis, "Personal Income and Employment by Major Component," https://apps.bea.gov/iTable/iTable.cfm?reqid=70&step=30&isuri=1&major_area=0&area=32000&year=2020&tableid=56&category=356&area_type=0&year_end=-1&classification=non-industry&state=0&statistic=-1&yearbegin=-1&unit_of_measure=levels, accessed May 4, 2021.

Growth in per capita personal income in Nevada and the U.S., 2000-2020 (nominal)



Shaded areas indicate U.S. recessions.

Option 3: Rate of Growth in Wages of Nevada Residents

- **Wages and salaries (wages)** is compensation received by individuals for work as an employee or as a contractor with an employer.
- It does not capture income that typically accrues to higher income earners, such as capital gains, dividends, rents and interest.
- Wages have grown slower than personal income due to the boost in non-wage income, including health insurance benefits, in the recent past.

What It Means to Use Rate of Growth in Nevada Residents' Median Wage

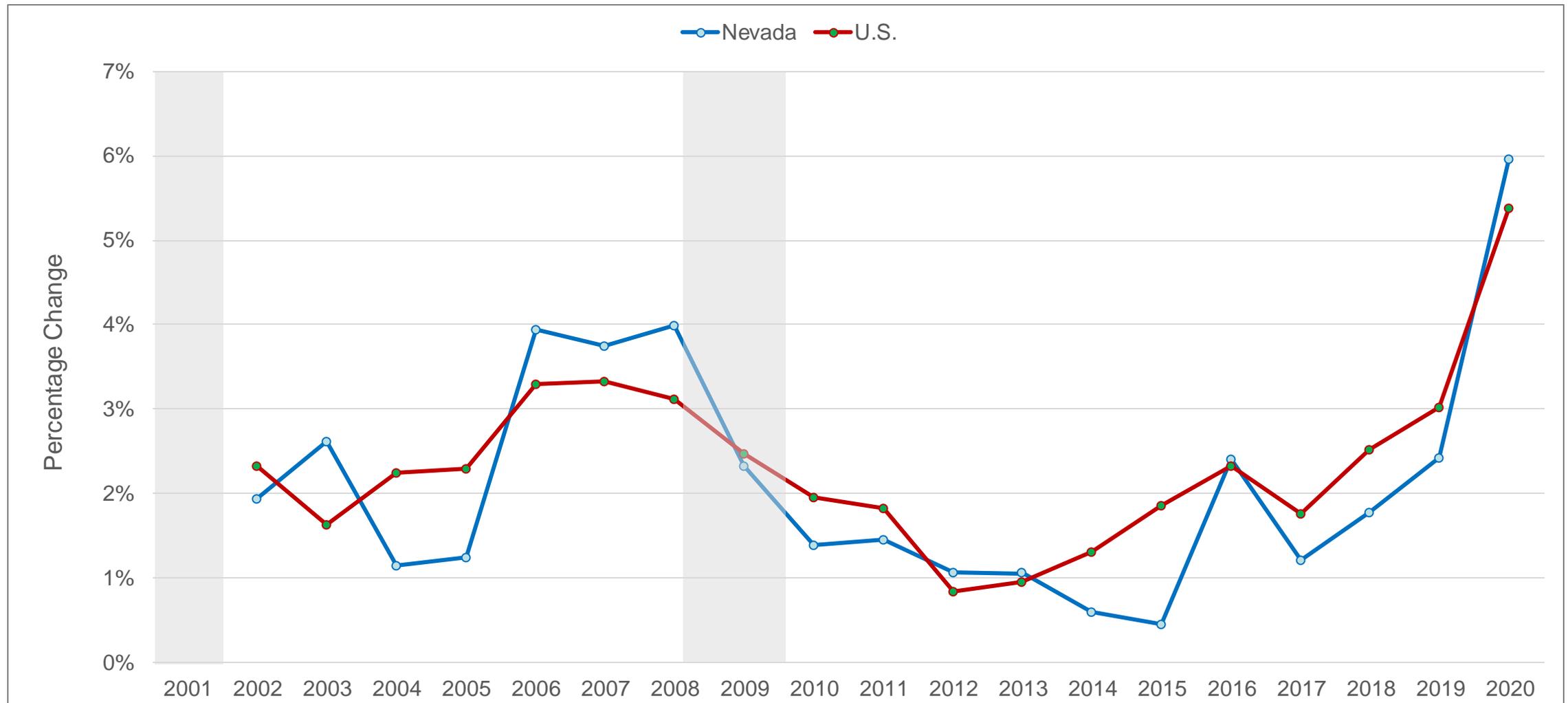


Wage growth is a more tangible indicator for most individuals than personal income growth as it more closely represents “take-home pay.”



