FTI CONSULTING

INTRODUCING DISRUPTION:

EVALUATING THE RISK TO COLORADO'S HEALTH SYSTEM POSED BY A STATE GOVERNMENT OPTION

AN FTI CONSULTING REPORT

EXPERTS WITH IMPACT™

INTRODUCING DISRUPTION: EVALUATING THE RISK TO COLORADO'S HEALTH SYSTEM POSED BY A STATE GOVERNMENT OPTION

Colorado's efforts to expand access to health insurance have resulted in historic gains in coverage over the past decade, while more recently implemented policies are expected to dramatically improve health care affordability by reducing premiums for private coverage in the state's exchange. With these measured approaches to reform, the state of Colorado has the potential to serve as a model for states across the nation.

The introduction of a state government option, however, threatens to undermine this progress and introduce disruption in Colorado's health care system, diminishing consumer choice in the commercial marketplace, raising premiums for individuals with private insurance, and pushing insurers out of the market entirely – all for limited gains in the insured population. Previous analysis has shown that the state government option would create fiscal challenges for hospitals across the state, particularly in rural areas, and that it would do little to increase the insured rate. To measure the likelihood of disruption from the state government option, FTI Consulting conducted a statewide plan to assess its impact on insurance coverage, premiums, and the continued availability of private insurance plans.

BACKGROUND

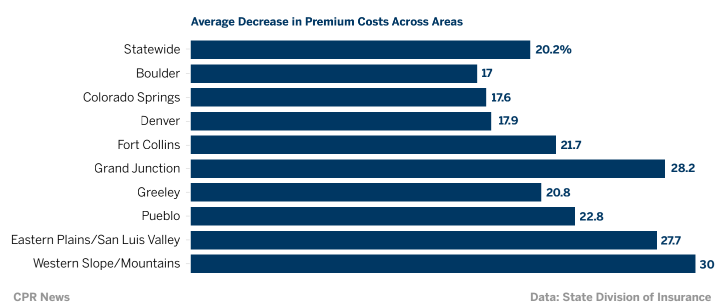
In 2019, Colorado state legislators, with backing from the administration of Governor Jared Polis (D-CO), passed HB19-1004, which instructed the Colorado Department of Health Care Policy and Financing (HCPF) and the Division of Insurance (DOI) to develop a proposal for a government option for health coverage.[1] In March 2020, HB20-1349, a bill modeled off these recommendations, was introduced in the Colorado General Assembly.

According to statements made by Colorado agencies [2] and interviews given by the Governor[3] regarding the proposal, the objective of the state government option is to lower health care costs through government rate setting, increase choice of insurance plans for consumers, and reduce uncompensated care costs to providers by reducing the rate of the uninsured.

As currently structured, the plan will do little to decrease the uninsured rate in Colorado. Instead, it will increase cost pressures on providers or reduce uncompensated care costs for hospitals, while likely reducing consumer choice at a time when polling shows that "73% of Colorado voters prefer building on and improving Colorado's health care system over creating a new state government option."[4]

Colorado has advanced other policies to achieve similar ends with results yet to be fully realized.[5] Colorado's new reinsurance program, for example, is significantly decreasing premiums, with rural areas expected to see the most substantial savings.[6]

Figure 1 – Coloradans Could See Steep Drops in Premium Costs Due to Reinsurance Program



In a previous report, FTI Consulting analyzed the Colorado government option and its impacts on access to care. Specifically, we identified the change in uninsured rate, decrease in Colorado hospital reimbursements, number of hospitals at risk of closure, and amount by which the plan would reduce Colorado's benchmark premium for federal subsidies.[7] FTI also examined a national public option in a separate report and its impact on market stability and consumer choice, such as the decline in private insurers on the marketplaces and the number of Americans that would be forced off their existing health plans.[8] This report builds upon the analyses in those reports (taking into account the differences between the proposed national and state government option plans) to identify how the Colorado state government option would affect coverage, choice, and premiums for consumers.

