

Office of Health Care Affordability (OHCA) A Deep Dive on Spending Targets

February 12, 2024



Online Questions: At any time, please submit your questions in the Chat box at the bottom of your screen and press enter. We will take questions at the end of the presentation.



Ben Johnson
Vice President, Policy
California Hospital Association

Ben Johnson is CHA's Vice President, Policy, covering finance and affordability issues, including the Office of Health Care Affordability. Ben has been working in health care policy for 8 years, previously having advised the state legislature from his role at the Legislative Analyst's Office, where he was lead on issues like drug pricing, the Medi-Cal budget, single-payer financing, and health care-related taxes.

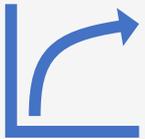


Justin Ziombra
Group Vice President, Data Analytics
California Hospital Association

Justin Ziombra is the Group Vice President of Data Analytics at the California Hospital Association (CHA). In his role, he creates data-driven analyses to identify trends, spot opportunities, and evaluate the impact of state and federal policy changes, and translates the results of these analyses for stakeholders, elected officials and California hospitals. Prior to joining CHA, Justin was a director on the Policy and Data Analytics team at the Maryland Hospital Association and worked as a critical care registered nurse and nurse manager at The George Washington University Hospital in Washington, D.C.



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

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 and associated methodologies and adjustments
- Define sectors and, as appropriate, geographic regions and individual health care entities
- Approve range and scope of administrative penalties

Advisory Committee

- Provide input and recommendations on matters before the office, including data reporting requirements and spending targets

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

Dr. Mark Ghaly – CalHHS Secretary (ex officio, board chair)

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

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

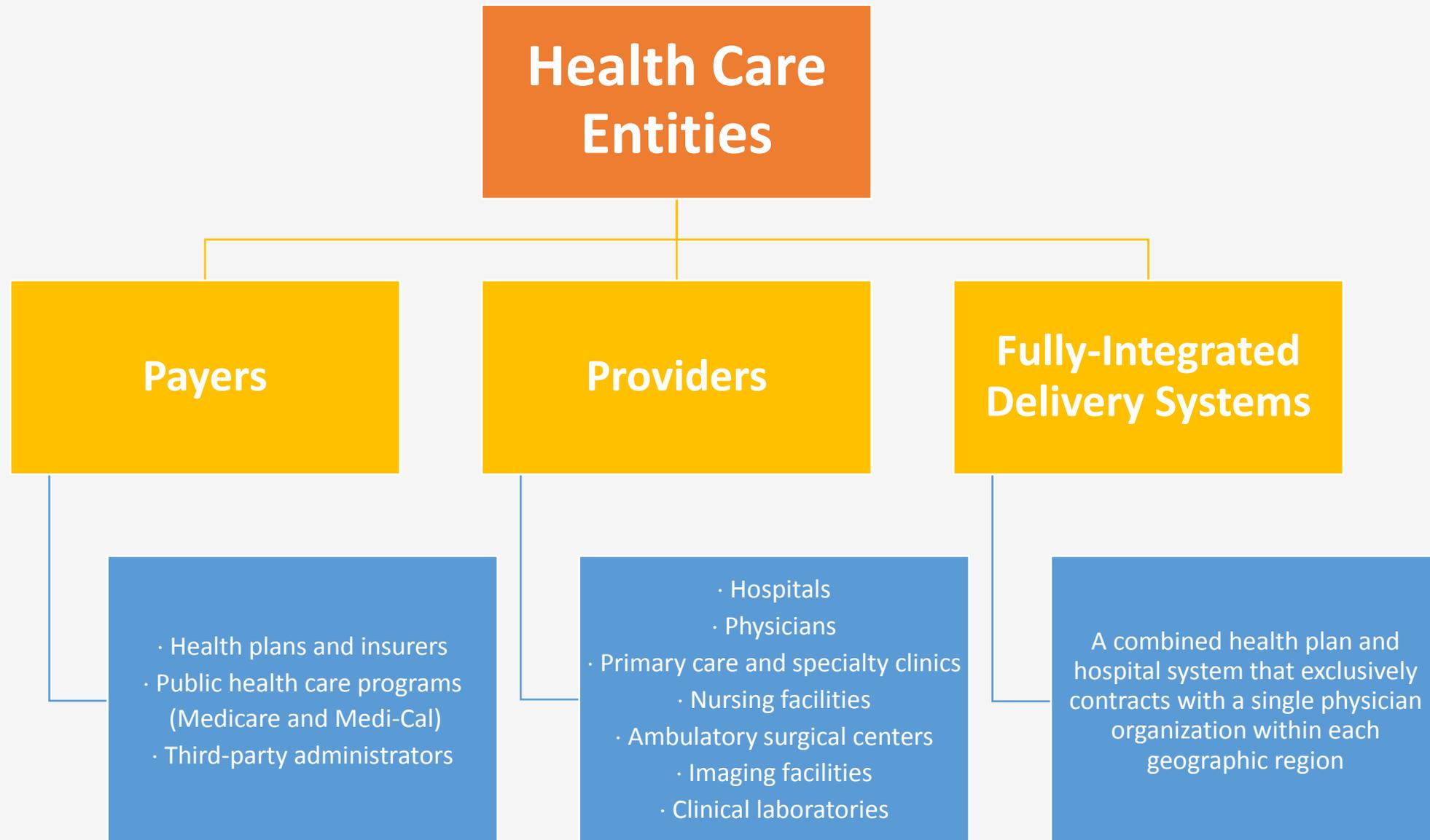
Ian Lewis – NUHW Director of Research (Assembly appointee)

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

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

Dr. Richard Pan – former Senator (Senate appointment)

“Health Care Entities” are Subject to Spending Targets



Various health care providers and suppliers are directly or indirectly exempt:

- Physician organizations with fewer than 25 physicians*
- Dentists
- Pharmacy (including manufacturers and retail pharmacies)
- Durable medical equipment suppliers
- Home health agencies
- Emergency medical transportation

*Physician organizations with fewer than 25 physicians that are determined to be high-cost outliers may have their exemption removed

These entities will not specifically be subject to reporting requirements, spending targets, or market oversight...

