FINAL REPORT

A New California Government Entity to Address Health Care Costs & Affordability

REPORT AND RECOMMENDATION FROM THE CALIFORNIA HEALTH REFORM INITIATIVE

CONVERGENCE
CELEBRATING 10 YEARS

Convergence Center for Policy Resolution
www.convergencepolicy.org

https://twitter.com/ConvergenceCtr
https://www.facebook.com/ConvergenceCtr/
https://www.linkedin.com/company/convergence-center-for-policy-resolution/

California Health Reform Initiative Staff and Consultants
Vicki Veenker, Director
Daniel Bowling, Senior Advisor
Dawn Collier, Associate
Mark Zitter, Facilitator

This project was made possible by the generous support of a range of funders, including significant financial support from Maja Kristin and the Hellman Family and in-kind support from White & Case LLP.

Convergence Center for Policy Resolution is a national non-profit with staff in Washington, DC and California that convenes individuals and organizations with divergent views to build trust, identify solutions, and form alliances for action on issues of critical public concern. We achieve outcomes through structured, facilitated dialogue and long-term relationship building, shifting the focus from winning the debate to collectively seeking solutions. Our track record includes agreement and collective action on some of America's toughest challenges, including education, health care, economic mobility, incarceration, long-term care, nutrition and wellness, and the Federal budget process. Reports and recommendations issued under our auspices reflect the views of the individuals and organizations who put the ideas forward. Convergence itself remains neutral and does not endorse or take positions on recommendations of its stakeholders.

Signatories

BILL BARCELLONA
Executive Vice President of Government Affairs, America's Physician Groups

LANHEE J. CHEN, PhD[1]
David and Diane Steffy Fellow in American Public Policy Studies, Hoover Institution; Director of Domestic Policy Studies, Public Policy Program, Stanford University

GARY COHEN
Vice President of Government Affairs, Blue Shield of California

JEN FLORY
Policy Advocate, Western Center on Law & Poverty

GERALD KOMINSKI
Senior Fellow, UCLA Center for Health Policy Research

BILL KRAMER
Exec. Director for Health Policy, Pacific Business Group on Health

LAUREL LUCIA
Director of the Health Care Program, UC Berkeley Labor Center

MICAH WEINBERG
CEO, California Forward

DORETHA WILLIAMS-FLOURNOY
CEO, California Black Health Network

ANTHONY WRIGHT
Executive Director, Health Access California

Discussion Participants[2]

TOM CHURCH
Research Fellow, Hoover Institution

LOREN KAYE
President, California Foundation for Commerce and Education (affiliate of the California Chamber of Commerce)

DEBORAH KELCH
Executive Director, Insure the Uninsured Project (ITUP)

KIRAN SAVAGE-SANGWAN
Executive Director, California Pan-Ethnic Health Network

1. Affiliation is for identification purposes only and does not imply organizational support.
2. Partial list; due to the confidential nature of our process, not all participants are identified above.

This list may be updated as additional endorsements are received or participants made public.

Table of Contents

Executive Summary

For over a year, the undersigned parties have been meeting as part of the California Health Reform Initiative (CHRI) project, convened by Convergence Center for Policy Resolution. CHRI's diverse members have engaged in deep discussions, exploring how to meaningfully improve California's health care system to benefit consumers and workers by containing costs, promoting quality, increasing access, and improving equity.

After intensive deliberations and evaluation, including review of what Massachusetts, Maryland, and other states have done, ***CHRI urges the State of California to establish a government entity to address health care costs and affordability, including by setting an annual Cost Target.***

Alignment with the Governor's Proposed Office of Health Care Affordability

CHRI's recommendation is in direct alignment with the Governor's proposal to establish an Office of Health Care Affordability. The proposed Office is described in the Governor's 2020-21 Budget Summary[1] as follows (p. 26):

"This Office will be charged with increasing price and quality transparency, developing specific strategies and cost targets for the different sectors of the health care industry, and financial consequences for entities that fail to meet these targets. The ultimate goal is for savings to return to consumers who are directly impacted by increasing health care costs.

