California Hospital Association Board Meeting

Office of Health Care Affordability

May 2, 2024

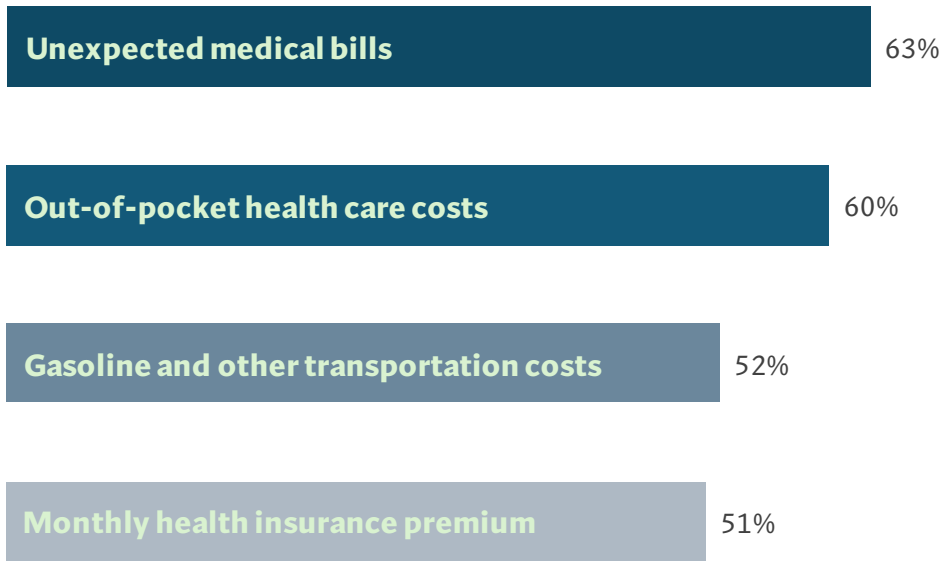
California Hospital Association

Public Concern About Health Care Costs

California Hospital Association

2021

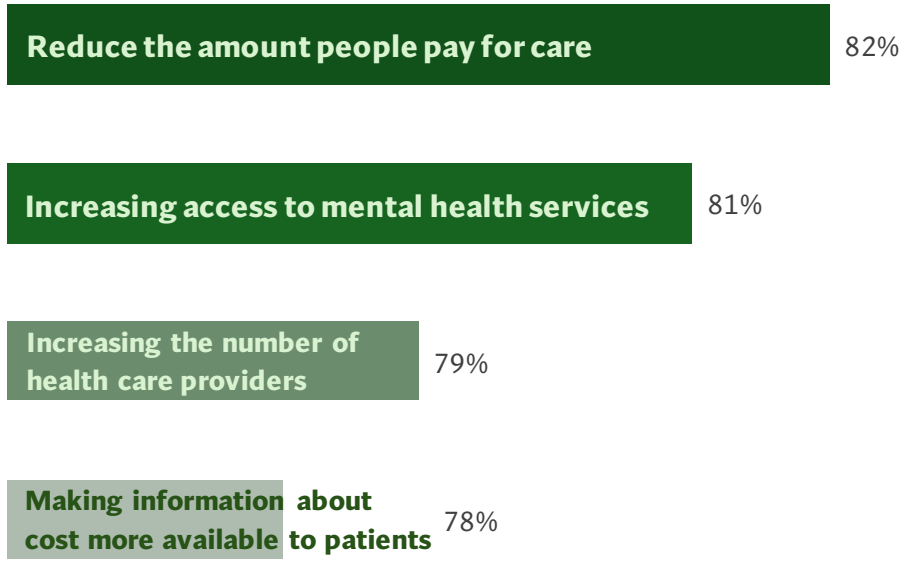
Percent of Californians Worried About Being Able to Afford the Following Items



Source: CHCF/NORC California Health Policy Survey (2021)

2023

Percent of Californian Adults Who Think the Governor and Legislature Should Work on the Following Health Care Issues