...However, the spending associated with exempt entities generally will be included in payers' expenditures and the revenues attributed to providers.

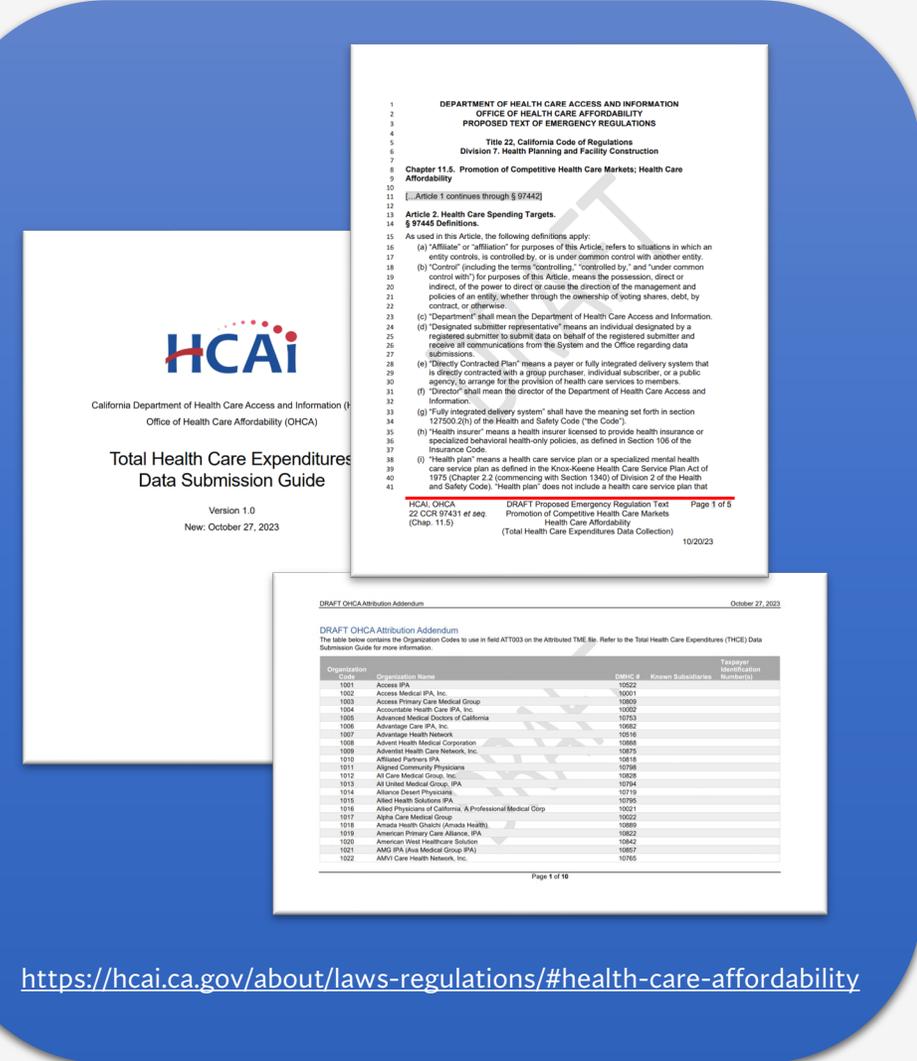
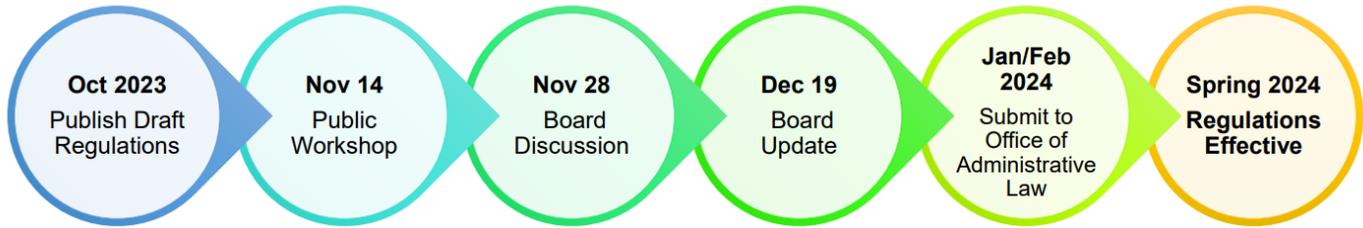
Data Collection and Reporting

Data Collection Regulation Setting Currently in Process

Payers submit spending data on covered benefits for their members
No new reporting requirements on providers

Proposed Total Health Care Expenditures (THCE) Data Submission Emergency Regulations:

- Will govern data collection for 2022 and 2023 baseline spending analysis
- Establish the precedent for data used in assessment of entities' spending against the spending target
- Data sources:
 - Health plans and insurers for commercial and Medicare Advantage
 - DHCS for all Medi-Cal spending (at least initially)
 - CMS for Medicare fee for service
 - DMHC, DHCS, CMS, and NAIC for payer administrative costs and profits



HCAI
California Department of Health Care Access and Information (HCAI)
Office of Health Care Affordability (OHCA)
Total Health Care Expenditures Data Submission Guide
Version 1.0
New: October 27, 2023

