



Board of Administration

Agenda Item 9c

June 16, 2021

Item Name: Assembly Bill 1130 (Wood) California Health Care Quality and Affordability Act

Program: Legislative

Item Type: Action

Recommendation

Adopt a **SUPPORT** position for Assembly Bill (AB) 1130, as amended May 24, 2021, that will establish the Office of Health Care Affordability (OHCA) to analyze health care market data and create a state level strategy for controlling the cost of health care in California.

Executive Summary

Among other things, AB 1130 establishes the OHCA within the Office of Statewide Health Planning and Development (OSHPD) to collect and analyze health care data, promote and measure performance on quality and health equity, conduct merger and consolidation cost and market impact reviews, develop data-informed policies for lowering health care costs, and create a strategy to control health care costs in California.

Strategic Plan

This item supports the California Public Employees' Retirement System (CalPERS) 2017-22 Strategic Goals by "Transforming Health Care Purchasing and Delivery to Achieve Affordability."

Analysis

The California Legislature has focused on health care costs for the last few sessions and members have proposed previous versions of an OCHA, although they were not successful. If AB 1130 becomes law, California will join Maryland, Rhode Island, Oregon, and Massachusetts and their health care cost containment commission efforts by creating the OHCA.

The Governor proposed the Office of Health Care Affordability in 2020 budget trailer bill, but it was shelved due to the COVID-19 pandemic. In February 2021, the Governor included revitalized trailer bill language in the initial budget proposal on the California Health Care Quality and Affordability Act. Recognizing that health care systems have changed drastically in California over the last few decades, the May Revision proposes renaming OSHPD, the

Department of Health Care Access and Information. The department's work will be centered on safe health care facilities, increasing the health workforce, improving the affordability and quality of health care, and financing health facilities. The Governor's Administration and Assembly Member Wood's office are currently working together to ensure the success of the OHCA and its goals. While the final policy bill may differ from AB 1130, CalPERS supports the crucial work of addressing health care affordability for our members and our state.

Bill Summary

Specifically, AB 1130 establishes the OCHA within the OSHPD and specifically will:

- Provide transparency through public reporting of California's total health care spending and drivers of health care costs.
- Promote and measure systemwide investments in primary care and behavior health in California.
- Establish statewide cost targets for total and per capita health care spending as well as specific targets by health care sector and geographic region.
- Adopt a set of standard measures for assessing health care quality and equity using recognized clinical quality, patient experience, patient safety, and utilization measures for health care service plans, health insurers, hospitals, and physician organizations.
- Address consolidation, market power, and other market failures through cost and market impact reviews of mergers, acquisitions, or corporate affiliations involving health care service plans, health insurers, hospitals, physician organizations, pharmacy benefit managers, and other health care entities.
- Establish the Health Care Affordability Advisory Board, comprised of eleven members to recommend a statewide cost target that is approved by a majority board; and recommend targets by health care sector and geographic region. This board includes the CalPERS Chief Health Director, or their designee.

Purpose of the Bill

According to Assembly Member Wood, "It will be impossible to reach the goal of providing equitable, quality health care to every Californian without making it affordable, and that must include containing costs. This office will not only do the work of analyzing current costs, establishing cost targets and ensuring compliance with those targets, but will also measure quality and equity."

CalPERS' Focus on Health Care Quality and Affordability

CalPERS is the largest public employer purchaser of health benefits in California and the second largest employer purchaser in the nation after the federal government. A better understanding of market conditions, including California's segment cost drivers and competition,

can provide us with a variety of tools to assist in reaching our goal of providing our members high quality affordable health care.

On February 25, 2020, the Assembly Health Committee held an informational hearing on “Cost Containment: Considerations for California” to discuss the how health care spending in the United States (U.S.) has grown faster than the rest of the economy. In this informational hearing, Jamie S. King, J.D., Ph.D. addressed what happened to health care prices in the U.S. “Failure to protect elements of a free market system – price transparency” and “failure to regulate to control prices when competition no longer exists” were discussed by Dr. King and how such failures led to an increase in health care costs. AB 1130 and the establishment of the OHCA will increase public transparency through cost and market impact reviews on transactions that may impact market competition and affordability for consumers and purchasers, and work with other regulators to address them. CalPERS’ members will benefit from such transparency and from the potential for long-term cost containment.

AB 1130 also includes the CalPERS Chief Health Director, or their designee, on the eleven-member Health Care Affordability Advisory Board. By giving CalPERS a seat at the table, it will give us a voice in the recommendation of cost targets; parameters of health care sectors and geographic regions; administrative simplification; statutory provisions necessary to promote innovation; and overall direction on how to address consolidation, market power, and other market failures. CalPERS’ wealth of expertise will contribute to the Health Care Affordability Advisory Board and its goals for California.

Budget and Fiscal Impacts

Benefit Costs

The fiscal impact is unknown at this time. Although the bill proposes the OHCA limit duplicative reporting, the reporting to the OHCA may differ to the degree that some additional administrative work could be created for health plans and pharmacy benefit managers (PBM) to submit data that is compatible.

If a health plan or PBM looks to recuperate their costs, they could spread the costs across their entire book of business. In turn, this could have an indirect fiscal impact to CalPERS in the form of nominal health premium increases.

CalPERS could use the OHCA’s annual report to compare health care costs and focus on the identified cost drivers. To the degree that the overarching goals of the OHCA are met, all Californians, including CalPERS employers and members, could see the benefit of long-term health care cost containment.

Administrative Costs

No additional cost to CalPERS.

Benefits and Risks

Benefits

- Focus on ensuring health equities and reducing disparities in care and outcomes in California.

- Ability to assess the impact of health care consolidation, market influence and other health care marketplace practices on health care costs.
- Access to health care data and analysis of trends for a better understanding of factors impacting health care costs.
- Increase transparency through public reporting on total health care spending in California.
- Potential indirect benefits for CalPERS employers and members if the OHCA creates a successful state strategy for controlling the cost of health care and enforces cost targets.

Risks

- CalPERS may not experience any direct, quantifiable benefit from the bill, but could see nominal increases in health plan premiums due to potential additional administrative burden to health plans and PBMs. While far from certain, CalPERS would expect any increase to be minimal.

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