The LEWIN GROUP
an INGENIX company

Cost and Coverage Impacts of Five Proposals to Reform the Colorado Health Care System

Final Report

Prepared for:

The Colorado Blue Ribbon Commission for Health Care Reform

By:
The Lewin Group

December 29, 2007

Table of Contents

EXECUTIVE SUMMARY

The Lewin Group was engaged by the Colorado Blue Ribbon Commission for Health Reform to assist in developing and analyzing alternative proposals to expand health insurance coverage and reform the Colorado health care system. We began by developing a "baseline" projection of what health care coverage and costs will be in Colorado in 2008 under current law for major stakeholder groups, including governments, providers, employers and families. We then estimated the cost and coverage effects of several proposals to expand insurance coverage for major stakeholder groups in Colorado.

We worked with the authors of four proposals to reform the Colorado Health Care system, selected for analysis by the Colorado Blue Ribbon Commission on Health Reform. We then assisted the Commission in developing the details of their proposal. In this report, we describe the health reform proposals analyzed in this study, present our estimates of program effects, and summarize the data and methods used in conducting the analysis. We begin by presenting our projections of health coverage and spending in Colorado for 2007/2008.

Insurance Coverage

We used the most recent data available on the number of uninsured in the state. These data indicate that an average of about 785,200 people were uninsured at any point over the 2003 through 2005 period. We project that number will grow to 791,800 uninsured people by 2007/2008, which is about 17 percent of the state's population. Key findings include:

- Most Coloradans have private health insurance:
  - 58 percent have employer-sponsored insurance (ESI) as a worker, dependent or retiree;
  - 3 percent have private non-group coverage; and
  - 26 percent are covered under public programs.
- 21 percent of Colorado's uninsured are not citizens;
- About 85,000 of the uninsured (11 percent) are eligible for Medicaid or CHP+ but are not enrolled;
- The uninsured are found in all age groups:
  - 20 percent of the uninsured are children;
  - 40 percent of the uninsured are young adults between the ages 19 to 34 years; and
  - 10 percent are between the ages of 55 to 64 years.
- The uninsured are found in all income groups:
  - 24 percent live below the federal poverty level (FPL) ($16,800 for a family of three);
  - Over half are living below 200 percent of the federal poverty level;
  - The uninsured include 51,000 Coloradans with incomes above $100,000.

Connection to Workforce for the Uninsured

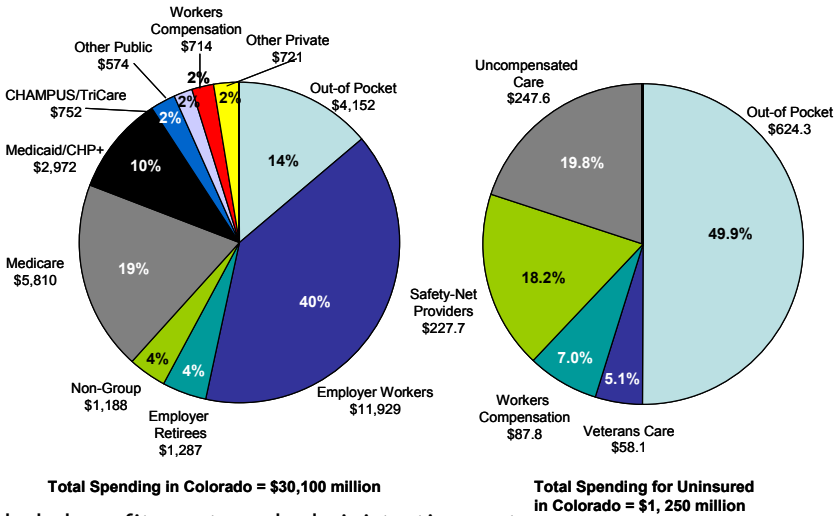
About 62 percent of the uninsured are in a family with one or more workers. Key findings include:

- We estimate that about one-third of the uninsured are workers or dependents of workers in firms that offer ESI:
  - 14 percent of the uninsured are workers or dependents in families that have declined the coverage available to them at work; and
  - 21 percent of the uninsured are workers or dependents in families where the worker is ineligible for their employer's plan as a part-time or temporary worker.
- Uninsured workers and their dependents can be found in firms of all sizes:
  - 8 percent are associated with sole proprietors;
  - 23 percent are in small firms with 1 to 24 workers;
  - 14 percent are with firms that have 1,000 or more workers; and
  - 4 percent are associated with federal state or local governments as workers.

Statewide Health Spending in Colorado

We estimate that total statewide health spending will be $30.1 billion in 2007/2008 (***Figure ES-1***). This includes all health related expenditures for Colorado residents, including long-term care and administrative costs, regardless of the source of payment. We developed these estimates from state-specific health spending information for state Medicaid and safety-net programs, federal spending for Colorado residents under Medicaid and Medicare, employer spending for ESI, non-group insurance, family health spending and workers compensation medical benefits.

Figure ES-1
Health Spending in Colorado by Source of Funding



a/ Estimates include benefits costs and administrative costs
Source: Lewin Group estimates.

Key findings on health spending include:

- Private health insurance, including ESI and non-group, will cover about 48 percent ($14.4 billion) of all health spending in the state;
- Public programs such as Medicare and Medicaid would cover about 35 percent of health spending;
- Spending under the state's Medicaid and CHP+ programs will reach about 3.0 billion in 2007/2008, including state and federal shares;
- Families would pay about 14 percent of spending including deductibles, co-payments and payments for non-covered services;
- Health spending in Colorado grew by about 8.5 percent per year over the 2000 through 2004 period, compared with an average of 8.2 percent nationally (i.e., the last year for which total spending is available);
- Colorado spending growth was less than the average for neighboring states of 9.1 percent per year over the same period;
- Using current trends data, we project that spending will grow by about 7.1 percent per year between 2004 and the 2007/2008 fiscal year; and
- The uninsured account for $1.3 billion in health spending:
  - The uninsured pay for about half of their care out-of-pocket.
  - 20 percent is uncompensated care from providers;
  - 18 percent is provided by safety-net programs;
  - About 12 percent is provided as workers' compensation or Veterans benefits.

Proposals to Reform the Colorado Health Care System

Figure ES-2 presents a summary of the key features of each of the five health reform proposals that we analyzed in this study. With the exception of the "Better Health Care for Colorado," four of these proposals, would require all Colorado citizens and legal residents to have health insurance. In addition, the "Colorado Health Services Program" (CHSP) extends full coverage to undocumented immigrants. Only the "Better Health care for Colorado" proposal does not have a mandate for individuals to have coverage.

Four of the proposals would expand coverage through a combination of an incremental increase in eligibility for the Medicaid/CHP+ programs and newly created premium subsidy programs. These include "Better Health Care for Colorado", "Solutions for a Healthy Colorado", "A Plan for Covering Coloradans" and the Commission's proposal. All of these plans are designed to retain ESI as the primary source of insurance in the state. The primary differences in these plans are the income levels to which subsidies would be available.