"The Office will also create strategies to address hospital cost trends by region, with a particular focus on cost increases driven by delivery system consolidation. To improve health outcomes, the Office will also work to establish standards to advance evidence-based and value-based payments to physicians, physician groups, and hospitals, as well as to advance administrative simplification."

Background

California has a number of unique attributes relevant to health policymaking in the Golden State.

California's Residents

- California's population[2] is comparable to that of many countries with advanced economies.[3]
- California's residents experience a cost of living[4] among the highest in the nation.
- California's poverty rate is comparable[5] to the national rate according to the US Census Bureau's official estimate, but is the second highest in the nation[6] according to the US Census Bureau's supplemental poverty measure (SPM) which accounts for additional individuals enrolled in certain government programs.
- California is highly diverse in terms of income,[7] race, ethnicity, language, immigration status,[8] etc.
- California has large disparities in the prevalence of chronic conditions and health behaviors across race, income,[9] and geographic[10] lines.

Health Expenditures

- In 2014, California's health care expenditures per capita[11] of $7,549 were lower than many other states, as well as lower than the national average of $8,045 according to the Kaiser Family Foundation; by 2017, an updated Berkeley Forum report estimated that per capita spending in California rose to $10,447,[12] which is slightly higher than the estimated national average of $10,224.[13]
- California's total cost of care for commercial payers rose from a statewide average of $4,631 in 2015 to $5,338 in 2017.[14]
- California has lower utilization[15] than the US, on average.
- California has higher prices[16] than the US, on average.
- Medicaid spending[17] in 2014 of $5,318 per full-benefit enrollee in California was lower than the national average of $6,396.
- Medicare spending[18] in 2014 of $11,833 per enrollee is higher than the national average of $10,986.
- Medicare Advantage in 2015 had an average risk-adjusted total cost of care (insurer and patient payments) of $13,572, compared to $18,112 for Medicare FFS[19] according to IHA's Atlas database.

Health Insurance

- California has cut the rate of uninsured dramatically under the Affordable Care Act; the number of uninsured has fallen from 6.5 million in 2013 to 3.5 million in 2017.[20] In 2019, California reinstated the individual mandate and expanded Medi-Cal eligibility to undocumented Californians up to the age of 26.
- In 2016,[21] approximately 10 million (one quarter of) Californians were enrolled in HMOs in the Commercial Market and another 2.3 million were enrolled in Medicare Advantage HMOs; in 2017,[22] 10.7 million, or about 82% of Medi-Cal enrollees, are enrolled in Medi-Cal Managed Care Plans.
- California employer-sponsored insurance premiums[23] were somewhat higher than the national average and growing faster than inflation in 2017, similar to premium growth in the U.S. more broadly; average monthly ESI premiums were $1,643 for family coverage in California and $1,564 nationally.
- Covered California average benchmark premiums[24] are somewhat lower than the national Marketplace average.
- At the national level, from 2007 through 2017, total out-of-pocket health spending by US households (including family contributions to health insurance premiums, co-insurance, and deductibles) grew a cumulative 58% while workers' average wages grew only 27%.[25]
- The average annual family out-of-pocket spending for individual insurance coverage from 2012 to 2017 was $5,503, which includes family costs for premiums, co-pays, deductibles, and co-insurance for services and prescription drugs. The median annual out-of-pocket spending per family in 2017 was $2,981.[26]
- Total health care-related spending for a family with employer-sponsored insurance cumulatively increased by 142% from 2003 through 2018 in California, while median household income grew by 43%.[27] As a result, average total health-related spending for a family with employer-sponsored insurance now represents more than one-third of median household income.

Health care delivery system[28] and prices

- California has one of the most integrated health care systems in the US and has a high level of capitation and other risk-based financing.
- California has heavily concentrated hospital, physician and insurer markets, and they are becoming more concentrated over time.
- High market concentration is associated with higher prices and premiums.
- Input-cost adjusted prices and premiums are significantly higher in Northern California than Southern California.