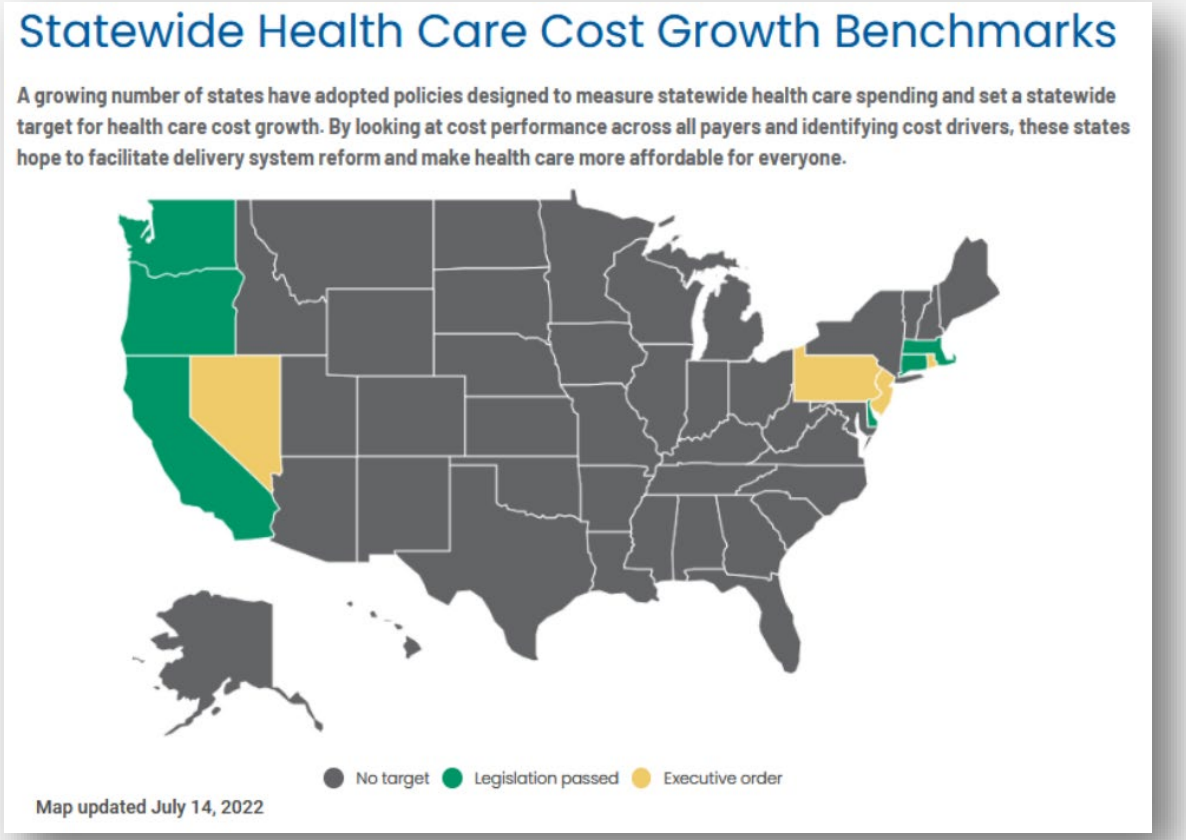
Source: CHCF/NORC California Health Policy Survey (2023)

Political Backdrop

Policymakers have recently considered or approved various approaches to **improve health care affordability**

- ❑ Rate setting
- ❑ Cost sharing limitations
- ❑ New coverage subsidies
- ❑ Expanded oversight of market activity
- ❑ Single payer

Coast to coast, states are rolling out **health care cost benchmark programs**



Creation of the Office of Health Care Affordability

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California Office of Health Care Affordability (OHCA) authorized in the state budget via Senate Bill 184 (2022)

Political support from:

- Governor Newsom
- Former chair of the Assembly Health Committee, Jim Wood
- Insurers (Blue Shield)
- Labor (California Labor Federation)
- Consumer groups (Health Access)

Housed within the Department of Access and Information (HCAI)

Led by:

- HCAI Director Elizabeth Landsberg
- Deputy Director Vishaal Pegany

Significant investment of state resources:

- $32 million annual budget
- 142 staff positions
- Consulting resources from:
  - Bailit Health
  - The Source on Healthcare Price & Competition
  - Freedman HealthCare
  - And more

