

Chapter 224 and The Spending Target

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Chapter 224 on cost growth

- Average growth in total health care expenditures in the Commonwealth is constrained by a growth target:

2014-2017

Potential GSP (3.6% in 2013)

2018-2022

Potential GSP - .5%

2023-

Potential GSP

Definitions

“Total health care expenditures”, the annual per capita sum of all health care expenditures in the commonwealth from public and private sources, including:

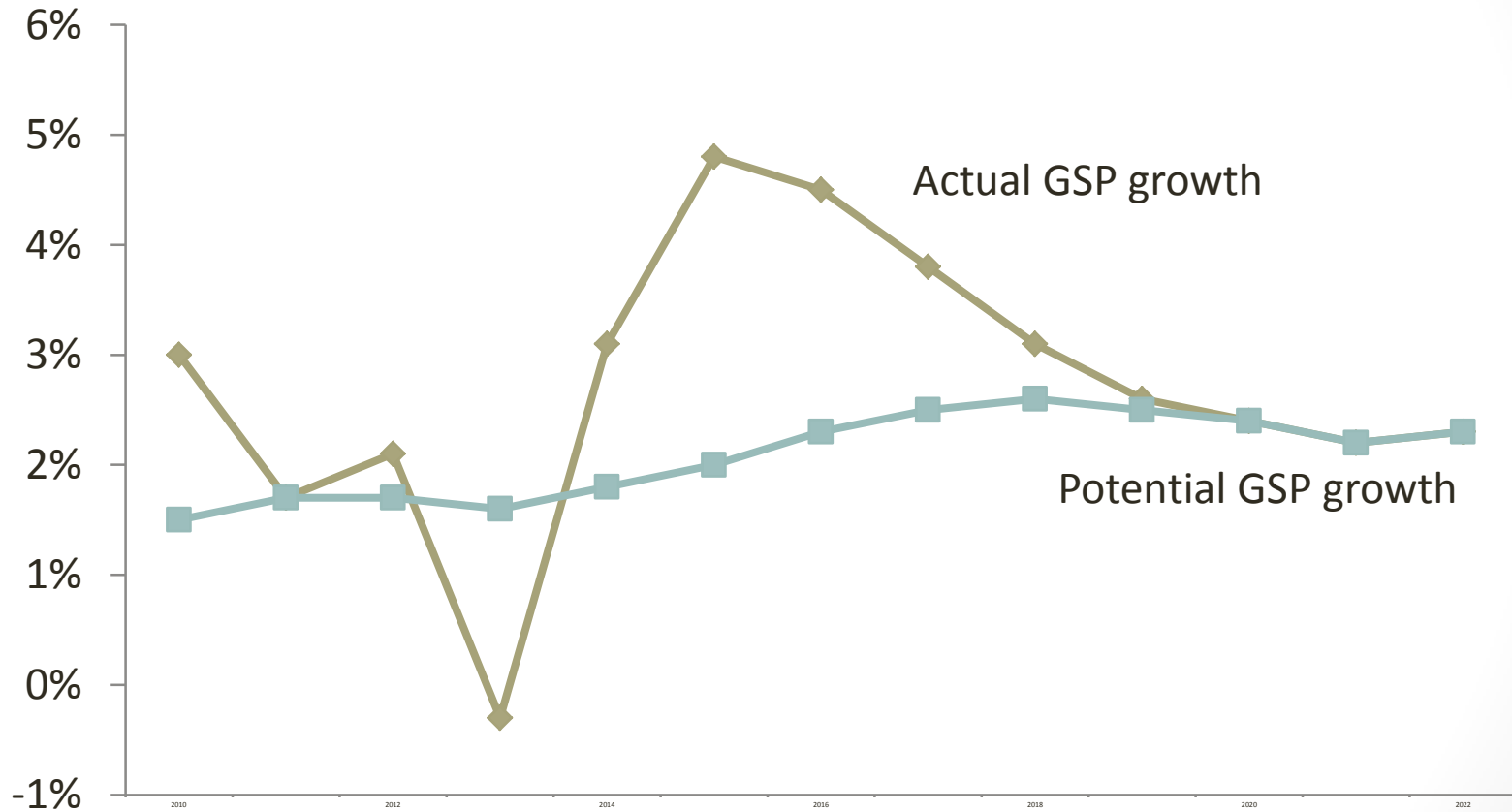
- i. all categories of medical expenses and all non-claims related payments to providers;
- ii. all patient cost-sharing amounts, such as deductibles and copayments; and
- iii. the net cost of private health insurance.

“Growth rate of potential gross state product”, the long-run average growth rate of the commonwealth’s economy, excluding fluctuations due to the business cycle.

Distinguishing among three terms

- **Actual** economic growth – how fast is the economy actually growing?
- **Forecast** economic growth – how rapidly do we think it will grow next year?
- **Potential** economic growth – how rapidly would the economy grow if we were not going into or coming out of a recession?

