KPMG

Big Picture Thinking on the Office of Health Care Affordability

May 2024

With you today

James Case

Principal, Healthcare Advisory

Baltimore, MD

James has over 18 years of experience in healthcare consulting at KPMG, specializing in financial strategy, business planning, and hospital alternative payment methodologies

Kenny O'Neill

Principal, Healthcare Strategy and Transformation

Los Angeles, CA

Following his 7-year tenure as a Royal Air Force pilot in Scotland, Kenny spent the last 16 years building healthcare consulting expertise across various delivery models, including the UK and Australia

Agenda

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02

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01

Big Picture Comparative Analysis

OHCA's recommendation is quicker, more aggressive, and more rigid compared to other states

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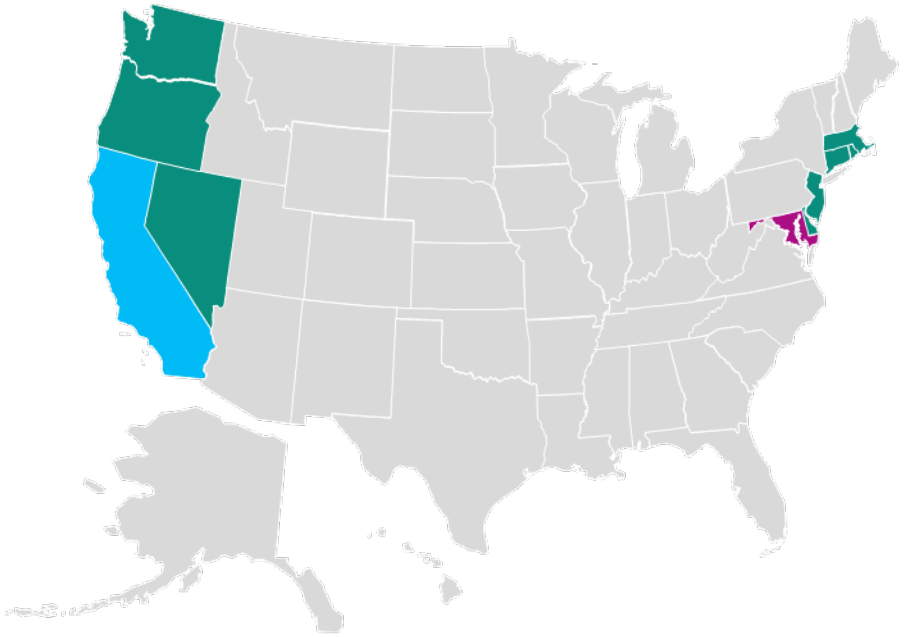

Target setting in progress (CA)

Eight states have established healthcare spend targets (MA, DE, RI, CT, OR, WA, NJ, NV)

MD's Total Cost of Care Model limits all-payer hospital growth

Massachusetts:

- Phased approach to reach 0.5% under PGSP **(3.1%)**

Maryland:

- All-payer growth limited by 10-year cumulative growth in GSP **(3.6%)**

Oregon:

- Based on historical GSP and median wage
  - **3.4%** for first 5 years
  - **3.0%** for second 5 years

OHCA's proposed target of 3.0% remains constant for five years beginning in 2025

Sources - (1) HSCRC Maryland ; (2) OHCA December Board Meeting

After 10+ years, Maryland still continues to refine and re-evaluate

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2010

Global Budget pilots
(Tested to stabilize 10 rural Hospitals)

2014

All-Payer Model
All hospitals under a fixed GBR

2016

Hospital Readmissions Reduction Program Implementation

2017

Potentially Avoidable Utilization (PAU) Savings Implementation

2019

Total Cost of Care Model
Hospitals global budgets continue plus accountability for Medicare TCOC. Savings commitment of $300M by 2023

2019

Care Redesign Program
Maryland Primary Care Program
Medicare Performance Adjustment

2021

Integrated Efficiency Policy
(Penalizes significantly inefficient hospitals and rewards significantly efficient ones)