Main Objectives and Responsibilities

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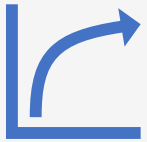
Increase transparency on spending and quality



Set spending targets for the health care field

Enforce compliance, including through financial penalties

Monitor and review market transactions

Establish new standards, including for quality, equity, workforce

Governance

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Office/ Director

- Establish reporting requirements
- Analyze and publish reports on health care spending
- Advise on and carry out progressive enforcement actions
- Monitor and review market transactions

Board

- Establish spending targets
- Define sectors
- Approve range and scope of administrative penalties

Advisory Committee

- Provide input and recommendations on various issues under consideration

Health Care Affordability Board

Dr. Richard Pan – former Senator (Senate appointment)

Ian Lewis – NUHW Director of Research (Assembly appointee)

Sandra Hernandez – President and CEO of CHCF (Governor appointee)

Dr. David Carlisle – President and CEO of Charles R. Drew University of Medicine and Science (Governor appointee)

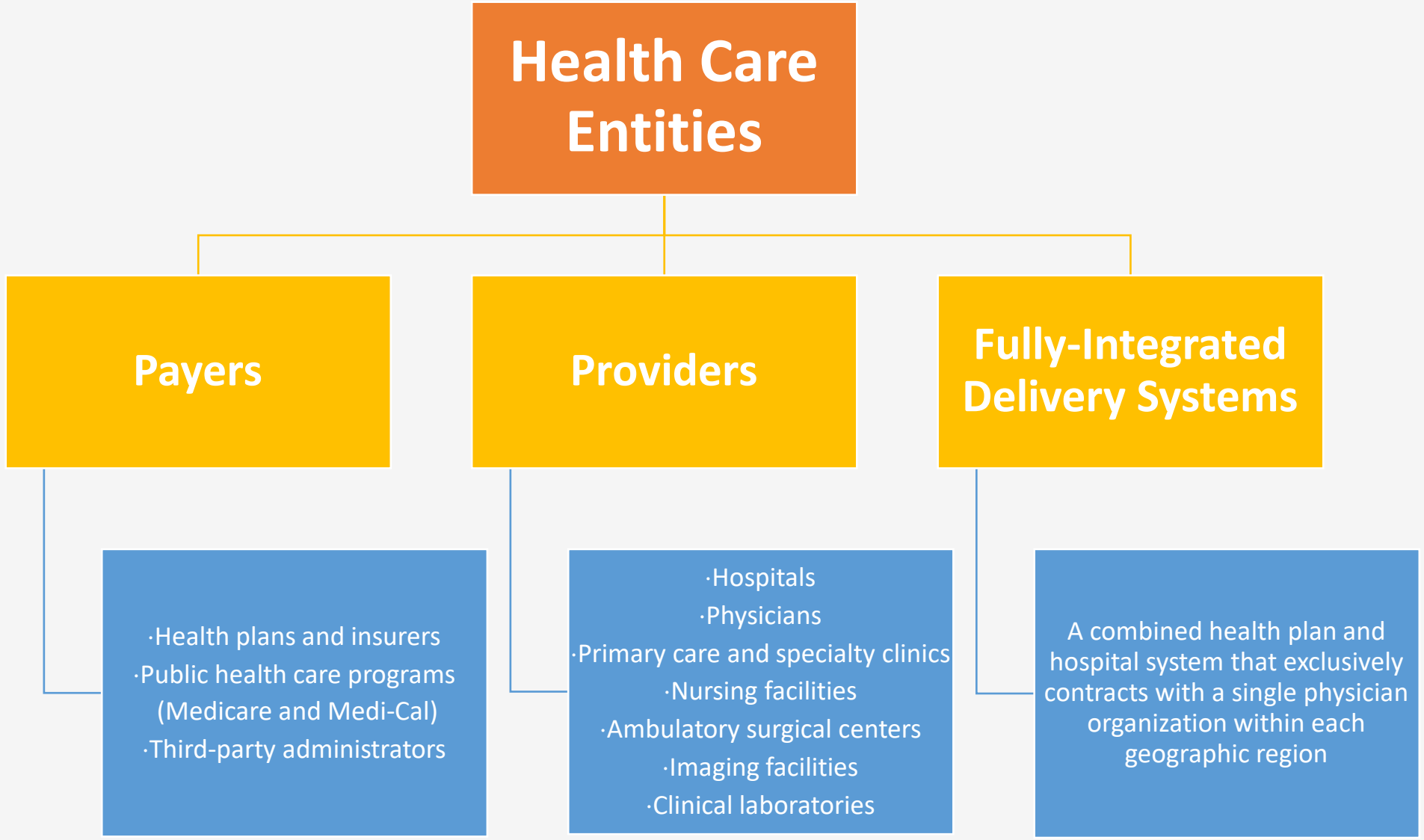
Dr. Richard Kronick – Professor, University of California, San Diego (Governor appointee)

