Office of Health Care Affordability
Spending Targets

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California Hospital Association

Spending Target Background

California Hospital Association

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

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

What's Behind a Spending Target?

- Based on both reimbursement and use
- Performance assessed based on payers' costs and providers' revenues
- Per capita:
  - For payers, measured per-enrollee or per-insured
  - For providers generally, initially measured on an attributed-patient basis
  - For hospitals, to be determined…

Spending Target Timeline

2025
Statewide *non-enforceable* spending target

2026
Statewide *enforceable spending target*

2027
Establish definitions for non-statewide spending targets
· Sectors (e.g. hospital services, physician services)
· Geographic regions *(optional)*
· Individual health care entities *(optional)*

2029
Enforceable statewide, sector, and, if adopted, regional and individual entity spending targets

Spending Target Development Timeline

California Hospital Association

Dec 18, 2023
OHCA released **preliminary** recommendations for the initial statewide spending target

Jan 16, 2024
OHCA released **final** recommendations for the statewide spending target

Jan 24, 2024
OHCA board discussed staff recommendations for the spending target

Mar 19, 2024
OHCA Advisory Committee discussed spending target recommendation

Apr 24, 2024
OHCA board adopted the initial spending target

OHCA Staff Recommendation

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.

CHA Spending Target Advocacy

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

Statewide Spending Target

California Hospital Association

On April 24, the OHCA Board approved the first statewide spending target

- Based on average annual median household income growth from 2003-2022
- Includes a glide path that ramps the target down over time

Performance Year	Per Capita Spending Growth Target
2025	3.5%
2026	3.5%
2027	3.2%
2028	3.2%
2029	3.0%

Spending Targets Across the U.S.

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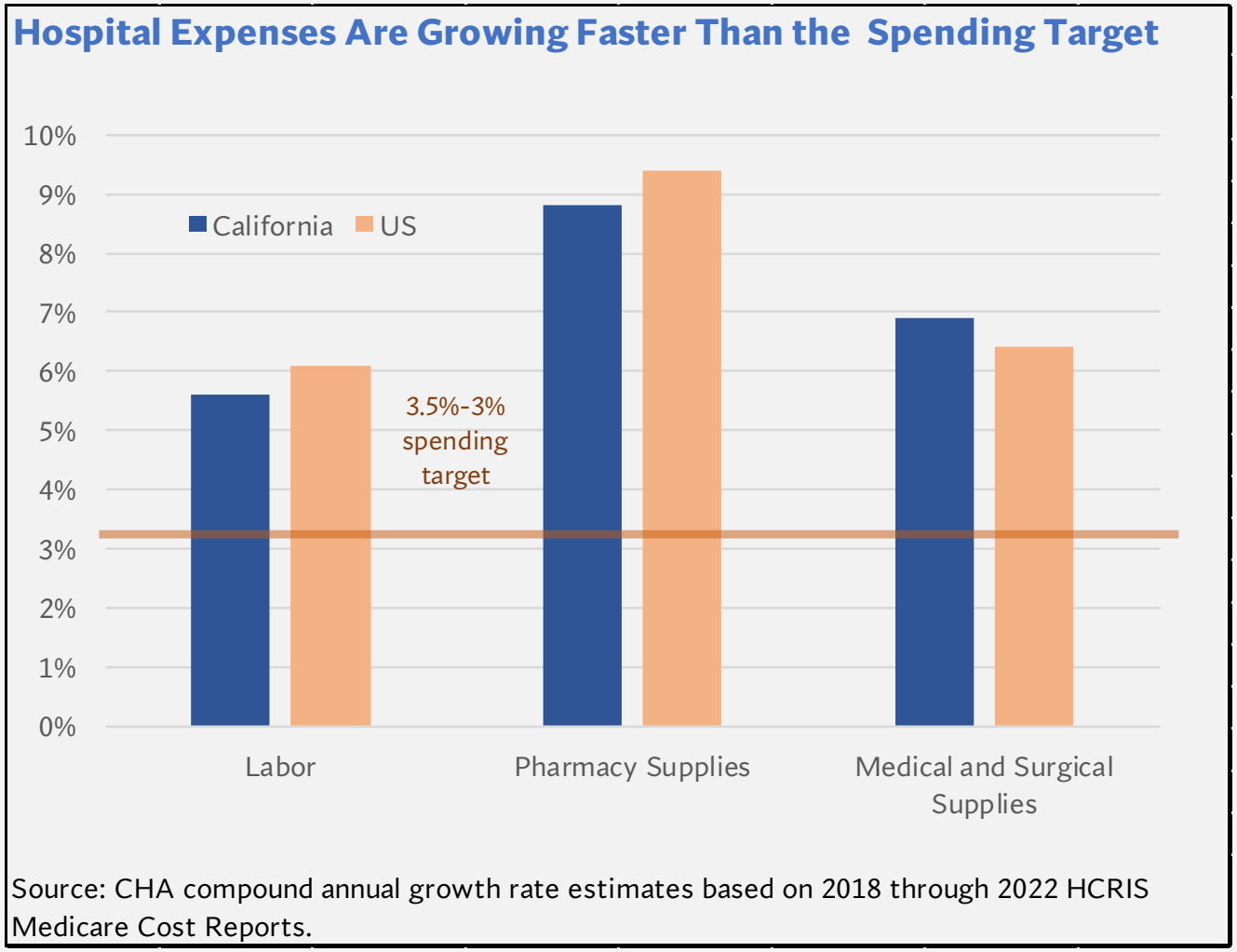
Comparison of State Spending Targets