Setting the benchmark to the growth in Nevada residents' wages implies that health care should not grow faster than Nevada residents' “paychecks.”

Growth in Median Per Worker Wage in Nevada and the U.S., 2002-2020 (nominal)



Shaded areas indicate U.S. recessions.

Option 4: Rate of Inflation

- Inflation is the process of rising prices that causes the buying power of a dollar to decrease over time.
- Various indices exist to measure different aspects of inflation. One commonly used index is the **Consumer Price Index (CPI)**.

What is the Consumer Price Index (CPI)?

- The **Consumer Price Index** measures price changes for a “market basket” of retail goods and services purchased out of pocket by consumers.
 - It is most often measured using “CPI All Urban or CPI-U,” which captures the experience of 94% of Americans.
- CPI measures inflation as experienced by consumers in their day-to-day living expenses.

What It Means to Use Inflation

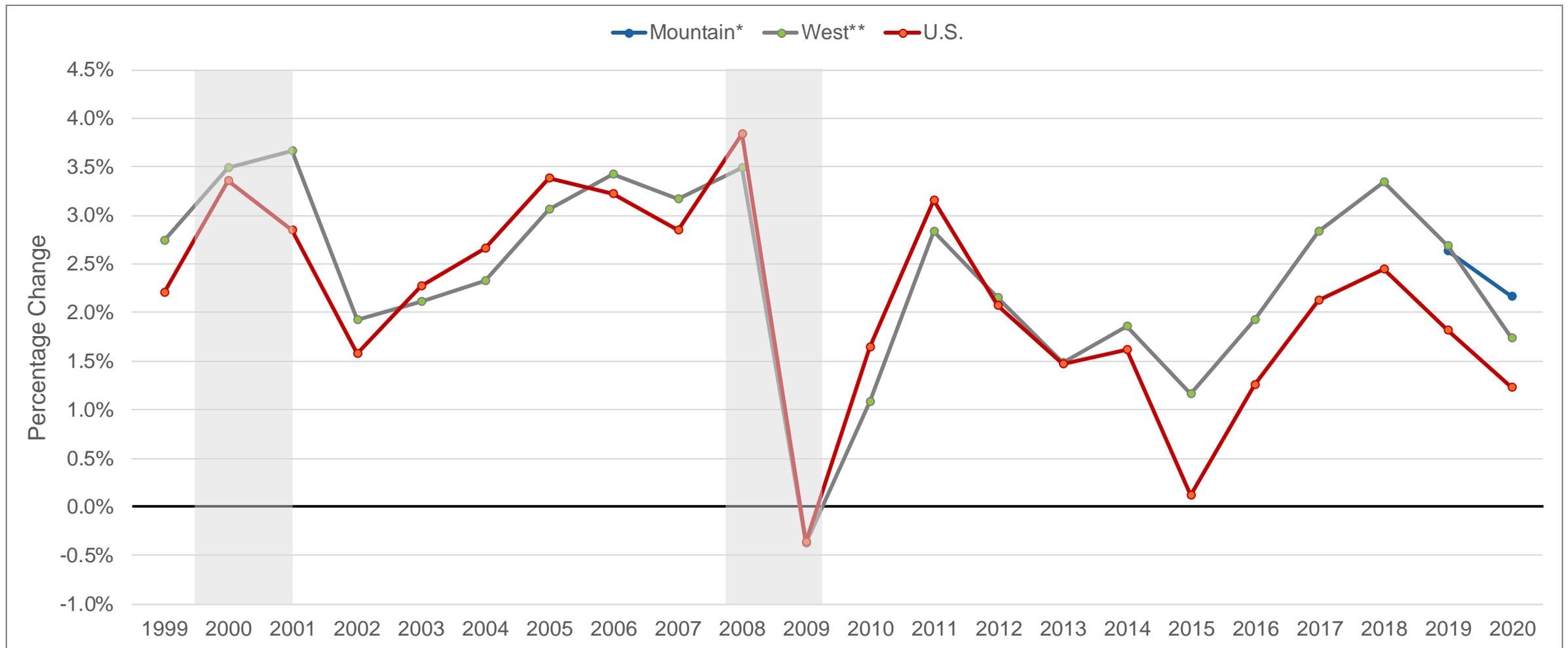


Measures of inflation give a sense of how prices have risen over time, and of consumers' purchasing power.



Setting the benchmark to the rate of inflation signals that health care should not grow faster than the rise in consumer prices.

Annual Growth in CPI-U, 1999-2020¹



Shaded areas indicate U.S. recessions.