The CHSP is a single-payer plan that would provide comprehensive health insurance coverage to all Colorado residents. It would replace all existing forms of public and private health insurance under a single plan. The plan would cover the same list of services now covered

Figure ES-2
Summary Description of the Five Policy Options Studied by the Commissioner

	Mandate to Have Coverage	Kids Coverage & Pregnant Women	Adults	Employer Mandate	Minimum Benefits Package	Financing
"Better Health Care for Colorado"	No mandate	Medicaid to 300% of FPL	Premium subsidy to 300% of FPL	No contribution; Must Establish IRS Section 125 plans	Broad benefits; $35,000 maximum benefit	Tobacco & Alcohol tax
"Solutions for a Healthy Colorado"	Individual mandate excluding undocumented	Medicaid to 250% of FPL	Medicaid parents to 100% of FPL; premium subsidy to 250% of FPL	No contribution; No Section 125 requirement	Broad benefits; $50,000 maximum	Tobacco, Alcohol & Snack tax
"A Plan for Covering Coloradans"	Individual mandate excluding undocumented	Medicaid to 300% of FPL	Medicaid parents to 300% FPL and other adults to 100% FPL; premium subsidies to 400% of FPL	$347 per uninsured worker; Must Establish IRS Section 125 plans	Comprehensive; no maximum	Tobacco & Alcohol tax; Premium tax; Provider tax; Employer contribution; Increase personal income tax by 0.6 percentage points
"Colorado Health Services Program (CHSP)"	All covered including the undocumented	All covered	All covered	6% payroll tax	Same services now covered by Medicaid	Tobacco & Alcohol tax; Increase personal income tax by 8.1 percentage points
Commission Proposal	Individual mandate including the undocumented	Medicaid to 250% of FPL for kids only	Medicaid to 205% of FPL for all adults; premium subsidies to 400% of FPL	No contribution; Must Establish IRS Section 125 plans	Broad benefits; $50,000 maximum	Tobacco, Alcohol & snack tax; Increase personal income tax by 0.8 percentage points

a/ The State income tax rate is currently 4.6 percent.
Source: The Lewin Group

under the state's Medicaid program, which is more extensive than benefits provided under the other proposals and most private health plans.

Under the current Colorado Medicaid program, pregnant women and children with income below 205 percent of the FPL are eligible, as are parents living below 60 percent of the FPL. The "Solutions for a Health Colorado" proposal would increase income eligibility to 250 percent of the FPL under the existing Medicaid/CHP+ program or a newly established premium subsidy program.

Eligibility for subsidized coverage is extended through 300 percent of the FPL under the "Better Health Care for Colorado" proposal and 400 percent of the FPL under "A Plan for covering Coloradans." The Commission's proposal provides subsidies through 400 percent of the FPL, although the subsidy for people over 300 percent of the FPL is limited to only the amount of the premium in excess of 9 percent of income.

All of the plans specify a minimum benefits package that covers a broad range of services including: hospital care, physician care, dental services and prescription drugs. These plans have little or no deductibles and typically include co-payments in the range of 10 percent to 20 percent. However three of the plans specify a maximum benefits amounts between $35,000 and $50,000 to reduce the cost of the plan. These include the "Better Health Care for Colorado" proposal, the "Solutions for a Health Colorado" proposal and the Commission's Proposal. The CHSP benefit package is the most comprehensive of those studied.

Only two of the proposals would require employers to contribute to the cost of covering their workers. "A Plan for Covering Colorado" would require employers to pay $347 per full-time-equivalent (FTE) worker that is uninsured. The CHSP program would require employers to pay a 6.0 percent payroll tax, which would replace current employer spending for health benefits.

Three of the proposal would require all employers to establish IRS qualified Section 125 "premium-only" plans so that worker contributions for health coverage are in pre-tax dollars. These include the "Better Health Care for Colorado" plan, "A Plan for Covering Colorado," and the Commission's proposal. Even firms that do not offer insurance would be required to have a Section 125 plan so that worker premiums for non-group coverage would effectively be tax exempt.

Coverage

The CHSP would cover 100 percent of Colorado residents including all of those who are now insured. Although it still would be difficult to reach some populations, they would all be covered for health services when they access a health care provider, and would be formally enrolled at that point.

The "Better Health Care for Colorado" proposal would cover only 342,600 (41.0 percent) of the uninsured. This reflects the fact it does not include a mandate to have health insurance and subsidies are provided through only 300 percent of the FPL. The other three programs would cover only between 82 percent and 87 percent of the uninsured, even though they include coverage mandates. This is largely because none of these plans provide coverage to

Figure ES-3
Program Costs and Revenues under Health Reform Options (millions)

	Reduction in Uninsured (1,000 s) (percent reduction)	New Program Costs (millions)					Change in Statewide Health Spending (millions) c/
		New Public Program Costs-State and Federal	Offsets to Current State Spending a/	Federal Funds: Non-Waiver Dependent	Federal Funds: Waiver Dependent b/	Required Revenues	
"Better Health Care for Colorado" (Mo mandate: subsidies below 300% FPL)	324.6 (41.0%)	$980	$31	$74	$486	$389	$595
"Solutions for a Healthy Colorado" (Individual mandate: subsidies below 250% FPL)	653.4 (82.5%)	$1,366	$179	$280	$54	$853	$271
"A Plan for Covering Coloradans: (Individual mandate: subsidies below 400% FPL	683.2 (86.3%)	$3,146	$191	$607	$334	$2,014	$1,289
"Colorado Health Services Program (CHSP)" (Single payer: tax financed	791.8 (100.0%)	$26,578	$3,128	--	$8,425 d/	$15,025	($1,395)
Commission Proposal (Individual mandate: subsidies below 400 FPL)	694.3 (87.6%)	$2,666	$179	$302	$953	$1,232	$987

a/ Includes net savings to safety-net programs as the number of uninsured is reduced.
b/ Includes waiver required to retain federal Disproportionate Share Hospital spending.
c/ Includes all spending for health services and insurance/program administrative costs for residents of Colorado regardless of the source of payment.
d/ Congressional action would be required to block grant funds to the CHSP that would have been spend for Colorado residents under Medicare, Medicaid and other federal funding for Coloradans.
Source: Lewin Group Estimates using the Health Benefits Simulation Model (HBSM).

undocumented immigrants. Also, many of the uninsured do not pay taxes and are therefore beyond the reach of enforcement provisions implemented through the tax code.

New Public Program Costs

Figure ES-3 also shows the total cost of new programs established under these proposals. The "Better Health Care for Colorado" proposal would cost $980 million if fully implemented in 2007/2008. This is the smallest increase in public costs under any of these options primarily

because it does not include a coverage mandate. Program spending under the "Solutions for a Healthy Colorado" plan would be $1.4 billion even though subsidies are provided through only 250 percent of the FPL, which reflects the mandate to have coverage.

"A Plan for Covering Coloradans" would cost $3.1 billion in new program spending, reflecting that it provides premium subsidies through 400 percent of the FPL. New Program costs under the Commission's proposal, which also provides subsidies through 400 percent of the FPL, would cost about $2.7 billion because the subsidies for people between 300 percent and 400 percent of the FPL under the proposal are limited to only premiums in excess of 9 percent of income. Total benefits costs under the CHSP would be $26.6 billion. This reflects that the CHSP provides comprehensive coverage with minimal co-payments to all Colorado residents, whereas the other proposals subsidize coverage for primarily lower-income people.

Impact on Statewide Health Spending

As discussed above, total statewide health spending in Colorado will be $30.1 billion in 2007/2008. Statewide spending would increase under all four of the proposals that build upon Medicaid/CHP+ and new premium subsidy programs. For example, total health spending increases by about $987 million under the Commission's proposal. This reflects increases in utilization of health services for newly insured people, the cost of administering that new coverage and increases in Medicaid provider payment levels under the program. In general, our estimated increases in spending are in proportion to the number of newly insured people under each of these options.