[California health care] spending has been growing more rapidly than wage growth or inflation.

Our Process

This report and recommendation are the result of a series of facilitated stakeholder meetings, videoconferences, and drafting that took place using the Convergence dialogue-to-action process over the course of more than a year. CHRI participants include a broad array of California's senior health policy experts. Consumers and providers, workers and employers, insurers and academics, all had a seat at the table. Policy perspectives ranging from progressive to conservative were aired during our facilitated sessions.

Tackling affordability will require collaboration and innovation by all – government, insurance companies, physicians, labor, hospitals, employers, and consumers.

Over the course of these meetings, CHRI analyzed a number of cost containment options. The group took a close look at the actions of other states, and the commissions and other entities they established.[29] This included presentations to CHRI by **Dr. Stuart Altman, Chair of the Health Policy Commission in Massachusetts, and Robert Murray, former Executive Director of the Maryland Health Services Cost Review Commission.** The group also considered numerous articles and research reports, hearing directly from an author of the January 2019 Health Priorities Survey by the California Health Care Foundation and the Kaiser Family Foundation, and from a member of the working group that prepared Covered California's February 2019 report on Affordability.

As CHRI's ideas took shape, working groups were created to consider specific aspects of the proposal. Thereafter, the full group re-engaged and developed this proposal.

Problem Statement

California has made great strides in expanding coverage under the Affordable Care Act and through other state actions. With the creation of Covered California and the expansion of Medi-Cal, the uninsured rate has dropped from 17.2% in 2013 to 7.2% in 2017.[30]

However, while California has lower health care spending per person than two-thirds of other states,[31] California spends much more than comparably-sized countries and spending has been growing more rapidly[32] than wage growth or inflation. As a result, affording health care is a challenge for many California consumers, workers, and purchasers. Also, inequities in affordability, quality, access, and health outcomes persist based on income, race, ethnicity, gender, region, insurance type, and other individual characteristics. Compounding the problem, state health care data is limited, and often fragmented or non-standardized, adversely affecting our ability to analyze and address these issues. Tackling affordability will require collaboration and innovation by all – government, insurance companies, physicians, labor, hospitals, employers, and consumers.

At present, no single government entity is responsible for monitoring or addressing health care affordability, cost, quality, access, and equity for all Californians.

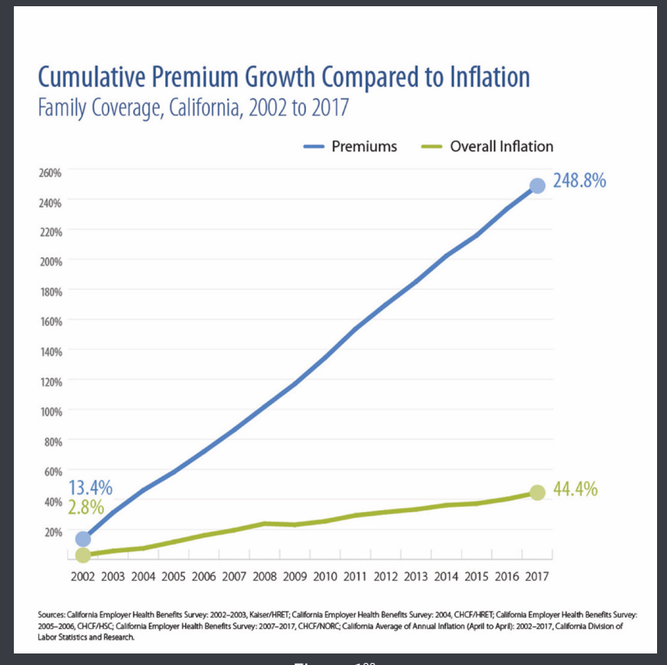

Figure 1[33]

Recommendation

CHRI recommends that California establish a new government entity to address health care costs and affordability.

