

## 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.<sup>1</sup> The 2022 California Health Care Foundation Health Policy Survey found that 83% of Californians surveyed identified health care affordability as an extremely or very important issue to them.<sup>2</sup>

The Office of Health Care Affordability (OHCA) is charged with collecting data on total health care expenditures, analyzing the health care market for cost trends and drivers of spending, promoting strategies for managing the cost of health care and improving affordability for consumers and purchasers while maintaining or improving quality and equity, and enforcing cost targets. The Health Care Affordability Board, comprised of experts, will advise on OHCA's key activities, and approve specific aspects of the initiative such as the methodology for setting cost targets and the actual cost targets. A Health Care Affordability Advisory Committee, comprised of stakeholders and appointed by the Board, will provide input on a wide range of topics including cost targets.

OHCA's key activities include:

### **Increase public transparency on total health care spending in the state**

OHCA 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 additional sources, such as granular claims and encounter data from the emerging Health Care Payments Database. OHCA will publish an annual report in conjunction with a public meeting on health care spending trends and underlying factors, along with policy recommendations to contain costs and maintain or 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 per capita spending in California and have the authority to set specific targets by health care sector, including fully integrated delivery systems, geographic regions, and individual health care entities, as appropriate.

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<sup>1</sup> K. Stremikis, [Ever-Rising Health Costs Worsen California's Coronavirus Threat](#), March 5, 2020, CHCF Blog.

<sup>2</sup> R. Catterson, L. Rabinowitz, E. Alvarez, NORC at the University of Chicago. The 2022 [CHCF California Health Policy Survey](#).

## **Enforce compliance with the cost targets**

Enforcement will begin with technical assistance to health care entities not in compliance with the cost targets and may progressively increase to include testimony at public meetings, performance improvement plans, and assessment of financial penalties that may escalate over time.

## **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. 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**

OHCA 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. OHCA 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**

OHCA's enabling statute highlights the foundational role primary care plays in an effective health care system, and highlights the strength of evidence supporting association of greater use of primary care with key outcomes, such as lower costs, fewer hospitalizations and emergency department visits, and lower mortality.<sup>3</sup> 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.<sup>4</sup> OHCA will measure the percentage of total health care expenditures allocated to primary care and behavioral health, and set spending benchmarks.

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<sup>3</sup> See, for example, National Academy of Sciences, Engineering and Medicine, [Implementing High-Quality Primary Care: Rebuilding the Foundation of Health Care](#), May 2021; and Jill Yegian, [The Case for Investing in Primary Care in California](#), California Health Care Foundation, April 2022.

<sup>4</sup> See, for example, Celli Horstman, Sara Federman, and Reginald Williams II, [Integrating Primary Care and Behavioral Health to Address the Behavioral Health Crisis](#), The Commonwealth Fund, September 2022.

## Monitor and address health care workforce stability

OHCA will examine 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 that will promote the stability of the health care workforce.

## Increase public transparency on health care consolidation and market power

Research has linked market consolidation among health plans, hospitals, medical groups or physician organizations, pharmacy benefit managers, and other health care entities to higher prices paid for health care services.<sup>5</sup> OHCA will increase public transparency through cost and market impact reviews on transactions that are likely to significantly impact market competition and affordability for consumers and purchasers. As appropriate, OHCA will work with other state agencies to address the findings of the reviews.

Projected Time	Activities
July to December 2022	<ul style="list-style-type: none"><li>• Begin program planning</li><li>• Appoint Health Care Affordability Board</li></ul>
January to June 2023	<ul style="list-style-type: none"><li>• Begin meetings of Health Care Affordability Board</li><li>• Appoint Health Care Affordability Advisory Committee</li><li>• Begin emergency regulations process to collect data on total health care expenditures (THCE) from payers</li></ul>
July to December 2023	<ul style="list-style-type: none"><li>• Begin meetings of Advisory Committee</li><li>• Develop a statewide cost growth target methodology</li><li>• Complete emergency regulations for THCE data collection</li></ul>
January to June 2024	<ul style="list-style-type: none"><li>• Begin to collect notices related to transactions among health care entities</li><li>• Set 2025 cost target (reporting only)</li></ul>
July to December 2024	<ul style="list-style-type: none"><li>• Adopt standards for alternative payment models</li><li>• Adopt standards for workforce stability</li><li>• Collect 2022 and 2023 THCE data from payers</li></ul>
January to June 2025	<ul style="list-style-type: none"><li>• Complete baseline report (2022 and 2023 data)</li><li>• Set 2026 cost target (first enforcement year)</li></ul>
July to December 2025	<ul style="list-style-type: none"><li>• Present baseline report at public meeting of Board</li><li>• Collect 2024 THCE data from payers</li></ul>
January to June 2026	<ul style="list-style-type: none"><li>• Set 2027 cost target</li></ul>

<sup>5</sup> See, for example, Richard Scheffler, Daniel Arnold and Christopher Whaley, [Consolidation Trends In California's Health Care System: Impacts On ACA Premiums And Outpatient Visit Prices](#), Health Affairs, September 2018; and Richard Scheffler, Daniel Arnold and Brent Fulton, [The Sky's the Limit: Health Care Prices and Market Consolidation in California](#), California Health Care Foundation, October 2019.

July to December 2026	<ul style="list-style-type: none"> <li>• Collect 2025 THCE data from payers</li> </ul>
January to June 2027	<ul style="list-style-type: none"> <li>• Complete first annual report (2024 and 2025 data)</li> </ul>
July to December 2027	<ul style="list-style-type: none"> <li>• Present first annual report (2024 and 2025 THCE data) at public meeting of Board</li> <li>• Define initial health care sectors (before October 1, 2027)</li> </ul>
January to June 2028	<ul style="list-style-type: none"> <li>• Complete annual report (2026)</li> <li>• Establish sector-specific health care cost growth targets</li> </ul>

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

**-- Fact Sheet Updated October 25, 2022**