Unlike the other proposals, the CHSP would actually reduce health spending by $1.4 billion. This is primarily due to reductions in the cost of administering insurance under a uniform program of coverage for all state residents. For example, administrative costs under the fee-for-service Medicare program, which can be thought of as a single-payer program for the aged, are equal to less than 2.0 percent of benefits costs, compared with administrative costs averaging 14 percent of benefits costs for private insurance. Also, the CHSP would be able to aggregate the buying power of the entire state to negotiate discounts with drug manufacturers resulting in additional savings.

Financing

Many of the expansions in Medicaid benefits and coverage are eligible for federal matching funds, such as increase in Medicaid and CHP+ eligibility for families, improvements in provider reimbursement and expanded benefits for the existing Medicaid/CHP+ populations. These expansions can be executed by submitting a plan amendment to the Center for Medicare and Medicaid Services (CMS). However, waivers are required to obtain federal matching funds to cover non-disabled adults without custodial responsibilities for children, who are not eligible at any income level under the existing program. Waivers are also required to provide coverage through premium subsidies for a private health insurance.

With the exception of CHSP, all of the proposals would rely on some form of federal waiver to obtain federal matching funds for newly eligible populations. However, one of the rules for granting waivers is that the program must not result in an increase in federal funding over what

it would have been in the absence of the waiver. Meeting this budget neutrality requirement is likely to be difficult for covering non-disabled non-custodial adults. However, some of the waivers allowing the state to cover newly eligible children and parents through a more limited benefits package may be easier to obtain since this would be less costly than covering these groups under the Medicaid and CHP+ benefits if covered through a plan amendment.

The Better Health care for Colorado proposal assumes that about half of program costs would be obtained from the federal government through waivers. About 36 percent of funding for the Commission's proposal comes through federal waivers while only about 11 percent of funding for "A Plan for covering Colorado" is waiver dependent.

The CHSP is also dependent upon an act of Congress to convert all federal spending for Coloradans under Medicare, Medicaid and other federal programs to a block grant that the state could use to help fund the program. This differs from the Medicaid waivers that the other proposals would request which can be granted by CMS without an act of Congress.

Each of these proposals specifies new taxes to pay for the programs. All of the plans would increase taxes on tobacco and alcoholic products and two of the plans would impose a tax on snack foods of low nutritional value. "A Plan for Covering Colorado" would also impose a tax on health providers and health insurance premiums to recover anticipated insurer savings and reductions in uncompensated care.

The CHSP would increase the personal income tax rate from its current level of 4.6 percent to 12.7 percent. This would be largely offset by the elimination of family premium payments and substantial reductions in family out-of-pocket health spending. The Commission's proposal would increase the personal income tax rate by 0.8 percentage points while "A Plan for Covering Colorado would increase the rate by 0.6 percentage points.

I. INTRODUCTION

The Lewin Group was engaged by the Colorado Blue Ribbon Commission for Health Reform to assist in developing and analyzing alternative proposals to expand health insurance coverage and reform the Colorado health care system. We began by developing a "baseline" projection of what health care coverage and costs will be in Colorado in 2008 under current law for major stakeholder groups, including governments, providers, employers and families. We then estimated the cost and coverage effects of several proposals to expand insurance coverage for major stakeholder groups in Colorado. In this report, we describe the health reform proposals analyzed in this study, present our estimates of program effects, and summarize the data and methods used in conducting the analysis.

A unique aspect of this study is that we worked with the authors of four distinct health reform proposals as well as the Commission to specify program features and estimate their effects. Early in the project, we met with the authors of each of these proposals to specify the details of their plans to a level where it was possible to estimate their effects. Once specified, we used Lewin Group models to estimate the cost and coverage impacts of each proposal across various stakeholder groups, based upon the baseline health spending data developed in the project.

After reviewing the results with each author, we assisted them in revising their plans to improve each proposal's effectiveness and correct for unintended consequences. We repeated this process about three times for each of the proposals. The modeling process necessitated that Lewin make certain assumptions about the effects of the proposal (e.g., assumptions about crowd-out, take-up, wage effects, etc.). We repeated this process with the Commission in the development of their proposal. Our assumptions were explained to the authors and the Commission throughout this process and are detailed in the chapters below.

The five proposals analyzed in this study target the following uninsured populations:

- **Proposal # 1 "Better Health Care for Colorado":** This proposal, authored by the Service Employees International Union (SEIU) and the Colorado Association of Public Employees (CAPE) would expand coverage under the Medicaid and CHP+ programs. CHP+ would be expanded to cover all pregnant women and children living below 300 percent of the FPL. It also provides Medicaid-funded subsidies for private coverage for parents through 250 percent of the FPL and childless adults through 225 percent of the FPL. After a period of time, eligibility levels for adults would be increased to 300 percent of the FPL;
- **Proposal # 2 "Solutions for a Healthy Colorado":** This proposal, authored by the Colorado Association of Health Underwriters, would expand eligibility for pregnant women children under Child Health Plus (CHP+) to 250 percent of the FPL. Medicaid eligibility for parents would be increased to 100 percent of the FPL. In addition, the program provides a sliding-scale premium subsidy for private coverage to people living below 250 percent of the FPL that can be used either to purchase non-group coverage or to pay the worker share of the premium for employer-sponsored insurance (ESI). All residents of Colorado would be required to have health insurance;

- **Proposal # 3 "A Plan for Covering Coloradans":** This proposal, authored by the Committee for Colorado Health Care Solutions, would require employers to either provide coverage for their workers or pay a fee. The program expands coverage under the Medicaid and CHP+ programs to cover all pregnant women, parents and children living below 300 percent of the FPL, and childless adults living below 100 percent of the FPL. It also establishes a purchasing pool combining the individual, small group, and large group insurance markets. People would be able to purchase coverage with a premium that is subsidized on a sliding-scale with income, for people living below 400 percent of the FPL. All residents of Colorado would be required to have health insurance;
- **Proposal # 4 "Colorado Health Services Program (CHSP)":** This proposal, authored by the Health Care for All Coalition and the Colorado Nurses Association, would be a single-payer program covering all Colorado residents. Coverage for the Medicare and Medicaid populations would be folded into the statewide program. Employers would no longer cover their workers for the services covered under the CHSP. The program would be funded with an employer payroll tax (i.e., "State Health Insurance Contribution) and an individual state health insurance contribution (also referred to as an "employer payroll tax" and a "personal income tax", respectively); and

- **Proposal # 5 "The Commission's Proposal":** This proposal would require all legal residents in Colorado, including citizens and legal non-citizens to have health insurance with at least a minimum benefits package. The proposal increases Medicaid/CHP+ eligibility for children to 250 percent of the FPL and expands eligibility for non-custodial adults (including the aged and disabled) and parents through 205 percent of the FPL. In addition, it expands eligibility for disabled adults up to 450 percent of the FPL through a buy-in and establishes a Medically Needy program. People with incomes up to 300 percent of the FPL would receive a sliding-scale subsidy for a comprehensive benefits package modeled on the CHP+ benefits package. People with incomes between 300 percent and 400 percent of the FPL receive a subsidy for the cost of a minimum benefits package in excess of nine (9) percent of their income. There is no requirement for employers to contribute to the cost of coverage for workers.

Our analysis is based on a combination of economic and actuarial models. We developed estimates of the cost of the benefits packages specified by each author and the Commission in their proposals. We then used the Lewin Group Health Benefits Simulations Model (HBSM) to estimate the number of people affected and the program costs, using the actuarial estimates as inputs. HBSM is a "micro-simulation" model of the U.S. health care system designed to simulate the impact of initiatives to expand insurance coverage on various stakeholder groups at the state and federal levels. We updated the model to use Colorado-specific health coverage and spending data available from public and private sources in the state.