Establishing a government entity focused on costs and affordability would meaningfully improve California's health care system benefitting consumers, public and private purchasers, and workers, while also promoting quality, increasing access, and improving equity. This proposal takes some lessons from the Health Policy Commission in Massachusetts, which has been in existence since 2012. Like Governor Newsom's proposal, CHRI recommends setting a Cost Target with consequences for not meeting it, accompanied by efforts to help entities achieve the Target by addressing underlying cost drivers.

1. Cost Target

The Entity will set a Cost Target annually by region, applicable to health plans and providers, for year-to-year change.

- The Entity will adopt recognized standards, adapted to California's needs, regarding quality, access, equity, and labor standards to ensure that the Cost Target is not achieved at the expense of quality, access, equity and labor standards.
- The goal is to align health care spending with the economic circumstance of Californians and have savings be experienced by consumers, workers, employers, and other payers.

2. Providing Data-based Transparency

The Entity will provide increased price and quality transparency to:

- empower the public, payers and employers to identify lower-cost high performers and seek affordable, quality health care services and plans;
- identify health plans and providers that miss the Cost Target and threaten the State's overall ability to achieve the Cost Target; and
- identify health plans and providers that meet the Cost Target without sacrificing quality, access, equity or labor standards.

3. Supporting Target Achievement

- The Entity will make recommendations regarding how to remove barriers that may impair Target achievement by contributing to increased cost, poor quality of care, lack of access and inequity in health care coverage and delivery, including how to promote data interoperability.
- The Entity will identify systemic approaches to reducing cost and improving quality as described in expert reports, including use of clinically integrated care systems when those systems demonstrate lower cost through risk-based payments which align patient and provider incentives.

4. Consequences of Performance Against Target

When a provider or health plan exhibits excessive low performance, the Entity may:

- require a Performance Improvement Plan (PIP), and periodic reports demonstrating execution against the PIP; if a required PIP is not submitted or followed, a financial penalty may be imposed;
- require follow-on PIPs and/or assess financial consequences when the Cost Target is not achieved after following a PIP;
- grant a waiver or extension when good faith efforts are made, but factors not within the provider's or plan's control, such as acts of God, preclude it from achieving the Cost Target.

Acknowledgements

Convergence is grateful to the many individuals and institutions that supported the California Health Reform Initiative project from its inception through the release of our report.

Jeff Rideout, President and CEO of the Integrated Healthcare Association (IHA), was an important resource for our deep discussions about health system data. A special thanks to Dr. Stuart Altman, longtime Chair of the Massachusetts Health Policy Commission, and Robert Murray, former executive director of the Maryland Health Services Cost Review Commission, who shared experiences in their states with our group. We also thank Lisa Aliferis, Senior Communications Officer at the California Health Care Foundation, for presenting to us her research on health priorities, done in collaboration with the Kaiser Family Foundation.

We are grateful to the numerous elected officials and their staff who met with us at the outset as we considered how to set up the process, with special thanks to Senator Holly Mitchell, Assemblymember David Chiu, and Assemblymember Ash Kalra for their advice and introductions. Duf Sundheim, former Republican State Party Chair, provided significant insight and additional introductions. Collectively, this allowed us to bring together an exceptional table. Finally, our project interns, Syeda Ruhi, Nikki Lanshaw, and Paige Morrisey contributed endless hours of research that enriched both our convenings and this report.

To our stakeholders, your honest and thoughtful participation, and commitment to our project, were extraordinary. Because of your tireless efforts, we have been able to crystalize and advance an idea that will have great impact in California. Thank you for being so generous with your time and talents. We are truly grateful for your dedication to both our project and improving health care in our great state.