* The Mountain Division includes Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming

** The West region includes the Mountain and Pacific divisions (Washington, Alaska, Arizona, California, Guam, Hawaii, Idaho, Nevada, and Oregon)

¹ U.S. Department of Labor, Bureau of Labor Statistics, Retrieved from: https://www.bls.gov/regions/west/data/cpi_tables.pdf, May 4, 2021.

Economic Indicators Considered for the Cost Growth Benchmark Methodology

	Advantages	Disadvantages
1. Gross State Product	Used by most other states with cost growth targets; there is value to having consistent policies.	Abstract economic concept that may not resonate with citizens.
2. Personal Income	Recognizes that income is more than just wages.	Measure grows faster than wages because it accounts for higher earner non-wage income.
3. Median Wage	More consumer-oriented reference to “take-home pay.”	Does not reflect relationship of health care spending growth vis-a-vis the larger economy.
4. Inflation – Consumer Price Index-Urban, West or Mountain Division	Treats health care as another consumer household expense, much as consumers do.	Captures only price and not volume.

Other State Approaches to Developing a Benchmark Methodology

- **DE, MA, and RI** tied their health care cost growth benchmarks to Potential Gross State Product (PGSP).
- **OR** based its decision on historical Gross State Product and median wage data, and in consideration of the growth cap in OR's Medicaid and publicly purchased programs – but did not specifically “tie” the target to an indicator.
- **CT** based its benchmark on a 20/80 blend of Potential Gross State Product and forecasted median income.

Summary of Commission Discussions on Economic Indicator Options

- The Commission has not yet come to a recommendation on which economic indicator(s) to use.
- Many members preferred a hybrid approach based on a blend of:
 - Gross State Product (GSP)
 - Median Wage

Advisory Subcommittee Feedback: Economic Indicator



Does the Advisory Subcommittee wish to provide the Commission with any input on the benchmark methodology with respect to:

1. What criteria the Commission should utilize in selecting an economic indicator for the benchmark?
2. Which economic indicators the Commission should adopt to inform the benchmark value?

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5. Calculating an Indicator to Derive a Cost Growth Benchmark

- The Commission briefly discussed how to calculate an economic indicator to derive a cost growth benchmark.
- There are two ways to calculate an economic indicator:
 - Based on historical experience.
 - Based on a forecasted projection.

Calculating a Benchmark Based on Historical Experience

- A benchmark figure could be calculated based on the historical experience of a given economic indicator.
 - 5 years, 10 years, 20 years, etc.
- Using historical data would reflect to varying degrees the volatility of year-over-year changes, including booms and busts.
- Historical figures are a relatively easy mathematical calculation (straight average of growth over prior time periods).

Calculating a Benchmark Based on a Forecast

- A benchmark figure could also be calculated based on forecasts, which are designed to predict stable future figures.
- There are government forecasts (e.g., Congressional Budget Office) and private forecasts (e.g., Moody's, IHS Markit).
 - The figures and methods of calculation vary.
 - Typically, private forecast methodologies are not available for scrutiny and can vary by the philosophy and outlook of the chief economists at each organization.

Advantages and Disadvantages of Using Historical vs. Forecasted Values

	Historical	Forecasted
Advantages	<ul style="list-style-type: none">• Easy to calculate.• Reflects actual experience.	<ul style="list-style-type: none">• Smooths out historical variability and provides more stability and predictability.
Disadvantages	<ul style="list-style-type: none">• Highly variable, reflecting economic booms and busts.• Unclear rationale for which time period to choose.	<ul style="list-style-type: none">• Forecasts are predictions and may be incorrect.• Longer-term forecasts will need to rely on data from forecasting organizations whose methodologies are opaque.
State Use	<ul style="list-style-type: none">• OR	<ul style="list-style-type: none">• CT, DE, MA and RI

Summary of Commission Discussions on Using Historical vs. Forecasted Values

- The Commission was undecided on using historical vs. forecasted values.
- Some members supported the use of historical values due to their belief that volatility in the market would make forecasting difficult.
- Other members did not want to rule out the use of forecasted values, because it's more in line with what other benchmark states have chosen and seems more “forward thinking.”
- One Commission member was interested in a blended approach involving both historical and forecasted values.

Advisory Subcommittee Feedback: Historical vs. Forecasted



Does the Advisory Subcommittee wish to provide the Commission with any input on using historical vs. forecasted data to calculate the cost growth benchmark value?

Next Steps

- Project staff will summarize today's discussion and report to the Patient Protection Commission during its meeting on July 28.
- During the August Advisory Subcommittee meeting, we will present and discuss potential benchmark values and potential adjustments to the benchmark.