Colorado State Government Option

In March 2020, HB20-1349 was introduced into the Colorado General Assembly to establish a state government option for health care coverage. The legislation is based on policy recommendations that were submitted in 2019 by the Department of Health Care Policy and Financing (HCPF) and the Division of Insurance (DOI). Key provisions of the plan include:

- Administration of the state government option by private commercial insurers operating in the individual market. Insurers would be required to offer the Colorado option alongside their private plans and to take on the associated risk.
- Offering the state government option 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 state government option.
- Minimum loss ratio (MLR) requirement set at 85%, reflecting the percent of premium dollars in the state government option that must go towards patient care.
- A rate setting system in the state government option for hospital reimbursements that will pay a range between 155 percent and 218 percent of Medicare.
- Hospitals must participate and accept payment rates set by legislators. Noncompliance will result in penalties.
- Should the state legislature pass the legislation, the plan would take effect in January 2022.

Source: Final Report for Colorado's Public Option (November 15, 2019) and HB20-1349 Colorado Affordable Health Care Option (March 5, 2020)

KEY FINDINGS

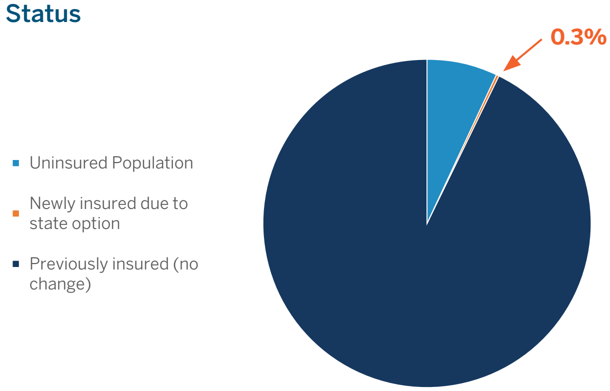
- By 2030, 32% of Coloradans who currently have private commercial insurance will migrate to government option plans. By 2050, this figure rises to 71%.
- Over nearly 30 years, an estimated 19,048 consumers will experience a loss of existing coverage as insurers are forced to eliminate plans or exit the market.
- In response to rate setting under expanding government health programs, those with employer-sponsored coverage could incur over $5,000 in additional health care costs over a decade as a result of cost shifting from public programs to the privately insured.
- Individuals with employer sponsored insurance in at least 37 Colorado counties would see increased premiums for private health insurance due to cost shifting.

EFFECTS ON COVERAGE

Government Option Would Have Negligible Effect on Uninsured Rate

Proponents of the Colorado government option argue that it is necessary to expand coverage across the state. The initial proposal put forth by Colorado DOI and HCPF suggested the plan would accomplish this goal of reducing the number of uninsured.[9] However, analysis by the Wakley Consulting Group found that the plan will do little to change the state's uninsured rate. In 2019, 6.5% of Coloradans were uninsured — less than half the national average.[10] Under the state government option, only 18,100 individuals would gain coverage, which amounts to reducing the uninsured rate by a meager 0.3 percentage points.[11]

Figure 2 – Effect of the Government Option on Insurance Status



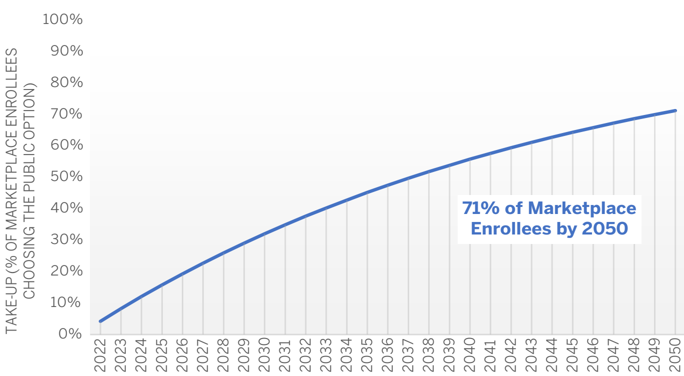
Source: The Colorado State Government Option: Assessing the Impact of Proposed Reforms on Access to Care. FTI Consulting; 2020.