DEPARTMENT OF HEALTH CARE ACCESS AND INFORMATION
OFFICE OF HEALTH CARE AFFORDABILITY
PROPOSED TEXT OF EMERGENCY REGULATIONS
Title 22, California Code of Regulations
Division 7, Health Planning and Facility Construction
Chapter 11.5, Promotion of Competitive Health Care Markets; Health Care Affordability
Article 1 continues through § 97442
Article 2, Health Care Spending Targets.
§ 97445 Definitions.
As used in this Article, the following definitions apply:
(a) "Affiliate" or "affiliation" for purposes of this Article, refers to situations in which an entity controls, is controlled by, or is under common control with another entity.
(b) "Control" (including the terms "controlling," "controlled by," and "under common control with") for purposes of this Article, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting shares, debt, by contract, or otherwise.
(c) "Department" shall mean the Department of Health Care Access and Information.
(d) "Designated submitter representative" means an individual designated by a registered submitter to submit data on behalf of the registered submitter and receive all communications from the System and the Office regarding data submissions.
(e) "Directly Contracted Plan" means a payer or fully integrated delivery system that is directly contracted with a group purchaser, individual subscriber, or a public agency, to arrange for the provision of health care services to members.
(f) "Director" shall mean the director of the Department of Health Care Access and Information.
(g) "Fully integrated delivery system" shall have the meaning set forth in section 127500.2(h) of the Health and Safety Code ("the Code").
(h) "Health insurer" means a health insurer licensed to provide health insurance or specialized behavioral health-only policies, as defined in Section 156 of the Insurance Code.
(i) "Health plan" means a health care service plan or a specialized mental health care service plan as defined in the Knox-Keene Health Care Service Plan Act of 1975 (Chapter 2.2, commencing with Section 1340) of Division 2 of the Health and Safety Code. "Health plan" does not include a health care service plan that:
HCAI OHCA DRAFT Proposed Emergency Regulation Text Page 1 of 8
22 CCR 97431 et seq. Promotion of Competitive Health Care Markets
(Chap. 11.5) Health Care Affordability
(Total Health Care Expenditures Data Collection)
10/2023

DRAFT OHCA Attribution Addendum October 27, 2023
DRAFT OHCA Attribution Addendum
The table below contains the Organization Codes to use in field AT003 on the Attributed TME file. Refer to the Total Health Care Expenditures (THCE) Data Submission Guide for more information.

Organization Code	Organization Name	OHCA #	Known Subordinates	Taxpayer Identification Number
1001	Access IPA	10002		
1002	Access Medical IPA, Inc.	10001		
1003	Access Primary Care Medical Group	10009		
1004	Accomplish Health Care IPA, Inc.	10002		
1005	Advanced Medical Doctors of California	10753		
1006	Advantage Care IPA, Inc.	10062		
1007	Advantage Health Network	10516		
1008	Advent Health Medical Corporation	10068		
1009	Adventist Health Care Network, Inc.	10875		
1010	Adventist Partners IPA	10818		
1011	Aligned Community Physicians	10798		
1012	All Care Medical Group, Inc.	10628		
1013	All United Medical Group, IPA	10794		
1014	Alliance Desert Physicians	10719		
1015	Allied Health Solutions IPA	10795		
1016	Allied Physicians of California, a Professional Medical Corp	10211		
1017	Alpha Care Medical Group	10022		
1018	Amah Health Group (Amah Health)	10069		
1019	American Primary Care Alliance, IPA	10822		
1020	American West Healthcare Solutions	10842		
1021	AMG IPA (Ava Medical Group IPA)	10887		
1022	AMV Care Health Network, Inc.	10785		

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<https://hcai.ca.gov/about/laws-regulations/#health-care-affordability>

THCE is intended to include essentially all private and public spending in the state, including:

- Claims-based payments
- Non-claims-based payments
 - Capitation
 - Supplemental provider payments
 - Global budget
 - Other alternative payment methods
 - Salary
- Estimated patient cost sharing
- Net pharmacy spending
- Health plans and insurers' administrative costs and profits

Office will primarily collect and analyze cost data from payers (e.g., health plans), but may supplement this with data from providers and the Health Care Payments Data Program.

Data will be collected annually, starting in September 2024

Total Medical Expenditures (TME)

- Equal THCE minus health plan administrative expenditures and profit
- Expenditures: defined at the payer level, *reflecting provider revenues*
- Expenditures = payment × utilization
- Payment = *allowed amount* reflecting a payer's contracted/paid amount + estimated patient share of cost
- Reporting year reflects the *service* year for which data are reported

Attribution of TME

- 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

Per Capita Expenditures

Payers

- TME per enrolled or insured member

Providers

- TME per member attributed to the physician organization responsible for providing member's primary care

Payers and Providers

- TME calculated on a per member per month basis



Jane

Coverage – Enrolled in a United PPO

Primary Care Relationship – Primary care doctor works for a medical group within Sharp HealthCare System

Hospital Care – Delivers a baby at a Sharp hospital

Attribution – Hospital and all (health care) other spending attributed to Sharp HealthCare System



Phil

Coverage – Enrolled in an Anthem HMO

Primary Care Relationship – Assigned to a primary care doctor works for the Dignity Health Medical Foundation

Hospital Care – Receives emergency care at a Sutter hospital

Attribution – Hospital and all other spending attributed to Dignity Health System



