All-in Approach Needed to Rein in Cost Growth

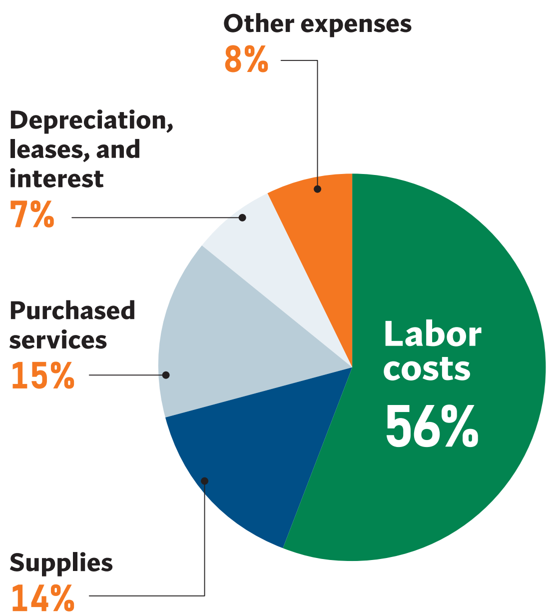
A closer look at what is driving health care prices

Health care costs are rising because of many factors: a lack of access to preventive and primary care services, outdated and costly regulations, and government underfunding that shifts more of the burden onto working families. Hospitals are doing their best to control costs, but many expenses are beyond their control.

Nearly 86% of a hospital's costs are for items they "buy" from others that are essential to providing care (labor, supplies, purchased services) or are items beyond a hospital's control (depreciation, interest, leases). In California, hospital spending is composed of:

- **56%** Direct labor costs
- **14%** Supplies (e.g., pharmaceuticals, components of large equipment like MRI machines, surgical equipment like gloves, caps and gowns, bandages, medical tubing, etc.)
- **15%** Purchased services (e.g., electronic health record maintenance, legal services, food services, laundry services, building repairs)
- **7%** Depreciation, leases, and interest
- **8%** Other expenses (insurance costs, certain investment losses)

CA hospital expenses



Source: OSHPD

Hospitals are doing their part to control costs

Hospitals — Californians' front-line and safety-net health care providers — are doing all they can to keep costs down.

More than half of California's hospitals struggle financially, with **51%** operating in the red, and **55%** having unsustainable margins.

31% the amount of fewer beds per capita, compared to the national average, that hospitals in California rely on to provide for all residents

Others must step up

Health insurance premiums have averaged a more than 5% annual increase since 2016, more than double the general pace of inflation over the same time period.

Public drug companies have seen a median gross **profit margin of 77%,** more than double the median for non-drug companies in the S&P 500.

California Hospital Association

Hospital Council Northern & Central California

Hospital Association of Southern California

Hospital Association of San Diego & Imperial Counties