	First Year		Last Year		Average All Years	
	Year	Target	Year	Target	# Years	Target
California	2025	3.5%	2029	3.0%	5	3.4%
Connecticut	2021	3.4%	2025	2.9%	5	3.4%
Delaware	2019	3.8%	2024	3.0%	6	3.5%
Massachusetts	2013	3.6%	2027	3.6%	15	3.4%
Nevada	2022	3.2%	2026	2.4%	5	2.8%
New Jersey	2023	3.5%	2027	2.8%	5	3.1%
Oregon	2021	3.4%	2027	3.0%	7	3.3%
Rhode Island	2019	3.2%	2027	3.3%	9	3.8%
Washington	2022	3.2%	2026	2.8%	5	3.0%
All States		**3.4%**		**3.0%**		**3.3%**

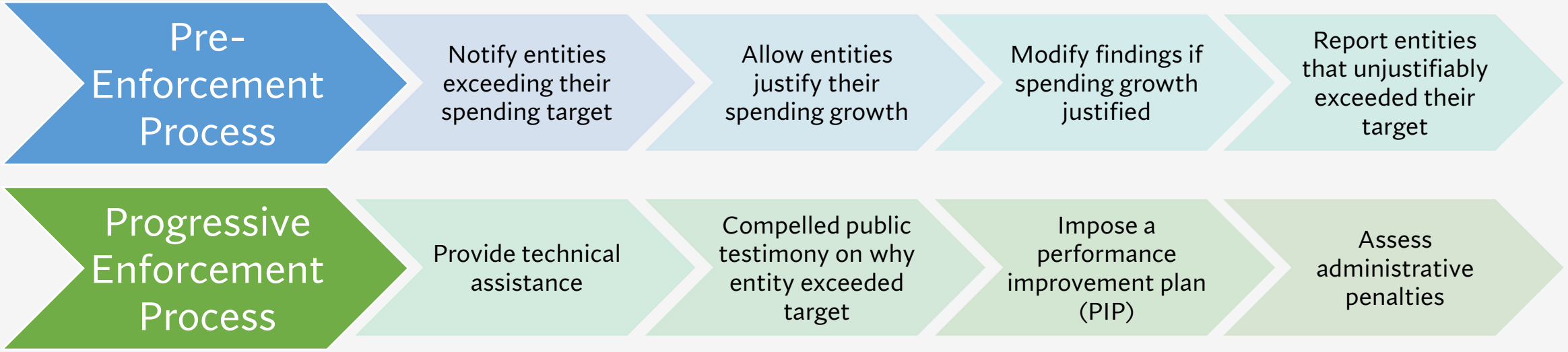
Target Will Be Challenging to Achieve

CMS projects nationwide per capita health care spending to **grow by 4.8% annually from 2025-2029**

From 2010-2019, over half of hospitals had **commercial net patient revenue growth exceeding the target** more than half the time



