



Improving Health Care Access, Affordability and Quality

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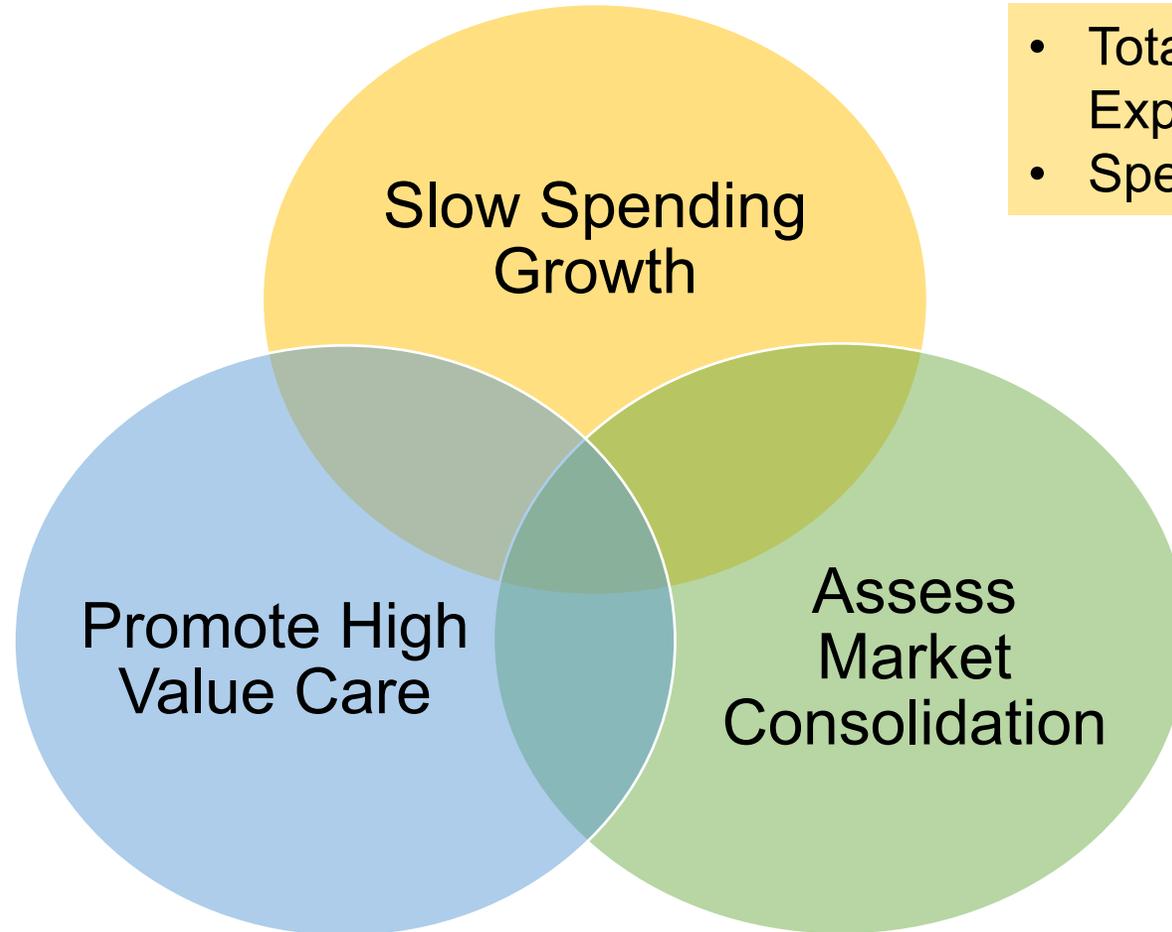
Our Mission



HCAI expands access to quality, equitable, affordable health care for all Californians by supporting high value delivery systems, resilient health facilities and workforces, and actionable health information and strategies.

Office of Health Care Affordability (OHCA) – Key Components

- Primary Care
- Behavioral Health
- Alternative Payment Models
- Equity & Quality Measures
- Workforce Stability



- Total Health Care Expenditures (THCE)
- Spending Targets

- Material Change Notices
- Cost and Market Impact Reviews

What are Spending Targets?

WHAT A SPENDING TARGET IS	WHAT A SPENDING TARGET IS NOT
A target to track and evaluate the growth of health care spending.	A price cap or price reduction. A spending target looks forward, toward managing growth. It cannot roll back or cut prices.
A measure of per person growth in total medical expenses or total health care expenditures (TME/THCE). When reported statewide, THCE is the annual sum of all health care expenditures on behalf of residents for health care services covered by public and private health coverage.	A measure of internal costs or operating expenses of health care entities.
A long-term framework for industry action. Health care entities have the flexibility to manage growth in prices, volume, or both; meaning they are challenged to engage in efforts to improve affordability of health care.	A single solution to addressing health care affordability challenges within California. The spending target provides critical information and data to inform other OHCA policy or state initiatives to improve affordability and access.

What are Spending Targets?

