

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 need a comprehensive understanding of cost trends and drivers of health care spending across the state and strategies for controlling the cost of health care while maintaining the quality and equity of care.

The Office of Health Care Affordability is charged with collecting data on total health care expenditures, analyzing the health care market for cost trends and drivers of spending, creating a state strategy for controlling the cost of health care and improving affordability for consumers and purchasers, and enforcing cost targets. The Health Care Affordability Board, comprised of experts, will advise on key activities of the Office and approve specific aspects of the initiative such as the methodology for setting cost targets and the statewide cost targets themselves.

Key activities of the Office include:

- **Increase public transparency on total health care spending in the state.** The Office will collect 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 Database. 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 growth target and specific targets for different sectors of the health care industry.** The Health Care Affordability Board will establish an overall health care cost growth 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 targets.** 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 adopted and reported for health plans, hospitals, and physician organizations. 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. 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.¹ The Office will increase public transparency, through cost and market impact reviews on transactions that may impact market competition and

¹ Richard Kronick and Sarah Hoda Neyaz, *Private Insurance Payments to California Hospitals Average More Than Double Medicare Payments* (West Health Policy Center, May 2019), 2

affordability for consumers and purchasers and work with other regulators to address them.

Projected Time	Period Program Activities
July to December 2022	<ul style="list-style-type: none"> • Begin program planning • Appoint Health Care Affordability Board
January to June 2023	<ul style="list-style-type: none"> • Begin meetings of Health Care Affordability Board • Appoint Advisory Committee • Begin emergency regulations process to collect data on total health care expenditures (THCE) from payers
July to December 2023	<ul style="list-style-type: none"> • Begin meetings of Advisory Committee • Develop a statewide cost growth target methodology • Complete emergency regulations for THCE data collection
January to June 2024	<ul style="list-style-type: none"> • Begin to collect notices related to health care market changes • Set 2025 cost target
July to December 2024	<ul style="list-style-type: none"> • Adopt standards for alternative payment models • Adopt standards for workforce stability • Collect 2022 and 2023 THCE data from payers
January to June 2025	<ul style="list-style-type: none"> • Complete baseline report (2022 and 2023 data) • Set 2026 cost target
July to December 2025	<ul style="list-style-type: none"> • Present baseline report at public meeting of Board • Collect 2024 THCE data from payers
January to June 2026	<ul style="list-style-type: none"> • Set 2027 cost target
July to December 2026	<ul style="list-style-type: none"> • Collect 2025 THCE data from payers
January to June 2027	<ul style="list-style-type: none"> • Complete first annual report (2024 and 2025 data)
July to December 2027	<ul style="list-style-type: none"> • Present first annual report (2024 and 2025 THCE data) at public meeting of Board • Define initial health care sectors
January to June 2028	<ul style="list-style-type: none"> • Complete annual report (2026) • Establish sector-specific health care cost growth targets

The provisions of the California Health Care Quality and Affordability Act are multi-faceted, complex, high-profile, and ambitious. It will take time for HCAI to build the necessary infrastructure and implement the full range of provisions. Communication with stakeholders will be critical to success, and HCAI plans to engage stakeholders across the activities in the timeline.

Other significant provisions of the Act require additional planning to determine timing, including:

- Adopting and reporting on a single set of standard quality and equity measures
- Measuring the percentage of total health care expenditures allocated to primary care and behavioral health and setting benchmarks
- Setting statewide goals for adoption of alternative payment models, and analyzing alternative payment model adoption
- Monitoring the effects of cost growth targets on health care workforce stability
- Reviewing and evaluating consolidation, market power, and other market failures through cost and market impact reviews of mergers, acquisitions, or corporate affiliations involving health care service plans, health insurers, hospitals, physician organizations, pharmacy benefit managers, and other health care entities

Read the provisions of the [California Health Care Quality and Affordability Act](#) (2022), the enabling statutes for the Office.

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