Tom

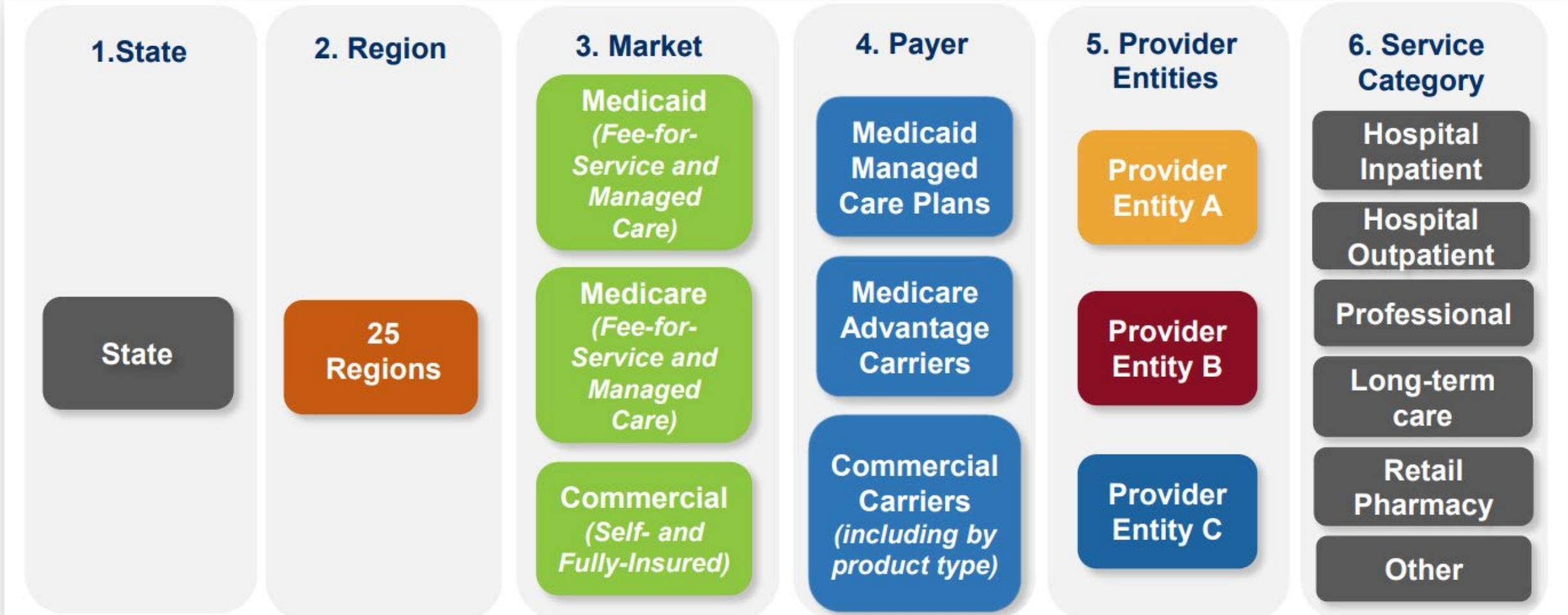
Coverage – Enrolled in a United PPO

Primary Care Relationship – Has no established relationship with a primary care doctor

Hospital Care – Undergoes an operation at a UC hospital

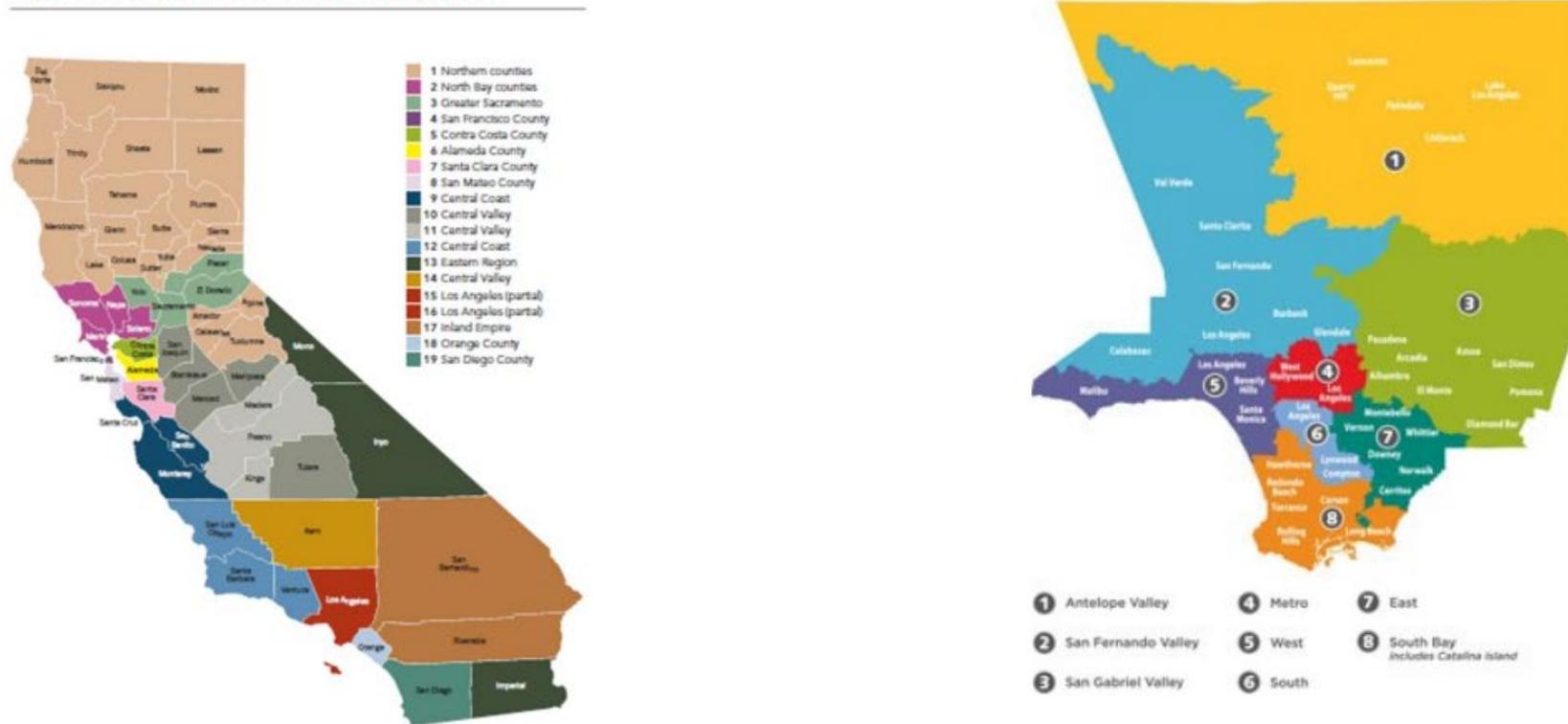
Attribution – No spending is attributed at the provider level

Levels of THCE Reporting



OHCA intends to collect spending data to support geographic analysis by Covered California rating regions, except for Los Angeles County. For Los Angeles County, OHCA intends to collect data by Service Planning Areas.

