



July 17, 2025

Kim Johnson
Chair, Health Care Affordability Board
2020 W El Camino Ave.
Sacramento, CA 95833

Subject: OHCA Must Shift Approach to Account for Catastrophic Federal Cuts and Exorbitant Growth in Health Insurer Profits

(Submitted via Email to Megan Brubaker)

Dear Chair Johnson:

California's hospitals share the goals of the Office of Health Care Affordability (OHCA) to create a more affordable, accessible, equitable, and high-quality health care system. On behalf of nearly 400 hospital members, the California Hospital Association (CHA) appreciates the opportunity to comment.

Federal Policy Changes Will Decimate California's Health Care Delivery System

On July 4, President Trump signed the "One Big Beautiful Bill Act" (OBBBA) into law, ushering in the largest health care cuts in the country's history. The cuts will reduce access and coverage for economically disadvantaged children and families on Medicaid, the growing senior population on Medicare, and families with coverage through the Affordable Care Act (ACA). The largest cuts are to the Medicaid program (Medi-Cal in California), resulting in nearly \$1 trillion in cuts nationally over the next decade — and \$66 billion or more in cuts to California hospitals alone. Before OBBBA was passed, 50% of California's hospitals were operating in the red. That number will undoubtedly rise as more hospitals face even greater financial distress. The immediate, devastating, and long-lasting effects will not only be borne by health care providers and their patients; when layered with the reduction to the Supplemental Nutrition Assistance Program, or CalFresh in California, the [Commonwealth Fund](#) estimates severe economic losses to states, including 1.22 million jobs lost nationwide by 2029. What's more, these only reflect the estimated impacts from OBBBA. [Additional cuts](#) are already being considered by federal policymakers that would further devastate California's health care delivery system.

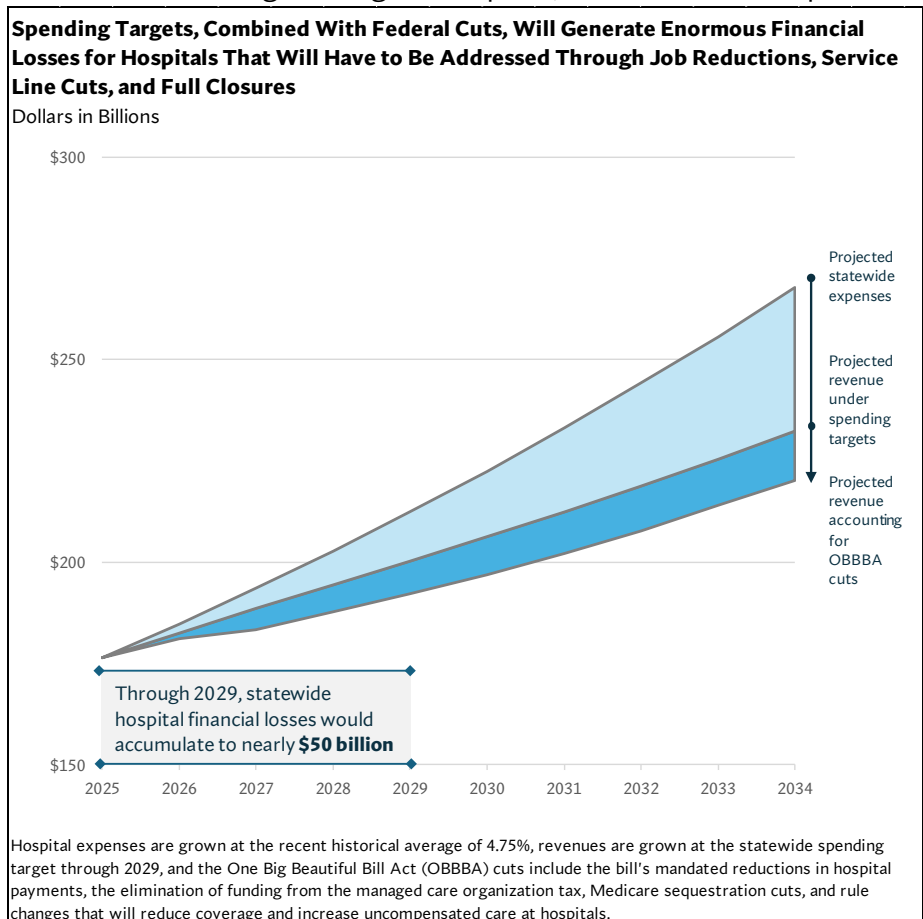
More Than 1.8 Million Californians Will Lose Coverage. Nearly 15 million Californians (more than a third of the state's population) are covered by Medi-Cal. Many of the OBBBA cuts to Medi-Cal will make

