

Will Gradual Wage Hikes Help or Harm Healthcare? Compromise Bill Takes Effect June 1, 2024

Legal Update

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California lawmakers continuously grapple with the “[Iron Triangle](#)” of healthcare—a principle positing that cost, quality, and access are interdependent, with any improvement in one area likely necessitating compromises in the others. For instance, lowering premiums may reduce the quality of care, while expanding access might escalate costs or strain existing resources. Notably, the State of California is preparing for the full operational launch of the [Office of Healthcare Affordability](#) by 2025. This ambitious endeavor aims to achieve the lofty goals of making healthcare affordable, universal, and of high quality—a pursuit that might be likened to seeking the Holy Grail in healthcare.

More recently, “equity” has become yet another consideration on the already complicated landscape, most clearly reflected in California’s enactment [Senate Bill 525](#), a legislative measure mandating a series of minimum wage increases for healthcare (and “healthcare adjacent”) workers, effective June 1, 2024.

Nearly all health care facilities in California will be required to increase the minimum wage paid to healthcare workers, ranging from \$18 to \$23 per hour depending on the type of facility. While some see it as a win for greater equity through increased wages for a broad swath of direct-care and non-clinical workers, others view the measure as pressure to increase costs, risking layoffs and overwhelming financially burdened hospitals and other healthcare facilities. Only time will tell whether SB 525 will improve or exacerbate the healthcare labor crisis. As to the already excessive financial burden on healthcare providers, the impact of the law is already apparent.

California’s Healthcare Labor Crisis

For several years, California’s healthcare system has been besieged by a multifaceted labor crisis. Arguably, one of the most pressing issues is the significant labor shortage across the healthcare sector. For instance, recent projections highlight a statewide shortfall of [36,000](#) nurses. This problem is compounded by the aging “[Boomer](#)” population, which is driving demand for senior care. It is anticipated that roughly 684,000 personal care aide positions will open annually over the next decade, yet estimates suggest that only half of these will be successfully filled.

Moreover, the aftermath of the COVID-19 pandemic has sharply intensified labor dissatisfaction within the healthcare sector. [Significant strikes](#) by healthcare workers’ unions have erupted, spurred by ongoing issues of chronic underpayment and burnout across various healthcare settings such as hospitals and pharmacies. [Recent walkouts](#) highlight the deep-seated frustrations among healthcare professionals, underscoring the urgent need for change.

A Promising Compromise or Another Setback for Healthcare Costs?

Many advocates for SB 525, including healthcare labor unions and city councils, championed the bill for its potential to improve wages among minority and economically disadvantaged communities.

Conversely, providers and other stakeholders argued that the increased financial burden could potentially lead to lower profits, deficits, and further bankruptcies in an already distressed sector. The law affects the vast majority of healthcare facilities, including acute care and psychiatric hospitals, integrated healthcare delivery systems, home

health agencies, hospital-owned skilled nursing facilities and home-based services, physician groups, urgent care clinics, and certain behavioral health clinics. Yet, with selective exclusions such as residential and outpatient addiction treatment programs, pharmacies, laboratories, hospices, and home care registries—unless owned by hospitals—the law will invariably cause confusion.

Ironically, although the powerful nurses' union drove the passage of the bill, other labor factions expressed vocal concerns that the wage increases could inadvertently disqualify low-income workers from receiving government-funded healthcare benefits, such as Medi-Cal, due to increased incomes. The influence of the unions is evident in an absurdly broad definition of "health care employees" that includes many services that are commonly subcontracted, including janitorial and housekeeping, security guard, food service, and clerical employees. Even outside contractors will be bound by the wage increases unless they verify that healthcare facilities do not control wages, hours, or working conditions for contracted employees and that such personnel do not work "primarily" (*i.e.* the majority of their time) onsite.

Although the changes are being phased in gradually over three and ten-year time frames, they are expected to further deteriorate the financial state of many providers already in distress. The escalating financial crisis facing California hospitals, particularly rural and smaller ones, has compelled the State to take [drastic measures](#), including the initiation of the [Distressed Hospital Loan Program](#) in 2023. This intervention allocated nearly \$300 million in interest-free loans to support beleaguered institutions like Madera Community Hospital and Beverly Hospital. A total of 17 facilities benefited from this legislation, which was essential in staving off closures and ensuring the continuation of healthcare services in vulnerable communities.

Provisions of Wage Hike:

- **Physician Practices and Groups with 24 or Fewer Physicians:** Exempt from wage increase requirements.
- **Physician Groups with 25 or More Physicians:** Minimum wage increases to \$21 per hour starting June 1, 2024, \$23 per hour in 2025, and \$25 per hour by 2026.
- **Physician Groups Part of Large Health Systems (10,000+ workers) and Dialysis Clinics:** Minimum wage set at \$23 per hour in 2024, increasing to \$24 per hour in 2025, and reaching \$25 per hour in 2026.
- **Community Clinics, Rural Health Clinics, Urgent Care Clinics, and Other Licensed Clinics:** Minimum wage starts at \$21 per hour in 2024, remains the same in 2025, increases to \$22 per hour in 2026, and finally to \$25 per hour by 2027.
- **Hospitals with a High Mix of Medi-Cal and Medicare Patients, and Rural Independent Hospitals:** Minimum wage starts at \$18 per hour in 2024, with a 3.5% annual increase until it reaches \$25 per hour in 2033.

As discussed above, SB 525 includes a confusing list of 'covered health care facilities' that demands meticulous attention, as well as complex rules governing when contracted personnel are subject to these provisions. Providers and other businesses impacted by SB 525 should seek guidance from their legal counsel to clarify the specifics of implementation and ensure compliance with the new law.

Authors:

[Harry Nelson](#), Managing Partner, Nelson Hardiman

[Yehuda Hausman](#), Law Clerk, Nelson Hardiman

Nelson Hardiman LLP

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