- **Affordability Focus:** Per person health care spending has risen faster than inflation; targets are based on the average growth rate of median household income (2002–2022).
- **Broad Application:** Targets apply to health care entities, including health plans, physician organizations, and hospitals.
- **Practical Implementation:** Spending targets are less prescriptive than price regulation or global budgets, enabling faster design, implementation, and enforcement.
- **Provider Flexibility:** Providers can manage growth through price, volume, or both—encouraging innovation in care delivery and pricing.
- **System Transformation:** Supports OHCA’s goal of a lower-cost, high-value health system.
- **Complementary Strategies:** Increase primary care and behavioral health spending to improve outcomes and reduce overall costs. Adopt alternative payment models that reward quality and performance.

Statewide Health Care Spending Target

Performance Year	Per Capita Spending Growth Target
2025	3.5%
2026	3.5%
2027	3.2%
2028	3.2%
2029	3.0%

Hospital Sector Target

In response to many months of public testimony about high hospital costs and many additional months of analysis of hospital cost data, at the January 2025 Health Care Affordability Board meeting, the Board voted unanimously in favor of defining a health care sector consisting of all hospitals.

- CMS data shows that nearly 40% of health care spending in California occurs in hospitals, making this a potentially high-impact area to improve efficiency and affordability for consumers.
- Hospital prices vary widely across the state, with over five times price variation that is not attributed to higher quality care or better clinical outcomes but is instead correlated with market concentration.

Defining a hospital sector enabled the board to set a lower target for high-cost hospitals.

Variability of Hospital Prices

Disproportionately high-cost hospitals are those that are **repeat outliers on both unit and relative price measures**. Repeat outliers are defined as being above the 85th percentile for 3 out of the past 5 years.

- **Commercial Unit Price:** Price per standard unit for Commercial inpatient care. Represents dollar amounts and accounts for the amount and intensity of inpatient care delivered.
- **Relative Commercial to Medicare Price:** Ratio contextualizes commercial payments based on standard, national benchmark. Includes inpatient and outpatient revenue.

Measure 1 = Commercial Unit Price

Hospital Group	Pooled Average 2018-22
All Other Comparable Hospitals	\$20.3K
7 High-Cost Hospitals	\$40.4K

Measure 2 = Relative Commercial to Medicare Price

Hospital Group	Pooled Average 2018-22
All Other Comparable Hospitals	198%
7 High-Cost Hospitals	351%

Adjusted Spending Target for High-Cost Hospitals

In April 2025 the Health Care Affordability Board voted unanimously to set a lower target for high-cost hospitals

- Most hospitals are subject to the statewide spending target.
- For seven high-cost hospitals, and the Board set the spending target at 1.8% in 2026, 1.7% in 2027 and 2028, and 1.6% in 2029.
 - Community Hospital of The Monterey Peninsula, Doctors Medical Center – Modesto, Dominican Hospital, Salinas Valley Memorial Hospital, Santa Barbara Cottage Hospital, Stanford Health Care, and Washington Hospital – Fremont.
- Each year, the Office will provide the Board with an updated list of hospitals which meet the high-cost criteria and an updated list of factors to be considered in identifying high-cost hospitals.

Promoting High Value System Performance

Primary Care Investment

Increasing investment in primary care that promotes better population health and lower total costs.

Behavioral Health Investment

Increasing investment in behavioral health to promote improved outcomes for Californians with behavioral health conditions.

Alternative Payment Model Adoption

Moving away from traditional fee-for-service payments and toward value based payment models that incent equitable, high-quality, and cost-efficient care.

Quality and Equity Performance

Evaluating quality and equity performance to promote high quality and more equitable health care for all Californians.

Workforce Stability

Monitoring the California health care workforce to ensure high quality jobs for workers and affordable access to high-quality care for Californians.

Primary Care Investment Benchmark

California currently spends as little as 7 cents per health care dollar on primary care. OHCA's primary care investment benchmark aims to increase that to 15 cents per health care dollar over 10 years – in line with the highest performing health systems internationally.

Performance Years	Annual Improvement Benchmark
2025-2033	0.5 - 1% per year for each payer and product*
Performance Year	Investment Benchmark
2034	15% statewide for all payers and products

Rationale and Considerations:

- Received strong stakeholder support from Workgroup and public commenters
- Gives all payers reasonable opportunity to demonstrate immediate progress and long-term success
- Emphasizes demonstrating annual progress
- Offers gradual glidepath to ambitious but achievable 15% goal
- Offers some flexibility since OHCA does not have exact measures of current spend using its definition

Assessing Market Consolidation



Entities Required to File a Notice about Proposed Mergers and Acquisitions:

- Payers
- Providers
- Hospitals
- Pharmacy Benefit Managers

AB 1415 (Bonta) Expanded Requirements to:

- Private Equity Groups and Hedge Funds
- Management Service Organizations (MSOs)
- Authorize OHCA to collect data and information from MSOs



Office of Health Care Affordability
Department of Health Care Access and Information

For additional questions or comments, please contact:
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