2021

Statewide Integrated Health Improvement Strategy program
(Population Health, Quality, Health Equity & Care Transformation Initiatives)

2024

HSCRC is still struggling to enforce targets across stakeholders

Sources - (1) HSCRC Maryland

OHCA has expansive powers to enforce the proposed 3.0% annual cost growth target

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"Compared to other state health care spending benchmarking programs, **California's law provides stronger enforcement authority**" – OHCA

US States with Active Cost Growth Targets

	2018	2019	2020	2021	2022	2023	Last Period
Massachusetts	3.1%	3.1%	3.1%	3.1%	3.1%	3.6%	3.6% (2024)
Delaware		3.8%	3.5%	3.3%	3.0%	3.0%	3.0% (2023)
Rhode Island		3.2%	3.2%	3.2%	3.2%	6.0%	3.3% (2027)
Oregon				3.4%	3.4%	3.4%	3.0% (2030)
Connecticut				3.4%	3.2%	2.9%	2.9% (2025)
Washington					3.2%	3.2%	2.8% (2026)
Nevada					3.2%	3.0%	2.4% (2026)
New Jersey						3.5%	2.8% (2027)

Key: Re-evaluated Phased in

Statewide Hospital YoY Net Patient Revenue Growth

	2019	2020	2021	2022	CAGR
Massachusetts	**0.4%**	**-4.4%**	**13.8%**	**3.4%**	**3.1%**
Delaware	**6.3%**	**-4.8%**	**14.1%**	**7.5%**	**5.5%**
Rhode Island	**3.1%**	**-7.1%**	**10.7%**	**1.2%**	**1.8%**
Oregon	4.5%	-0.4%	**7.7%**	**8.4%**	**5.0%**
Connecticut	7.2%	-4.1%	**12.0%**	**5.9%**	**5.1%**
Washington	3.6%	-3.2%	13.2%	**2.6%**	**3.9%**
Nevada	5.9%	-0.3%	5.3%	**7.6%**	**4.6%**
New Jersey	4.5%	-6.5%	10.3%	16.9%	**6.0%**
California	4.9%	0.9%	5.4%	6.3%	**4.4%**

Years with active cost growth target

Sources - (1) OHCA December Board Meeting; (2) HCRIS Medicare Cost Report Data

Cost target states re-evaluate their approach after several years of measuring performance

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Massachusetts:

- MA's Health Policy Commission (HPC) is moving away from setting the benchmark at PGSP minus 0.5% (effective for 2018-2022)
- Reverted to setting target equal to PGSP for 2023 & 2024 (consistent with 2012-2017 targets)

Maryland:

- Health Services Cost Review Commission (HSCRC) did not meet the Medicare waiver requirement due to inflationary pressures, however there is not flexibility in the target to address it
- Led to HSCRC implementing corrective action plans to come closer to meeting the CMS waiver

Oregon:

- The Cost Growth Target Advisory Committee will re-evaluate the appropriateness of the future cost targets due to inflation, increasing labor costs, wages, income, as well as other projected cost growth trends (3.4% in 2024-2025 and 3.0% in 2026)

Each state has re-evaluated or modified benchmarks based on inflationary factors not considered during initial target setting

Sources - (1) HSCRC; (2) Mass.Gov; (3) Oregon Health Authority

02

Strategy & Future Challenges

Rather than avoidance of targets, California hospitals can advocate for infrastructure to support affordability

02

1 Accelerating the Transition to Value- Based Care

With pushes to contain growth in healthcare costs, payers and providers are working together to advance payment reform and move to value-based payments (VBP).

2 Advancing Home-Based Care and Primary Care

Home-based primary care has been proven to improve health outcomes, enhance the quality of life for patients and caregivers, and reduce the total cost of care.

3 Improving the Affordability of Drugs and Other Therapeutics

With the price of pharmaceuticals being a large driver of increased healthcare costs, addressing the high cost of prescription drugs could drive increased affordability.