Endnotes

1. Newsom, Gavin. (2020, January 10). Governor's Budget Summary 2020-21. Retrieved from http://www.ebudget.ca.gov/2020-21/pdf/BudgetSummary/FullBudgetSummary.pdf

2. Johnson, Hans. (2017, March). California's Population. Retrieved from https://www.ppic.org/publication/californias-population/

3. OECD. (2014). Population (indicator). Retrieved from https://data.oecd.org/pop/population.htm#indicator-chart

4. U.S. News. (2018). Affordability Rankings. Retrieved from https://www.usnews.com/news/best-states/rankings/opportunity/affordability

5. Benson, C., & Bishaw, A. (2019, November). Poverty 2017 and 2018. Retrieved from https://www.census.gov/content/dam/Census/library/publications/2019/acs/acsbr18-02.pdf

6. Fox, L. (2019, October). The Supplemental Poverty Measure: 2018. Retrieved from https://www.census.gov/content/dam/Census/library/publications/2019/demo/p60-268.pdf

7. Bohn, S., & Thorman, T. (2020, January). Income Inequality in California. Retrieved from https://www.ppic.org/publication/income-inequality-in-california/

8. Johnson, Hans. (2017, March). California's Population. Retrieved from https://www.ppic.org/publication/californias-population/

9. Gaines, R. (2019, October 24). 2019 Edition -- Health Disparities by Race and Ethnicity. Retrieved from https://www.chcf.org/wp-content/uploads/2019/10/DisparitiesAlmanacRaceEthnicity2019.pdf

10. Greene, J., Badley, E., Nguyen, T., Peterson, A., & Oldham, R. (2019, April). County Health Status Profiles. Retrieved from https://www.cdph.ca.gov/Programs/CHSI/CDPH%20Document%20Library/CountyProfiles_2019.pdf

11. Kaiser Family Foundation. (2014). Health Care Expenditures by per Capita by State of Residence. Retrieved from https://www.kff.org/other/state-indicator/health-spending-per-capita/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Health%20Spending%20per%20Capita%22,%22sort%22:%22desc%22%7D

12. Petris, N. (2017, May 5). Update to the Berkeley's Forum "A New Vision for California's Healthcare System: Integrated Care with Aligned Financial Incentives". Retrieved from http://berkeleyhealthcareforum.berkeley.edu/wp-content/uploads/Update-to-the-Berkeley-Forum.pdf

13. Sawyer, B., & Cox, C. (2018, December 7). How does health spending in the U.S. compare to other countries? Retrieved from https://www.healthsystemtracker.org/chart-collection/health-spending-u-s-compare-countries/?_sf_s=health+spending#item-average-wealthy-countries-spend-half-much-per-person-health-u-s-spends

14. California Regional Health Care Cost & Quality Atlas. (2017). Total Cost of Care Observed Cost. (Commercial) Retrieved from https://atlas.iha.org/atlas?c=eyJiaW5kaW5ncyI6eyJncm91cGJ5IjoiY2NfcmVnaW9uIiwic2VyaWVzIjpbeyJtZWFzdXJlX3lIYXIiOjIwMTV9LHsibWVhc3VyZV95ZWFyIjoyMDE3fV0sInNoYXJlZCI6eyJtZWFzdXJlX2NvZGUiOiJUQ0MiLCJwYXIlcil6IkMiLCJwcm9kdWN0IjpudWxsfX0sImV4cGxvcmF0aW9uSWQiOiJtZWFzdXJlX3lIYXIiLCJpZCI6MCwicXVlcnkiOnt9LCJzZWN0aW9ucyI6W119

15. Hargraves, J., Fuglesten Biniek, J., & Fehr, J. (2017). 2017 Health Care Cost and Utilization Report. Retrieved from https://healthcostinstitute.org/interactive/2017-health-care-cost-and-utilization-report

16. Scheffler, R., & Shortell, S. (2019, February 24). California Dreamin': Integrating Health Care, Containing Costs, and Financing Universal Coverage. Retrieved from http://petris.org/wp-content/uploads/2019/02/California-Dreamin_White-Paper_Feb-8-min.pdf

17. Kaiser Family Foundation. (2014). Medicaid Spending Per Full-Benefit Enrollee. Retrieved from https://www.kff.org/medicaid/state-indicator/medicaid-spending-per-full-benefit-enrollee/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D

18. Kaiser Family Foundation. (2014). Medicaid Spending Per Enrollee, by State. Retrieved from https://www.kff.org/medicare/state-indicator/per-enrollee-spending-by-residence/?currentTimeframe=0&sortModel=%7B%22colld%22:%22Location%22,%22sort%22:%22asc%22%7D