For illustrative purposes, we assume that federal and state laws are changed to permit the implementation of these programs as proposed. Because all of these proposals would increase state government spending, we assume that state law is revised to permit implementation of the various revenue raising measures proposed by the authors. In particular, we do not assess whether the Colorado Taxpayer's Bill of Rights (TABOR) and/or the Arveschoug-Bird spending

limits apply to each author's financing strategies, but rather note that these state policies generally impose limits on state spending without voter approval. We also assume that the federal government will provide the various waivers and exemptions from federal law required to implement these plans. These include:

- **ERISA Exemption for Colorado:** It is unclear whether some of the employer requirements under these proposals would be pre-empted by the Employee Retirement Income Security Act (ERISA). We assume that the employer contribution requirement under "A Plan for Covering Coloradans" would not be pre-empted by ERISA if challenged in court. We also assume that ERISA does not pre-empt the CHSP single-payer program. Alternatively, we assume that Congress acts to exempt Colorado from ERISA for purposes of the program in Colorado. Finally, we assume that the Commission proposal's requirement for employers to set up Section 125 plans would also not be pre-empted by ERISA;
- **Medicaid Waivers:** The "Better Health Care for Colorado" proposal, "A Plan for Covering Coloradans" proposal, and "The Commission's proposal" would require a Section 1115 Demonstration waiver to secure federal matching funds for newly covered populations under these proposals (such as low-income childless adults). We present results for both of these plans with and without demonstration waivers; and
- **Medicaid and Medicare block grants:** Under the CHSP single-payer proposal, the federal government is assumed to provide Colorado with a lump-sum payment (i.e., block grant) for what the federal government would have spent for Coloradan's under current law. For illustrative purposes, we assume that Congress acts to provide these block grants for Colorado.
- **Disproportionate Share Hospital (DSH) Funding:** We assume that the state obtains a Medicaid 115 waiver so there is no loss of federal DSH funding under all of the proposals.

Because these changes in law may not be forthcoming, we also show the effect of these programs assuming that these federal waivers and exemptions are not provided. We present our analysis in the following sections:

- Health Insurance Coverage in Colorado;
- Health Spending in Colorado; and
- Comparison of Health Reform Proposals.

II. HEALTH INSURANCE COVERAGE IN COLORADO

We estimate that there was an average of 785,200 Coloradans without health insurance at any given point between 2004 and 2006, which is about 17.2 percent of the state's population. Twenty percent of the uninsured were children under age 19. We estimate that by 2008, the number of uninsured will grow to 791,800.

We developed these estimates using the March Current Population Survey (CPS) conducted annually by the Census Bureau. These data are the source of the annual Census Bureau estimates of the number of uninsured in the U.S. and in each state. We pooled the Colorado sub-samples of the CPS data for 2004 through 2006 to increase the sample size to a level sufficient to provide detailed analyses for the state.

While the CPS provides the most current data on insurance coverage, it under-reports the number of people covered under the Medicaid program by roughly 30 percent, which causes it to over-estimate the number of uninsured. Consequently, we corrected the CPS data for under-reporting of Medicaid coverage to provide a more accurate count of the number of people without coverage. We also adjusted the data to correct for the under-reporting of employer coverage. In this section, we describe the data sources and methodology that we used to estimate the total number of uninsured in the state. We present coverage estimates for Colorado in the following sections:

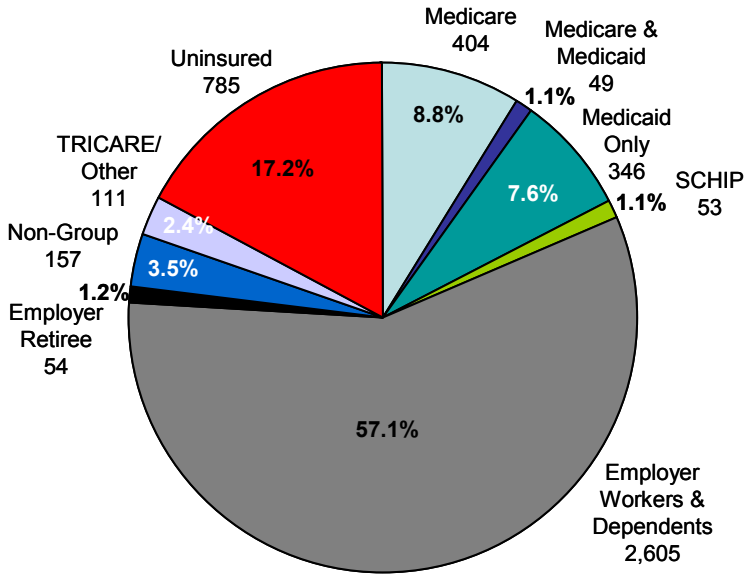
- Primary Source of Health Insurance;
- Number of Uninsured by Age; and
- Uninsured by Family Income.

We present a detailed description of our methodology for estimating coverage in Colorado in ***Appendix A.***

A. Primary Source of Health Insurance

Figure 1 presents our estimates of the distribution of Colorado residents by primary source of coverage. Because many people have coverage from more than one source, we defined the primary source of coverage based on the prevailing coordination of benefits practices now in use. For example, about 49,000 aged and disabled people are covered under both Medicare and Medicaid. For these individuals, Medicare is the primary source of coverage, with Medicaid as secondary payer covering Medicare co-payments and services not covered by Medicare.

Figure 1
Colorado Residents by Average Monthly Primary Source of Health Insurance: 2004-2006 [a/]
(thousands)



Total Population = 4,564

a/ Primary payer is determined on the basis of prevailing coordination of benefits practices now in use.
Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

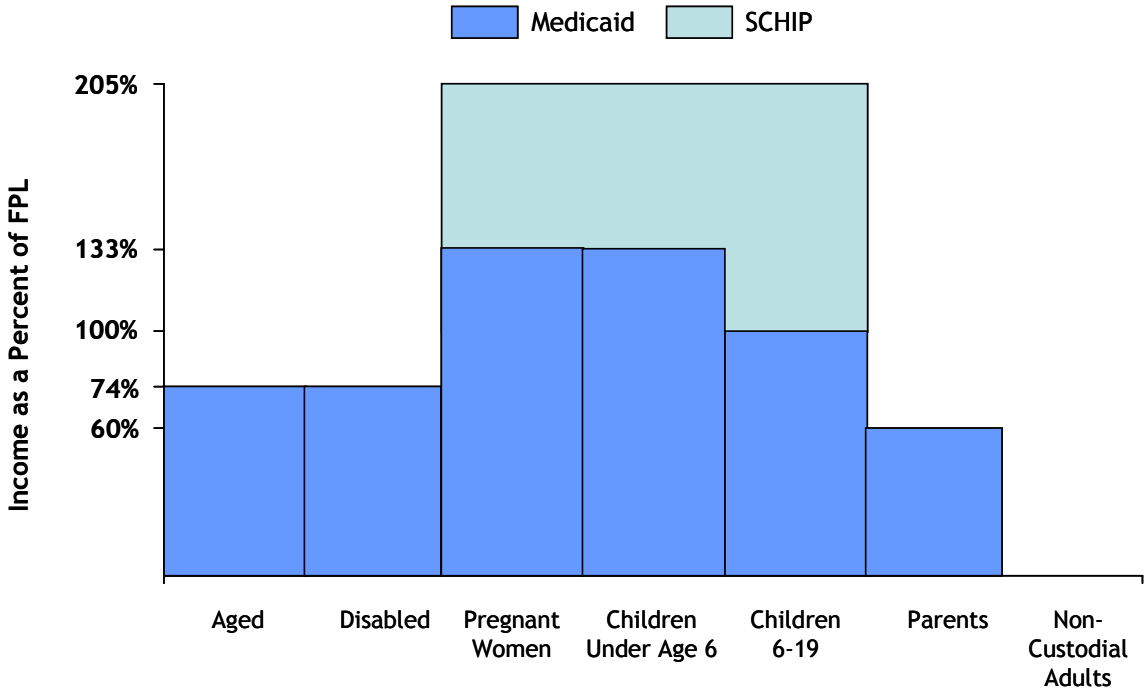
Employer-Sponsored Insurance (ESI) is the primary source of health insurance for most people in Colorado. More than one-half of the population (57.1 percent) has employer-based coverage as a worker or a dependent at any given point in time (***Figure 1***). Another 54,000 people are receiving employer coverage as early retirees (i.e., excludes retiree supplemental coverage for Medicare eligible retirees). In addition, about 157,000 people have individually purchased non-group coverage as their primary source of coverage.