The plan for a state government option also rides on the heels of newly implemented changes by the state of Colorado that will affect the individual insurance market, including a reinsurance policy enacted in 2019, along with a health care purchasing alliance. The state's reinsurance plan has already had significant effects on insurance costs across the state, cutting premiums by as much as 30%,[12] which should incentivize more consumers to enroll,[13] although the policy is still too new for the full effects on coverage to be realized. In addition, the Peak Health Alliance model has shown promise by reducing premiums for exchange enrollees in rural areas.[14] As policymakers consider whether to proceed with implementation of the government option, they also must fully consider the interactions with newly enacted policies.

Impact of Migration from Private Plans to State Government Option

If the state government option is implemented, take-up will impact how smoothly the market operates and begin to create ripple effects across the health care system. Slow take-up may obscure the full effects of the policy until years later. Under the government option, individuals with private commercial plans would begin to transition away from their previous plans to the government plans.

Figure 3 – Enrollment in Colorado Government Option



Author's calculations based on Colorado marketplace enrollment data

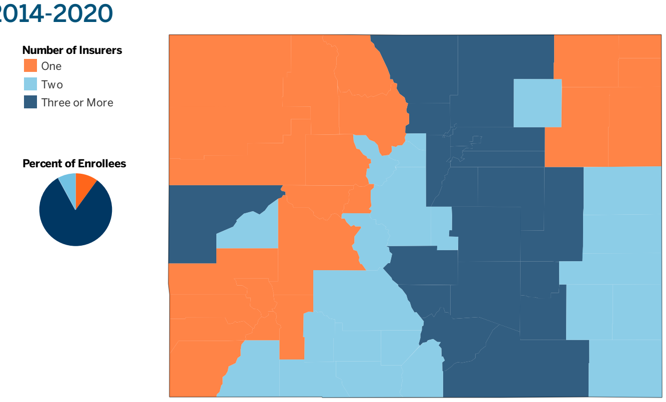
In Colorado, the projected take-up of the state government option by marketplace enrollees is gradual but significant. By 2030, 32% of Coloradans who currently have private commercial insurance will migrate to government option plans. By 2050, this figure rises to 71%.[15] Eventually, declining enrollment in private plans will lead to the elimination of private insurance in the state and diminishing options for Colorado consumers.

CONSUMER CHOICE: LOSS OF COVERAGE AND DIMINISHING PLAN OPTIONS

Government Option Expected to Lead to Gradual Elimination of Private Insurance

The foundation of a stable insurance market is a broad-based, balanced risk pool. Insurers will offer private plans when they can offer a competitive premium that will attract a balanced share of healthy consumers and those that need medical care. From 2019 to 2020, more Colorado counties saw insurers exit the marketplace than any other state in the U.S.[16] Additionally, many rural counties in Colorado have just one insurer. Colorado's government option threatens to further undercut market stability by establishing an unlevel playing field in which the government plan will be advantaged by artificially low reimbursement rates and private plans will bear ever higher costs shifted from the government option.

Figure 4 – Insurer Participation on ACA Marketplaces, 2014-2020

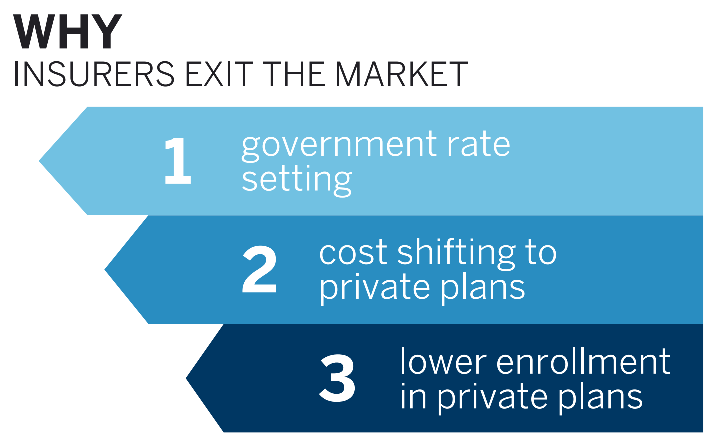


SOURCE: KFF analysis of data from Healthcare.gov and a review of state rate filings.
NOTE: Enrollment in 2020 is based on 2019 plan selections.