19. California Regional Health Care Cost & Quality Atlas. (2018, July 2). Integrated Care Provides High Value in Medicare Despite Wide Geographic Location. Retrieved from https://atlas.iha.org/story/medicare

20. Dietz, M., Lucia, L., Chen, X., Graham-Squire, D., Yao, H., Rasmussen, P., Watson, G., Roby, D., Jacobs, K., Kadiyala, S., & Kominski, G. (2019, November). California's Steps to Expand Health Coverage and Improve Affordability. Retrieved from http://laborcenter.berkeley.edu/wp-content/uploads/2019/11/Steps-Toward-Universal-Health-Coverage.pdf

21. Wilson, K. (2019, May 7). 2019 Edition -- California Health Insurers. Retrieved from https://www.chcf.org/wp-content/uploads/2019/05/CAHealthInsurersAlmanac2019QRG.pdf

22. Wilson, K. (2019, May 7). 2019 Edition -- California Health Insurers. Retrieved from https://www.chcf.org/wp-content/uploads/2019/05/CAHealthInsurersAlmanac2019.pdf

23. Whitmore, H., & Gabel, J. (2018, June). California Employer Health Benefits: Workers Shoulder More Costs. Retrieved from https://www.chcf.org/wp-content/uploads/2018/06/EmployerHealthBenefits2018.pdf

24. Kaiser Family Foundation. (2020). Marketplace Average Benchmark Premiums. Retrieved from https://www.kff.org/health-reform/state-indicator/marketplace-average-benchmark-premiums/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D

25. Melnick, G., & Maerki, S. (2020, January). Commissioning Change: How Four States Use Advisory Boards to Contain Health Spending. Retrieved from https://www.chcf.org/wp-content/uploads/2020/01/CommissioningChangeFourStatesAdvisoryBoards.pdf

26. Let's Get Healthy California. (2018, September 20). Lowering the Cost of Care / Reducing Total Out of Pocket Cost. Retrieved from https://letsgethealthy.ca.gov/goals/lowering-the-cost-of-care/reducing-out-of-pocket-cost-for-healthcare/

27. Melnick, G., & Maerki, S. (2020, January). Commissioning Change: How Four States Use Advisory Boards to Contain Health Spending. Retrieved from https://www.chcf.org/wp-content/uploads/2020/01/CommissioningChangeFourStatesAdvisoryBoards.pdf

28. Scheffler, R., & Shortell, S. (2019, February 24). California Dreamin': Integrating Health Care, Containing Costs, and Financing Universal Coverage. Retrieved from http://petris.org/wp-content/uploads/2019/02/California-Dreamin_White-Paper_Feb-8-min.pdf

29. Melnick, G., & Maerki, S. (2020, January). Commissioning Change: How Four States Use Advisory Boards to Contain Health Spending. Retrieved from https://www.chcf.org/wp-content/uploads/2020/01/CommissioningChangeFourStatesAdvisoryBoards.pdf

30. Covered California (release). (2018, September). California's Uninsured Rate Falls to a New Historic Low as National Rate Holds Steady. Retrieved from https://www.coveredca.com/uploads/09-12-18-coveredca---census-uninsured-rate---final.pdf

31. Kaiser Family Foundation. (2017, June 16). Health Care Expenditures per Capita by State of Residence. Retrieved from https://www.kff.org/other/state-indicator/health-spending-per-capita/

32. Kaiser Family Foundation. (2017, June 16). Average Annual Percent Growth in Health Care Expenditures per Capita by State of Residence. Retrieved from https://www.kff.org/other/state-indicator/avg-annual-growth-per-capita/

33. Whitmore, H., & Gabel, J. (2018, June). California Employer Health Benefits: Workers Shoulder More Costs. Retrieved from https://www.chcf.org/wp-content/uploads/2018/06/EmployerHealthBenefits2018.pdf

CONVERGENCE

CELEBRATING **10 YEARS**