FTI™ CONSULTING

# THE COLORADO STATE GOVERNMENT OPTION:

## ASSESSING THE IMPACT OF PROPOSED REFORMS ON ACCESS TO HEALTH CARE

AN FTI CONSULTING REPORT

EXPERTS WITH IMPACT™

# THE COLORADO STATE GOVERNMENT OPTION: ASSESSING THE IMPACT OF PROPOSED REFORMS ON ACCESS TO HEALTH CARE

Colorado's health care landscape is as varied as its topography, from major health systems anchored in the state's urban centers to small rural hospitals scattered across the Eastern Plains. While the introduction of a state government option to Colorado's health insurance marketplace would impact providers across the state, its effects may be particularly severe for those communities served by hospitals already operating on tight margins. These hospitals serve as a critical point of entry to the health system – and sometimes the sole source of care – for vulnerable populations across Colorado. To assess the impact of a proposed state government option on access to care in communities throughout the state, FTI Consulting conducted a statewide analysis of reimbursements to Colorado hospitals and estimated the effects of rate setting on access to providers, which could be impacted by the reduction or elimination of hospital services in response to the state government option. The report finds that 83% of Colorado's hospitals would see a reduction in revenues under the proposed plan, threatening access to care disproportionately in certain areas of the state where hospitals are already operating on tight margins.

## BACKGROUND

Changes to Colorado's health care system over the past decade reflect both national trends and the state's unique economic and demographic challenges. Following implementation of the Affordable Care Act, Colorado's uninsured rate dropped by 6.6% between 2013 to 2017 to approximately 410,000.[1] Young adults and those with the lowest incomes saw the largest coverage gains in the state,[2] suggesting that the law largely succeeded in its goal of expanding coverage to these key groups. Still, employer-sponsored insurance continues to be the most prevalent coverage option in Colorado.

Despite improvements in coverage, access to care remains a challenge for Coloradans, particularly in more rural areas of the state plagued by pronounced health care workforce shortages. Insurance premiums in these regions are often markedly higher than in urban areas of Colorado[3] and even those with coverage can experience delays in accessing care. In response, policymakers in Colorado are considering significant reforms to the state's health care system, including the introduction of a state government option to Colorado's health insurance exchange.

### Colorado State Option

In 2019, the Colorado General Assembly enacted HB19-1004, which directed the Colorado Department of Health Care Policy and Financing (HCPF) and the Division of Insurance (DOI) to develop and submit a proposal for a state government option for health care coverage. The resulting proposal would require commercial insurers operating in the individual market to offer a government option on the state's health insurance exchange alongside their private plans and to take on the associated risk.[4] Because the state option will be offered as a Qualified Health Plan (QHP) through Connect for Health Colorado, consumers eligible for federal premium tax credits or subsidies could use them to purchase the government plan on the exchange.

The proposal set forth by HCPF and DOI outlines a rate setting system to determine hospital reimbursement under the state government option plan. Although details remain sparse, the payment rates are likely to fall into a range of between 160 percent and 210 percent of Medicare,[5] significantly below commercial rates.[6] While the initial proposal does not mandate provider participation, Colorado officials have suggested that they have the authority to compel hospitals to participate and accept payment rates set by regulators.[7]

HB19-1004 gave HCPF and DOI the broad ability to implement a proposal for a state government option; however, legislators will likely make adjustments to existing statutory authority in the upcoming legislative session. If the state government option is passed when the state legislature reconvenes, the plan would take effect in January 2022.