Our analysis finds that market exits by insurers are likely to accelerate following implementation of a state government option and plan options may diminish rather than increase under the plan. Consumers will likely find few, if any, distinctions between the plans available to them due to the stringent benefit design for the government option.

Ultimately, consumers who want to purchase private plans will bear a higher cost due to cost shifting. At some point, insurers' private plan premiums in the market could rise to the point where they cannot attract a broad and balanced risk pool. Dwindling enrollment in private insurance plans means that consumers who like their plans and would prefer to keep them are not guaranteed the existence of their preferred plan once the state government option goes into effect. As individuals migrate into government plans, insurers will be hard pressed to offer viable private plans to a smaller population and shrinking risk pool.

Figure 5 – Why Insurers Exit the Market

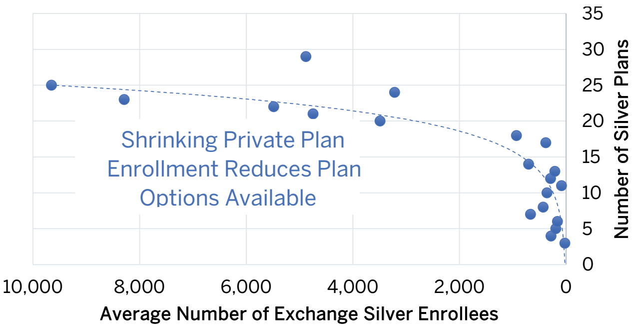


Further, while rates and benefits under the Colorado government option are standardized, the plan is intended to be administered by private insurers rather than directly by a state agency. This construct relies on private insurers' willingness to participate in the Colorado market and their ability to negotiate adequate networks with providers. Under the government option, insurers must offer government plans for each metal tier for which the insurer offers a private plan on the exchange. When insurers are forced to offer government plans with lower reimbursement rates, they lose negotiating leverage because rates in one subset of plans are already set. Over time, as a greater percentage of beneficiaries enroll in the government option, insurers may lose their ability to secure strong provider networks for their private plans.

These dynamics, in addition to costs associated with administering government plans, could force insurers to exit the marketplace in Colorado altogether. And, since the adequacy of the government plans' networks will be solely based on the network adequacy of the private insurers that administer them, enrollees in the government option would also be impacted by market exits. State agencies designed the plan this way to eschew any additional financial risk or pressure, instead placing that responsibility onto private insurers.[17] Should insurers leave Colorado, the state does not have the financial means or infrastructure in place to administer or ensure access and quality in a state government option.

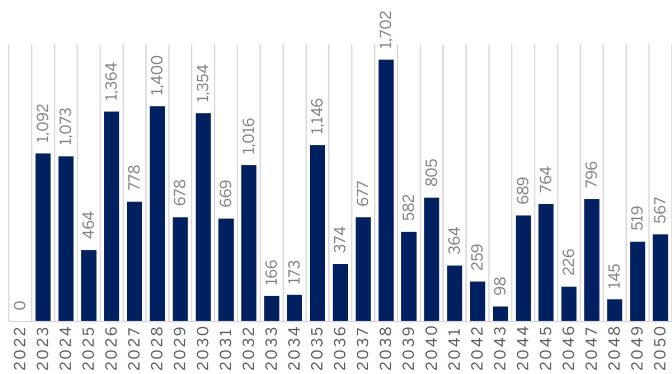
Insurers require a minimum number of enrollees in a given area to accommodate a certain number of plans. As enrollees move to the public option, the size of the market for private plans will dwindle, producing a corresponding decline in the number of plans offered. Every year in which a plan exits a community, enrollees will lose coverage and will be forced to choose another, as illustrated in Figure 6.

