

Headwinds for California Hospitals Mean More Uncertainty, Access Challenges for Patients

The Issue

Access to critical hospital services is at risk.

Hospitals face a perfect storm of financial challenges that threaten access to high-quality, timely care.

- A systemic shortfall in reimbursement from Medi-Cal and Medicare. Medicare and Medi-Cal pay 75 cents for every dollar it costs to care for patients. Statewide, 72% of hospital volume comes from Medi-Cal and Medicare combined.
- An aging population will turn to Medicare in greater numbers (the over 65 population is expected to grow to one in five by 2030). This leaves fewer individuals with commercial insurance that can help offset Medicare and Medi-Cal reimbursement shortfalls.
- Health care costs are rising: Labor costs are up 8% over the past year (and projected to grow significantly); medical supplies are up 22%; and pharmaceuticals are up roughly \$700 million over pre-pandemic levels.

If Medi-Cal and Medicare continue to underfund care, more hospitals in California will be forced to reduce services just to keep their doors open. Vital resources from a renewed tax on managed care organizations will help protect access to care, but represent only the first step to address systemic, multi-year shortfalls in government funding. In California, at least 46 hospitals have closed labor and delivery services since 2012, with 27 of those coming in the past three years. Nationwide, nearly 6 million women now live in maternity deserts. For mental health and substance use disorders, more than half of those in need who seek care do not receive any.

For Californians, this will mean more expensive and less accessible care for working families, more negative health outcomes, and longstanding inequities in health care access and outcomes will deepen.

What's Needed

Government payers — Medicare and Medi-Cal — must correct decades-old and systemic reimbursement shortfalls that have put the health care system on the precipice. The state must also address regulatory cost pressures such as a more than \$100 billion seismic mandate to upgrade hospital buildings and must monitor the risk of further hospital closures and service reductions.

CA hospital financial health