Medicare is the primary source of coverage for 453,000 aged or disabled people of whom about 49,000 are also covered under Medicaid. Average monthly enrollment in Medicaid is about 395,000 people, including the 49,000 people who are also covered under Medicare. Another 53,000 people are covered under CHP+. There are about 83,000 people covered as military retirees or dependents under the TRICARE program. This leaves an average of about 785,200 uninsured people on an average-monthly basis. (Again, later in the report we report that by 2007, this number will grow to about 791,800 people).

Medicaid and CHP+ are important sources of coverage for low-income people. In Colorado, aged and disabled people with incomes below 74 percent of the federal poverty level (FPL) are eligible for Medicaid, some of which are also covered under Medicare as their primary source of coverage (***Figure 2***). Pregnant women and children living below 205 percent of the FPL are eligible under Medicaid or CHP+. (CHP+ covers children under age 6 years and pregnant women with incomes between 133 percent and 205 percent of the FPL and children age 6 to 19

years with incomes between 100 percent and 205 percent of the FPL.) Parents with custodial responsibilities for children are eligible if their income is less than 60 percent of the FPL. Non-disabled and non-aged adults without custodial responsibilities for children are not eligible for Medicaid at any income level.

Figure 2
Eligibility for Colorado Medicaid and CHP+ [a/]

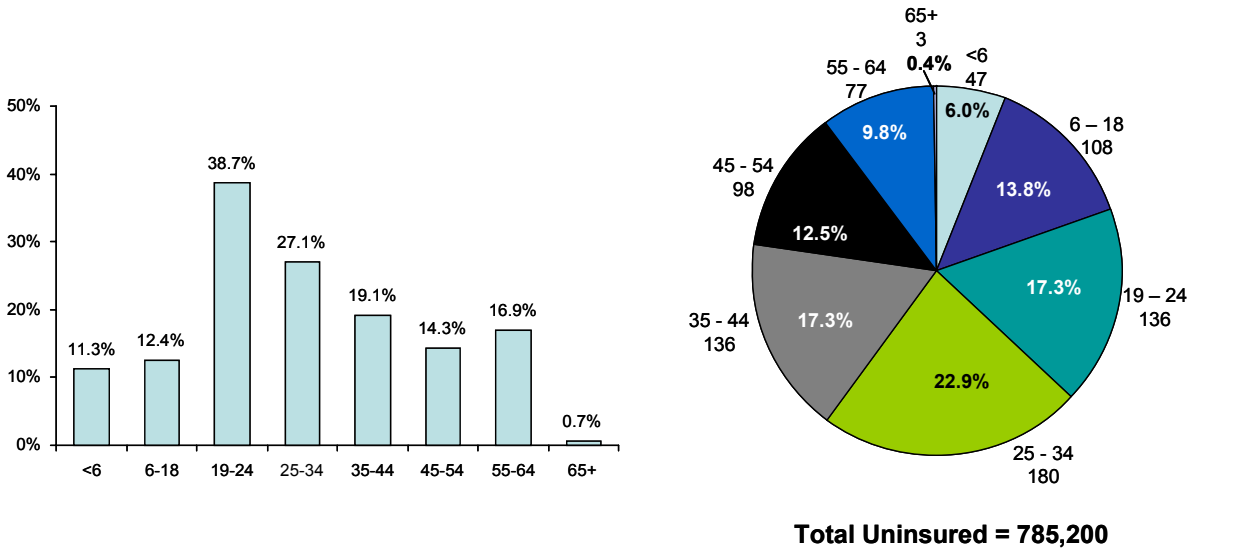


a/ Excludes eligibility for Home and Community-based care waivers.
Source: The Lewin Group

B. Number of Uninsured by Age

Young adults are more likely to be without health insurance coverage than any other age group (***Figure 3***). About 38.7 percent of people age 19 through 24 years are without health insurance, while about 27.1 percent of those age 25 through 34 years are uninsured. About 16.9 percent of people age 55 through 64 years are uninsured. Roughly 12 percent of children under the age of 19 years are uninsured.

Figure 3
Percent of Colorado Residents who are Uninsured by Age: 2004-2006



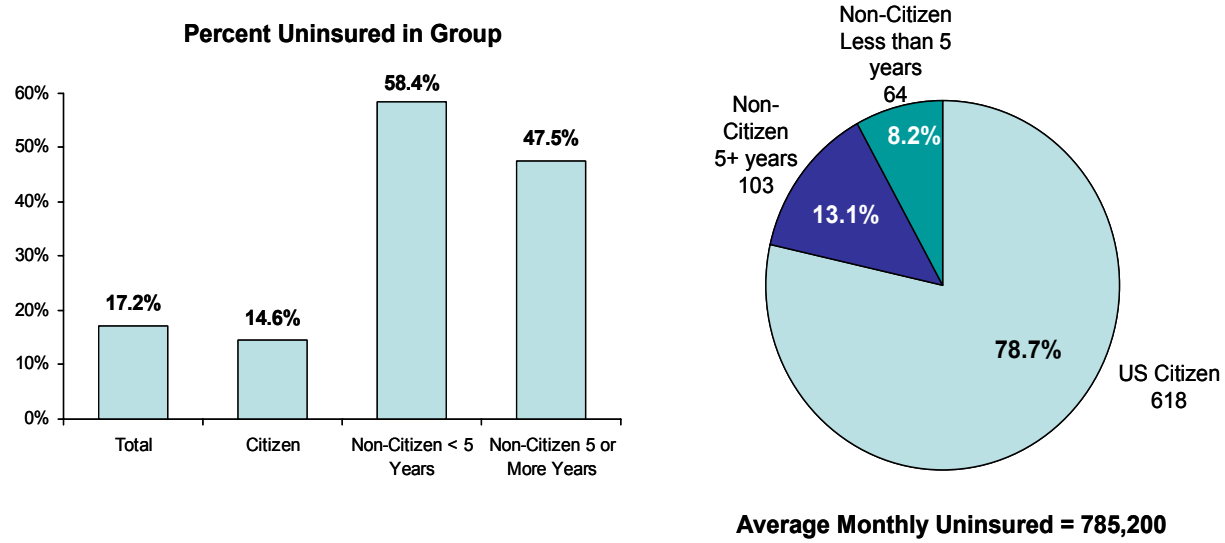
Source: The Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

Of the 785,200 people without health insurance coverage, about 19.7 percent (i.e., 155,000) were children. About 40.2 percent of the uninsured are adults between the ages of 19 and 34.