# THE COLORADO STATE GOVERNMENT OPTION: ASSESSING THE IMPACT OF PROPOSED REFORMS ON ACCESS TO HEALTH CARE

## KEY FINDINGS

The Colorado state government option would result in an estimated increase of 5,717[8] in the number of insured statewide, representing a reduction in the uninsured rate of just 0.1 percentage points.[9] In contrast, enrolling all those eligible for Medicaid under current law could reduce the number of uninsured in Colorado by 25%.[10]

- Government rate setting through a state government option would result in a decrease in reimbursements to Colorado's hospitals of more than $100 million annually once the effects are fully realized. Over a decade, hospital losses would exceed $1 billion.[11]
- Among the state's rural hospitals, roughly one-third are currently operating at a loss. These hospitals are most at risk from restrictive reimbursement rates under a state government option. Up to 23 rural hospitals could be at increased risk of closure under the proposal as a result of reduced reimbursements.
- The effects of introducing a state government option could be especially pronounced in Colorado's Western Slope, where marketplace enrollment is high and hospital access is already limited. Rate setting in the government plan could lead hospitals to cut services, lay off staff or close facilities in those counties.
- The introduction of a state government option would reduce Colorado's benchmark premium upon which subsidies are based, effectively increasing the cost of private coverage for the 80% of Colorado marketplace enrollees eligible for Advance Premium Tax Credits.[12]

## EFFECTS ON COVERAGE

Today, Colorado's uninsured rate stands at a record low of 6.5%,[13] less than half the national average.[14] The proposed state government option would result in an estimated 5,717 Coloradans gaining coverage statewide,[15] representing a reduction in the uninsured rate of just 0.1 percentage points.[16] The largest effect would be in the rural west, where the uninsured rate would drop by 0.22 percentage points. In contrast, enrolling all those eligible for Medicaid under current law could reduce the number of uninsured in Colorado by 25%.[17]

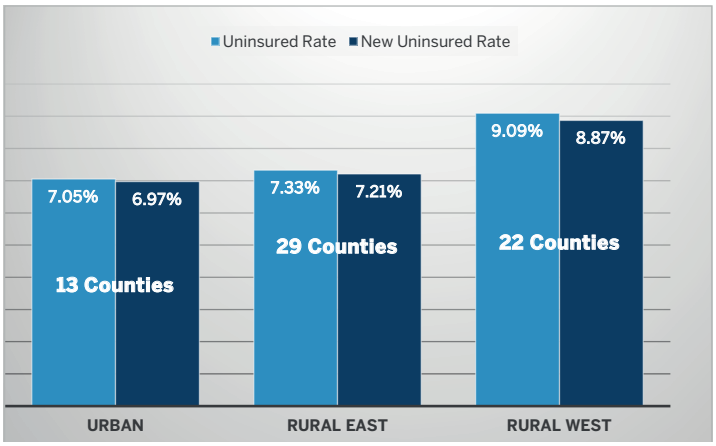
According to Connect for Health Colorado, which administers the state's health insurance exchange, 170,741 Coloradans enrolled in a marketplace plan in 2019.[18] An additional 67,262 are assumed to enroll off-exchange in the state assuming the national proportion.[19]

The state government option would appeal most to the uninsured and those already enrolled in private marketplace coverage. Of those who already have a private exchange or off-exchange plan, a reduction in the premium would be expected to cause 3.7% or 2,500 individuals to switch to the government option in the short-term.[20] Over time, we would expect that everyone who currently has a private plan on- or off-exchange – other than those whose reduced subsidy covers their current plan – to switch to the government plan.

Analysis by the Commonwealth Fund finds that an alternative policy to address the "subsidy cliff" – the point at which individuals are abruptly ineligible for premium tax credits to purchase plans on the individual market – could achieve cost reductions and increase enrollment while preserving access to private coverage. The Commonwealth Fund estimates that increasing eligibility for tax credits would result in a 2.6% reduction in premiums and increase the number of insured by 1.2 million nationwide.[21] For older Americans age 50-64 who generally face higher premiums, this policy would decrease health care spending by $3,700 annually on average. Based on the Commonwealth Fund's results, FTI estimates that eliminating the subsidy cliff would result in an additional 18,052 insured Coloradans – more than triple the projected increase under the state government option.

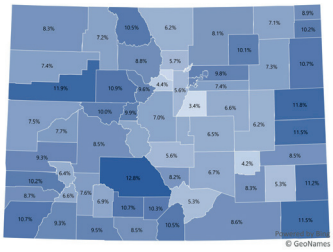
Policymakers have a variety of options available to improve affordability and further expand health insurance coverage in Colorado. The introduction of a state government option, however, could ultimately lead most private carriers to exit the state's individual market entirely while failing to achieve a meaningful reduction in the state's uninsured rate.