Figure 6 – Enrollment in Private Plans



Author's calculations based on Colorado silver plans and exchange silver enrollees

Figure 7 – Annual Incidence Of Coverage Loss



Author's calculations based on Colorado marketplace enrollment and silver plans data

Over nearly 30 years, an estimated 19,048 consumers will experience a loss of existing coverage[18] as insurers – unable to compete with the government option – eliminate private plan options or exit the market entirely. While consumers prefer continuity and most Americans are satisfied with their private coverage,[19] some in Colorado may find their preferred option is no longer available. In some cases, an enrollee may switch to another private plan and then again be faced with the elimination of that coverage option in a subsequent year. This climate of instability threatens consistent access to providers for these consumers as networks vary from plan to plan.

COSTS TO CONSUMERS: COST SHIFTING AND VARIATIONS IN THE IMPACT OF RATE SETTING ON PREMIUMS

The Colorado government option seeks to reduce health care costs by limiting hospital payment through rate setting. Hospital prices, however, reflect aggregated underlying costs, such as wages, supplies and investments in technology. If the state dictates what hospitals are paid under the government plans, it will create ripple effects across the health care system. Adjustments to payment rates in existing public programs such as Medicare and Medicaid can significantly affect hospitals' bottom lines and many across the state are already operating at a loss.[20] Advocates for the government option argue hospital reimbursements will be set at more efficient levels than under the current system, thereby reducing costs to the consumer; however, our analysis finds that this will not be the case for all Coloradans.[21]

Cost Shifting under the Government Option: A "Back Door Tax" on Consumers

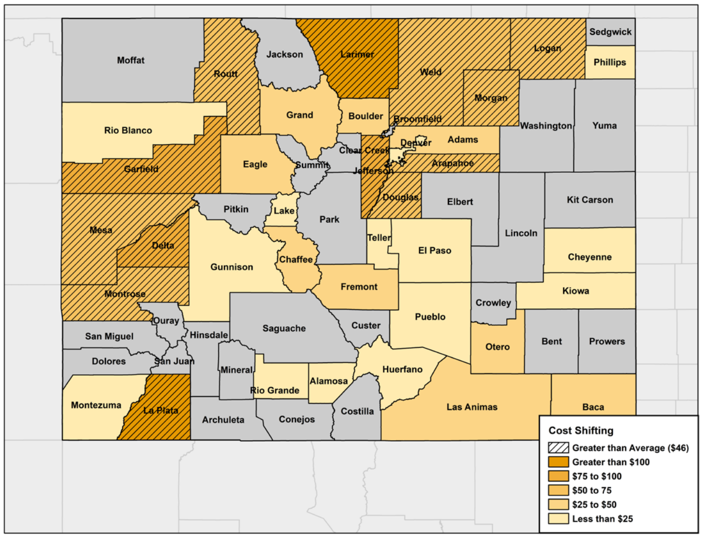
Today, 52% of Coloradans have employer-sponsored insurance.[22] After the introduction of the state government option, cost shifting will result in higher costs for employer plans in Colorado. FTI's previous analysis found that government rate setting in a government option would decrease hospital reimbursements across the state by $100 million annually once the policy is in full effect.[23] This number rises to $105 million when adjusted for the payment rates proposed in HB20-1349. We estimate that these payment reductions will shift an estimated $57 dollars annually onto an enrollee with employer-sponsored insurance. Applying this over a decade, the total shift in costs is expected to reach $574 per enrollee assuming the exchange population migrates to the government option.[24] When enrollees with employer-sponsored insurance plans experience increases in their premiums due to cost shifting, they will effectively be experiencing a "back door tax" to subsidize the government plan.