C. Uninsured by Citizenship

About 167,000 of the uninsured (i.e., 21.3 percent) are not citizens of the US (***Figure 4***). This is important in a policy context because immigrants must wait 5 years before they can qualify for Medicaid. Undocumented immigrants are ineligible for Medicaid regardless of income, except for emergency services. About 8.2 percent of the uninsured are non-citizens who have been in the US for less than 5 years and would not qualify for assistance under Medicaid or CHP+ except for emergencies. Another 13.1 percent of the uninsured are non-citizens who have been in the US for more than 5 years.

Figure 4
Uninsured in Colorado by Citizenship Status: 2004-2006 (thousands)



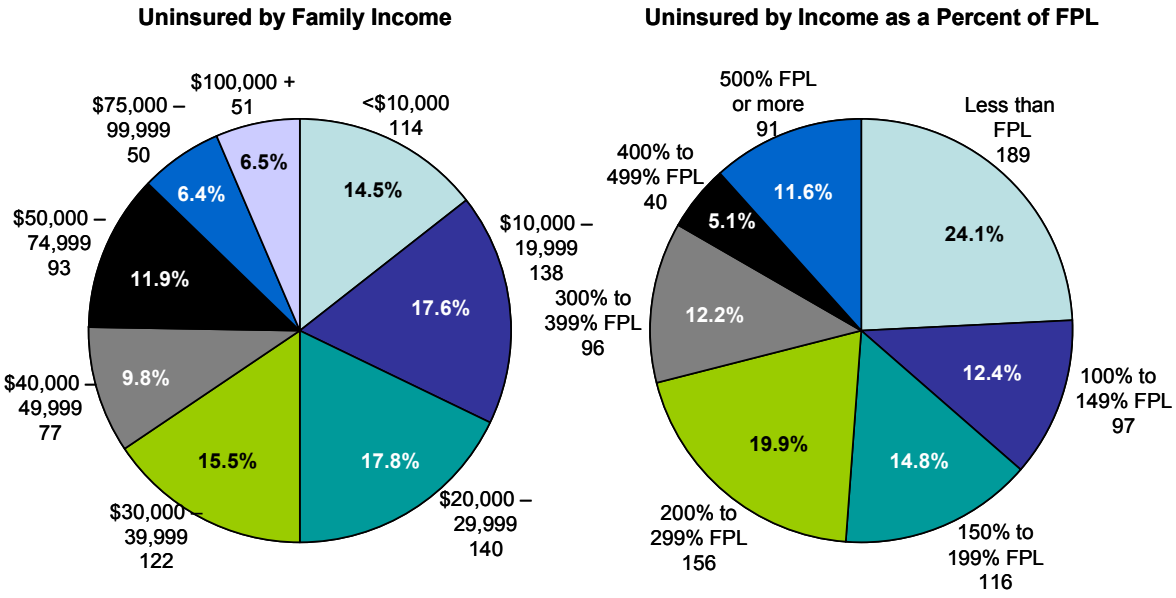
Source: Lewin Group estimates using the Health Benefits Simulations Model (HBSM)

Over half (58.4 percent) of all immigrants who have been in the country less than 5 years are uninsured. Among immigrants who have been in the US for 5 or more years, 47.5 percent are uninsured. About 14.6 percent of US citizens in Colorado are uninsured.

D. Uninsured by Family Income

The uninsured are found in all income groups (***Figure 5***). About 24.1 percent of the uninsured live below the federal poverty level (FPL). About 47.0 percent of the uninsured have incomes between 100 percent and 300 percent of the FPL, and about 28.9 percent of the uninsured have incomes in excess of 300 percent of the FPL. In fact 6.5 percent of the uninsured have family incomes of $100,000 or more.

Figure 5
Average Monthly Uninsured in Colorado by Family Income and Income as a Percent of the Federal Poverty Level (FPL): 2004-2006 (thousands)



Average Monthly Uninsured = 785,200

Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

III. HEALTH SPENDING IN COLORADO

We estimate that statewide health spending will be about $30.1 billion in 2007/2008. This includes spending for all services received by Colorado residents regardless of the source of payment for the care. This includes spending covered by public and private health insurance and the amounts paid by households out-of-pocket. We present our analysis of the current Colorado health care system in the following sections:

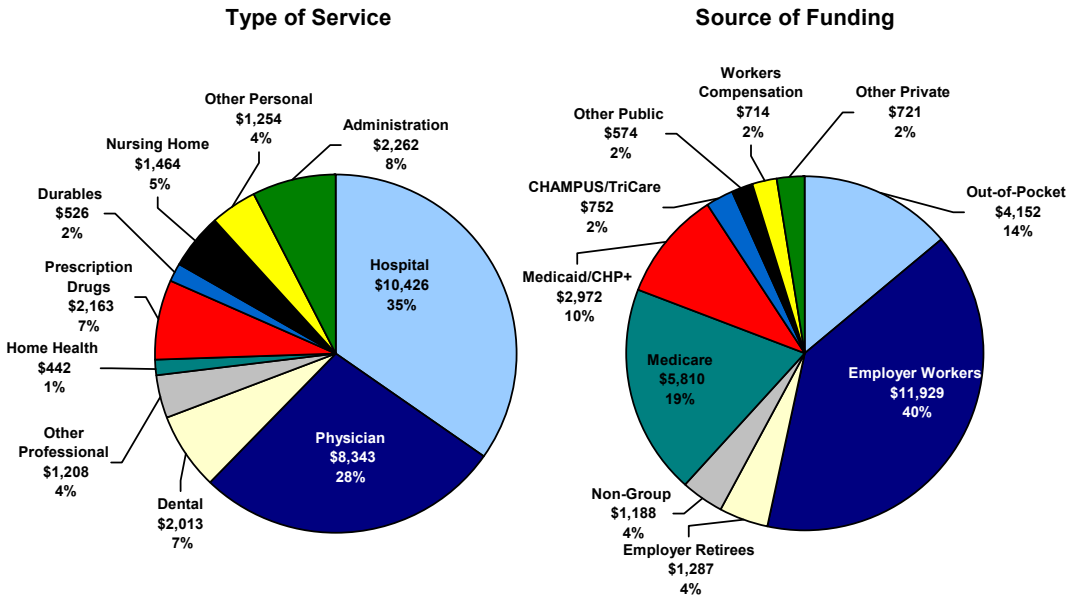
- Spending by Type of Service and Source of Payment;
- Historical Spending in Colorado by Type of Service; and
- Projected Spending in Colorado by Type of Service.

We present a detailed explanation of how we developed our estimates of health spending in ***Appendix B***.

A. Spending by Type of Service and Source of Payment

Figure 6 presents our estimates of spending by type of service and source of coverage in Colorado. Total health spending in Colorado for FY 2007-2008 is $30.1 billion, which includes administration expenditures. It excludes $771.1 million uncompensated care (charity care and bad debt) delivered by Colorado providers.

Figure 6
FY 2007-2008 Estimated Spending in Colorado by Type of Service and Source of Funding (millions)



Total Spending = $30,100 million

Source: Lewin Group estimates.