## FIGURE 1 – EFFECT ON UNINSURED RATE BY REGION

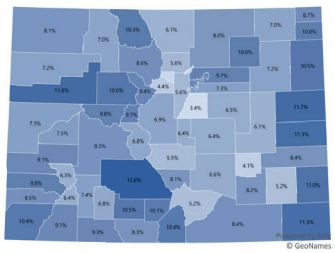



## FIGURE 2 – COMPARISON OF RATE OF UNINSURED BY COUNTY BEFORE AND AFTER STATE GOVERNMENT OPTION

Before Government Option



After Government Option



## PREMIUM SUBSIDIES

While the majority of marketplace enrollees are eligible for federal tax credits and subsidies to purchase coverage through the exchange, the population purchasing coverage in the individual market who are ineligible for financial assistance is not insignificant. Some in this group purchase unsubsidized coverage through Connect for Health, while many purchase directly from insurance companies off-exchange. The Kaiser Family Foundation estimates that this latter group represents approximately 28% of those purchasing individual insurance plans.[22]

> "FOR THOSE CURRENTLY ELIGIBLE FOR SUBSIDIES, NET PREMIUMS (PREMIUM COST AFTER TAX CREDITS) FOR PRIVATE COVERAGE ON THE EXCHANGE WOULD IMMEDIATELY RISE UNDER THE PROPOSAL."

The state government option would provide a new coverage alternative at a slightly lower price for consumers purchasing insurance through the marketplace, including those currently ineligible for subsidies. An analysis of the proposal performed by Wakely Consulting Group, LLC shows that premiums for the plan would be, on average, 10.6% lower than existing plans.[23]

FTI's analysis used an elasticity derived from research on insurance decisions and applied it to the expected difference in premiums. Estimates of take-up assume that the metal levels would not affect this group's decision, and that people would not switch between metal levels since each metal level would be similarly affected by the state government option.

For those currently eligible for subsidies, net premiums (premium cost after tax credits) for private coverage on the exchange would immediately rise under the proposal. Because the subsidies are based on the second lowest cost silver plan, also known as the 'benchmark' plan,[24] the introduction of a government plan would likely make the government silver plan the new benchmark, resulting in lower subsidies. Eventually, only those enrolled in bronze plans who do not pay a net premium would remain on private coverage – assuming private carriers continue to offer those plans – and Colorado would see a gradual exodus from the private market for individual insurance as enrollees opt for the lower-priced, comparable coverage available through the state government option.

## ACCESS TO HOSPITAL SERVICES

In the debate over health care cost containment, some critics charge that hospital reimbursements must be reduced in order to rein in costs to consumers. In Colorado, however, hospital payment rates vary widely and reflect the challenging markets in which they operate. Hospitals that serve large populations of Medicare and Medicaid beneficiaries are often forced to shift costs onto private payors in order to meet essential community needs.[25] The introduction of a state government option, combined with declining margins in existing government programs, could lead to further cost shifting, elimination of services and, in some cases, hospital closures.[26]

FTI Consulting analyzed Medicare cost reports for 77[27] hospitals across the state of Colorado, 41 serving rural areas and 36 in urban areas.[28] The effect of the state government option depends substantially on the reimbursement rates set by the state and take-up. This analysis assumes payment rates will be set at 185% of Medicare, the midpoint of the range cited by the Colorado DOI and HCPF.[29] At a minimum, the expected reduction to the premium would cause 3.7% of exchange enrollees to switch plans immediately, with 87% of all private exchange enrollees expected to switch to the government option eventually.[30] In the case that hospitals react to the state government option by not accepting the plan, we assume that the state will mandate participation for every hospital as was suggested in the summary of the legislation.