An example



Why some version of overall economic growth

- Tax revenue grows with economy → stabilizes state contributions
- Sales grow with economy → stabilizes employer contributions
- Incomes grow with economy → stabilizes family contributions
- Alternatives:
 - Current growth rate less some amount → not meaningful as the national health system changes
 - Overall inflation rate → doesn't account for the impact of higher incomes

Timing

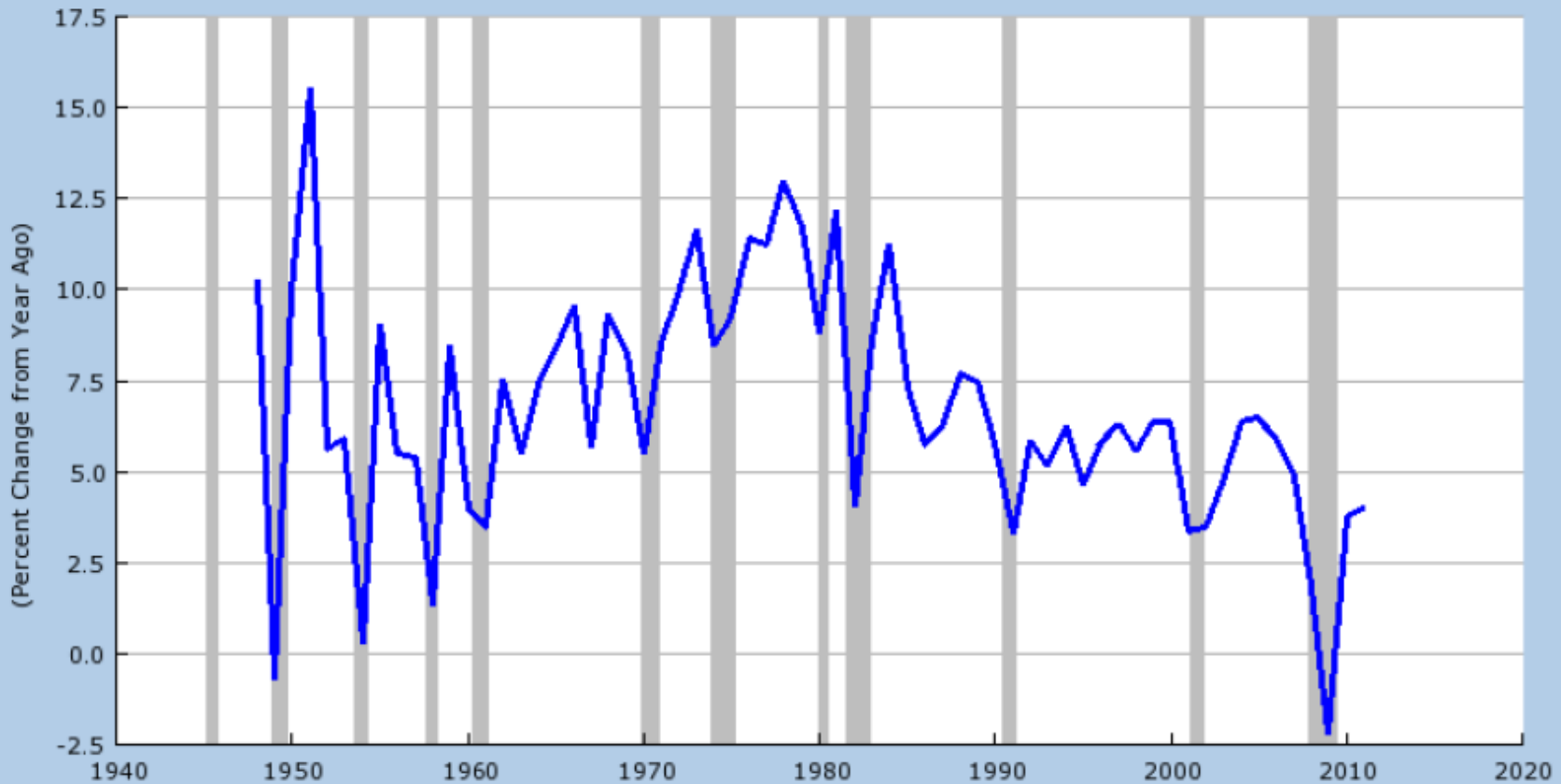
- January 15: Sec of ANF and Senate/House Ways and Means develop growth rate of potential gross state product for next calendar year.
 - Included with consensus revenue forecast and put before General Court
- April 15: HPC establishes a health care cost growth benchmark for the average growth in total health care expenditures in the commonwealth for the next calendar year.
 - This is formulaic, given the earlier step

Some basics on Gross State Product (GSP)

- GSP is the sum of everything produced in a state
 - State equivalent to GDP (= Gross Domestic Product)
 - E.g., “the economy grew by 2.7% last quarter” =
“GDP growth was 2.7% last quarter”
MA GSP = \$392 billion, or \$59,419 / person
- It is produced by the U.S. Bureau of Economic Analysis, one of the premier statistical agencies in the world.