Elizabeth Mitchell – President and CEO of the Purchaser Business Group on Health (Governor appointee)

Mark Ghaly – CalHHS Secretary (ex officio)

Don Moulds – CalPERS Chief Health Director (ex officio, nonvoting member)

OHCA Regulates “Health Care Entities”



OHCA Will Collect and Regulate Total Health Care Expenditures

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Total Health Care Expenditures (THCE)

- Collected annually from payers starting in September 2024
- Reflects payers' expenditures, providers revenues
- Captures allowed amounts + estimated patient cost share for covered benefits
- Expenditures = payment × utilization
- Includes:
  - Claims-based payments
  - Non-claims-based payments like supplementals and capitation
  - Estimated patient cost sharing
  - Net pharmacy spending
  - Health plans and insurers' administrative costs and profits
- Per capita expenditures defined on a per enrolled- or insured-member and per-month basis

Provider Revenues Will Be Measured as Total Medical Expenditures

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Total Medical Expenditures (TME)

- TME = THCE – health plan and insurer administrative costs and profits
- Per capita expenditures defined on a per-attributed patient basis
- TME to be allocated to providers through physician organizations with at least 1,000 attributable members
- Attribution to providers based on a 3-step methodology:
  - Capitated/delegated members
  - Total cost of care Accountable Care Organizations
  - Payer-developed methodology