Reimbursement patterns in Colorado vary by hospital and region, with commercial payment rates averaging 254% of Medicare statewide.[31] Of those hospitals examined, 83% (64) would see a reduction in payments under the Colorado state government option. In total, the proposal could be expected to decrease hospital reimbursements across the state by $100 million annually, representing a reduction in commercial payments of up to five percent.[32] Over the decade from 2023-2032, FTI estimates cuts would total more than $1 billion.

### Urban Hospitals

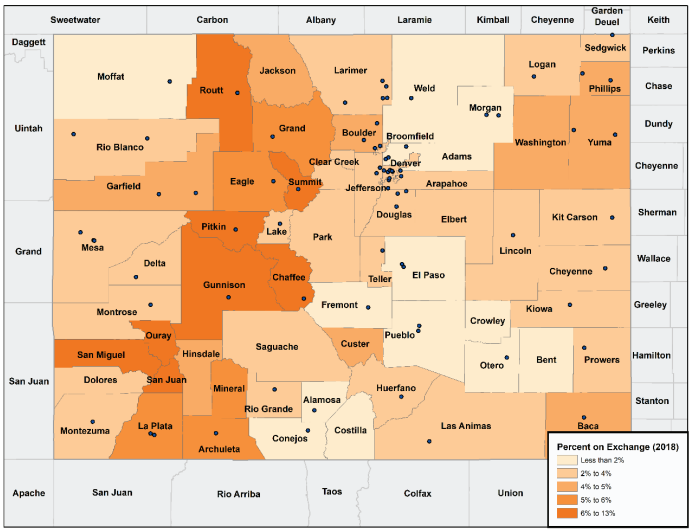
Hospitals in Denver and other urban areas, while generally more financially stable than rural providers, are not immune to the negative effects of rate setting. Although there is a larger portion of urban hospitals with higher reimbursements, the data shows no systematic pattern between reimbursement rates and geography. Based on FTI's analysis, 25 urban hospitals would see cuts to reimbursements ranging from 28% to 57% for services provided to patients covered under the state government option.

### Rural Hospitals

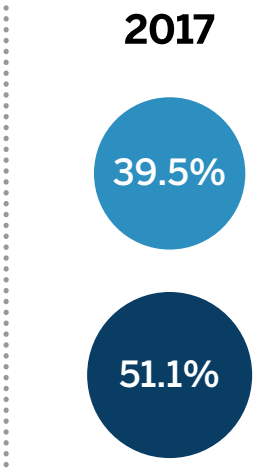
Enrollment in the government plan would be highest among two groups: private exchange plan enrollees and the uninsured. The counties with the highest proportion of population on the exchanges are in the rural western part of the state (see figure 4), where most counties have, at most, just one hospital. If the take-up is large enough, the addition of a state government option could harm hospital finances leading to the elimination of health services offered in these counties or increased risk of hospital closure, harming the health of the population in these areas of the state.

Among the rural hospitals studied, a total of 30 (73%) could face cuts to reimbursements and 13 are already operating at a loss according to the most recent Medicare cost report data. These hospitals are the most at risk from restrictive reimbursement rates. If rates were set at 160%-210% of Medicare under the state government option, up to 23 rural hospitals would be at increased risk of closure, with the central and southwest regions of the state particularly vulnerable.

## FIGURE 3 - PERCENT ON EXCHANGE BY COUNTY




## FIGURE 4 – PERCENTAGE OF URBAN AND RURAL RESIDENTS WITH JOB-BASED INSURANCE




**Source:** Colorado Health Access Survey, 2017

### Consequences of Reimbursement Cuts

The likely response to financial pressures resulting from insufficient payment rates depends in large part upon the overall financial health of the hospital and its ability to shift costs to other payors. Hospitals in areas like Alamosa County, where fewer than 20 percent of patients are covered by commercial insurance,[33] would be left with few options and could be forced to eliminate services, close facilities or lay off workers. Such measures have direct implications for access to care in underserved areas.