it harder for individuals to maintain their health care coverage by requiring them to jump through burdensome procedural requirements like work and community engagement activities, putting them through more frequent eligibility redeterminations, and subjecting them to broader eligibility verifications. For the Medi-Cal expansion population with income greater than 100% of the Federal Poverty Level, states must impose copayments of up to \$35 for certain services. OBBBA provisions, combined with allowing the enhanced premium tax credits to expire, also will reduce the ability of low and middle-income individuals and families to purchase affordable health care coverage through Covered California. For example, OBBBA shortens the open enrollment period and restricts coverage for Deferred Action for Childhood Arrivals recipients.

In California alone, the Medi-Cal and Covered California cuts will result in lost coverage for an estimated 1.8 million Californians over a 10-year period, a 75% increase from the [estimated 2.4 million uninsured](#) as of 2023. Taken together, the changes in OBBBA will reverse many of the health coverage gains made since the ACA was passed. Californians will face higher health care costs and reduced access to coverage, with many becoming sicker and delaying care until their conditions worsen to the point that they must resort to seeking emergency stabilization at the hospital.

Federal Policy Changes Will Reduce Payments for California’s Hospitals by 14% or More. Not only does OBBBA affect health care coverage and uncompensated care, it cuts Medicaid payments for hospitals directly by restricting both the funding sources (health care-related taxes) and mechanisms (payments structured by the state and directed through managed care plans) that California hospitals rely on to narrow, but not eliminate, the gap between what Medi-Cal pays and what it costs to care for Medi-Cal patients. These federal changes put California’s Prop 35 managed care organization tax entirely at risk and will require significant changes and reductions to the Hospital Quality Assurance Fee Program.

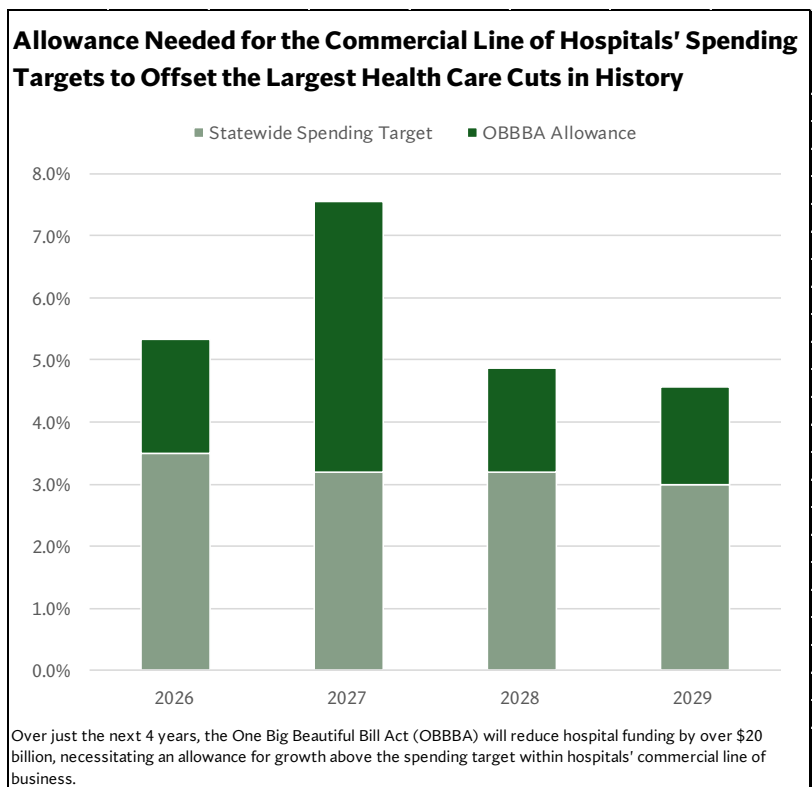
Automatic Medicare Cuts Are Looming. OBBBA is projected to [increase the deficit by \\$3.4 trillion](#) over 10 years. Under the federal Statutory Pay-As-You-Go Act of 2010 (S-PAYGO), if a bill is enacted that increases the deficit, the federal government is required



