CHA | California Hospital Association

Talking Points

March 2025

Hospital Sector Target Sets Dangerous Precedent, Arbitrarily Throttles Health Care Services with No Savings for Patients

In February, the Office of Health Care Affordability (OHCA) proposed a methodology to impose a lower spending target than the statewide target on hospitals designated as "high cost." The board could vote on this as early as its April 22 meeting; it must vote no later than its May 27 meeting for the methodology to take effect in 2026.

OHCA's approach to sector targets is both wildly premature and woefully inadequate, setting a dangerous precedent for future work.

- OHCA failed to meet key milestones — neither conducting a comprehensive review of health care spending across potential sectors nor establishing how it will measure growth in hospital spending — before proposing a hospital sector-specific target.
- OHCA has provided no assurance that its proposal would sustain access to high-quality care, nor explained how its proposal meets statutory requirements to "minimize fragmentation and potential cost shifting and encourage cooperation in meeting statewide and geographic region targets."
- OHCA's proposed methodology does not consider system relationships and selectively ignores outpatient services, painting an incomplete and misleading picture of financial performance.
- Setting unworkable targets now and promising to fix the resulting problems retroactively is reckless. This approach demonstrates a troubling lack of concern for the tangible harm OHCA's actions will have on hospitals and the patients they serve.

Spending growth targets that do not even cover inflation will decimate hospitals' ability to sustain vital patient services.

- OHCA's overall spending growth target is 3.5% for 2025, ramping down to 3% by 2027. Hospitals' workforce, supply, and drug costs are currently growing at 6%, 8%, and 10% respectively; these rates are 2 to 3 times the statewide spending target. Hospitals will struggle to sustain their workforces, afford drugs and supplies, maintain their facilities, and provide vital — but unprofitable — services.
- OHCA's "high-cost" hospital targets are wholly unsustainable. Inflation for all goods and services is projected to be 2.6%. This means the proposed sector targets are mandating a 35% cut in "real" spending for the affected hospitals.
- The damage to patient care resulting from these spending growth targets will be only further exacerbated by potential cuts to Medicaid and Medicare at the federal level, turning an extremely challenging situation into an impossible one.

OHCA's actions curtail hospitals' patient care resources with no guarantee that those strict targets will result in meaningful savings for consumers.

- While OHCA is singling out hospitals with unattainably low sector targets, health insurance companies are increasing consumer premiums by 10% or more annually.
- OHCA has not developed safeguards to ensure that savings generated would be passed to consumers in the form of lower premiums and cost sharing, rather than retained by payers as higher profits. While hospitals' patient care resources would be capped at around 1.7% growth, health insurance company profits will be allowed to grow at twice that rate.