

Office of Health Care Affordability

Health care costs are a strain for California families, employers, and the state itself, and continue to grow at an unsustainable rate. Between 2010 and 2018, health insurance premiums for job-based coverage increased more than twice the rate of growth for wages. A 2020 California Health Care Foundation poll found that 84% of Californians surveyed identified health care affordability as an extremely or very important issue to them. We must have a comprehensive understanding of cost trends and drivers of health care spending across the state and implement strategies for controlling the cost of health care while maintaining the quality and equity of care.

The Office of Health Care Affordability will be charged with analyzing the health care market for cost trends and drivers of spending, creating a state strategy for controlling the cost of health care and ensuring affordability for consumers and purchasers, and enforcing cost targets. The work of the Office will be guided by an Advisory Board comprised of experts that will advise on the key activities of the Office:

- **Increase public transparency on total health care spending in the state.** The Office will require reporting of total health care expenditure data, broken down by service category (e.g., hospital care, physician services, prescription drugs, etc.). This data will be supplemented with financial reports from providers and granular claims data from the emerging Health Care Payments Data System. The Office will publish an annual report in conjunction with a public meeting on health care spending trends and underlying factors, along with policy recommendations to control costs and improve the quality and equity of the health care system.
- **Set an overall statewide cost target and specific targets for different sectors of the health care industry.** The Office will establish an overall health care cost target for changes in per capita spending in California, and have the ability to set specific targets by health care sector, including payers, providers, insurance market and line of business, as well as by geographic region. The targets will be based on established economic indicators.
- **Enforce compliance with the cost target.** The Office will progressively enforce compliance with cost targets, beginning with technical assistance and progressively increase to include testimony at public meetings, corrective action plans, and assessment of escalating financial penalties.

- **Promote and measure quality and equity through performance reporting.** Because focusing on cost alone can have unanticipated consequences, performance on quality and equity measures will be reported for health plans, hospitals, and physician organizations, with special consideration of disparities in health care. Alignment with other payers and programs will be prioritized to reduce administrative burden and avoid duplication.
- **Set a statewide goal for adoption of alternative payment models and develop standards for use by payers and providers during contracting.** The Office will set a statewide goal for adoption of alternative payment models that promote shifting payments from fee-for-service to payments that reward high quality and cost-efficient care. The Office will measure progress towards the goal and adopt standards for alternative payment models that may be used by providers and payers during contracting. The standards will consider the current best evidence for strategies such as risk sharing arrangements and population-based contracts.
- **Measure and promote a sustained systemwide investment in primary care and behavioral health.** Primary care is foundational to an effective health care system and evidence supports that greater use of primary care has been associated with key outcomes, such as lower costs, fewer hospitalizations and emergency department visits, and lower mortality. Models that integrate primary care and behavioral health services have been shown to improve access to effective behavioral health services that improve outcomes, as well as reduce downstream health care costs. In order to build and sustain infrastructure and capacity, the Office will measure the percentage of total health care expenditures allocated to primary care and behavioral health and set spending benchmarks.
- **Monitor and address health care workforce stability.** The Office will examine and analyze the role of the health care workforce and assist health care entities with strategies to implement cost-reduction strategies that do not exacerbate existing workforce shortages and promote the stability of the health care workforce.
- **Increase public transparency on health care consolidation, market power, and other market failures.** Research has linked higher prices paid for health care services to increased market consolidation among health plans, hospitals, medical groups or physician organizations, pharmacy benefit managers, and other health care entities. For example, consolidation and other forms of mergers in California's hospital market have been associated with private insurance payments ranging from 89 percent to increases as high

as 364 percent of Medicare payments, with the average payments more than double the rates paid by Medicare. The Office will increase public transparency, through cost and market impact reviews on transactions that may impact market competition and affordability for consumers and purchasers and work with other regulators to address them.

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