> IN CONTEXT:
>
> In 2019, the state of Colorado had revenue surpluses, triggering a reduction in the income tax rate from 4.63% to 4.50%. A fiscal analysis by Colorado Legislative Council Staff found that the cut will amount to a $143.8 million revenue reduction for FY 19-20, sending those dollars back to taxpayers. For those with employer-sponsored insurance, however, that tax relief could be short-lived. Should the state government option be implemented in 2022 as proposed, the tax reduction touted by Colorado lawmakers would be largely negated by the new "back door tax" on employer-sponsored insurance plans expected to result from cost shifting to private insurance.
>
> Source: Colorado Legislative Council Staff Fiscal Note for SB 20-020, January 17, 2020

Effects by County

As with most policy changes, the impact of the state government option will vary by region. Our analysis examined cost shifting in 46 counties for which there was available data and found that enrollees in employer-sponsored insurance in 37 of those counties – more than half of the state's 61 counties – would experience premium increases as a result of rate setting in the government plan. For some counties, this increase could exceed $200 annually.

Figure 8 – Cost Shifting by County



Source: FTI Consulting

Compounding Effects

Cost shifting as a result of inadequate reimbursements in government health programs is already occurring and would be exacerbated in Colorado with the introduction of a state government option. According to the Medicare Payment Advisory Commission (MedPAC), hospitals' aggregate Medicare margin was -9.9% in 2017 and is expected to decline to about -11% in 2019.[25] Medicare and Medicaid enrollees are projected to increase by 20% and 8% over a decade,[26] increasing shortfalls for providers. Should the government option be implemented, 37% of Coloradans would be covered under public programs by 2032, representing a 20% increase from 2023 while enrollment in employer-sponsored insurance is expected to increase less than 5%. When we account for the combined effects of the government option and projected changes in the Medicare and Medicaid enrollee population, we estimate that the total additional cost shift from government health programs to consumers with employer-sponsored coverage in Colorado would exceed $5,000 per enrollee over a decade.

CONCLUSION

As Colorado legislators continue to examine the implications of major reforms to the health care system such as the proposed government option, they will need to gather a complete picture of the policy's implications for network adequacy, cost shifting, health insurance premiums, and consumer choice. While health care costs remain a major concern across the state, policies have already been enacted and are successfully working to reduce them. Rather than lowering health care costs, the state government option may actually drive up costs for some consumers in the form of higher premiums from cost shifting. Equally concerning, many consumers will lose their current private plans and be forced onto alternative coverage. As insurers are forced to eliminate private plans due to low enrollment, they may also begin to exit the market altogether, uprooting the foundation from which the marketplace was built and placing the onus of administering these plans on the state government.

Acknowledgments: This work was supported by the Partnership for America's Health Care Future Action.

