EXPLAINER

OHCA: An Overview

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California Health Benefits Review Program (CHBRP)
University of California

A primary function of the California Health Benefits Review Program (CHBRP) is to evaluate the cost impact of proposed legislation relating the health insurance benefits. Due to statutory time constraints, CHBRP models assume that state policies and market behaviors remain constant throughout the time it would take a bill to be fully realized. In practice, however, dynamic factors often influence realized costs and may need to be considered by policymakers. This includes the effect of legislation on spending targets set by California's Office of Health Care Affordability (OHCA). This explainer provides an overview of OHCA and the spending targets imposed on health care entities.

History and Structure

The OHCA was established under the Department of Health Care Access and Information (HCAI) in 2022.[1] Existing law requires OHCA to analyze market cost drivers and trends, develop data-informed policies for lowering health care costs, and enforce spending targets to ensure affordability.[2] To date, OHCA's goals include slowing spending growth in California, promoting high value in the state's health care system, and assessing market consolidation (HCAI, 2025a). The cornerstone of OHCA's work is the establishment of statewide targets for maximum annual growth in health care spending for certain health care entities.

The governance structure of OHCA consists of the following:

- **Health Care Affordability Board (Board):** The Board is the governing body with a statutory mandate to set spending targets and approve key benchmarks and methodologies for setting spending targets. It is composed of eight members appointed by the Governor, the Senate Committee on Rules, and the Speaker of the Assembly, alongside the Secretary of the California Health and Human Services Agency (CalHHS). To ensure independence, board members cannot have a financial interest in the health care entities for which they are making decisions related to OHCA. The Board has the authority to establish committees and workgroups, as necessary, to support any decisions that must be made by the Board.
- **Health Care Affordability Advisory Committee (Advisory Committee):** The Advisory committee provides technical input, data analysis, and recommendations to the Board. Existing law states the Advisory Committee must be established to provide input on a range of topics under the Board's consideration including, among other subjects, the methodology for setting spending targets and adjustment factors to modify those targets when appropriate, quality and equity metrics, and benchmarks for primary care and behavioral health spending. Its role is strictly advisory in

[1] Health and Safety Code (HSC) 127501-127501.12.
[2] HSC 127501(a).

nature, and members of the committee cannot vote to establish spending targets. The committee is required by statute to include representation for at least the following groups: consumer and patients, payers, fully integrated delivery systems, hospitals, organized labor, health care workers, medical groups, physicians, and purchasers.[3]

Spending Targets: Who, What, and When

Methodology

To determine California's spending targets, the Board adopted a methodology that ties health care spending growth to the average annual growth in median household income over the 20-year period leading up to the establishment of OHCA (2002–2022). This approach was taken based on the idea that health care costs should not grow faster than California families' ability to pay for them. The Board may adjust the spending targets under certain conditions, such as accounting for actual or projected nonsupervisory organized labor costs, or adapting to changes in provider payer mix, provider reimbursements, and price trends for technologies.[4]

Targets and Timelines

The spending targets apply to per capita (per person) spending for health plans and insurers, provider organizations with at least 25 physicians, and hospitals (HCAI, 2022). All entities required to submit information are contacted by OHCA. Other entities may voluntarily submit data to OHCA (OHCA, 2025). The state is implementing this target with a phased-in approach, with spending targets that begin at 3.5% for 2026, will be lowered to 3.2% in 2027 and 2028, and will be lowered again to 3% for 2029 and beyond.[5]

The targets above apply statewide; however, the Board has the authority to set specific targets for different health care sectors. For example, the Board voted to define and annually identify hospitals with costs significantly higher than their peers. Specific, lower spending targets have been set for these entities to accelerate cost containment in the most expensive parts of the health care system. The spending targets for these high-cost hospitals have been established at 1.8% in 2026, 1.7% in 2027 and 2028, and 1.6% in 2029 (HCAI, 2025a).

Oversight and Enforcement

OHCA requires all health care entities subject to the spending targets to submit data on total health care expenditures. Each health care entity is required to submit data for the previous two calendar years by September 1 of each year (HCAI, 2025b). This data is then used to calculate whether an entity has exceeded the growth cap for that year. OHCA will publish annual reports on spending trends, policy recommendations, and quality performance on or before June 1 of each year based on the data from those previous two years (HCAI, 2025b).

Mechanisms for enforcing the spending targets range in severity. OHCA may provide technical assistance to assist the health care entity with identifying cost drivers. It may also require the entity to submit a formal plan to reduce spending. If the entity fails to meet the terms of a performance improvement plan, or consistently exceeds targets without justification, OHCA may levy administrative fines on the entity.

[3] HSC 127501.12(b).
[4] HSC 127502
[5] California Code of Regulations Title 22, Section 97447.

Policy Implications

The establishment of OHCA represents a structural shift in California's health care policy, moving from passive cost monitoring to active, data-driven regulation. As the state enters the enforcement phase in 2026, OHCA's spending targets will introduce a specific growth metric into the health care market, and therefore a new variable in the health care landscape. As OHCA implements its mandate to align cost growth with economic indicators, the interaction between these spending caps and broader health care market dynamics—including new legislative proposals and benefit mandates—will be a key area of consideration for understanding the state's evolving health policy environment.

References

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About the California Health Benefits Review Program (CHBRP)

Drawing on the experience and assistance of multi-disciplinary faculty, researchers, and analysts based at the University of California, CHBRP provides the California Legislature with timely, independent, and rigorous evidence-based analyses of introduced health insurance benefits-related legislation. Most frequently, CHBRP analyzes proposed health insurance benefit mandates (e.g., mandates to cover a test, treatment, or service, such as continuous glucose monitors). For more about CHBRP's 60-day analysis process, see the resource Academic Rigor on a Legislature's Timeline.

To read any of the 200+ bill analyses CHBRP has completed, see the Completed Analysis page on CHBRP's website. In addition to analysis of introduced legislation, CHBRP produces other publications including several annually updated resources, as well as issue briefs and explainers.

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