to enact across-the-board cuts to certain programs, also known as sequestration. Unlike Social Security and programs for low-income individuals, Medicare is not exempt from these cuts. Unless Congress intervenes, sequestration will trigger an expected 4% reduction to most Medicare spending effective October 1, 2026, resulting in Medicare cuts in the hundreds of billions of dollars over the 2026-2034 period (the Congressional Budget Office previously estimated these cuts to be \$500 billion from the prior deficit estimate of \$2.3 trillion). These cuts will affect payments to hospitals, physicians and health care providers, Medicare Advantage plans, and prescription drug plans. Today, Medicare already reimburses hospitals 75 cents for every dollar hospitals spend on care. These Medicare cuts will exacerbate the inadequacy of Medicare reimbursement to hospitals.

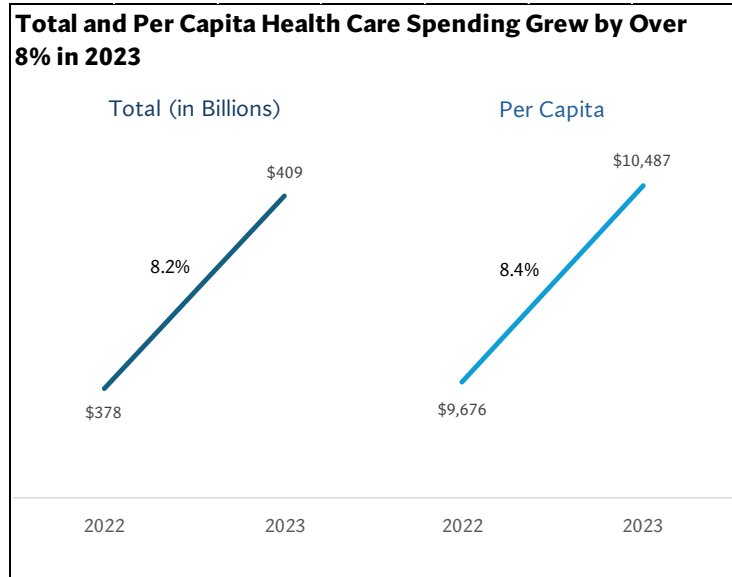
To Protect Access to Care, OHCA Must Provide Blanket Waivers Against Enforcement for Providers Whose Funding Is Cut. These federal cuts will come on top of those already mandated by OHCA's 3.5% spending cap for hospitals (ramping down to 3% by 2029), and an even lower cap for a select few. The combination of federal and OHCA cuts will threaten the stability of California's entire health care delivery system. As the figure on the previous page shows, through 2029, these federal and state actions will cause hospitals to suffer nearly \$50 billion in financial losses unless drastic steps are taken to slash costs. If the statewide spending target were maintained, these losses would only further compound.

OHCA must ensure that its actions do not exacerbate the devastating impacts of the federal cuts. To do so, OHCA must act now by declaring that spending growth offsetting losses from the federal cuts is a justifiable reason for exceeding the spending target. Absent this action and other concessions, hospitals will be forced to take drastic actions that run counter to OHCA's mission of promoting access to high-quality and equitable care and maintaining a stable health care workforce. The figure on the right translates the federal cuts into spending-target terms, showing that additional allowances of 2% to 4% on hospitals' commercial spending targets would be necessary, on a statewide basis, to offset the devastating cuts coming from Congress.



OHCA Baseline Report Revealed That Health Insurer Profits and Drug Cost Growth Drove Spending Growth in 2023