Methodology Under Development to Assess Hospital Spending

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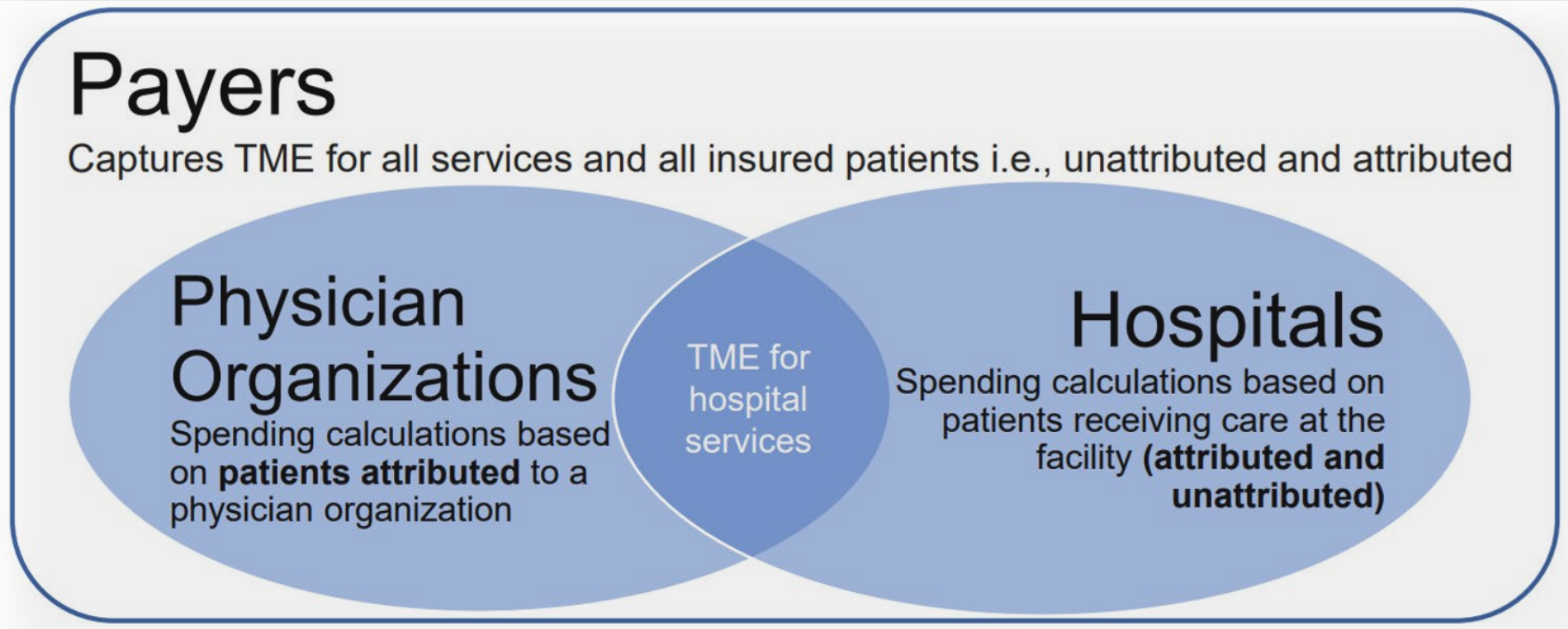
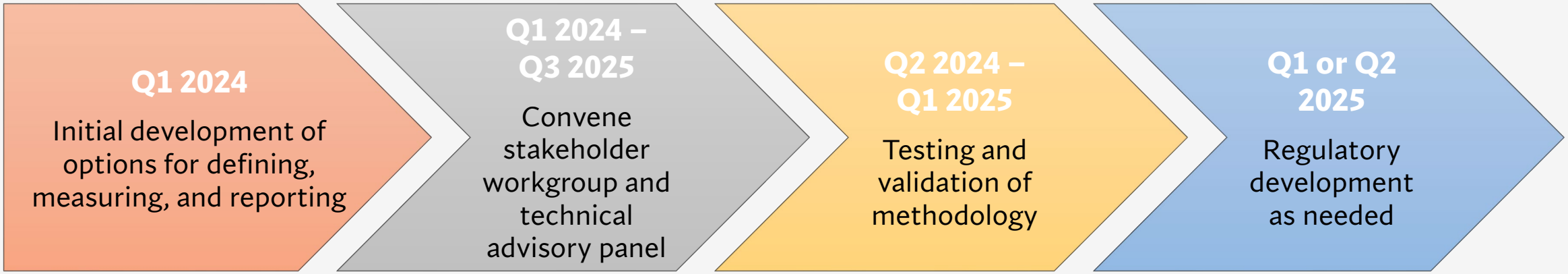
Why track hospital spending?



What is the goal?

Accountability

Hospital Spending Measurement Development Timeline



Annual Reports on Health Care Spending

California Hospital Association

Topics Covered

- Total and per capita health care expenditure growth
  - Broken down, as appropriate, by service category, geographic region, and source of funds
- Best practices and recommendations for controlling costs and improving quality and equity
- State's progress toward meeting cost target and other goals
- Drivers of cost growth
- Performance on access, quality, and equity measures
- Summaries of enforcement actions

*Not required in law, but OHCA has committed to releasing.

Spending Targets Background

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Key Statutory Requirements on Spending Targets

- Based on a **target percentage for annual growth** in per capita total health care expenditures
- **Promote affordability** and a predictable and sustainable rate of change in costs
- Set with consideration of **economic indicators** like inflation and population-based measures like aging
- Maintain **quality, equity**, and workforce stability

Optional or required adjustments to spending targets

- Risk of patient populations
- Equity
- Inflation
- Labor costs
- Policy changes
- Payer mix
- Prices of health care technologies
- Emerging diseases
- High-cost, low-quality health care entities
- Growth in nonsupervisory organized labor costs

What's Behind a Spending Target?