Historical GDP Growth

Gross Domestic Product, 1 Decimal (GDP)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

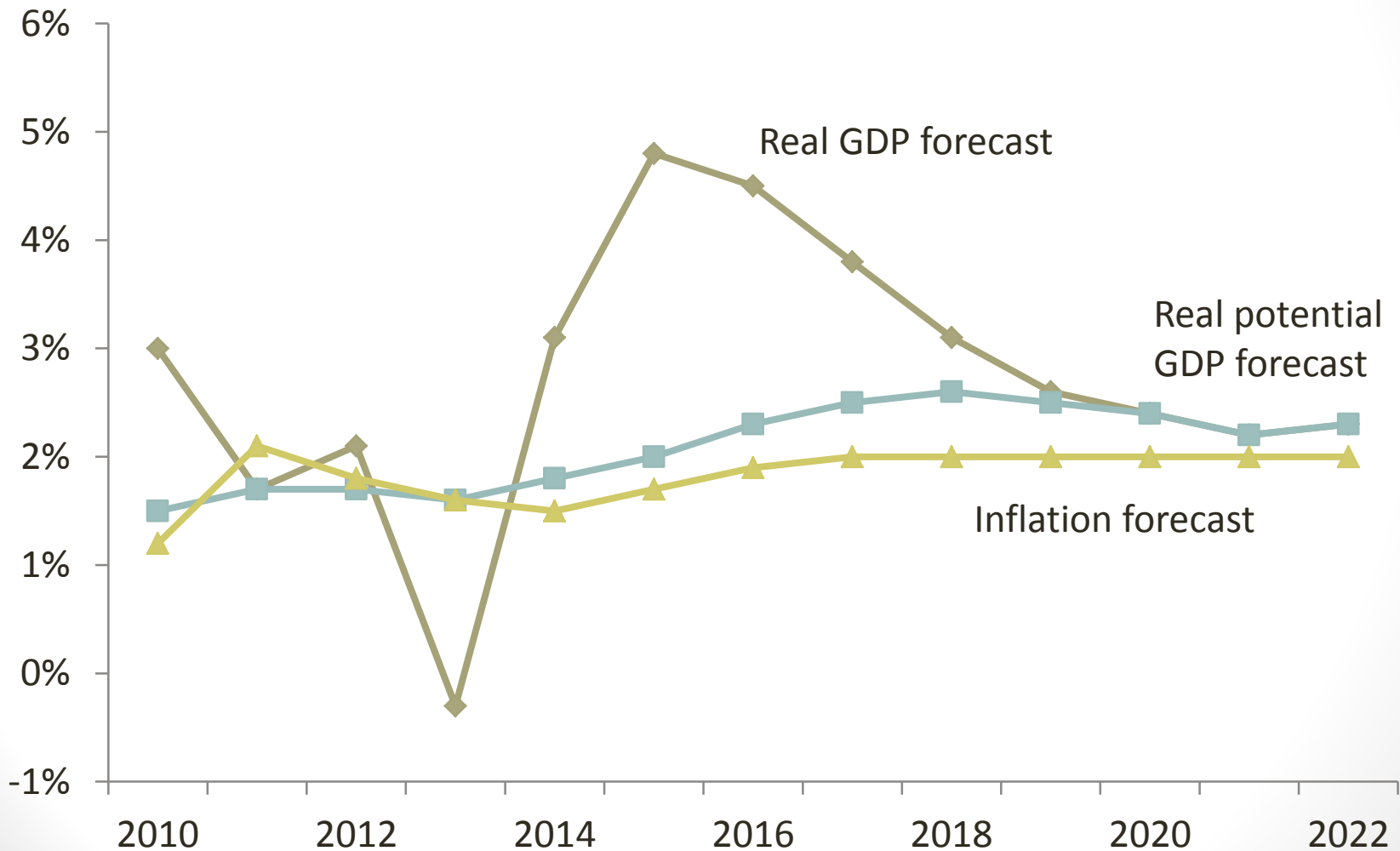


Shaded areas indicate US recessions.
2013 research.stlouisfed.org

Potential GSP growth has two parts

1. “Real” GSP growth – how much more is a typical worker producing than they used to?
 - Tons of rolled steel
 - Number of students educated
 - *Economists generally estimate this based on an analysis of the past several decades.*
2. Inflation – how rapidly are prices going up.
 - *Economists generally consider what the Fed will allow in price inflation.*

An example of a macro model



Source: Congressional Budget Office

Forming expectations

Measure	Model 1	Model 2	Model 3	Model 4
Expected real growth per capita				
Expected inflation				
Total				



Use this range to
form an estimate