California State Assembly

Committee on Health

Health Care Affordability:
Considerations for Controlling Costs in California

Date: October 27, 2020

1:30 – 5:00 PM, State Capitol

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The Need for Spending and Affordability Targets

- Health spending is reaching levels that are increasingly unaffordable to more Californians each year

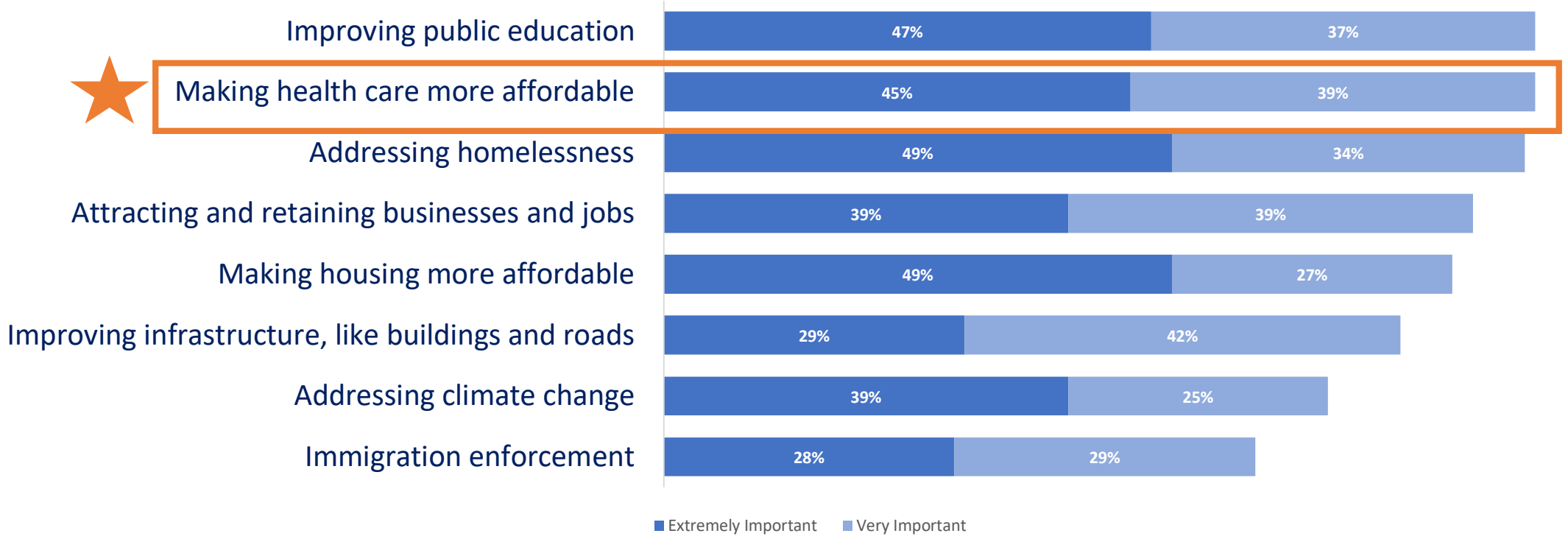
- Other states have created Health Cost Commissions/Offices to monitor, measure and control health care cost growth

- Similar agency could provide policymakers mechanism to:

  - Lower the costs of expanding health insurance coverage to uninsured
  - Provide relief to millions of Californians struggling with premiums and out of pocket costs
  - Provide California's policy makers with greater budgetary resources to support other, non-health care related programs and policies
  - Improve the economic well being California's workers and their families