- Based on both reimbursement and use
- Performance assessed based on payers' costs and providers' revenues
- Per capita:
  - For payers, measured per-enrollee or per-insured
  - For providers generally, initially measured on an attributed-patient basis
  - For hospitals, to be determined…

Spending Target Timeline

2025
Statewide *non-enforceable* spending target

2026
Statewide *enforceable spending target*

2027
Establish definitions for non-statewide spending targets
· Sectors (e.g. hospital services, physician services)
· Geographic regions *(optional)*
· Individual health care entities *(optional)*

2029
Enforceable statewide, sector, and, if adopted, regional and individual entity spending targets

Enforcement Against Spending Targets

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Pre-Enforcement Process

- Notify entities exceeding their spending target
- Allow entities justify their spending growth
- Modify findings if spending growth justified
- Report which entities have unjustifiably exceeded their target

Progressive Enforcement Process

- Provide technical assistance
- Compel entities to provide public testimony on why exceeded target
- Impose a performance improvement plan (PIP)
- Assess administrative penalties

2028

First enforcement actions on spending targets (for 2026 targets)

Enforcement in Practice

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Massachusetts Case Study

January 2022: PIP imposed on Mass General Brigham:

- $293 million in cumulative commercial spending growth in excess of the target over 5 years
- Higher prices than other providers
- Inadequate cost containment strategies

September 2022: State approves PIP on Mass General to reduce annual spending by $128 million

- Price reductions
- Reducing utilization (e.g., MRIs)
- Shifting care to lower-cost sites
- Increasing the use of APMs

OHCA Staff Recommendation

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3.0% Statewide Spending Target for 2025-2029

- To promote improved affordability, the annual per capita health care spending growth **target** percentage **should be below** the long-term [health care cost growth] trend of **5%**.
- To promote transparency and public accessibility, the basis for establishing a statewide spending target should be a **single economic indicator**.
- The methodology should rely on an indicator of consumer affordability, specifically, **median family income,** because it captures retirees and others not in the labor market.
- The methodology should **rely on historical data** over projections. Specifically, the methodology is the average annual growth in median household income in CA over for the period 2002-2022.
- Initial targets should be **set for five calendar years** to provide for sufficient planning.

CHA Spending Target Advocacy

California Hospital Association

Proposed 3% Spending Target

- ✓ Ignores external factors that influence health care costs, such as inflation and California's aging population
- ✓ Sets California apart as an outlier from other states that have struggled to meet their spending targets
- ✓ Fails to strike a balance between promoting affordability and maintaining access to high quality, equitable care

CHA Spending Target Advocacy (continued)

California Hospital Association

Alternative Framework

- For spending target methodology
- To assess reasonableness of a different spending target and methodology
- As a source for appropriate adjustments to spending target

Framework for a Sustainable Spending Target

	2025	Average 2025 - 2029
1) Economy-Wide Inflation	**3.3%**	**3.4%**
2) Aging	**0.8%**	**0.7%**
3) Technology and Labor:	**0.6%**	**0.6%**
A) Drug and Medical Supplies	0.4%	0.4%
B) Labor Intensity	0.2%	0.2%
4) Major Policy Impacts:	**1.6%**	**0.6%**
A) Health Care Worker Minimum Wage	0.4%	0.2%
B) Investments in Medi-Cal	1.1%	0.3%
C) Seismic Compliance	0.1%	0.1%
Totals	**6.3%**	**5.3%**

Adopt a One-Year Target to resolve outstanding issues:

- Collection and analysis of total health care expenditure data
- Development of the rules of enforcement
- Meaningful analysis of not only the drivers of health care spending, but also the spending target's potential impacts