4 Developing a High-Value Workforce and Staffing Models

With medical staffing concerns on the horizon for most states, a comprehensive, sustainable healthcare workforce management strategy is needed.

5 Build of Behavioral Health Infrastructure

Patient outcomes can be improved, and costs can be reduced by integrating behavioral health into medical care. Acute behavioral health issues are among the greatest drivers of need for medical care.

6 Customization of Care and Harnessing Genomic Data

Harnessing genomic data enables personalized and targeted treatments, reducing the need for costly trial-and-error approaches.

7 Reducing Variation to Improve Health Equity

Investing in social determinants of health, such as education, housing, and nutrition can improve overall health, reducing the demand for expensive interventions.

8 Care Movement to Lower Cost Settings

Moving patients to lower-cost settings can improve healthcare affordability by reducing the expenses associated with hospitalization and specialized care.

Clearly defining a carve out policy of these near-term investments (or advocating for higher targets in years of large investment) can help providers and payers implement **sustainable growth initiatives** without the fear of being unfairly penalized by a cost target disciplinary trigger.

Sources - (1) Health Care 2030; (2) Future of Healthcare - HCMO

Future challenges in affordability may obstruct investments in infrastructure and access

02

Patient care expenses in California continue to rise, primarily driven by economic factors outside of hospital control such rising labor and medical supply costs

California continues to expand **Medi-Cal** enrollment without adequately reimbursing hospitals for essential services they provide to a high-cost, high-risk population

To meet **seismic compliance** and provide services past 2030, hospitals will need to spend nearly 90% of annual capital expenditure on infrastructure improvements alone

Sources – (1) HCRIS Medicare Cost Report Data; (2) RAND Analysis; (3) HCAI Seismic Data by Facility

Cost targets may inhibit hospitals' ability to recoup under-reimbursed costs from Medi-Cal

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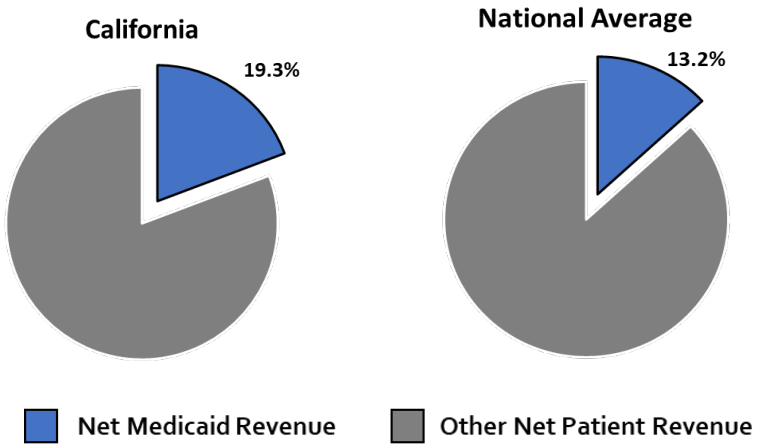
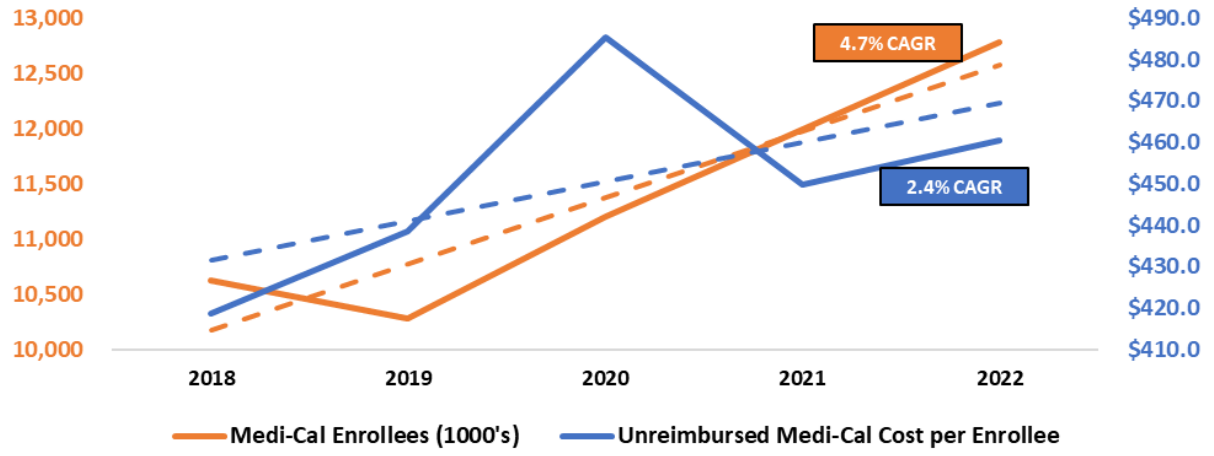
Medicaid % of Net Revenue (2022)