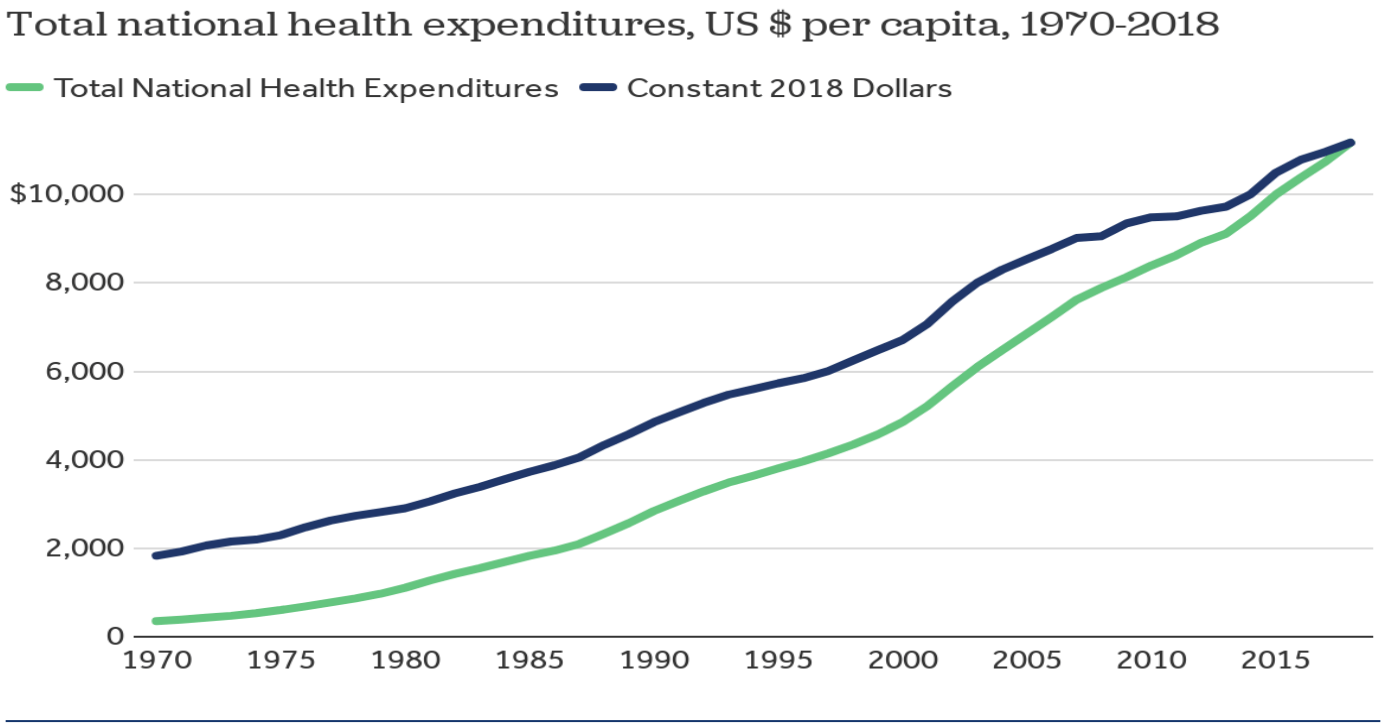
Californians Want Policy Makers to Engage on Health Care Cost Issues

Q: How important do you think it is for California's governor and legislature to work on each of these areas in 2020?



Source: CHCF Health Policy Poll, Feb 2020.

Health Spending Has Grown Continuously for 40+ Years
Now Exceeds $10,000 per person