Research also suggests that the introduction of a state government option could harm patient care by limiting resources available to invest in quality. According to economist Douglas Holtz-Eakin, PhD:

> "[H]OSPITALS MAKE INVESTMENTS IN IMPROVING QUALITY WHEN THEY BELIEVE THEY WILL ABLE TO RECOUP THAT INVESTMENT FROM PRIVATE PAYERS, EVEN WHEN SUCH INVESTMENTS DECREASE THEIR MARGIN ON CARE PROVIDED TO MEDICARE RECIPIENTS WHOSE PAYMENT RATES WILL NOT CHANGE TO REFLECT THE QUALITY OF CARE BEING PROVIDED... A HOSPITAL WITH A DISPROPORTIONATE SHARE OF MEDICARE BENEFICIARIES AND FEWER PRIVATELY INSURED PATIENTS WILL BE LESS INCLINED TO MAKE INVESTMENTS THAT THEY ARE UNLIKELY TO BE ABLE TO RECOUP."[34]

Should the state government option lead to a reduction in hospital services or facilities, the health care infrastructure in some areas of the state would be insufficient to meet the needs of displaced patients. Already, one-third of primary care physicians limit or refuse Medicare patients[35] and, as currently structured, the proposal would not compel the participation of physicians or other providers. To the contrary, the introduction of a government plan with insufficient payment rates could exacerbate the shortage of physicians in rural Colorado. Ensuring access to ongoing preventive and primary care, in addition to hospital services, is fundamental to achieving the state's goals related to both quality improvement and cost containment.

## CONCLUSION

As policymakers in Colorado contemplate the future of the state's health insurance market and potential reforms to improve affordability, a critical examination of the associated risks is essential. Some argue the state government option would force insurers to lower the prices of their private plans to compete. Even if that proves true, the effects on hospitals estimated in this report would still be accurate and concerning. Communities across the state are on the brink of a crisis with respect to health care workforce shortages, and many rural hospitals currently operate in a precarious financial state. Expanding coverage without ensuring access to providers could ultimately harm the very population the Colorado state option proposal aims to assist.

## CITATIONS

1. Barnett JC, Berchick ER. *Health Insurance Coverage in the United States: 2016*. United States Census Bureau; 2017:1-44.
2. Biggest Gains for Lowest Incomes. Colorado Health Institute. https://www.coloradohealthinstitute.org/research/impacts-affordable-care-act-0.
3. Colorado Rural Health Center. Snapshot of Rural Health in Colorado. https://coruralhealth-wpengine.netdna-ssl.com/wp-content/uploads/2013/10/2019-Snapshot-FINAL.pdf. Published 2019.
4. Final Report for Colorado Public Option.
5. Ibid. For 160-210 figure, see page 10 of Wakely Report.
6. Ibid.
7. Ibid.
8. Final Report for Colorado Public Option. https://www.colorado.gov/pacific/hcpf/proposal-affordable-health-coverage-option. Colorado Department of Health Care Policy & Financing. Published November 15, 2019.
9. Ibid.
10. Blumberg LJ, Holahan J, Karpman M, Elmendorf C. *Characteristics of the Remaining Uninsured: An Update*. Urban Institute; 2018:1-25.
11. This figure was derived by adjusting the 2017 estimate for inflation due to delayed implementation. It is a lower-bound estimate of how long it would take for effects to be fully realized.
12. Marketplace Effectuated Enrollment and Financial Assistance. The Henry J. Kaiser Family Foundation. https://www.kff.org/other/state-indicator/effectuated-marketplace-enrollment-and-financial-assistance/?currentTimeframe=0&sortModel=%7B%22colId%22%3A%22Location%22%2C%22sort%22%3A%22asc%22%7D. Published August 14, 2019.
13. Colorado Health Institute. 2019 Colorado Health Access Survey: Progress in Peril. Colorado Health Institute. https://www.coloradohealthinstitute.org/research/CHAS. Published December 6, 2019.
14. Witters D. U.S. Uninsured Rate Rises to Four-Year High. Gallup.com. https://news.gallup.com/poll/246134/uninsured-rate-rises-four-year-high.aspx. Published September 4, 2019.
15. Final Report for Colorado Public Option.
16. Ibid.
17. Blumberg LJ, Holahan J, Karpman M, Elmendorf C. *Characteristics of the Remaining Uninsured: An Update*. Urban Institute; 2018:1-25.
18. By the Numbers Open Enrollment Report Plan Year 2019. https://s3.amazonaws.com/c4-media/wp-content/uploads/2019/03/C4HC_OpenEnrollmentReport_WebVersion.pdf. Published 2019.
19. Off-exchange enrollment is not reported by Connect for Colorado
20. CBO's health insurance simulation model uses an elasticity of relative plan value to estimate the extent to which the effect of a change in the unit price of insurance would change the relative plan value. The elasticity is -0.35 on average, meaning a 10% increase in premium would result in a 3.5% reduction in relative plan value for people who continue to hold ESI policies. Source: Auerbach, David, and Stuart Hagen. *CBO's Health Insurance Simulation Model: A Technical Description*. Technical Report, Congressional Budget Office, 2007.
21. Liu, J. and Eibner, C. Extending Marketplace Tax Credits Would Make Coverage More Affordable for Middle-Income Adults. The Commonwealth Fund. https://www.commonwealthfund.org/publications/issue-briefs/2017/jul/extending-marketplace-tax-credits-would-make-coverage-more. Published July 25, 2017.
22. Fehr R, Cox C, Levitt L. Data Note: Changes in Enrollment in the Individual Health Insurance Market through Early 2019. The Henry J. Kaiser Family Foundation. https://www.kff.org/private-insurance/issue-brief/data-note-changes-in-enrollment-in-the-individual-health-insurance-market-through-early-2019/. Published August 21, 2019.
23. Final Report for Colorado Public Option.
24. The subsidy is the total cost of the benchmark plan minus an individual or family's expected premium contribution.

