HEALTH ACCESS
California's Health Consumer Advocacy Coalition

FACT SHEET

The Office of Health Care Affordability

A Comprehensive Strategy to Address High Health Prices and More

Americans – and Californians – pay more for health care, get less care, and have worse outcomes.

1. The price of health care in the United States is higher, for almost all services, than in other developed nations.[i] In California, health insurance premiums for employer coverage have increased by 249% between 2002 and 2017, six times the rate of general inflation.[ii]
2. Americans get less care than those in many other wealthy countries, including fewer doctor visits.[iii]
3. Health outcomes in terms of illnesses, health status, and life expectancy are no better in the U.S., and on some measures, are even worse than other wealthy nations.[iv]
4. Between 2008-2018, real median wages for Californians remained mostly stagnate while health insurance premiums continued to increase, even after accounting for inflation.[v]

Every California consumer with private health insurance is being hit by the rising cost of health care, feeling it in their premiums, deductibles and co-pays, and in stagnating wages. As consumers, workers, and taxpayers, we are paying more and getting less—less care and less health.

To address the market failures that have contributed to these high health care prices, California Governor Gavin Newsom and Assemblymember Jim Wood propose creating an Office of Health Care Affordability.

The Problem: Health Prices Are Too High

Noted health economist Uwe Reinhardt famously coined the phrase "It's the prices, stupid" to explain health care spending differences between the U.S. and other countries. The 2003 paper by Reinhardt and others was updated in 2019 with the conclusion that "it's still the prices, stupid."[vi] Despite many health policy reforms, prices across the health care industry are the primary reason why the U.S. spends more on health care. Recent data on California large employer plans also shows that prices, not utilization, are the primary driver of rising premium costs.[vii]

The inflated price of health care is unrelated to the cost of care, quality, or the outcomes. In some instances, the inflated prices are more related to the rampant consolidation within the health care system. For example, research suggests that prices for procedures are 20-30%[viii] higher in Northern California, where there is greater hospital consolidation, than Southern California, which translates into higher premiums for consumers. Other market failures also drive up health care costs, from surprise medical bills to drug manufacturers cornering the market on generics. Fundamentally, consumers are not able to negotiate their cost of care, have limited ability to "shop around" and are not in a position to say "no" to needed care.

Because of consolidation and other market failures, state government has a role in setting enforceable cost targets that take aim at high health care prices—while taking into account quality, access, and equity.

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The Solution: The Office of Health Care Affordability

In order to best protect consumers, and bring meaningful reform to the health care system, the proposed Office of Health Care Affordability would:

1) **Collect and analyze information and identify trends across our health care system**
   - The Office will look at the California health care market as a whole, to identify emerging trends, abuses, and market failures across systems. Current health agencies only focus on individual parts of system, such as health plans, hospitals, the individual insurance marketplace, or Medi-Cal.

2) **Set enforceable cost targets for entire health care industry**
   - Health care prices can't continue to outpace inflation and wage growth. An ambitious cost target would seek to reduce the actual cost of care.
   - Cost targets would be complemented with standards on quality, access, and equity.
   - Targets would be set for every sector of the health care industry and would look at regions where consolidation has driven up costs and other market failures, recognizing the differences and complexity throughout California's health care system.

3) **Ensure accountability for health industry to meet goals, including with financial penalties**
   - The Office would be charged with enforcing the cost targets.
   - If costs exceed the targets, the Office could seek justifications, corrective action plans, fines, or other consequences from the health care industry.

4) **Provide tools for providers to meet the cost goals**
   - The Office could pursue efforts to improve value-based purchasing, increase primary care and behavioral health use, reduce administrative duplication and waste, and other reforms to help bring down prices.
   - The Office would be able to identify problematic health trends and costs and intervene accordingly.

5) **Develop strategies to address consolidation and other market failures in the health system**
   - Some provider systems have used consolidation to artificially inflate prices and employ anti-competitive practices. It is important that this Office include the impacts of consolidation as part of establishing the cost targets and baseline.

6) **Ensure quality, access, and equity as part of affordability and cost containment**
   - Cost control measures put in place by the Office should address health equity and quality concerns. The goal is lower costs, better health, access to necessary care, and reduced health disparities.
   - The Office should ensure reforms benefit and meet specific needs of California's diverse populations.

7) **Provide public process for consumers and other purchasers**
   - The Office should provide a regular public venue where consumers and other purchasers can make their voices heard about any proposed reforms. Too often the health care industry blithely raises prices, ignoring the impact on consumers and those that buy care for their employees.

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California Consumers Urgently Need Relief

Despite coverage gains made under the Affordable Care Act and efforts to find savings within the health care system, research still shows that over two-thirds of American's bankruptcies are tied to medical issues.[ix] Nationally, 40% of adults with job-based insurance coverage report having affordability concerns and a majority made sacrifices in order to pay for medical bills.[x] In California, nearly a quarter of adults with job-based coverage reporting being unable to pay for basic necessities due to medical bills and 44% of Californians have delayed or skipped care due to cost. The problem is even more critical for lower-income Californians, where 55% report putting off or postponing care.[xi] High health care costs can also impede wage growth,[xii] which has ripple effects for individuals and families. Consumers are being crushed by the high cost of health care and need urgent relief.

Rather than rate-setting, the Office would set targets and allow the industry the flexibility to meet them. Many health providers who provide quality care at a lower cost, or who have the potential to with the right tools, structure and incentives, would prosper under this structure.

This Office does not single out any one part of the industry, but instead recognizes the role that hospitals, health plans, medical groups, and other parts of the health system play together in finding the best solution to higher costs.

As we prepare for the next pandemic, an Office of Health Care Affordability would help California assess the capacity and sustainability of our health system going forward, while also helping address the cost burdens on consumers and other purchasers still recovering economically from the COVID-19 crisis.

An Office of Health Care Affordability, with its comprehensive overview of the health system, would have the best potential to ensure that the benefit of reforms actually reaches patients and payers, including consumers, employers, workers, and taxpayers.

For more information, contact Yasmin Peled, Health Access California policy advocate, at ypeled@health-access.org.

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[iii] Commonwealth Fund, U.S. Health Care from a Global Perspective, 2019: Higher Spending, Worse Outcomes?, January 2020
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[v] UC Berkeley Labor Center, Health Care Costs Under Job-Based Plans have Grown Rapidly, While Wages Remained Flat, December 2019
[vi] Anderson, Hussey, Petrosyan, Health Affairs, It's Still The Prices, Stupid, January 2019
[vii] UNITE HERE, It's Still the Prices: Second Year Data from California's Rate Filing Law, September 2018
[viii] Petris Center on Health Care Markets and Consumer Welfare, Consolidation in California's Health Care Market 2010-2016: Impact on Prices and ACA Premiums, March 2018
[ix] Himmelstein et al., American Journal of Public Health, Medical Bankruptcy: Still Common Despite the Affordable Care Act, February 2019
[x] Kaiser Family Foundation/LA Times, Survey of Adults with Employer-Sponsored Health Insurance, May 2019
[xi] Kaiser Family Foundation/California Health Care Foundation, The Health Care Priorities and Experiences of California Residents, January 2019
[xii] UC Berkeley Labor Center, Increases In Health Care Costs Are Coming Out of Workers' Pockets One Way or Another, January 2020