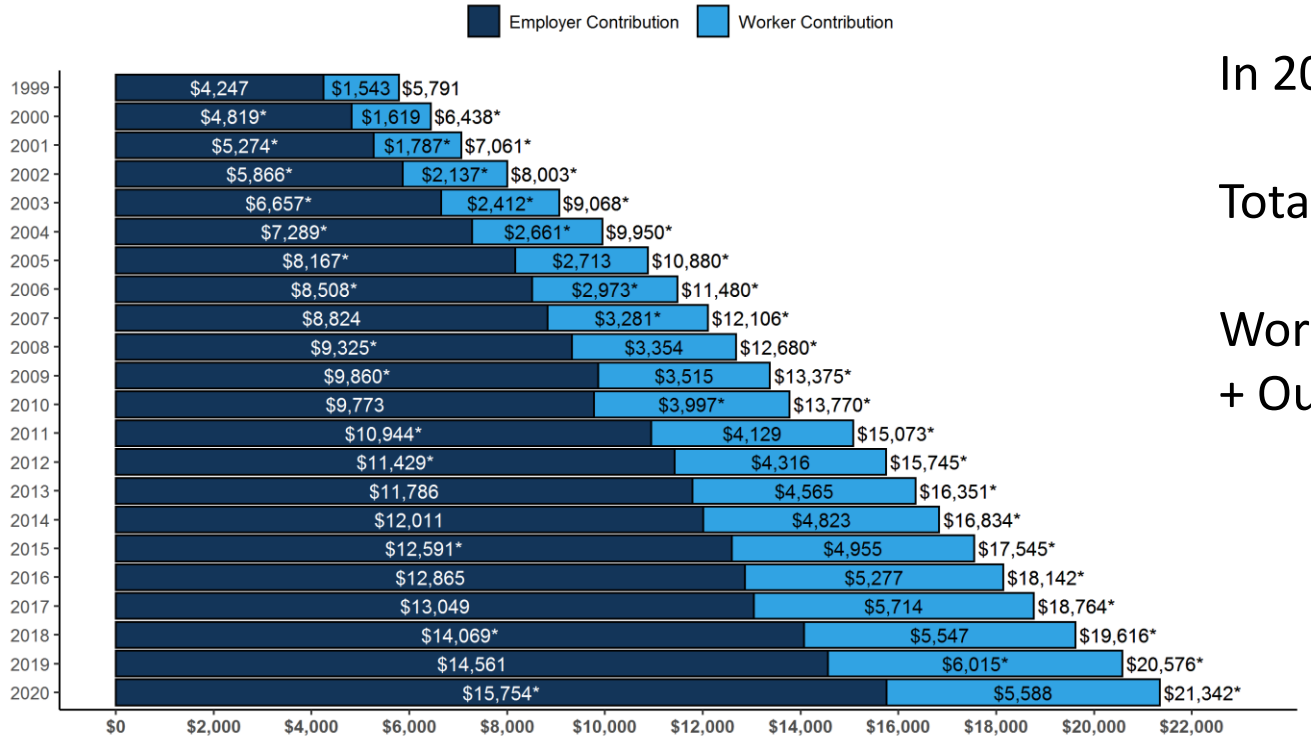


Source: KFF analysis of National Health Expenditure (NHE) data

Peterson-KFF
Health System Tracker

Health Insurance Premiums Are Increasing and Employees are Paying More

Figure 6.5
Average Annual Worker and Employer Contributions to Premiums and Total Premiums for Family Coverage, 1999-2020



* Estimate is statistically different from estimate for the previous year shown ($p < .05$).
SOURCE: KFF Employer Health Benefits Survey, 2018-2020; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2017

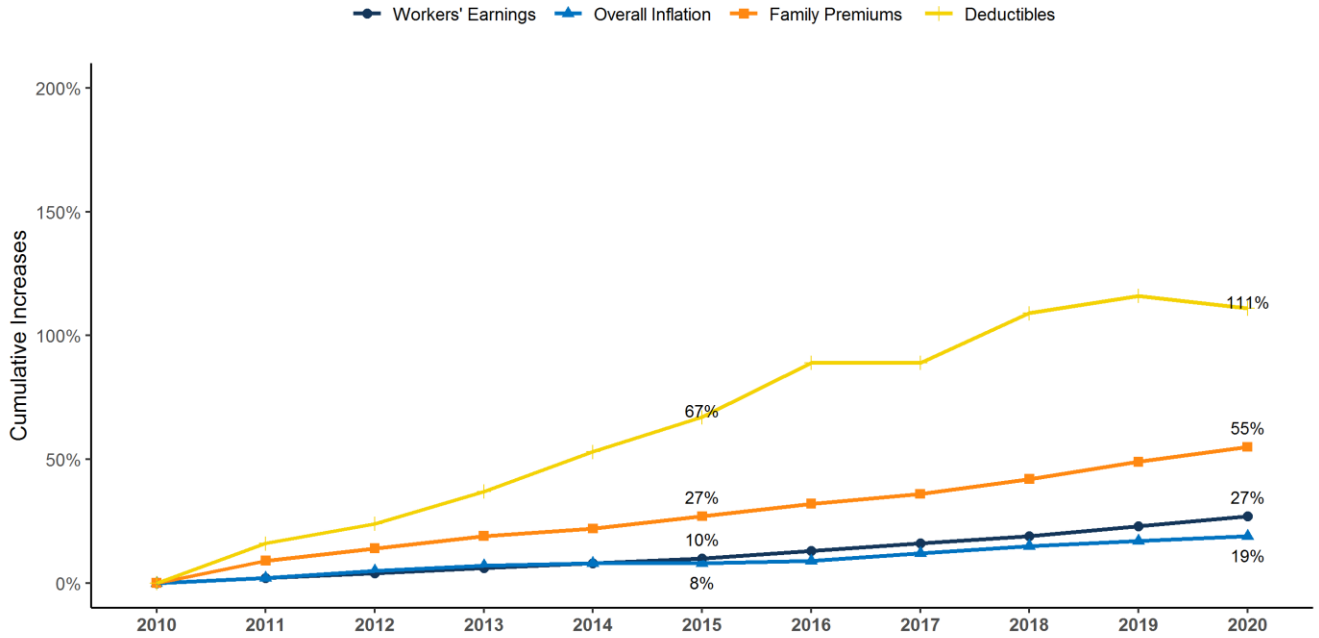
In 2020:

Total: $21,342

Worker Share: $5,588
+ Out of Pocket Costs

Health Care Spending Continues to Grow Faster Than Earnings - This Is Not Sustainable

Cumulative Increases in Family Coverage Premiums, General Annual Deductibles, Inflation, and Workers' Earnings, 2010-2020

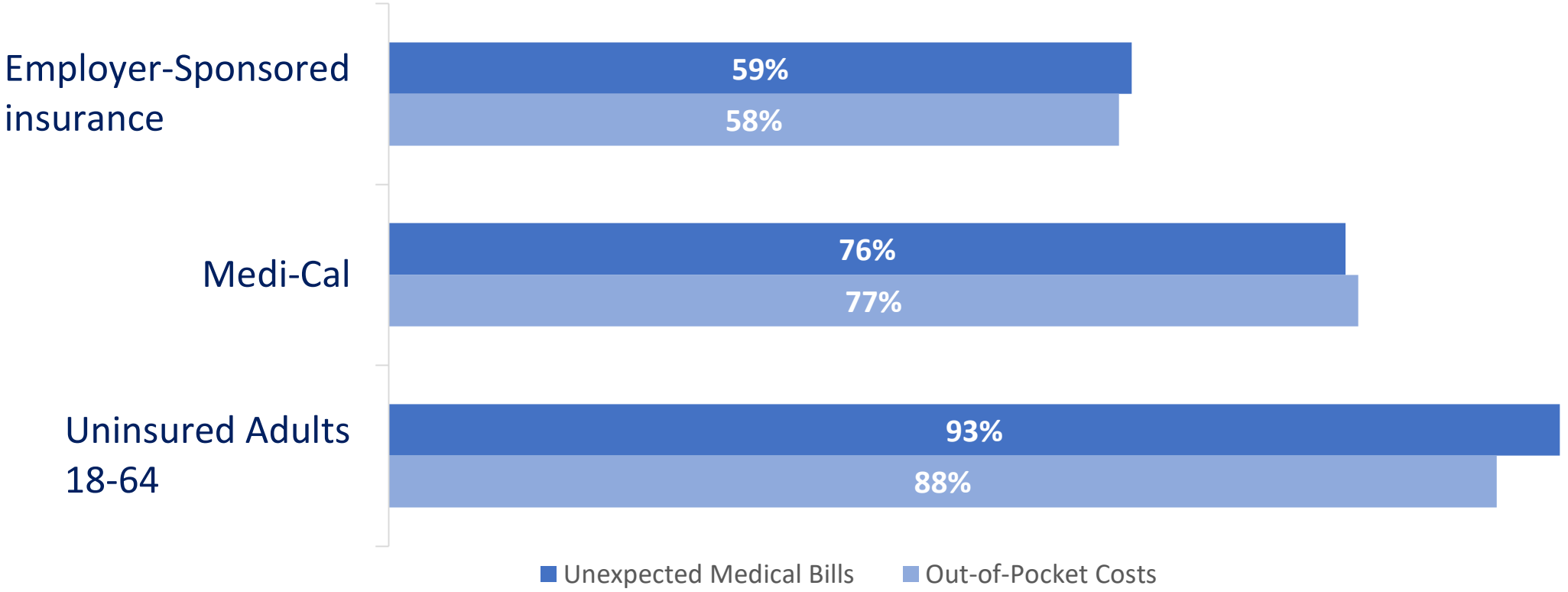


NOTE: Average general annual deductibles are for single coverage and are among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.
SOURCE: KFF Employer Health Benefits Survey, 2018-2020; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010-2017. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation, 2010-2020; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2010-2020.

