UNIVERSITY OF CALIFORNIA, BERKELEY

UC BERKELEY LABOR CENTER

UC Berkeley Labor Center
Institute for Research on Labor and Employment
2521 Channing Way
Berkeley, CA 94720-5555

office (510) 642-0323
fax (510) 643-4673
laborcenter@berkeley.edu
https://laborcenter.berkeley.edu

August 21, 2024

Mark Ghaly, Chair, Health Care Affordability Board

Elizabeth Landsberg, Director, Department of Health Care Access and Information

Vishaal Pegany, Deputy Director, Office of Health Care Affordability
2020 W. El Camino Ave, Ste. 800
Sacramento, CA 95833

Dear Dr. Ghaly, Ms. Landsberg, and Mr. Pegany,

The UC Berkeley Labor Center is a public service and outreach program of the Institute for Research on Labor and Employment, founded in 1964. The Labor Center's health care research program aims to inform policy making related to access to health coverage and health care affordability for workers and their families.

We submit these comments in advance of the August 28, 2024 Board meeting to be held in Monterey County, a fitting location for OHCA to discuss health care affordability given the many workers who have shared with the Board their compelling and concerning stories about the health care affordability challenges they face at the three hospitals in Monterey and Salinas: Community Hospital of the Monterey Peninsula (CHOMP, part of Montage Health), Salinas Valley Health, and Natividad. Our review of the available data reinforces the severe health care affordability challenges related to hospital prices in the Monterey and Salinas area, as we summarized in our September 2023 blog post "Why are health care prices so high for workers in Monterey County?" and as we describe in this letter.[i]

Monterey has among the highest hospital prices in the state

An analysis by Health Care Cost Institute showed that the Salinas metropolitan area, which includes Monterey, had the highest Inpatient prices and the second highest Outpatient hospital prices of any of the metropolitan areas analyzed nationwide in 2021.[ii]

RAND analysis of hospital claims data[iii] collected from participating self-insured employer health plans around the country shows that from 2020 to 2022 the employer-plan prices for care at Monterey/ Salinas hospitals were higher than the typical California and Bay Area hospitals:

- For inpatient and outpatient services, prices were 4.7 times Medicare prices at CHOMP, 4.2 times at Natividad and 3.4 times at Salinas Valley Health, compared to 2.7 times

Medicare prices for the median California hospital and 3.1 times Medicare prices in the high cost-of-living Bay Area; and
- For inpatient services only, prices were 5.4 times Medicare prices at CHOMP, 4.5 times at Natividad and 3.6 times at Salinas Valley Health, compared to 2.6 times Medicare prices for the median California hospital and 2.7 times Medicare prices in the high cost-of-living Bay Area.

Covered California premiums in the Monterey, San Benito, and Santa Cruz region were higher than in any other Covered California region between 2020 and 2024. In 2025, average rates in that region will grow by 15.7%, the highest growth of any Covered California region.[iv] Hospital prices are likely a significant factor in these higher premiums given that hospital care made up approximately 37% of private health insurance expenditures in the U.S. in 2021, more than physician and clinical services (27%) and prescription drugs (13%).[v] Additionally, research has shown that it's primarily price growth, not changes in utilization, that drives health care spending growth.[vi]

These high health care prices can inhibit access to care and cause financial problems for workers and their families, while also putting a squeeze on their wage growth.

Market concentration has been associated with high prices

Research has shown that the level of competition in hospital markets is correlated with prices. A study by Cooper, Craig, Gaynor, and Van Reenan found that monopoly hospital markets with one hospital within a 15-mile radius (relevant to CHOMP) are associated with prices that are 12.5% higher than in markets with four or more hospitals. Duopoly markets with two hospitals within 15 miles (relevant to Natividad and Salinas Valley Health) are associated with prices that are 7.6% higher.[vii] The price gap between Monterey hospitals and hospitals in markets with more competition is likely even greater than these national findings for typical monopoly/ duopoly hospitals indicate, but this study suggests that concentration is likely a significant factor in the high cost of hospital care in Monterey County.