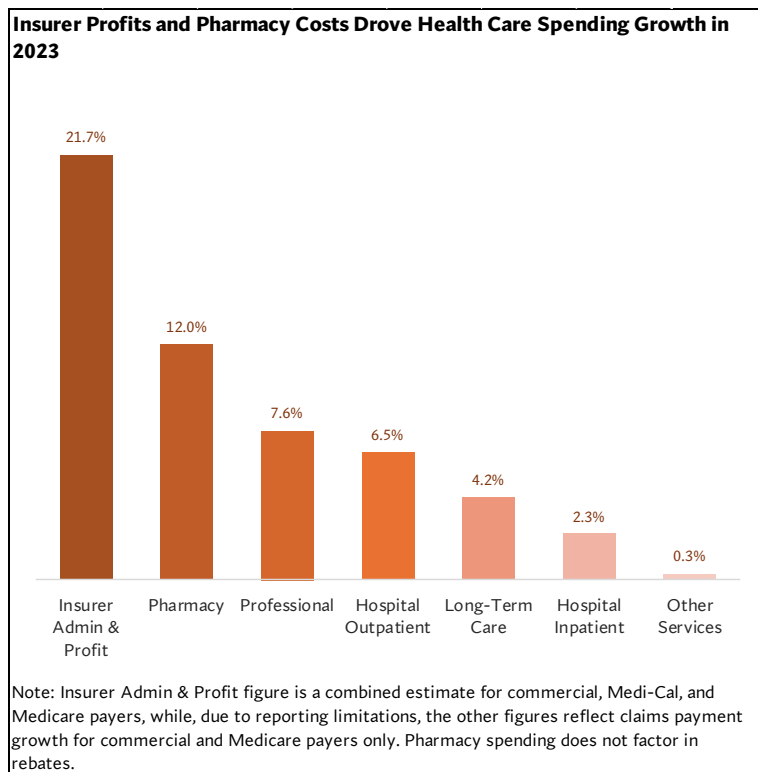
At the June board meeting, OHCA presented findings from its first report on the annual growth of health care spending in California. The report’s release represents a major implementation milestone and is the culmination of significant work on the part of the office and its implementation partners. Importantly, it revealed several striking trends that should inform OHCA’s work going forward. It also left key questions unanswered.



Spending Growth Far Exceeded OHCA’s

Prospective Spending Targets. California’s first statewide spending target was implemented in 2025, starting at 3.5% and ramping down to 3% by 2029. By contrast, the baseline report tracks the growth of health care spending between 2022 and 2023. This earlier period marked the state’s unofficial emergence from the COVID-19 pandemic, which fundamentally altered health care utilization and spending patterns and threatened the financial stability of hospitals and other providers across the state. Undoubtedly, this influenced the resulting growth patterns. Nevertheless, the 8.4% growth in per capita spending — a rate that is nearly 2.5 times higher the 2025

spending target — shows that a reevaluation of the spending target is needed sooner than later. The above figure displays the statewide spending growth figures.



Health Insurer Profits Are Growing at Stunning Rates. As the figure on the left shows, health insurer profits grew exorbitantly between 2022 and 2023. In fact, statewide health insurer profits grew at more than 4 times the rate of their spending on actual medical care (which saw 5% growth). This meant that 21 cents of every dollar increase in health care spending in 2023 supported higher health insurance company profits, not improvements in medical care.

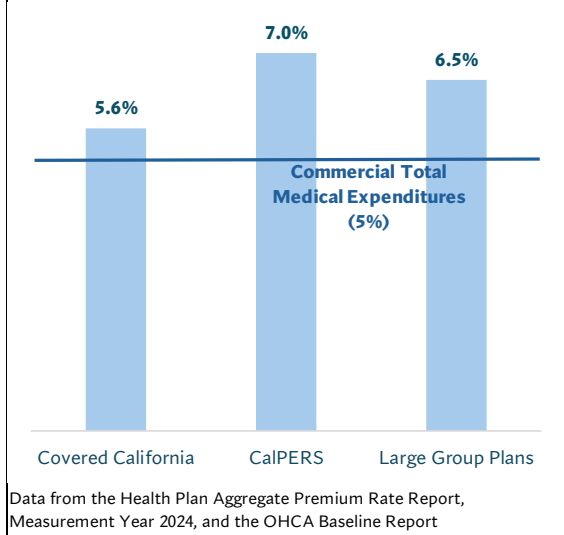
Spending on Hospital Care Grew Far Slower Than Spending Overall. While total per capita health care spending grew by 8.4% in 2023, hospital spending for inpatient and outpatient services grew more modestly — by 2.3% and 6.4%, respectively. These divergent trends mirror utilization patterns. According to hospital financial reports, the number of statewide inpatient discharges grew by 2.6% between 2022 and 2023, while outpatient visits grew by 4.9%. This relatively higher growth in outpatient care is partly attributable to hospitals' work to, when clinically appropriate, shift care from the inpatient to outpatient setting. In addition to being less costly, outpatient care can be more patient-centered, allowing patients to return to their homes and communities of support more quickly. Less encouragingly, however, the trend also likely stems from increased reliance on emergency room care, including for conditions that could have been treated in primary care settings. As evidence, emergency room visits grew by 4% between 2022 and 2023.