25. Darden M, McCarthy I, Barrette, E. *Who Pays in Pay for Performance? Evidence from Hospital Pricing*. National Bureau of Economic Research; 2019:3.

26. Dickson, V. (2017, November 25). Slumping Medicare margins put hospitals on precarious cliff. *Modern Healthcare*. Retrieved from https://www.modernhealthcare.com/article/20171125/NEWS/171129969/slumping-medicare-margins-put-hospitals-on-precarious-cliff

27. Though there are more hospitals in the CMS data, we here focus on the 77 hospitals with data for their commercial reimbursements as a percentage of Medicare as included in the RAND report.

28. For this analysis, FTI used the Federal Office of Rural Health Policy (FORHP) definition of "rural" to classify Colorado counties. The FORHP specializes in the analysis and implementation of rural health initiatives and has taken extensive efforts to create a robust definition of "what is rural". This classification incorporates information from both Census and Office of Management and Budget Definition (OMB), and corrects for under and overcounting that stem from these sources' broader definition of "urban."

29. Final Report for Colorado Public Option.

30. The 87% figure represents the percentage of enrollees who would, after subsidies, see a plan with a lower price. It is derived by combining the percentages of people receiving financial aid, percentage of people choosing bronze plans, and the percentage of people under 200% of the federal poverty level.

31. Final Report for Colorado Public Option.

32. Using a 200% of Medicare reimbursement rate and assuming that each private plan offers an identical public option plan with lower reimbursements. This accounts for the increased revenue from the newly insured.

33. Testimony to the United States Senate Committee on Finance: Rural Health Care in America: Challenges and Opportunities. 2018:1-15.

34. Testimony Regarding: "Proposals to Achieve Universal Health Care Coverage." 2019:1-5.

35. 2018 Survey of America's Physicians Practice Patterns & Perspectives. The Physicians Foundation. https://physiciansfoundation.org/wp-content/uploads/2018/09/physicians-survey-results-final-2018.pdf. Published 2018.

**FTI Headquarters, Washington, DC**
555 12th Street, NW
Suite 700
Washington DC 20004
United States
TEL: +1 202 312 9100
FAX: +1 202 312 9101


EXPERTS WITH IMPACT™

## About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities.



www.fticonsulting.com