Talking Points: Office of Health Care Affordability – Initial Spending Growth Target Proposal
March 18, 2024

1. California's Office of Health Care Affordability (OHCA) was formed to create a system to curb health care cost growth **without sacrificing access to, or the quality of, health care**. The office's proposed 3% spending growth target attempts to achieve the first goal at the expense of the second.
    - The office appears committed to controlling health care cost growth but has not, to date, meaningfully considered how its proposal would affect health care access and quality — nor has it adequately contemplated data to support its proposal.
    - In setting a spending growth target, the office must consider at least five key components: inflation; demographic trends like California's aging population; trends in labor and technology costs, such as the high costs of new pharmaceuticals and medical devices; health care policies adopted by the Legislature that add to costs; and the need to phase in any reductions in rate of growth to prevent harming access to care for Californians.
    - This proposal would preclude much-needed investments in behavioral health care, health equity, rural health care, and more, and puts California's most vulnerable residents at risk.

2. Decisions must be based on data and analysis and account for the underlying drivers of health care costs to develop credible spending targets that will not inadvertently result in negative consequences.
    - OHCA has neglected to incorporate inflation expectations into California's target. This would not only render the state's health care system unable to afford medical supplies and upgrades to its physical and technological infrastructure, but would also hamper hospitals' ability to compete with other states and sectors for workers.
    - A 3% growth target is well below even standard inflation projections and would remove $36 billion from California's health care system over the next five years.
    - OCHA has not considered the costs of state and federal mandates in its calculation. Requirements like 2030 seismic retrofitting, which will cost more than $160 billion statewide, or the new $25/hour minimum wage, impose significant costs on hospitals and health systems — and could mean the difference between continuing to provide patient care and being forced to close.
    - By proposing an unadjusted target based on median family income growth, OHCA has set a target lower than recent years' GDP growth — making California an outlier when compared to the eight other states with similar health care spending growth targets.
    - Given these outstanding issues, adopting a five-year target before data become available and critical decisions have been made seems imprudent.

3. OHCA's proposed 3% target would have detrimental impacts on health care quality, access, and equity. To meet this target — and maintain it year over year — hospitals will have no choice but to reduce services or, in some cases, close certain service lines entirely. *(Provide specific examples from your organization related to services that would be impacted or future investments that would be made impossible due to the target.)*
    - The proposed 3% spending target is unrealistic. It would exacerbate an already difficult health care workforce shortage and diminish the outlook for those seeking careers in health care. *(Provide specific examples of how a 3% target would impact workforce retention and expansion)*

- If the proposed target had been in place for the past five years, it would have drained $60 billion from hospital resources used to care for patients — this translates to 58,000 health care jobs lost by the end of the five years.
- OHCA has an opportunity to transform California's health care system in a meaningful way to progress toward the health care system Californians need. To do this, it must clarify how its initial proposal balances the spending target with the need to create a modern system that addresses the social determinants of health that contribute to health disparities. A systemwide focus on health equity has the potential to lead to long-term cost savings, but requires significant up-front investments and reorganization of delivery models.
- In its haste to develop an initial spending target, OHCA staff has crafted a proposal that could cost the state billions in economic activity. California hospitals, which currently generate more than $343 billion in economic output, will be forced to curtail investments so that they can meet the spending target — resulting in dire consequences across the state.

4. California hospitals urge the OHCA board to adopt a one-year, modified proposal. In determining whether a proposed target is realistic and sustainable, hospitals encourage OHCA to consult the following framework.
   a. CHA has proposed an alternative framework that incorporates commonly recognized drivers of health care spending, with a goal of ensuring that the target is both credible and fulfills OHCA's multiple objectives.
   b. The framework has at least three possible uses:
      i. For use as the spending target methodology
      ii. To assess the reasonableness of a different spending target and methodology
      iii. As a source for reasonable and appropriate adjustments to a spending target that relies on an alternative methodology
   c. The timelines in OHCA's authorizing legislation were drawn to facilitate thoughtful deliberation and learning before enforceable spending targets are set for 2026 and beyond. While multiyear targets may eventually make sense, the board should reconsider the appropriateness of setting a multiyear spending target before critical outstanding issues around data collection and enforcement processes have been resolved.