Figure 16. Nineteen California ACA Rating Areas



Why Track Hospital Spending

Calculations of TME by physician organization only reflect hospital spending by patients attributed to that organization. To achieve success in statewide spending targets, it is important to track and measure hospital spending by hospitals for all patients.

Payers

Captures TME for all services and all insured patients i.e., unattributed and attributed

Physician Organizations

Spending calculations based on **patients attributed** to a physician organization

TME for hospital services

Hospitals

Spending calculations based on patients receiving care at the facility (**attributed and unattributed**)

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Existing OHCA materials focus on price, rather than attributable spending

Q1 2024

Initial development of options for defining, measuring, and reporting



Q1 2024 – Q3 2025

Convene stakeholder workgroup and technical advisory panel



Q2 2024 – Q1 2025

Testing and validation of methodology



Q1/Q2 2025

Regulatory development as needed

Support collecting data from payers, but requests changes to:

- Provide an opportunity to validate attributed expenditures
- Place guardrails around initial attribution methodology
- Plan for a standardized attribution methodology
- Ensure meaningful engagement with stakeholders
- Test the use of clinical risk adjustment
- Clarify how data for certain expenditures (e.g., Medi-Cal) will be collected
- Clarify how payments are defined



December 1, 2023

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Engagement and Governance Manager
Office of Health Care Affordability
Department of Health Care Access and Information
2020 West El Camino Ave., Suite 1200
Sacramento, CA 95833

Sent via email: OHCA@hcai.ca.gov

SUBJECT: CHA Comments on the Oct. 20, 2023 Version of the Total Health Care Expenditures Data Collection Draft Regulations

Dear Ms. Brubaker:

On behalf of our more than 400 hospital and health system members, the California Hospital Association (CHA) thanks the Office of Health Care Affordability (OHCA) for the opportunity to comment on the Oct. 20, 2023 version of the Total Health Care Expenditures (THCE) Data Collection draft regulations.

CHA Supports the Overall Approach of Collecting Data from Health Plans and Insurers

We believe the proposed approach of collecting the THCE data from health plans and insurers for enrolled and insured state residents makes sense. Unlike providers, health plans and insurers come the closest to having the necessary data to comprehensively identify and report the THCE of their members. By contrast, looking to providers for these data would exponentially increase the complexity of the data collection process and introduce serious data commensurability and quality issues that would undermine the spending target program.

While we support OHCA's overall approach to data collection, we have a number of concerns with the regulations and supplementary guidance, as currently proposed. Our most fundamental concerns relate to there being no process for validating the expenditures that health plans and insurers attribute to providers and essentially no rules around how health plans and insurers perform this attribution. Additionally, we remain troubled by the decision against using clinical risk adjustment, as reflected in there being no mechanism for gathering clinical risk information in the proposed regulations. Finally, we have questions and concerns with the lack of specificity around how stakeholders will be consulted when changes to the data collection regulations and guidance are being made, how these data will be

Topics Covered

- Total and per capita health care expenditure growth
 - Broken down, as appropriate, by service category, geographic region, and source of funds
- Recommendations and best practices 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.

Executive Summary

This report presents data on health care spending and health care cost growth in Oregon from 2020 to 2021. This report uses a total cost of care approach for a comprehensive look at health care spending across the state between 2020 and 2021.

This is the first cost growth report that includes cost growth for individual payers and provider organizations.

Every year, Oregon's Sustainable Health Care Cost Growth Target Program collects data from payers and other sources to provide this comprehensive view into health care spending and spending growth.

By identifying drivers of health care cost growth in Oregon, this report sets the stage for policymakers, health system partners, and other stakeholders to identify opportunities and strategies to slow cost growth and address growing affordability concerns across public and private markets.



Click the icon to explore the Cost Growth Target 2020-2021 Databook

Oregon Health Authority

Health Care Cost Trends, 2020-2021

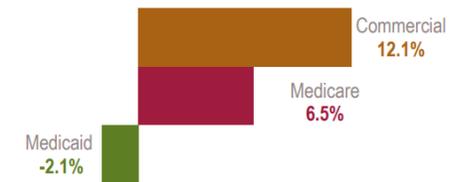
Key Findings

In 2021, total health care spending in Oregon totaled \$31.07 billion dollars.

On a per person per year basis, Total Health Care Expenditures increased 3.5% between 2020-2021, just above the cost growth target of 3.4%.

Cost growth for the commercial market was 12.1%, compared to 6.5% for Medicare and -2.1% for Medicaid.

Percent change in total health care expenditures, by market, 2020-2021



Spending Targets



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

Cost target timeline

2025

Statewide non-enforceable cost target

2026

Statewide enforceable cost target

2027

Establish definitions for non-statewide cost targets

- Sectors (*e.g. hospital services, physician services*)
- Geographic regions (*optional*)
- Individual health care entities (*optional*)

2028

2029

Enforceable statewide, sector and, if adopted, regional and individual entity cost targets

What's Behind a Spending Target?