Cost and Market Impact Review Process

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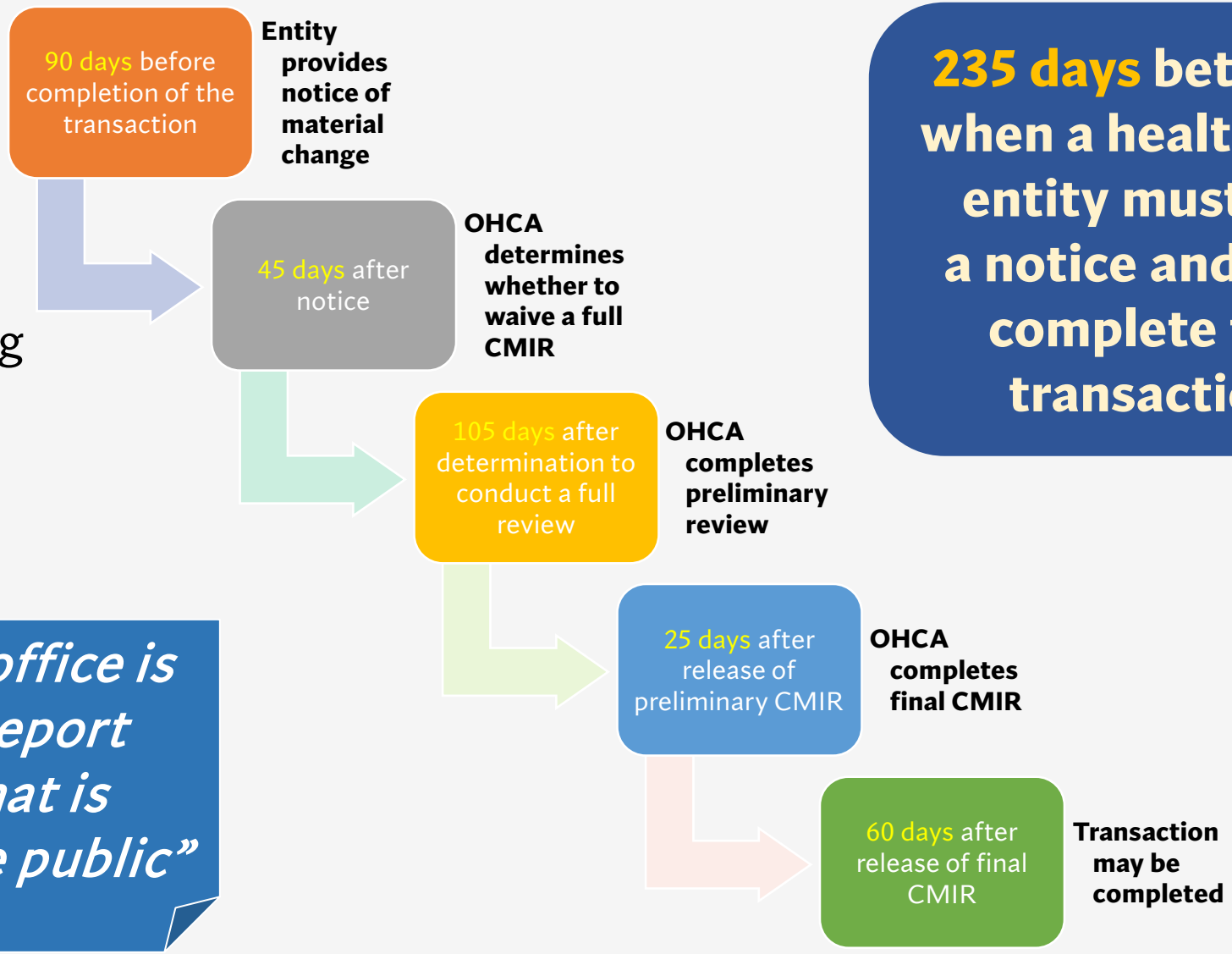
OHCA's Charge

Conduct **cost and market impact reviews (CMIRs)** on material transactions involving health care entities that take place on or after **April 1, 2024**



235 days between when a health care entity must file a notice and may complete the transaction

"The role of the office is to collect and report information that is informative to the public"

New Standards

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Alternative Payment Methodologies (APMs)

Promote the shift of payments from fee for service to APMs that incentivize equitable, high-quality, and cost-efficient care by setting statewide goals for APM adoption and measuring the state's progress

Deadline: July 2024

Workforce Stability

Develop standards to promote the stability of the health care workforce, monitor health care workforce stability, and assist health care entities in implementing cost-reducing strategies that do not exacerbate existing workforce shortages.

Deadline: July 2024

Quality and Equity

Establish a single set of measures to be reported in annual reports.

