May 20, 2024

Mark Ghaly, MD
Chair, Health Care Affordability Board
1215 O St.
Sacramento, CA 95814

Subject: **Comments on the April 2024 Health Care Affordability Meeting**
(Submitted via Email to Megan Brubaker)

Dear Dr. Ghaly:

Californians rely on hospitals for lifesaving care in their time of greatest need. California's hospitals recognize that accessible, affordable care is out of reach for too many patients and stand ready to work with the Office of Health Care Affordability (OHCA) and other stakeholders to transform our health care system into one that best serves patients. On behalf of more than 400 hospital and health system members, the California Hospital Association (CHA) appreciates the opportunity to comment on the April Health Care Affordability Board meeting.

Meaningful Evaluation of Health Care Spending Trends, Drivers, and the Target Is Needed Now

The Approved Spending Target Is Out of Line with Key Trends. After a year of deliberation, the OHCA board in April formally adopted California's first health care spending target. The approved methodology is generally consistent with OHCA's earlier proposal — it is based on median household income growth over the last 20 years — but includes an add-on factor for the first four years to incorporate a glide path. The target will start at 3.5% in 2025, move to 3.2% after two years, and further shrink to 3% in 2029.

The addition of a glide path was a step in the right direction. However, it remains unclear whether California's health care system will be able to sustain the level of care patients deserve and still achieve this strict constraint on health care spending growth. Ultimately, California's adopted spending target does not account for the demographic, economic, policy, and health care trends that will drive health care spending growth going forward. For example:

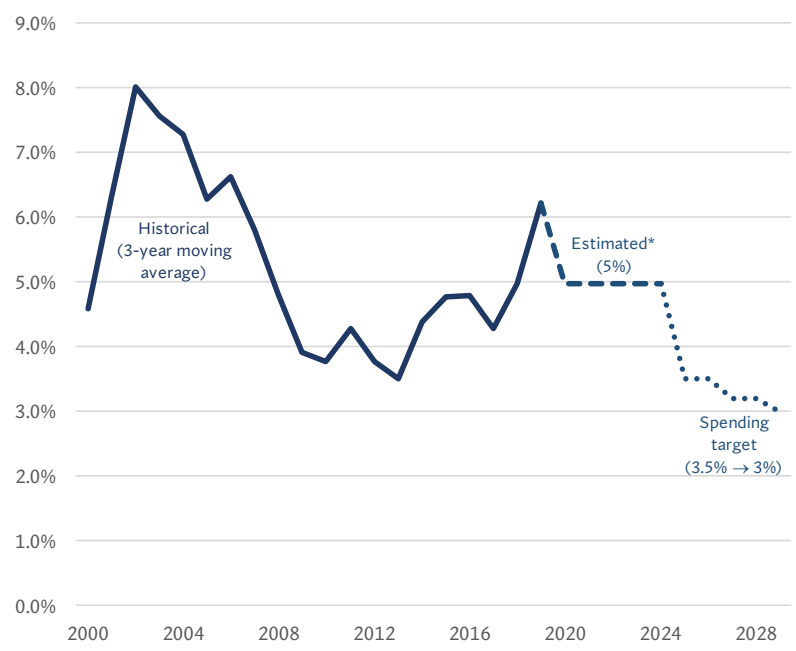
- Meeting a 3.5% spending target in year one would require a sudden 30% drop in the growth of health care spending, which cannot be achieved without serious negative consequences for patient care.
- As the following figure shows, 3.5% is the lowest rate of health care spending growth California experienced in the last 20 years — and it occurred more than a decade ago. Achieving a 3% target would require spending growth to be cut an additional 15%.

- These cuts in growth must occur in a high-inflation environment with annual price growth higher than 3%. When California last achieved sustained health care spending growth of less than 4%, economy-wide inflation was only 1.5% to 2%.

- Health care spending cannot keep pace with inflation unless utilization of services is flat or declining. But in California, population aging, growing prevalence of chronic disease, and escalating behavioral health needs mean that demand for health care will only grow in the coming years.