Enforcement Against Spending Targets



Potential Enforcement Timeline

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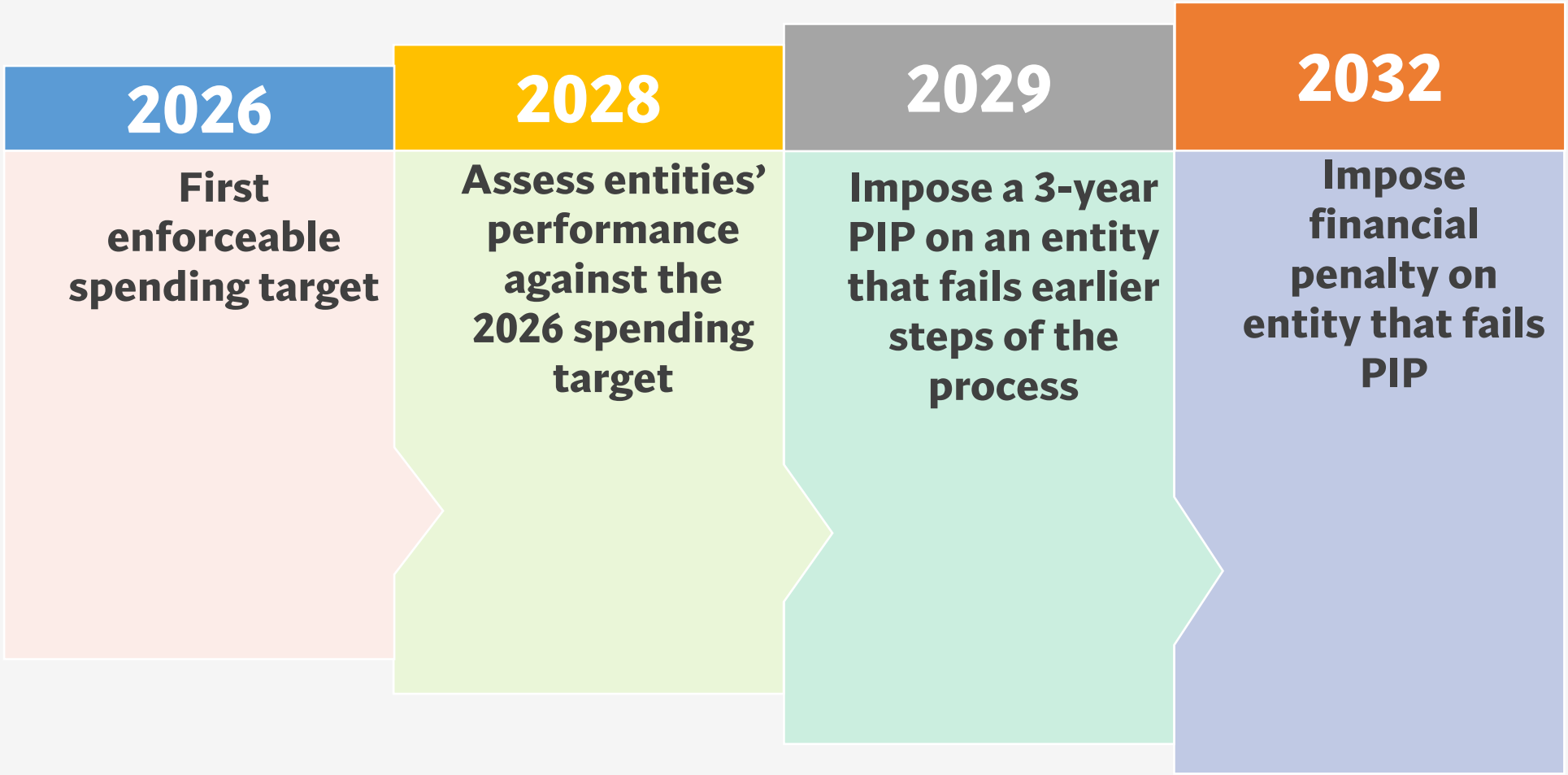

Potential Factors Considered in Enforcement Process

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- **Statutory changes** impacting health care costs
- Changes in **Medicare and Medi-Cal reimbursement**
- **Investments** to improve care and reduce future costs
- **Acts of God** or catastrophic events
- Emerging and unforeseen advances in **medical technology**
- Emerging **high-cost / high-value pharmaceuticals** and cost increases related to specialty pharmaceuticals
- Costs associated with increased organized **labor costs**
- **Annual changes in age** and sex of the entity's population
- Changes in an entity's **patient base / acuity**

Enforcement by Payer, Focus on Commercial Line

California Hospital Association

For payers and providers:

OHCA intends to **enforce spending targets separately by payer**:
- Commercial
- Medi-Cal
- Medicare

OHCA will **"contextualize"** spending growth in Medi-Cal and Medicare to **account for policy and program changes** made by the programs' administrative agencies

OHCA will **not levy financial penalties** on payers or contracted providers **for growth solely due to policy or operational decisions** made by the other state or federal agencies

Enforcement in Practice

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Massachusetts Case Study

January 2022: PIP imposed on Mass General Brigham:

- $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 to reduce annual spending by $128 million

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

Spending Targets Summary

- Target percentage for the **annual growth** in payers' expenditures, providers' revenues – assessed on per capita basis
- Start in **2025 at 3.5%**, become **enforceable in 2026** at the same level, and ramp down to **3% in 2029**
- Focus likely to be on **commercial** side, rather than for government payers
- **Not hard caps**: violations will trigger an evaluation of whether excess growth was justified.
  - If not, entities have an opportunity to demonstrate improvement via **performance improvement plans**
  - **Financial penalties should be last resort** and not expected until around 2032

Contact

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