Must be aligned with those of other programs and payers

Should allow for measurement of disparities between different groups

Deadline: June 2026

Primary Care and Behavioral Health Investments

Measure the percentage of health care spending allocated to primary care and behavioral health and set spending benchmarks

Report on related spending in annual reports

No deadline

OHCA Implementation Is Happening Now

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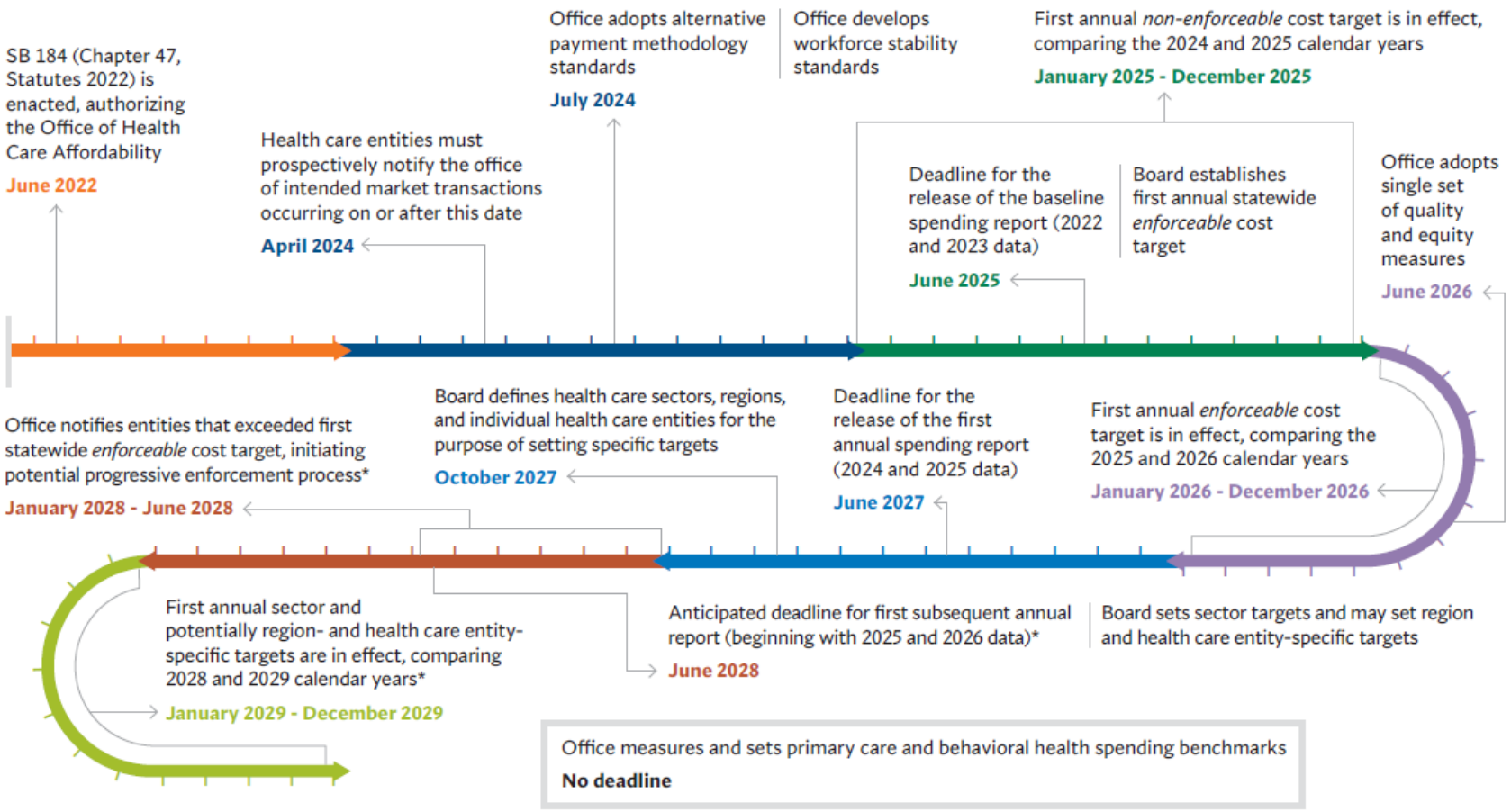
Office of Health Care Affordability
Implementation Timeline



*Reflects anticipated timing or deadline

Questions?

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