- Based on both reimbursement and utilization levels
- Performance will be assessed based on payers' costs and providers' revenues
- Per capita:
 - For payers, measured on a per-enrollee or per-insured basis
 - For providers, initially measured on an attributed-patient basis

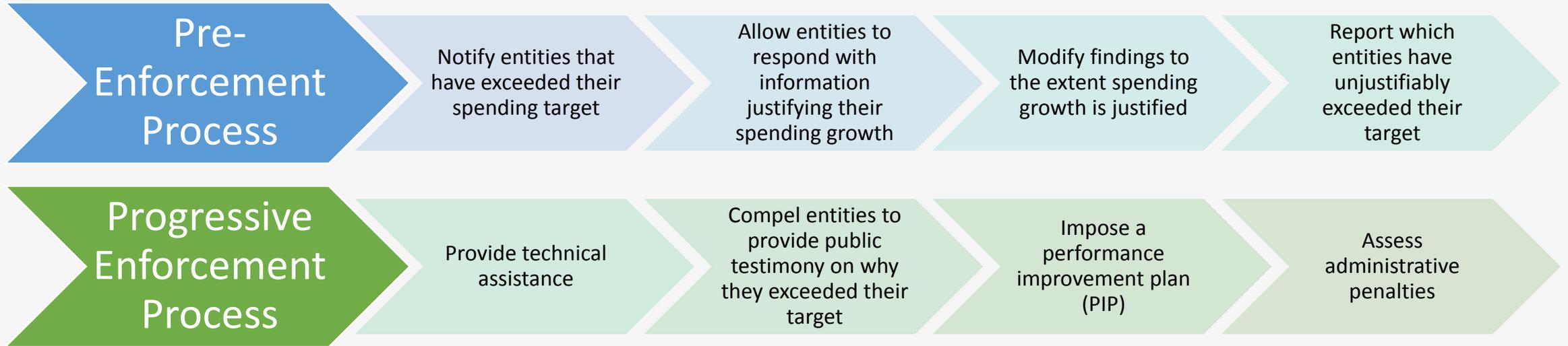
Spending Target Development Timeline



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.

Enforcement Against Spending Targets



2028
First enforcement actions on cost targets expected (for 2026 targets)

Massachusetts Case Study

January 2022: A PIP is imposed on Mass General Brigham after the state found:

- \$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, committing it to reduce annual spending by \$128 million through

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

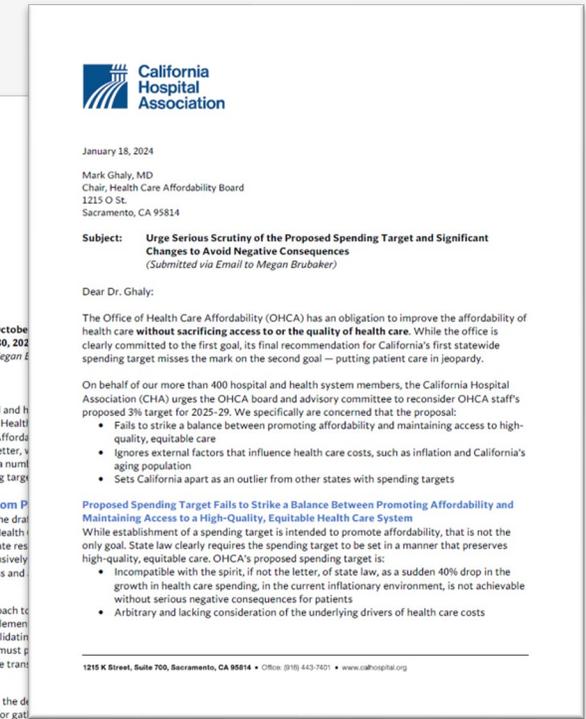
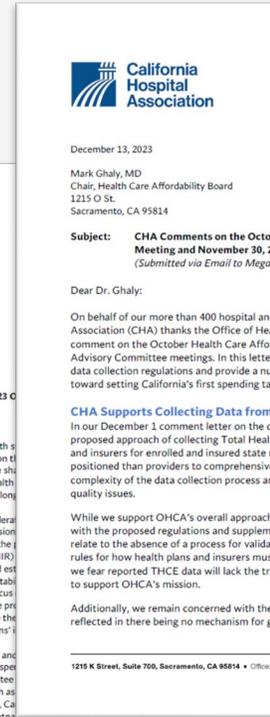
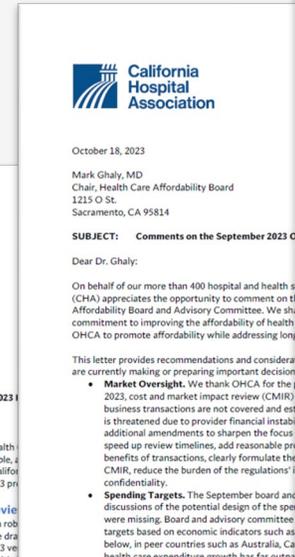
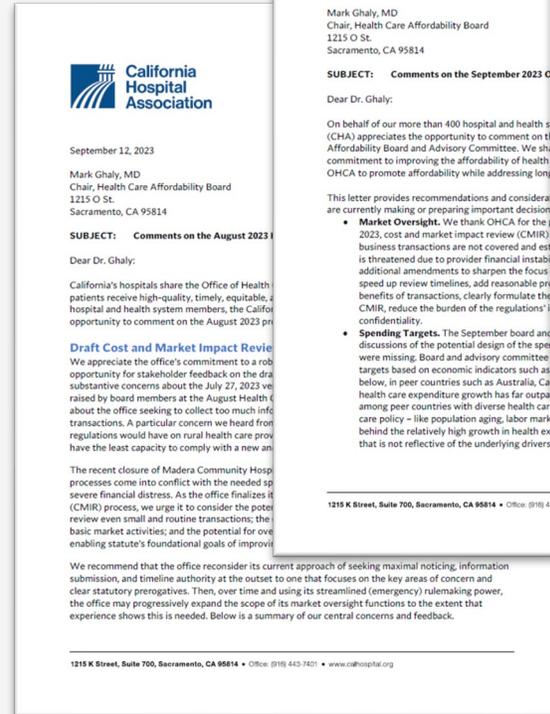
CHA Advocacy on the Spending Target