Thorough Analysis of the Drivers of Health Care Spending Growth Remains Outstanding. OHCA's baseline report accurately identifies the variable spending trends for different categories of services. However, it does not reveal the drivers behind these variable trends or for rising health care spending overall. Below are several areas that are ripe for further exploration:

- **Health Insurer Profitability.** The baseline report showed that health insurers' profits and administrative costs are together growing at exorbitant rates. This could be because insurers are hiring more care managers, as envisioned under CalAIM, or updating their systems to streamline utilization management and provider payments. Alternatively, it could simply be a surge in profits paid out to investors and additional contributions to their already enormous reserves. Furthermore, it is unclear whether a few large insurers disproportionately enjoyed higher profits, or if this is an industry-wide trend. Follow-up analysis is needed to answer these important questions.
- **Drug Cost Growth.** Even after accounting for rebates, total retail drug spending grew by 10% between 2022 and 2023. However, even this high number understates the full impact of rising drug prices on overall health care spending growth. This is because a significant portion of drug costs are covered under medical, rather than pharmacy, claims and are therefore rolled into OHCA's hospital and professional services categories. Identifying the true influence of rising drug costs on health care spending growth is essential.
- **Coverage and Demographic Changes.** Sizable shifts in coverage occurred between 2022 and 2023, with Medicare rolls increasing by nearly 0.9%, Medi-Cal rolls increasing by 3.5%, and commercial coverage going down by 0.6%. These diverging trends likely significantly influenced health care spending growth that year, given both the higher health care needs Medicare enrollees and the lower reimbursement for health care paid by the two government payers, Medi-Cal and Medicare, that saw inflows in covered lives. OHCA should evaluate the impacts of these coverage and demographic changes on health care spending.

Elevated Scrutiny of Health Insurance Companies Is Needed Now

Commercial Premiums Grew Far Faster Than Health Plan Spending on Medical Care in 2023



Commercial Health Insurer Premiums Grew Far Faster Than Medical Spending in 2023.

As the figure on the left shows, premiums for the most common types of commercial health insurance plans went up by between 5.6% and 7% in 2023. At the same time, per capita total medical expenditures in the commercial market went up by just 5%, according to OHCA’s baseline report. This alarming gap between what insurers earned in premium revenue and what they paid for medical care translates to billions of dollars simply supporting higher health insurer profits, not the treatment of life-threatening diseases or investments to improve access to high-quality care. It is unclear how much of this excess premium growth was refunded to premium payers under medical loss ratio requirements. Going forward, OHCA must analyze the

difference between premium growth and reported medical expenditures to understand whether the state’s spending targets are actually achieving their aim of promoting greater affordability for Californians.

Excessive Growth in Insurance Company Profits Is an Enduring Trend. The high growth of health insurer profits could be ignored if it were a one-time phenomenon in 2023. However, as the figure below shows, inflated growth in insurer administrative costs and profits has persisted for more than a decade.

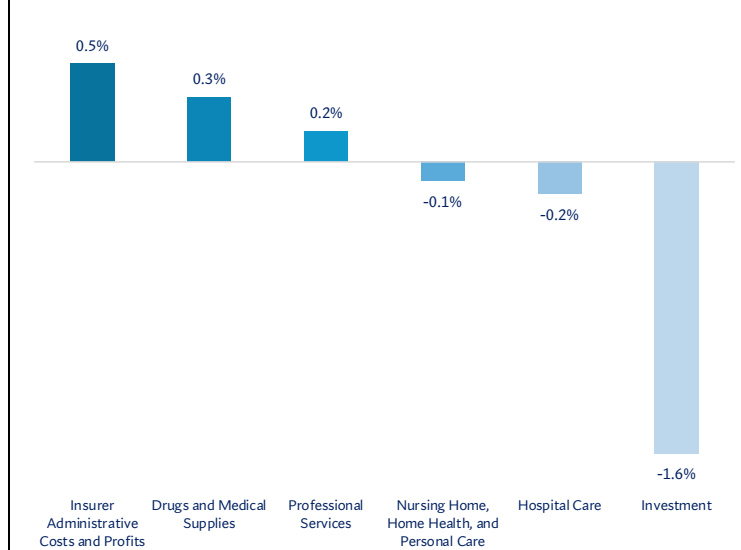
Annually between 2013 and 2023, this component of national health expenditures grew one-half percentage point faster than the overall spending growth. Ultimately, it shows that dollars are increasingly being diverted away from patient care.