Medi-Cal Enrollees vs Unreimbursed Medi-Cal Costs



Expanded Medi-Cal coverage will likely continue to drive higher amounts of unreimbursed cost

Sources – (1) HCRIS Medicare Cost Report Data

Historical cost trends do not anticipate the $2.7B of additional annual spend required to comply with seismic regulations

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% of Total Capital Expenditure (2022 Actual)

	California	National Average
Buildings	58.4%	35.6%
Fixed Equipment	1.9%	7.3%
Major Moveable Equipment	15.1%	12.0%
Other PP&E	24.6%	45.0%
Total Capital Expenditure	**100.0%**	**100.0%**

> 60% of hospitals currently do not meet 2030 seismic regulation standards

Sources – (1) HCRIS Medicare Cost Report Data; (2) RAND Analysis; (3) HCAI Seismic Data by Facility

03

Engagement & Active Participation

Discussion: Priorities, issues, and timing of engagement

03

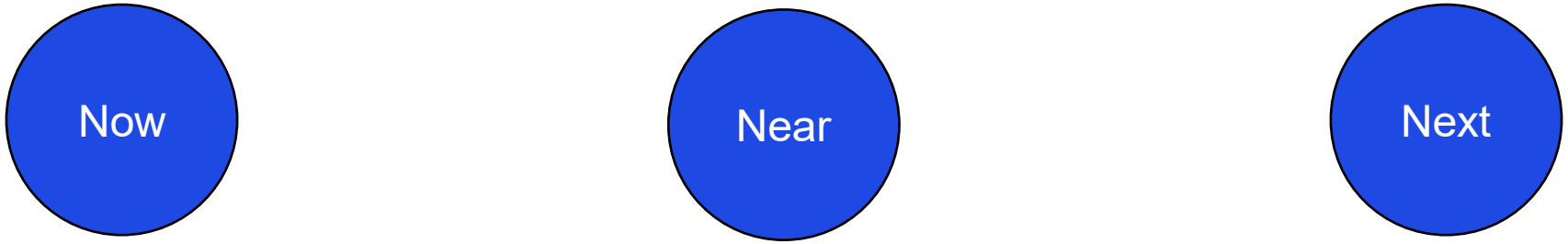
Key Priorities

- Policy Development and Compliance
- Financial Planning and Management
- Operational Adaptation
- Stakeholder Engagement
- Strategic Planning and Innovation

Key Issues

- Transparent and interoperable data hubs to inform target setting and performance
- Set targets to account for CA's uniqueness and changes in national economy & federal policy
- Set targets that encourage primary care and behavioral health investments
- Sectors that equitably capture CA's population and do not put unnecessary pressure on hospitals
- A defined review process and transparent expectations
- Appropriate penalties that do not affect access

Timing



Thank you

Thank you for taking the time to explore healthcare affordability targets and the implications of new legislature with us. We appreciated your collaboration, transparency, and high engagement during the session. We truly enjoyed working together to define current state uncertainties in the market and align on a structured roadmap for your path forward. We look forward to continuing this dialogue and are excited to be on the journey with you!

Warm regards,

Your KPMG Team