CHA Advocacy, in Summary

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



OHCA Proposal Would Make California an Outlier

California's Spending Growth Target Would Be the Lowest in the Nation Despite Higher Inflation and a Faster Growing Economy

State	Year Target Was Set	Prior Year Inflation	Average Target ¹	GSP Growth ²	Difference (Target - GSP)	Phase-in Period (Years) ³	Phase-in Value ³
California	2024	4.2%	3.0%	4.9%	-1.9%	0	0.0%
Massachusetts	2012	3.1%	3.1%	2.5%	0.6%	6	0.5%
Nevada	2021	1.3%	3.1%	2.9%	0.2%	4	0.8%
Connecticut	2020	1.8%	3.2%	1.2%	2.0%	3	0.5%
Rhode Island	2021	1.3%	3.2%	1.3%	1.9%	4	2.7%
Washington	2018	2.1%	3.2%	4.7%	-1.5%	5	0.4%
Delaware	2018	2.1%	3.3%	0.4%	2.9%	4	0.8%
Oregon	2021	1.3%	3.4%	3.2%	0.2%	6	0.4%
New Jersey	2021	1.3%	3.5%	1.7%	1.8%	4	0.7%
Average Among Peer States		1.8%	3.3%	2.2%	1.0%	4.5	0.9%

¹ Average Target = average growth in the health care growth target 2021-23. Source: Melnick, CHCF, 2022.

² GSP: average gross state product for the period 2016-2019. Source: Melnick, CHCF, 2022.

³ Phase-in value is the distance between the maximum and minimum spending target values. For all states except Rhode Island, the maximum value is the first year's value. Rhode Island revised its target upward to account for contemporary spending trends. Phase-in period is the number of years it takes for target to be reduced from its maximum to minimum value.

Melniick, CHCF, 2022: Melnick, Glenn. CHCF Issue Brief, Health Care Cost Commissions: How Eight States Address Cost Growth. April 2022.

Other States' Targets are Not Attainable

Summary of State Performance Against Their Spending Targets								
	All Years				Pre-COVID-19			
	Average Performance	Average Target	Years Target Met	Years in Place	Average Performance	Average Target	Years Target Met	Years in Place
Connecticut	6.1%	3.1%	0	1			0	0
Delaware	5.3%	3.3%	1	3	5.8%	3.8%	0	1
Massachusetts	3.5%	3.4%	4	9	3.6%	3.5%	3	7
Nevada		2.8%	0	0			0	0
New Jersey		3.1%	0	0			0	0
Oregon	3.5%	3.3%	0	1			0	0
Rhode Island	1.5%	3.3%	2	3	4.1%	3.2%	0	1
Washington		3.8%	0	0			0	0
Peer State Average/Sum	4.0%	3.0%	7	17	4.5%	3.5%	3	9

Inflation – Projected to average 3.5%

Aging – Expected to raise health care spending by \$3.5 billion annually

Technology (e.g., drugs and medical supplies) – Will raise spending by \$4 billion annually under current trends

Policy Changes – Decisions already made will add tens of billions of dollars in spending over next several years

Fails to Balance OHCA's Multiple Objectives

No substantive analysis of impacts of an immediate 40% cut in allowable spending growth

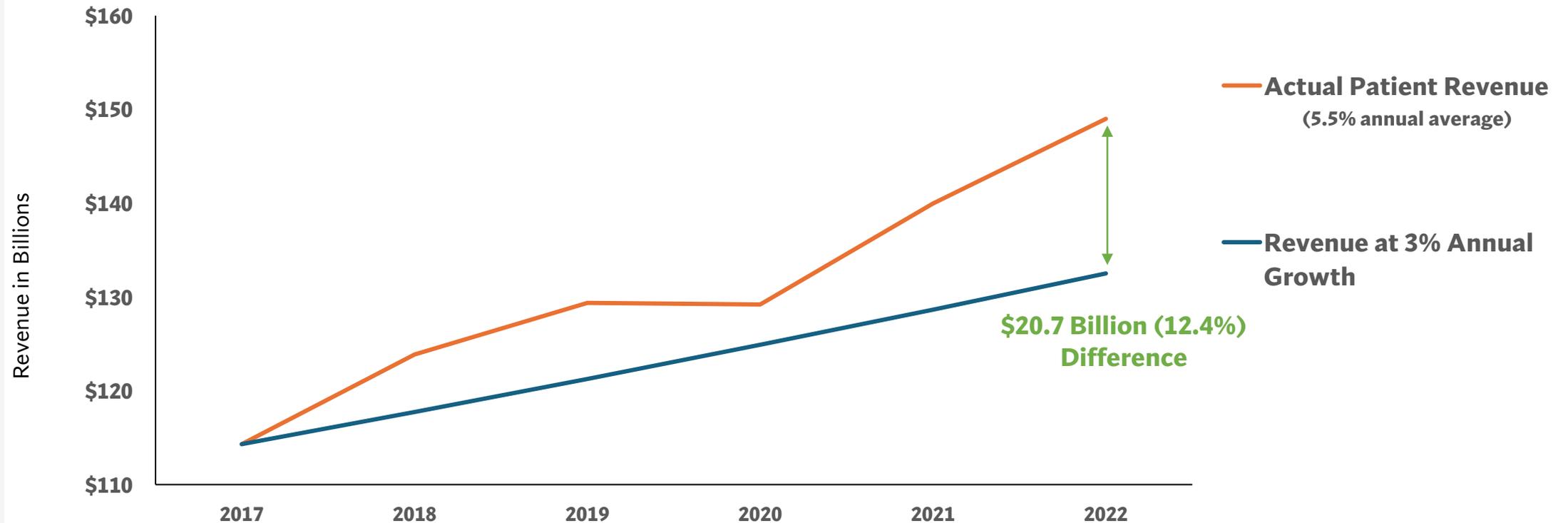
No accounting for how reduced spending will lead to reduced job growth, foregone investment, and reductions in patient care