CITATIONS

1. HB19-1004 "Proposal For Affordable Health Coverage Option." https://leg.colorado.gov/bills/hb19-1004. Colorado General Assembly.
2. Bimestefer K., Conway M. SMART Government Act Presentation. https://www.colorado.gov/pacific/hcpf/proposal-affordable-health-coverage-option Published January 10, 2020. Accessed March, 2020.
3. Fulcher M. Polis Stands His Ground As Challenges Against His Health Care Reform Proposals Mount. CPR News. https://www.cpr.org/2020/01/15/polis-stands-his-ground-as-challenges-against-his-health-care-reform-proposals-mount/. Published January 15, 2015.
4. Colorado State Government Option Public Opinion Polling. Colorado's Health Care Future. https://coloradoshealthcarefuture.org/colorado-state-government-option-public-opinion-polling/. Published January 30, 2020. Accessed March 2, 2020.
5. Reinsurance Program. Colorado Department of Regulatory Agencies. https://www.colorado.gov/pacific/dora/reinsurance-program. Published September 5, 2019. Accessed March 2, 2020.
6. Colorado Division of Insurance. Study shows Colorado's Reinsurance Program funding model will cut insurance premiums. Department of Regulatory Agencies. https://www.colorado.gov/pacific/dora/study-shows-colorados-reinsurance-program-funding-model-will-cut-insurance-premiums. Published April 4, 2019. Accessed March 2, 2020.
7. The Colorado State Government Option: Assessing the Impact of Proposed Reforms on Access to Care. FTI Consulting; 2020. https://www.fticonsulting.com/~/media/Files/us-files/insights/reports/2020/jan/colorado-government-option-assessing-reforms-health-care.pdf. Accessed March, 2020.
8. Assessing the Impact of a Public Option on Market Stability and Consumer Choice. FTI Consulting; 2019. https://www.fticonsulting.com/~/media/Files/us-files/insights/reports/2019/nov/impact-public-option-market-stability-consumer-choice.pdf. Accessed March 2020.
9. 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.
10. 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. Accessed March 2, 2020.
11. Actuarial Analysis of a Colorado Health Insurance Option in 2022. Wakely Consulting Group, LLC; 2020. https://www.colorado.gov/pacific/sites/default/files/Wakely%20Colorado%20Public%20Option%20Report.pdf. Accessed March, 2020.
12. 2020 Colorado Insurance Rates and the Role of Reinsurance. Colorado Health Institute. https://www.coloradohealthinstitute.org/research/2020-colorado-insurance-rates-and-role-reinsurance. Published January 16, 2020. Accessed March 2, 2020.
13. Osborne R. Colorado reinsurance program that could cut health care premiums gets federal approval, Polis says. KMGH. https://www.thedenverchannel.com/news/local-news/colorado-reinsurance-program-that-could-cut-health-care-premiums-gets-federal-approval-polis-says. Published July 31, 2019. Accessed March 2, 2020.
14. Boone E. Peak Health Alliance: Summit in Sight. Colorado Health Institute. https://www.coloradohealthinstitute.org/research/peak-health-alliance-summit-sight. Published November 11, 2019. Accessed March 2, 2020.
15. These estimates are conservative and assumes that new people join the public option in the same proportion.
16. Fehr R, Kamal R, Cox C. Insurer Participation on ACA Marketplaces, 2014-2020. The Henry J. Kaiser Family Foundation. https://www.kff.org/private-insurance/issue-brief/insurer-participation-on-aca-marketplaces-2014-2020/. Published November 21, 2019. Accessed March 2, 2020.
17. Final Report for Colorado Public Option.
18. Loss event is used rather than number of individuals to denote that some people may lose their private coverage option more than once in separate years.
19. Jones JM. Americans Still Favor Private Healthcare System. Gallup.com. https://news.gallup.com/poll/268985/americans-favor-private-healthcare-system.aspx?utm_source=Newsletter&utm_medium=Email&utm_content=morelink&utm_campaign=the_health_202&wpisrc=nl_health202&wpmm=1. Published December 12, 2019. Accessed March 2, 2020.
20. The Colorado State Government Option: Assessing the Impact of Proposed Reforms on Access to Care.
21. Final Report for Colorado Public Option.

22. Health Insurance Coverage of the Total Population. The Henry J. Kaiser Family Foundation. https://www. https://www.kff.org/other/state-indicator/total-population/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Uninsured%22,%22sort%22:%22desc%22%7D.

23. The Colorado State Government Option: Assessing the Impact of Proposed Reforms on Access to Care.

24. These effects are based on the assumption that everyone on the exchange eventually switches to the public option plan and that cost shifting falls entirely on employer-sponsored insurance plans.

25. Report to the Congress: Medicare Payment Policy. Medicare Payment Advisory Commission; 2019. http://medpac.gov/docs/default-source/reports/mar19_medpac_entirereport_sec.pdf?sfvrsn=0. Accessed March 2020.

26. This analysis uses national averages as growth rates for projecting Medicare and Medicaid populations.

FTI Headquarters
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