The following sections describe the data and methods used to estimate health spending in Colorado by type of service and source of payment. We estimated health spending for Colorado by type of service for FY 2007-2008 based upon historical data on actual spending in Colorado. For example, the Office of the Actuary (OACT) of the Centers for Medicare & Medicaid Services (CMS) conducts an extensive analysis of health spending by type of service that is designed to provide reliable estimates of spending for each individual state. These data are based upon hospital financial reports for each hospital in Colorado. Data on income for physicians and other health professionals is based upon the Colorado sub-sample of surveys of businesses conducted by the Bureau of Labor Statistics (BLS).

B. Historical Spending in Colorado by Type of Service

We first estimated total health spending FY 2007-2008 in the state of Colorado for FY 2007-2008. We started with estimates of Colorado health spending developed by CMS for Colorado in calendar year (CY) 2004, which is the most recent year for which these data are available. These estimates are available by type of service and are displayed along with national health spending estimates in ***Figure 7***. Total health spending in Colorado was approximately $21.8 billion in 2004. This includes spending by all payers in the state including individual out-of-pocket payments, and spending for hospitals, physicians, other health professionals, dentists, prescription drugs and long term care.[1] It excludes insurer and program administration, research and construction, and public health spending.

Health spending in Colorado grew at an average annual rate of 8.5 percent compared with the national average of 8.2 percent per year nationally.

[1] "Other professional" services are those provided by health practitioners other than physicians or dentists, such as private-duty nurses, chiropractors, podiatrists, and optometrists. "Other Personal" services include industrial in-plant services (i.e. health care provided by employers for employees at the employer's establishment), and government expenditures for medical care not delivered in traditional medical provider sites (e.g. community centers, senior citizens centers, schools, and military field stations). Home and Community Waiver programs comprise a large portion of "Other Personal" spending.

Figure 7
Historical Spending in Colorado and the United States by Type of Service: 2000 and 2004 (millions) [a/]

Type of Service	Colorado			United States		
	Total Spending CY 2000	Total Spending CY 2004	Avg. Annual Growth 2000-2004	Total Spending CY 2000	Total Spending CY 2004	Avg. Annual Growth 2000-2004
Hospital	$5,598	$7,926	9.1%	$417,049	$566,866	8.0%
Physician	$4,719	$6,599	8.7%	$288,609	$393,713	8.1%
Dental	$1,168	$1,577	7.8%	$61,975	$81,476	7.1%
Other Professional [b/]	$738	$967	7.0%	$39,072	$52,636	7.7%
Home Health	$305	$365	4.6%	$30,514	$42,710	8.8%
Prescription Drugs	$1,335	$1,846	8.4%	$120,803	$189,651	11.9%
Medical Durables	$372	$449	4.8%	$19,330	$23,128	4.6%
Nursing Home	$938	$1,192	6.2%	$95,262	$115,015	4.8%
Other Personal Care [c/]	$538	$885	13.3%	$37,076	$53,278	9.5%
Total	**$15,711**	**$21,806**	**8.5%**	**$1,109,690**	**$1,518,473**	**8.2%**

a/ Spending in free-standing ambulatory surgical centers is recorded as physician income. For hospital based ambulatory care centers, the facilities charge is recorded as hospital income with the physician fee for non-hospital staff recorded as physician income.
b/ "Other professional" services are those provided by health practitioners other than physicians or dentists, such as private-duty nurses, chiropractors, podiatrists, and optometrists.
c/ "Other Personal" services include industrial in-plant services (i.e., health care provided by employers for employees at the employer's establishment), and government expenditures for medical care not delivered in traditional medical provider sites (e.g., community centers, senior citizen centers, schools, and military field stations). Home and Community Waiver programs comprise a large portion of "Other Personal" spending.
Source: Centers for Medicare & Medicaid Services, Office of the Actuary.

In ***Figure 8*** we display the 2000 and 2004 health spending growth data in Colorado along with its neighboring States. Colorado health spending grew at a rate of 8.5 percent per year compared with an average of 9.1 percent per year for neighboring states.

Figure 8
Average Annual Growth Rates of Colorado and Adjacent States: CY 2000 and 2004
(in millions)

	State Spending 2000	State Spending 2004	Average Annual Growth Rate 2000-2004
Kansas	$10,402	$14,061	7.8%
Nebraska	$7,015	$9,715	8.5%
Arizona	$15,891	$23,639	10.4%
New Mexico	$5,457	$7,644	8.8%
Colorado	**$15,711**	**$21,807**	**8.5%**
Utah	$6,458	$9,543	10.3%
Wyoming	$1,615	$2,231	8.4%
Total	$62,549	$88,640	9.1%

Source: Centers for Medicare & Medicaid Services.

C. Projected Spending in Colorado by Type of Service

In order to project Colorado spending to FY 2007-2008 from CY 2004, we first calculate the ratio of the average annual growth rate experienced in Colorado from 2000 through 2004 to the comparable national growth rate for the same time period (see ***Figure 9***). The rates of growth in Colorado were similar to the national average. The growth rate for Colorado was 8.5 percent per year compared with the national average of 8.2 percent. However, there were some significant differences within certain categories of service. For example, Colorado home health spending grew nearly half as much as it did in the US whereas nursing home spending in Colorado grew nearly 30 percent faster that the national average.

Figure 9
Projected Spending in Colorado by Type of Service: FY 2007-2008

Type of Service	Ratio State Growth/US Growth 2000-2004	Average Annual Growth - US 2004-2007	State Weighted AAG 2004-2007	State Estimate FY04-05 (in millions)	State Estimate FY07-08 (in millions)
Hospital	1.14	7.2%	8.1%	$8,243	$10,426
Physician	1.08	6.4%	6.9%	$6,824	$8,343
Dental	1.10	6.6%	7.2%	$1,633	$2,013
Other Professional	0.90	7.3%	6.6%	$998	$1,208
Home Health	0.52	10.7%	5.6%	$375	$442
Prescription Drugs	0.71	6.6%	4.6%	$1,888	$2,163
Medical Durables	1.05	4.4%	4.6%	$459	$526
Nursing Home	1.28	4.7%	6.1%	$1,228	$1,464
Other Personal Care	1.40	7.5%	10.5%	$930	$1,254
Total	**1.05**	**6.7%**	**7.1%**	**$22,578**	**$27,838**

Source: Lewin Group estimates using state health spending and cost projections data provided by the Centers for Medicare & Medicaid Services, Office of the Actuary. See National Health Expenditures Projections 2006-2016. http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2006.pdf>

We projected health spending to 2007/2008 based upon projections of health spending growth nationally as estimated by the Office of the Actuary (OAct) of the Centers for Medicare and Medicaid Services (CMS).[2] We adjusted these growth rates to reflect historical data showing that health spending growth in Colorado has been a bit higher than the national average.

D. Provider Payment Levels

Nearly 40 percent of payments to Colorado hospitals come from public sources (such as Medicare and Medicaid) that pay less than the provider's cost for providing services to that population (***Figure 10***). For example, Medicare pays an average of 75% of cost and Medicaid pays an average of 65% of cost. Individuals who pay their own bills (self-pay) represent 8.2% of all payments and they too pay less than cost (59% of cost on average). Private payers make up the difference by paying nearly one-and-one-third times cost (i.e., 131 percent of cost). Health policy experts refer to this phenomenon as cost-shifting.

The cost of uncompensated care and shortfalls in reimbursement under public programs are passed on to consumers in the form of higher charges through cost-shifting. Similarly, research indicates that reductions in uncompensated and under-compensated care are passed back to private payers in the form of reduced increases in charges. Thus, we assume that a portion of any reductions or increases in uncompensated or under-compensated care are passed on to private payers in the form of an increase/decrease in charges.