Approved Spending Target Mandates Health Care Spending Growth Far Below Historical Levels

Annual Growth in Per Capita Health Care Spending



*Growth for the years 2021 through 2024 are estimated because data on actual growth is not currently available from the National Health Expenditure accounts

- There are opportunities to improve the efficiency and effectiveness of health care delivery, including through the adoption of new technologies, better care coordination, greater alignment of financial incentives, and expanded preventive care. However, savings from these care transformations are uncertain, likely to arise slowly (while often necessitating upfront investment), and far below the levels necessary to meet the spending target.

- Workforce shortages, excessive pharmaceutical prices, and medical supply constraints — all factors outside of hospitals' control — caused hospital expenses to increase by well over 6% over the last few years. While some of these cost pressures have partially subsided, trends in the costs of these essential inputs remain out of line with OHCA's spending target. This discrepancy between revenue and cost growth is ultimately unsustainable and will force providers — especially those in vulnerable communities that are already experiencing financial challenges — to cut service lines or close entirely, eroding access to care.

Important Work to Evaluate the Sustainability of the Target Should Begin Now. Given the many factors that will undermine providers' ability to achieve a 3% to 3.5% spending target without negatively impacting care delivery, it is critical that OHCA thoughtfully and thoroughly analyze progress toward the target and the broader effects of that progress on the health care system. Only with this detailed, ongoing analysis will the OHCA board be able to evaluate the target's effectiveness in reaching OHCA's statutory objective of promoting affordability while maintaining access, quality, and equity. With that deeper understanding, the board would be able to meaningfully consider whether to modify the spending target or its methodology in future years.

This work should contain two general pieces of analysis:

- **A prospective analysis that forecasts the likely impacts of the adopted spending target on access, quality, equity, and workforce stability.** Such analysis has previously been requested from OHCA board members. To be supportive of the office's work, the analysis should:
    - Identify workforce changes health care entities would have to make to align their expenses with the spending target
    - Outline provider closures and service-line eliminations that are likely to result (particularly in rural and underserved areas)
    - Examine strategies payers might employ to constrain their expenses to meet the target, such as increasing denials of care, adding hoops to obtain new health care therapeutics, and adding cost sharing
    - Project, based on the aforementioned factors, the impacts to patients' access to care (from both geographic and timeliness perspectives)

  To date, these critical questions remain unanswered despite an abundance of academic literature and the available expertise of professional actuaries who consider these issues every day. Comparative approaches would be informative; the office should look closely at why other states are usually missing their (often higher) spending targets and why peer countries, like Sweden, the United Kingdom, and Canada experience health care spending growth that is twice as high as California's target despite more regulated health care systems.

- **Retroactive analysis that comprehensively monitors performance of California's health care system.** While the planned quality and equity measures and workforce stability standards will help in this regard, they do not provide all the necessary information. For example, they will likely not capture trends in appointment travel and wait times, whether patients are able to access new and effective therapeutics, and whether payers are putting up new barriers to care. This information will be critical in allowing the OHCA board to pivot where necessary to ensure access, quality, and equity are not being harmed in this process.

Establish a Formal Process for Reevaluating and Reconsidering the Spending Target. Setting the spending target was the most important and impactful decision the OHCA board will take this year. While the board has fulfilled this statutory mandate for the next five years, it retains a duty to continuously reevaluate and reconsider this important decision as additional information arises, including through the analyses described above and by considering more up-to-date economic and health care spending trends. Exactly how the OHCA board will do this is unclear, offering little assurance that this duty will be adequately performed. At an upcoming board meeting, the board should discuss and establish a public process and schedule for continuously reevaluating the spending target for each of the next five years.

Conclusion

OHCA must plan for the health care system Californians need and deserve. The state must address affordability challenges while meaningfully and measurably improving access to high-quality, equitable, and innovative care.

As work toward that multi-faceted goal progresses, California's hospitals are eager to help the OHCA board more fully understand the ever-changing health care landscape. We are grateful for the opportunity to comment and look forward to continued collaboration on this important work.

Sincerely,

Ben Johnson
Vice President, Policy

cc: Elizabeth Landsberg, Director, Department of Health Care Access and Information
Vishaal Pegany, Deputy Director, Office of Health Care Affordability
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Secretary Dr. Mark Ghaly
Dr. Sandra Hernández
Dr. Richard Kronick
Ian Lewis
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