Majority of Californians Are Worried About Being Able to Afford Health Care

Majority of Californians Are Worried About Being Able to Afford Health Care – Even Those with Insurance

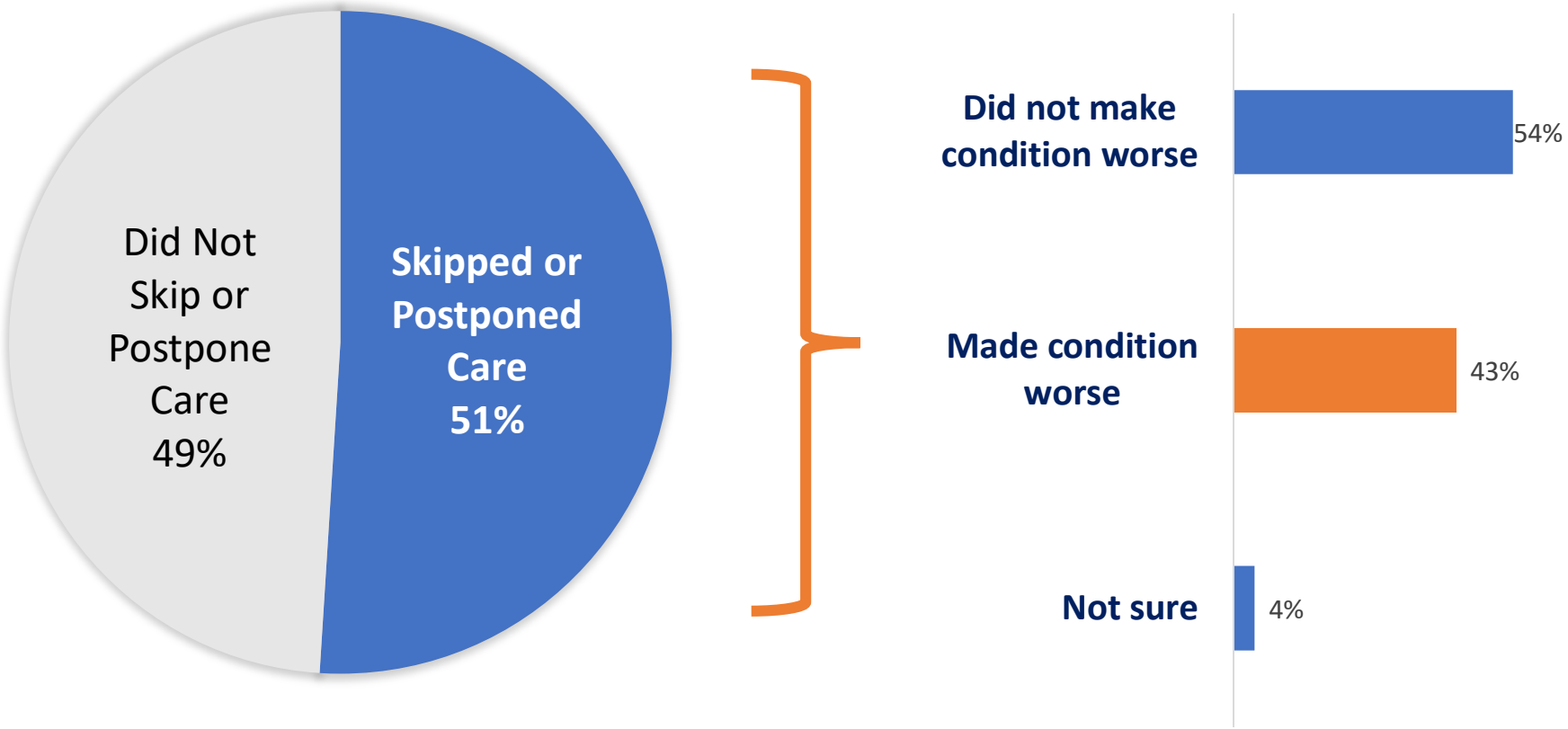
Percentage who are **worried** about being able to afford unexpected medical bills and OOP costs



Source: CHCF Health Policy Poll, Feb 2020.

High Costs Are Reducing Access to Needed Health Care – Reducing Health Outcomes

Half of California Families With Insurance Have Cost Related Access Problems



Source: CHCF Health Policy Poll, Feb 2020.

