

Key Messages

To Meet the Needs of All Californians, Hospitals, Insurance Companies, Clinicians, and Others Must Do Their Part to Make Care More Affordable

Hospitals — Californians' frontline and safety-net health care providers — are doing all they can to keep costs down, but they can't make headway alone.

- Within the health care sector, hospital costs in California are highly efficient, caring for all residents with 31% fewer beds per capita than the national average.
- This efficiency comes at a time when other costs are rapidly growing. Health insurance premiums, for example, have risen over 5% annually every year since 2016, more than double the general pace of inflation (2.3%) over the same period.
- More than half of California's hospitals struggle financially, with 39% operating in the red and 11% operating barely above break even.
- For every dollar spent at a hospital, this is where the money goes:
 - 56 cents on workers – nurses, environmental technicians, doctors, radiologists, pharmacists, and more (less than 2% of this is for executive compensation)
 - 15 cents on purchased services – electronic health record maintenance, legal services, food services, laundry services, building repairs
 - 15 cents on supplies – pharmaceuticals; components of large equipment like MRI machines; surgical equipment like gloves, caps and gowns, bandages, medical tubing
 - 7 cents on depreciation, interest, and leases
 - 7 cents on insurance costs
- To reduce the rate of growth in health care costs, every sector that touches health care must tighten its belt — insurance companies, physicians, labor unions, hospitals, pharmaceutical companies, and more; no one should be able to avoid their responsibility to Californians to deliver more affordable care.

To make care more affordable, California's legislators must examine the specific things that are actually driving the cost of care higher and advance changes that will modernize systems, drive efficiencies, and expand coverage for all.

- The system can be more efficient and more effective:
 - A lack of access to preventive and primary care means that people are seeking care when diseases are more advanced and more expensive to treat.
 - Outdated and costly regulations add tens of millions to the cost of care every year with no recognizable clinical benefits for patients.

- Government payers (Medi-Cal and Medicare) do not fund the true cost of doctors, nurses, diagnostic tests and more, which means commercial insurance premiums and other out-of-pocket costs go up to cover the shortfall.
- Given these conditions, the following activities can help control health care cost growth:
 - Every Californian — regardless of immigration status — should have health care coverage.
 - Surprise billing regulations must recognize the role of insurance companies in rejecting valid claims and forcing patients to pay more out of pocket.
 - Global budgets — already being explored in California via pilot programs — should be examined for broader viability.
 - Value-based care — a system where payments for care delivery are tied to the quality and efficiency of care — should be expanded.
 - The exchange of health information via sophisticated data systems that can safely connect with one another can reduce redundancy in diagnostics and further keep cost growth down.
- If Californians are going to realize the benefits of improving the system — lower co-pays, premiums, out-of-pocket maximums, etc. — the proposed Office of Health Care Affordability must recognize and address the costs of all these services

Hospitals are committed to working with policymakers to moderate the rate of growth in health care spending and encourage innovation, all while preserving the quality of care and access to that care.

- Hospitals have been working with legislators and stakeholders from the outset to refine a proposal based on the following principles:
 - **All-in:** Every sector of health care must play a role in the work to hold cost growth in check. No health care entity should be held to a special standard or accountability, including any preferential treatment for health plans. Government also must recognize that underfunding of health care via Medi-Cal and Medicare means that commercial insurance premiums and other out-of-pocket costs go up to cover the shortfall.
 - **Preserve access and quality:** Cost targets should be based on a per-capita basis and address the rate of growth, not cut existing health care spending levels.
 - **Supportive, not punitive:** Any enforcement processes should be collaborative and reasonable.
 - **Data-driven:** Informed decisions must be based on data and analysis — not predetermined requirements that impose sector or geographic-based targets.