Fact Sheet

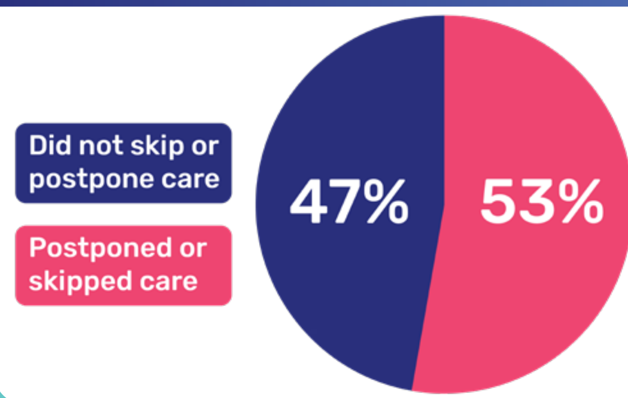
California's Office of Health Care Affordability

Aligning Health Care Cost Growth with What Californians Can Afford

The Problem with High Health Care Costs

- **Premiums and deductibles grow faster than wages.**
    - In the last 20 years, median wages grew an average of 3 percent, while worker contributions to their health care premium grew 6.8 percent and deductibles grew 8.7 percent.
    - Twenty years ago, two-thirds of California workers with job-based coverage had no deductibles. Today almost 80% of all workers with coverage from their job face a median deductible of $3,700.[i]
- **More than half of Californians (53%), and nearly three in four (74%) Californians with low incomes said they skipped or postponed care due to cost in the past year.**
    - Nearly half of those who skipped or postponed health care said doing so resulted in their condition getting worse.
- **Higher costs disproportionately affect Black, Latino and multiracial Californians.**
    - Black, Latino, and multiracial Californians are more likely to report difficulty paying medical bills as well as having medical debt.[ii]
    - Health premiums are almost 20% of income for Black and Latino workers compared to nearly 14% percent for White workers.[iii]
- **These high costs are the primary reason that Californians with access to employer-based coverage decide not to enroll, choosing to go uninsured.**[iv]

More than half of Californians report skipping or postponing care in the past year due to cost



Health Care Prices Have Little to do with Cost and Quality of Care

Decades of research show that there is no correlation between health care spending levels and health care quality. There is wide variation in health care spending across the state for the same service, with no connection to complexity of the case or the quality of care received while following the same state laws and regulations. Researchers have found that 20%-25% of health care spending in California is excess spending and argue it could be eliminated without harming either access or quality. Most of this excess spending is accounted for by administrative complexity, pricing and market inefficiencies as well as failures of care delivery and inadequate prevention.[v]

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The Solution: Slow Health Spending to Match the Growth in Income

Spending on health care should not grow faster or take up a greater share of Californians' incomes than it currently does. With a health care cost growth target based on the ability of consumers to afford care, over time consumers will spend less as a share of income on premiums, copays and deductibles, and will be able to better access care.

Basing cost growth on the wealth of the economy measured as Gross Domestic Product (GDP) or transitory inflation will only lock in place the current state of unaffordability and perpetuate quality problems with continued lack of access to doctors, prescriptions and other necessary care.

The Office of Health Care Affordability

The Office of Health Care Affordability was established in SB 184 (Chapter 47 0f 2022)[vi] with the triple aim of lower costs, better outcomes, and improved equity in health care for Californians. The Office (OHCA) is responsible for setting cost growth targets aimed at moderating rising costs while promoting access to primary care, behavioral health, and consumer affordability.

Proposed 3% Cost Growth Target

The Office is governed by the Health Care Affordability Board which among other responsibilities, is charged by June 1st of this year with setting the first statewide cost growth target for all health care entities starting in 2025. The 2025 target will not be enforceable. Enforcement begins with the target for the year 2026 which will be reported in 2028.

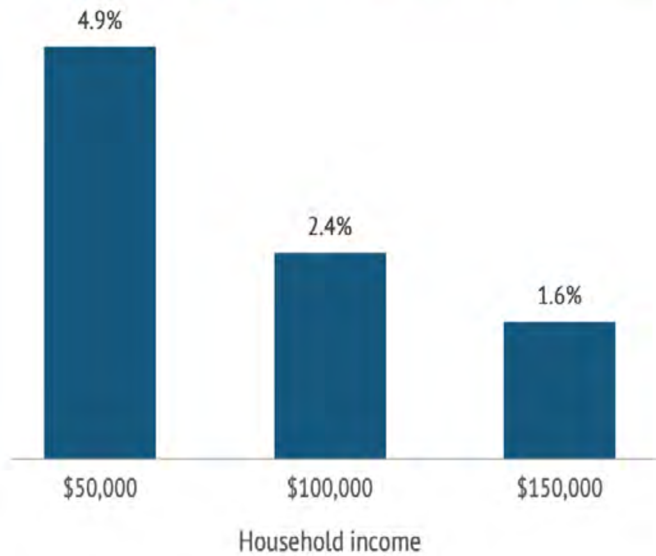
The Office of Health Care Affordability staff have recommended a cost growth target of 3% for 2025-2029 based on the average household income from the last 20 years. We strongly support this recommendation which ties the target to what consumers can afford. This would slow cost growth from the state's current long-term health care spending growth rate of 5.4.%. If health care entities meet the proposed spending target of 3% instead of the current 5%, a family of four with employer-coverage would save $2,430 in the fifth year alone if savings are passed through the employer. Low and middle-income families will benefit the most from slowing spending on premiums and out-of-pocket costs. [vii]

A cost growth target higher than 3% would justify the status quo of ever-increasing and irrational costs that outpace household wages and leave many Californians behind.[viii]

Why Slowing Cost Growth is Critical to Californians' Access to Health Care

The cost of health care has been rising above inflation for years, taking larger and larger chunks out of workers' wages and family finances. A California family with employer coverage pays over $10,000 for the family share of premium and the median deductible, while the median family income is about $85,000. This is not affordable, except for the most affluent. Recent studies have demonstrated the health care affordability crisis facing Californians, how it's getting worse, and the urgency of the work at the Office of Health Care Affordability.

Exhibit 1: Hypothetical annual savings for a family of four with job-based coverage in year five of spending target implementation, as a percentage of household income



Source: UC Berkeley Labor Center analysis of hypothetical scenario in which annual health care spending growth slows from 5% to 3% in the first five years of the spending target, saving $2,430 for a typical family with job-based coverage in the fifth year alone if the savings are fully passed through by the employer.

i. Measuring Consumer Affordability is Integral to Achieving the Goals of the California Office of Health Care Affordability (UC Berkeley Labor Center, February 2024).
ii. The 2024 CHCF California Health Policy Survey (California Health Care Foundation, February 2024).
iii. Employer-Sponsored Health Insurance Premium Cost Growth and Its Association with Earnings Inequality Among US Families (JAMA Network, January 2024)
iv. Health Care Minimum Essential Coverage Individual Mandate Report (California Franchise Tax Board, 2023)
v. Understanding California's Health Care Affordability Crisis: Why California's Rising Health Care Costs are Unjustifiable and Potential Solutions to Address the Affordability Crisis (California Health Care Foundation, February, 2024)
vi. Senate Bill 184 (Chapter 47 of 2022)
vii. Understanding California's Health Care Affordability Crisis: Why California's Rising Health Care Costs are Unjustifiable and Potential Solutions to Address the Affordability Crisis (California Health Care Foundation, February, 2024)
viii. Measuring Consumer Affordability is Integral to Achieving the Goals of the California Office of Health Care Affordability (UC Berkeley Labor Center, February 2024)

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