Mark A. Ghaly MD, MPH
SECRETARY

December 23, 2021

Assembly Member Ash Kalra

California State Capitol

P.O. Box 942849
Sacramento, CA 94249-0027

Dear Assembly Member Kalra,

Thank you for your letter earlier this month to the Healthy California for All (HCFA) Commission. I appreciate and respect the Legislature's interest in our work.

This letter is in response to your request for HCFA to develop "a financing model and recommendations for Assembly Bill (AB) 1400." Providing this information would effectively place the HCFA Commission in the role of providing technical assistance on pending legislation, something that is not within the scope of its work.

The charge of the HCFA Commission is not to advance pending legislation but to take a broader examination of approaches for Unified Financing. A Commission focus on a specific piece of legislation, such as AB 1400, is also not appropriate because several Commissioners are public servants in the Administration and other state entities and cannot offer feedback on pending legislation not sponsored by the Governor in a public forum. While the Commission will not be discussing AB 1400 in its entirety, commissioners have discussed particular features or individual policies that refer to or are included in AB 1400.

You have asked that the Commission identify revenue sources that could fund health care expenditures that are not already paid for by existing government programs. That issue was extensively discussed at our November 17, 2021 meeting. We invited a presentation by researcher Ken Jacobs from the UC Berkeley Labor Center. Mr. Jacobs discussed health care financing under the status quo, and projected changes over the next decade under Unified Financing. He presented estimates of revenue needs that would not be made by existing government programs, and described potential funding sources to meet those needs. He concluded by presenting likely aggregate savings under Unified Financing compared to baseline or status quo conditions.

You have also asked that the Commission present estimates of major aggregate spending and savings categories under Unified Financing. Those

estimates were presented to the Commission by the consulting team on May 21, 2021, as updated on July 8, 2021, and included a description of methods and assumptions used to create those estimates, and a workbook supporting that analysis, which has been made available to any Commissioner or member of the public who requests it. As an example of the kinds of information presented in those documents, the consulting team estimated that under a Unified Financing system using direct payment to providers, without any patient cost sharing, and without expansion of long term services and supports, aggregate spending in the first year of Unified Financing would be approximately 3%, or $16 billion, less than under the status quo.

The analysis also estimated savings under various categories, showing in the first year of Unified Financing, for example, that billing and insurance related costs for hospitals, physicians, and other health care providers would be an estimated $22 billion lower than in the status quo, that administrative costs for payers would decline by an estimated $27 billion, and that lower prices paid for pharmaceuticals would reduce spending by an additional $30 billion. As described in the results, these reductions in spending would be partially, although not fully, offset by increased spending due to an expansion of coverage, the elimination of underinsurance, the need to create a reserve fund, and other factors. The analysis presented similar estimates under other scenarios for how Unified Financing might be implemented in California.

The analysis also estimated the savings that would accrue over the 2022-2031 period if health spending grows more slowly under Unified Financing than it would under the status quo. As you know, Unified Financing provides both additional levers and imperatives to reduce the rate of spending growth. The sustainability of Unified Financing depends on reducing the overall growth of health care spending, and we expect that a variety of mechanisms, such as reducing low value care, reducing fraud and abuse, and improving population health will result in a reduction in the rate of health care spending growth.

Overall, the Commission has built considerable consensus on approaches that bring California closer to a health care system that is accessible, affordable, equitable, high-quality and universal. Our ability to maintain an independent perspective is beneficial to informing the broader context surrounding any legislation that relates to Unified Financing. I am confident that when California pursues a Unified Financing system, the considerations and recommendations included in the Commission's final report will inform the development of any state legislative proposal.

Please let me know if you have further questions.

Sincerely,

Mark Ghaly

Secretary

Cc: Members of the Healthy California for All Commission

Cc: Assembly Member Alex Lee

Assembly Member Miguel Santiago

Senator Dave Cortese

Assembly Member Laura Friedman

Senator Lena Gonzalez

Senator Sydney Kamlager

Assembly Member Kevin McCarthy

Senator Mike McGuire

Assembly Member Adrin Nazarian

Assembly Member Luz Rivas

Assembly Member Phil Ting

Assembly Member Buffy Wicks

Senator Bob Wieckowski

Senator Scott Wiener