A California Commission Could Identify and Target Multiple Problem Areas

- No simple solution to our health care cost conundrum
  - System is complex
  - Problems are multiple

- Data, Analysis, and Policies are needed to:
  - Set targets that affordable and sustainable
  - Encourage and create meaningful competition
    - Policies needed to restore competition to ensure markets are
      - Transparent ***and*** competitive
  - Monitor market performance
    - Provide appropriate regulation when markets fail

As California Considers Creating a Health Cost Commission or Office

- Opportunity to learn from and building on what other states have done

- Commissions Vary
  - Scope
  - Coverage
  - Spending Targets

Maryland – Hospital Only, All Payors

- Started by:
  - Regulating inpatient hospital payment rates for all payers.
- Expanded target and rate-setting model:
  - Set total hospital budgets -- all inpatient and outpatient services and all payers
  - 3.6% per year + $300 Million in Medicare Savings
  - HSCRC sets facility annual total Global Revenue targets and sets payment rates necessary to meet those targets.
    - Global budgets control total expenditures accounting for both prices and utilization
- MD exploring how to add physician services to its total cost framework

Oregon – Limited Coverage of Payors, Includes Price Caps

- Sets targets covering:
  - Total Medicaid spending
  - Public Employees health plan costs
- The 2019 target growth rate for costs was 3.4 percent:
  - both Medicaid and public employee health plans.
- To achieve targets:
  - health plans covering public employees can include price caps on hospital services of up to 200% of Medicare payment rates as part of contact negotiations.

Rhode Island – Health Insurance Premium Regulation

- 2019 target rate of premium growth:
  - 3.2 % - tied to the projected growth of the state's Potential State Growth Product
  - Growth benchmark covers only commercial insurance premiums (fully insured)
- Health Insurance Commissioner can require changes, before approving rates:
  - reductions in rates
  - requirements for specific plan benefits that must be included (such as smoking cessation) before it approves plans for the coming year.

Massachusetts – All Services, All Payors

- The 2018 target growth rate for Total health care costs:
  - 3.1 percent - slightly below the growth rate of the overall state economy
  - Covers total statewide health care expenditures for insured services
  - Collects detailed data from every health insurer and public payer in the state .

- Statewide health spending target is applied “health care entities”
  - Entities includes health insurance payers, hospitals, and medical groups.
    - Entities that grow faster than the target growth rate are subject to detailed reviews
    - May be required to submit improvement plans designed to bring their spending growth in line with the target

Cost Commissions in Other States: Massachusetts Most Comprehensive

	Maryland	Oregon	Rhode Island	Massachusetts
Years Covered	2018–22	2017-present	2019–22	2012–17; 2018-22
Spending Covered	Hospital Only; All payors including Medicare	Health Insurance Premium (public employees) + Medicaid	Health Insurance Premiums - Fully Insured Products	Total Health Spending; All Payors
Spending Target	3.6% per year + $300 Million in Medicare Savings	3.4%; limits in-network contract rates to 200% of Medicare	3.20%	3.6% First 5 Years; 3.1% Second 5 Years

Closing Comments

Important Features That California Might Consider

- **Explicit Benchmarks**
  - Quantitative benchmarks
  - Measurable with reliable, agreed upon data
  - Cost growth tied to growth of the State's economy
  - Focuses debate on affordability

- **Authority to collect and analyze and disseminate data**
  - Further transparency
  - Understand major cost drivers
  - Monitor performance relative to benchmark
  - Improve market performance

- **Government/Independent authority + stakeholder collaboration**
  - Makes data collection and regulatory process more efficient
  - Makes policy making process more transparent

- **Enforcement mechanisms if targets are not met**
  - Policies to protect and restore competition

Fundamental Building Blocks – Comprehensive Data

- A state-based Affordability Office/Cost Commission with data and analytical resources
  - Massachusetts Model: Mass Health Policy Commission (MHPC) supported by separate data agency (CHIA)
    - Payers submit: medical claims and associated enrollment data and aggregate reports to CHIA.
    - Aggregate reports include: Total Medical Expenses, Alternative Payment Methods, network provider Relative Prices, Insurance Premiums, Rx Rebates and Commercial Insurance Enrollment (which supplements APCD claims for self insured).

- Always want more data -- but we have enough to act right now
  - Good news – Can build on California's history, experience and HPD momentum
  - Form Immediate Task Force/Working Group
    - Leverage California's existing data systems and many experts in academia, industry and government
    - Design efficient, comprehensive reporting system - Phased in over time
    - Need to make data widely and easily available to the public and researchers
      - to leverage the analytical resources within California health services research community

Two Policies Changes That Would Deliver Immediate Benefits

Begin to restore competition to health care markets

Build on recent AG Settlement and Framework

- Limit “all-or-none” contracting by multi-hospital systems
- Limit out-of-network hospital emergency prices (to 160% costs)