The Herfindahl-Hirschman Index (HHI) is a measure of market concentration used by the U.S. Department of Justice and the Federal Trade Commission in evaluating mergers. The index is on a scale of 0 to 10,000, with higher numbers signifying greater market concentration. HHI estimates for hospitals in the Monterey region vary based on the methods and definition of the market–from 3,339 based on UC Berkeley Petris Center analysis of American Hospital Association Annual Survey Database with the market defined by the county, to in the range of 6,000-8,000 based on estimates analysis by the Yale Tobin Center for Economic Policy with the market defined as all hospitals within a 30-minute drive time.[viii] Using either estimate, the market is considered highly concentrated because it has an HHI of more than 2,500.

Understanding market concentration in the area helps to at least partially explain why these hospitals can obtain higher prices–patients in the region have no other options–but it does not explain how the revenues from the higher prices are spent.

Does spending at Monterey hospitals differ significantly from that of other hospitals?

We have examined publicly available data for certain key spending categories like wages and uncompensated care costs. In both categories, any spending differences found do not appear significant enough to explain the large price differences.

Wages for health care workers are similar between the Salinas, California, metropolitan area (which includes the city of Monterey and surrounding area) and the state as a whole; therefore this factor likely does not explain a lot of the price difference. The median hourly wages for physical therapists and medical assistants in the Salinas area were below the statewide median in May 2023, based on analysis of data from the U.S. Bureau of Labor Statistics. The Salinas area median wages for registered nurses, LPNs/LVNs, and nursing assistants were 1% to 3% higher than the statewide median wages for these occupations.[ix]

Uncompensated care costs, including bad debt, charity care, and expenses related to county indigent care programs, as a share of operating expenses were higher at Natividad (3.3%) and Salinas Valley Health (2.2%) than the state hospital average (1.8%) in 2022, but not different enough to significantly explain the higher-than-average prices. At CHOMP, uncompensated care costs as a share of operating expenses were below average (0.9%), according to hospital financial data reported to the California Department of Health Care Access and Information.[x]

How does payer mix factor in?

In 2022, public payers paid for 71% of hospital discharges at CHOMP, 76% at Salinas Valley Health, and 82% at Natividad, compared to 72% of hospital discharges statewide, based on data reported by hospitals to the state.[xi] (Public payers include Medi-Cal, Medicare, and, where applicable, county indigent programs.) Could the higher employer-plan prices in this region reflect cost shifting from Medi-Cal or Medicare?

It is difficult to definitively address this question for specific hospitals, however the common assumption that hospitals charge private payers more to make up for public payer shortfalls has not been borne out in the research. A large body of economic research has failed to find evidence of hospitals shifting costs from public payers to private payers.[xii]

A recent national analysis by RAND found that:

> "there is not a strong relationship between [commercial] hospital prices and the share of patients covered by non-private prices. The relationship between a hospital's share of its discharges from non-private payers and relative prices charged to commercial payers is not statistically significant. The absence of a strong correlation between hospital prices and payer composition does not support the hypothesis that higher hospital prices are in place to offset underpayments by public payers or hospitals' expenses for uncompensated care."[xiii]

If high commercial prices resulted from having large shares of Medi-Cal patients, California public and district hospitals–which generally have a high Medi-Cal share of patients–would charge the highest commercial prices, but a 2019 analysis by Rick Kronick and Sarah Hoda Neyaz primarily using HCAI financial data found that public and district hospitals had lower private to Medicare payment-to-cost-ratios (1.44 and 1.83 respectively) than non-profit and investor hospitals (2.23 and 2.05 respectively).[xiv]

It is also worth noting that the federal Medicare Payment Advisory Commission (MedPAC) found that Medicare payments to hospitals were near cost for relatively efficient hospitals in 2021,[xv] suggesting that CHOMP, which has a higher-than-average share of Medicare discharges (54% compared to 39% statewide) should not need to charge so much more to compensate for disproportionately high Medicare patient loads.