Assumes investments in equitable access (e.g., MCO tax, behavioral health infrastructure) will be offset with spending reductions elsewhere

Neglects to consider research demonstrating that lower revenues lead to lower quality

Potential Impact of a 3% Target on Revenue

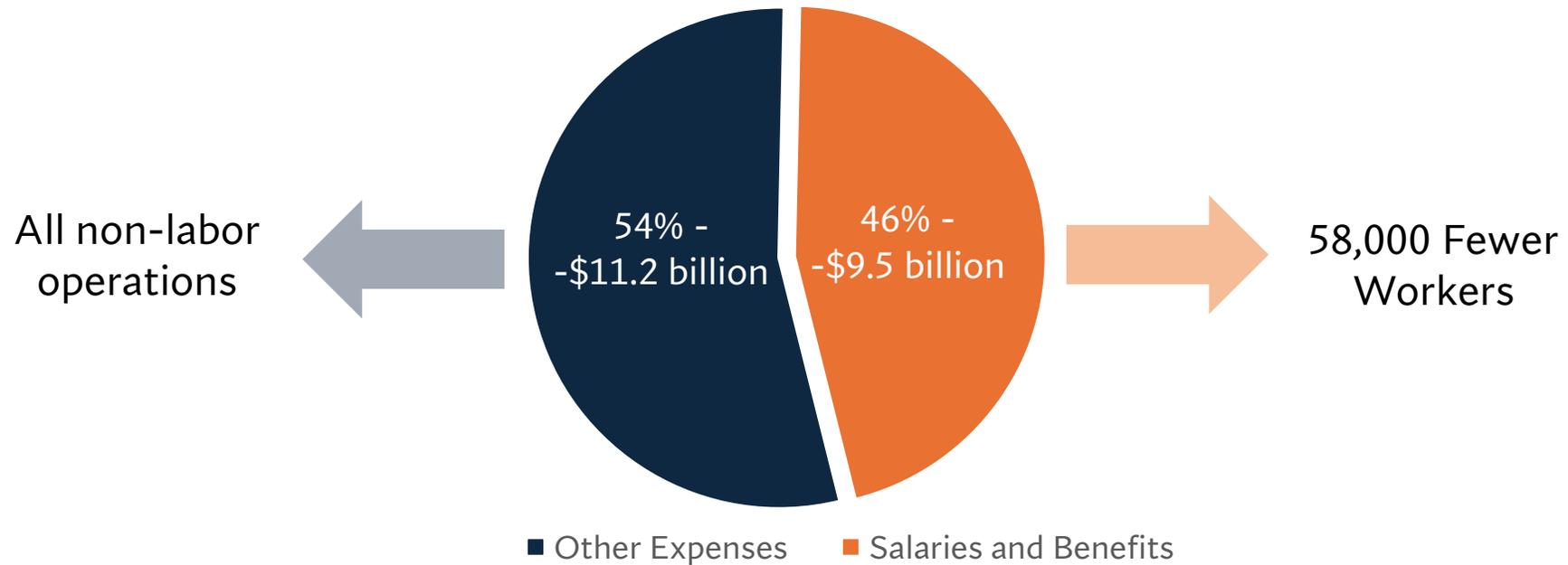
Hospital Net Patient Revenue Relative to 3% Target



Foregone Revenues Will Lead to Expense Reductions

Hospitals will not be able to reduce expenses in ways that don't impact jobs, quality, and access.

If \$20.7 Billion Less Revenue was Matched with an Equal Reduction in Operating Expenses...



2024

Jan 16 – OHCA releases staff’s proposed statewide spending target

Feb – OHCA finalizes regulations for data collection

Mar 11 – Comment period on spending target ends

Mar 19 – OHCA Advisory Committee meets to discuss the proposed spending target

Mar 25, Apr 24, or May 22 – OHCA board adopts the first statewide spending target

Sep 1 – OHCA collects 2022 and 2023 THCE data

2025

Jan-Dec – Non-enforceable statewide spending target in effect

Jun 1 – OHCA releases baseline report on 2022 and 2023 spending

Sep 1 – OHCA collects 2023 and 2024 THCE data

2026

Jan-Dec – Enforceable statewide spending target in effect

Jun – OHCA releases baseline report on 2023 and 2024 spending

Sep 1 – OHCA collects 2024 and 2025 THCE data

2027

Jan-Dec – Enforceable statewide spending target in effect

Jun 1 – OHCA releases first annual report on performance against the 2025 spending target

Sep 1 – OHCA collects 2025 and 2026 THCE data

Oct 1 – Board must define sectors

2028

Jan-Dec – Enforceable statewide spending target in effect

Jun 1 – Board must adopt spending targets by sector

Jun – OHCA releases annual report on performance against the 2026 spending target

Sep 1 – OHCA collects 2026 and 2027 THCE data

2029

Jan-Dec – Enforceable statewide and sector spending targets in effect

Jun – OHCA releases annual report on performance against the 2027 spending target

Sep 1 – OHCA collects 2027 and 2028 THCE data

Questions?

Ben Johnson

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Thank You

Thank you for participating in today's webinar.

For education questions, contact: education@calhospital.org

Key Acronyms

CMS: Centers for Medicare and Medicaid Services

DHCS: Department of Health Care Services

DMHC: Department of Managed Health Care

NAIC: National Association of Insurance Commissioners

OHCA: Office of Health Care Affordability

Links

CHA advocacy materials can be found at: <https://calhospital.org/office-of-health-care-affordability/>