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

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, more expensive medical bills, 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, with the Governor proposing the Office of Health Care Affordability as a budget proposal since 2020 and Assemblymember Wood authoring AB 1130.

High Health Care Costs Are Making Californians Sicker

Americans – and Californians – pay more for health care, get less health 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 were four times as high in 2020 as in 2000, quadrupling from $163 per month to $661 per month for worker-only coverage[ii]. This far exceeded the rate of general inflation.[iii]
2. Americans get less care than those in many other wealthy countries, including fewer doctor visits and fewer hospital days.[iv]
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.[v]
4. Between 2008-2018, real median wages for Californians remained mostly stagnant while health insurance premiums continued to increase, even after accounting for inflation.[vi]

This leads to sicker Californians. Half of Californians report putting off or postponing needed health care—and the affordability crisis is getting worse.[vii] Two years ago, 44% of Californians reported delaying or skipping care because of high health care costs and now that is up to 49% of Californians.[viii] And more and more Californians who postponed care are in worse health as a result.

Health care costs are taking a bigger and bigger chunk of household earnings. One out of four Californians say they or a family member had problems paying a medical bill, up from one in five a year ago. Almost twice as many low-income Californians – 43% – report difficulties paying a medical bill.[ix] 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.[x] 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.[xi] High health care costs can also impede wage growth,[xii] which has ripple economic effects for individuals, families, and whole communities.

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Consumers are being crushed by the high cost of health care and need sustained relief. Years of delay in enacting the Office of Health Care Affordability are making Californians sicker and poorer. Stopping this downward slide requires action to give consumers sustained relief from high health care costs. Patients have no ability to negotiate the price of care and little or no ability to shop around. Instead, when faced with high costs, too often consumers simply do without care.

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."[xiii] Despite many health policy reforms, prices across the health care industry are the primary reason why the U.S. spends more on health care. Data on California large employer plans also shows that prices, not utilization, are the primary driver of rising premium costs.[xiv] The Congressional Budget Office in January 2022 came to the same conclusion: prices paid to doctors and hospitals by commercial insurers were almost twice as high as the rate of inflation while utilization grew slowly.[xv] The prices paid to doctors and hospitals by commercial insurers are as much as 163% of what Medicare pays doctors and 223%-293% of what Medicare pays hospitals.[xvi] In California, independent analysis done using 2015-2016 data indicated that commercial insurance pays hospitals more than 200% of Medicare on average[xvii] and the spread has only gotten larger in recent years.

The inflated price of health care is unrelated to the cost of care, the quality of the care provided, or the outcomes. Often, the inflated prices are more related to the rampant consolidation within the health care system than to increases in utilization or improvements in quality, access, or equity.[xviii] Research indicates that prices for procedures are 20-30%[xix] 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.

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 in our care.

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 selected 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.

- Other states have set cost targets of 3.2% to 3.6% as the ceiling on health care cost growth—and applied those targets to insurers, health systems, physician organizations and other parts of the health care system subject to state regulation.
- Cost targets would be complemented with standards on equity, access, quality, and workforce.
- Targets could be set for sectors of the health care industry and look at regions where consolidation and other market failures that have driven up costs without improving access, equity, or quality.

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 will require public explanations, performance improvement plans and, eventually, penalties commensurate with the failure to meet the target.

4) Provide tools for physician organizations, hospitals, health systems and health plans to meet the cost goals

- The Office would pursue efforts to expand 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

- Addressing health equity is central to lower costs and better outcomes given California's diversity.
- 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. Concrete examples of lower cost, better quality care include:
  - Reducing emergency room visits for asthma by better managing the condition
  - Managing diabetes so patients suffer fewer complications such as amputations and blindness
  - Reducing hospital readmissions after a patient leaves the hospital by keeping them safer and healthier at home

7) Provide public process for consumers and other purchasers

- The Office would 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 cavalierly raises prices, ignoring the impact on consumers and those that buy care for their employees.

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Consumers Need Sustained Relief from High Health Care Costs

The Office of Health Care Affordability would set cost growth targets that the health care industry would be required to meet while giving the industry flexibility about how to achieve those targets. 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. The 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. Excluding any important element of health care costs would allow those costs to balloon, as the experience in other states such as Maryland which focused only on inpatient hospital costs demonstrates.

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 reaches patients and payers, including consumers, employers, workers, and taxpayers.

For more information, contact Diana Douglas, Health Access Policy Manager, ddouglas@health-access.org

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