What can OHCA do?

While OHCA does not have statutory authority to consider the fullest range of policy options that could reduce regional price variation or address high-cost outlier entities, OHCA has meaningful authority to at least partially address the health care affordability challenges in Monterey.

Adjust targets downward for high-cost outliers

OHCA has statutory authority to "adjust cost targets downward, when warranted, for health care entities that deliver high-cost care that is not commensurate with improvements in quality, and upward, when warranted, for health care entities that deliver low cost, high quality care."[xvi] To begin to address the severe affordability problems in Monterey County, OHCA could use this authority to adjust the spending targets to less than 3.0%-3.5% for some or all of the Monterey/ Salinas hospitals.

In identifying a broader set of outliers, OHCA could set a particular "relative price" threshold to identify high-cost outlier entities in the commercial market. In RAND's hospital price analyses "relative price" means the amount a private insurer pays divided by the Medicare allowed amount for the same service at the same hospitals.[xvii] OHCA could likely use data from the Health Care Payments Data Program to conduct this type of analysis.

Increase public understanding of drivers of spending

One of OHCA's charges in statute is "analyzing the health care market for cost trends and drivers of spending."[xviii] This is critical for understanding the rate of spending growth and why spending levels and growth vary between entities, industries, or regions. This type of analysis will illuminate whether data supports entities' assertions about why they are high-cost entities or, once performance assessment begins, why spending on particular entities exceeds the target. Examples of questions for Board and staff consideration include:

- For the market as a whole, how will OHCA identify the most impactful and the most common drivers of health care spending growth?
- As discussed above, the available research finds little relationship between payer mix and commercial price levels, yet cost shifting continues to be a commonly asserted provider explanation for high spending levels or spending growth. How will OHCA address payer mix, if at all, in evaluating performance against the target?
- If entities identify labor costs as a major driver of spending growth, how will entities be asked to substantiate those trends?
- How will uncompensated care factor into comparison of performance against the target, if at all?

These are longer-term questions that do not necessarily need to be fully answered for OHCA to play a role in addressing the urgent affordability crisis in Monterey, but the Monterey case study helps to illuminate the types of provider assertions that are likely to arise in OHCA's broader work. Addressing questions like these could help to focus attention on particular drivers of spending that are most impactful, and could also serve to center data-driven findings over anecdotes.

Conclusion

Since the first OHCA Board meeting in March 2023, many workers from Monterey County have trekked to Sacramento to describe the struggles they face affording health care in a region with among the highest-priced hospital care in the state. The worker testimonies and the available data demonstrate the extent to which Monterey is an outlier when it comes to high hospital prices, even in a state in which health care affordability problems are widespread.

The upcoming Board meeting presents a vital opportunity for OHCA to begin to play a role in communities struggling with affording care from high-cost outlier entities and/or entire high-cost outlier health care markets. This month's meeting will begin the process of exploring the real drivers of health care spending in a data-driven way. It is our hope that in the coming weeks and months, OHCA staff and Board will continue this data-driven analysis, and make strategic decisions about how it will measure and enforce statewide spending targets and establish spending targets for high-cost outliers.

Sincerely,

Laurel Lucia
Director, Health Care Program

Miranda Dietz
Policy Research Specialist

Endnotes

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[xi] California Department of Health Care Access and Information, Hospital Annual Financial Data https://data.chhs.ca.gov/dataset/hospital-annual-financial-data-selected-data-pivot-tables

[xii] https://jamanetwork.com/channels/health-forum/fullarticle/2760166

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[xvii] RAND, Hospital Price Transparency Study Round 5, May 2024, https://www.rand.org/health-care/projects/hospital-pricing/round5.html

[xviii] State of California Health and Safety Code Division 107, Part 2, Chapter 2.6, Section 127501(b)