Insurers Have Amassed Enormous Excess Reserves.

The longstanding trend of excessive profits by health insurance companies, nationally, is corroborated by high statewide growth in health plan reserves. As the figure on the next page shows, health plan reserves have grown by over 100% in just the last six years, twice the rate of growth of their regulatorily required reserves. This raises serious questions about why Californians are

Health Insurer Administrative Costs and Profits Grew Significantly Faster Than Total National Health Expenditures Between 2013 and 2023

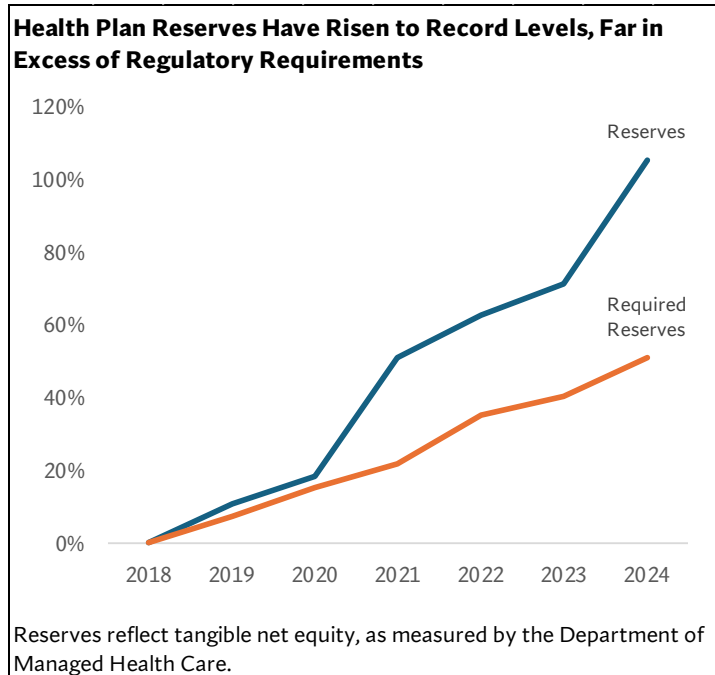
Percent Difference in Compound Annual Growth Between Major Categories of Health Expenditures and National Health Expenditures



Note: All data are based on the latest nationwide National Health Expenditure release. Insurer administrative costs and profits reflects the net cost of insurance category. The nursing home, home health, and personal care category is an aggregate of the following categories: nursing care facilities and continuing care retirement communities; home health care; and other health; residential, and personal care.

charged so much in premiums and requires investigation by OHCA.

Insurers Should No Longer Receive a Free Pass from Scrutiny. Data from OHCA on recent health care



spending growth, the Centers for Medicare & Medicaid Services on long-term spending trends, and the Department of Managed Health Care on health plan premium and reserve growth all point in the same direction: skyrocketing health insurance prices are a main driver of the state’s affordability challenges. Nevertheless, health insurance companies have received scant scrutiny from OHCA. OHCA must conduct an in-depth evaluation of health insurance premium and reserve increases to see whether these have increased spending and investment in high-quality health care, or been syphoned off as profits and retained earnings. OHCA should propose options, and the board should adopt, stricter

spending targets for health insurance companies that are high cost, as shown by these and other measures. OHCA should also develop recommendations for the legislative and regulatory changes that ensure that the dollars Californians spend on premiums support the health care they need.

Conclusion

California’s hospitals appreciate the opportunity to comment and look forward to continued engagement toward our shared goals of promoting affordability, access, quality, and equity in California’s health care system.

Sincerely,

Ben Johnson
Group Vice President, Financial Policy

cc: Members of the Health Care Affordability Board:

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