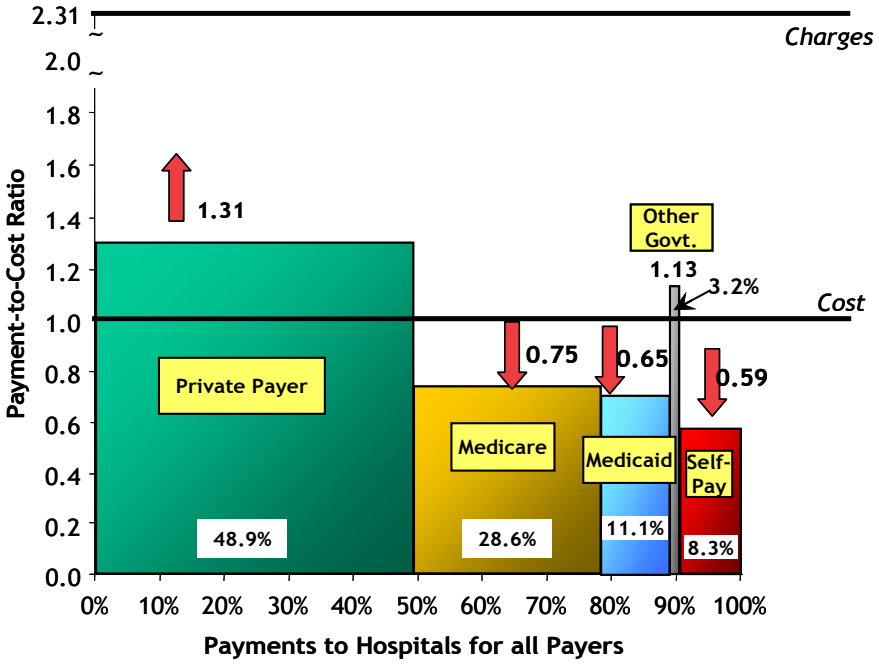
There are two separate studies indicating that about half of hospital payment shortfalls are passed-on to private payers in the form of higher charges. One study of physician pricing by Thomas Rice et al., showed that for every one percent reduction in physician payments under public programs, private sector prices increased by 0.4 percent. However, two other studies showed considerably less evidence of hospital cost-shifting, although they did not rule out a partial cost-shift.

Our own analysis of hospital data indicates that about 40 percent of the increase in hospital payment shortfalls (i.e., revenues minus costs) in public programs were passed on to private payers in the form of the cost-shift during the years studied. Based upon this research, we estimate that 40 percent of increases in reimbursement would be passed back to payers in the form of reduced charges.

---

[2] Centers for Medicare & Medicaid Services (CMS), Office of the Actuary, National Health Expenditures Projections 2006-2016 <Available as of May 29, 2007 at: http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2006.pdf>

Figure 10
Summary Comparison of Hospital Payment Levels in Colorado



Source: The Lewin Group analysis of Colorado Hospital Association data.

IV. COST AND COVERAGE IMPACTS OF FIVE PROOOSALS TO REFORM THE COLORADO HEATH CARE SYSTEM

The Lewin Group was engaged to analyze five health reform proposals selected for study by the Colorado Blue Ribbon Commission on Healthcare Reform in the summer of 2007. Early in the process, the Commission solicited proposals for reforming the Colorado health care system from health policy experts throughout the state. In addition, we analyzed one proposal based upon the commission's recommendations.

These five proposals selected by the commission for analysis include:

- Proposal # 1 Better Health Care for Colorado;
- Proposal # 2 Solutions for a Healthy Colorado;
- Proposal # 3 A Plan for Covering Coloradans;
- Proposal # 4 Colorado Health Services Program (CHSP), a single payer; and
- Proposal # 5 The Commission's Proposal.

The Commission intentionally selected proposals for analysis that were diverse in their strategies for addressing cost and coverage. The Commission selected proposals based on the comprehensiveness of the benefits packages they offer, their inclusion of preventive and other health care quality improvement measures, sustainability of the author's approach to financing and each proposal's overall reduction of the number of uninsured in Colorado. The Lewin Group performed a comparative analysis of the five proposals, the results of which are presented in the following sections:

- Summary of key provisions;
- Comparison of coverage provisions;
- Benefits packages under the proposals;
- Provider payment levels under proposals
- Changes in sources of coverage and payer group under proposals;
- Program costs and revenues under the proposals;
- Changes in statewide health spending; and
- Changes in health spending by payer group.

A. Summary of Key Provisions

All but the "Colorado Health Services Program" (CHSP), which is a single-payer system, would build upon the existing health insurance system by expanding eligibility for the Medicaid and CHP+ programs, while also providing subsidies for the purchase of private health insurance. Under these four proposals, employer-sponsored insurance (ESI) would remain as the primary source of coverage for the non-Medicare population under "Better Health Care for Colorado," "Solutions for a Healthy Colorado," "A Plan for Covering Coloradans," and the Commission's

proposal. The CHSP plan, the "Colorado Health Services Program (CHSP)," would cover all residents of the state under a newly created single-payer health insurance program. In ***Figure 11*** we highlight the key features of these plans affecting coverage, and costs for public and private insurance.

Better Health Care for Colorado expands the Medicaid and CHP+ programs to cover all pregnant women and children up to 300 percent of the Federal Poverty Level (FPL). It also provides Medicaid-funded subsidies for the purchase of private insurance through a newly created "Health Insurance Exchange" for all adults living below 300 percent of the FPL, except those eligible for Medicaid. Small firms that have not been offering insurance can also buy into the Exchange by paying a full-cost premium. All plans in the Exchange would offer a core benefits package that would be sold using modified community rating, which means that premiums may vary by age and gender but not with health status. The plan does not require people to have insurance.

Figure 11
Key Design Elements under Policy Alternatives

	Medicaid/CHP+ Expansions	Premium Subsidies	Employer Mandate	Individual Mandate	Insurance Market Reform	Insurance Pools
"Better Health Care for Colorado"	Kids and Pregnant Women living below 300% FPL	Sliding scale voucher below 300% FPL for adults: full-cost buy-in to "Exchange"	none	none	Modified community rating in exchange; Guaranteed-issue for core benefit	Exchange; subsidy and buy-in populations only
"Solutions for a Healthy Colorado"	Kids and Pregnant Women below 250%FPL; Parents below 100% FPL	Sliding scale tax credit for adults below 250% FPL; for ESI or non-group	None	Mandate with penalty of $500; and no vehicle registration	Modified community rating; Guaranteed-issue for core benefit [b/]	Connector; optional to all insured
"A Plan for Covering Coloradans"	Kids and Pregnant Women below 300% FPL; Parents below 300% FPL; Other Adults below 100% FPL	Sliding scale voucher below 400% FPL; for ESI or non-group	$347 penalty per uninsured worker	Mandate with penalty = lowest cost premium; Auto Enroll Medicaid/CHP+	Community rating guarantee issue, merge insured markets	Purchasing pool; all insured must use
"Colorado Health Services Plan (CHSP)"	All residents: 3+ months in state	No premiums; 8.1 percentage point increase in income tax a/	ESI eliminated; 6% payroll tax	All Residents 3+ Months;	Only supplemental coverage remains	n/a
Commission Proposal	Kids below 250% FPL; Adults below 205% FPL; Medically Needy; Disabled Buy-in; Waiver slots added	Subsidy for all below 300% FPL; 9% of income Cap on premiums between 300% and 400% FPL	None; but requires employers to provide tax-free Section 125 plans	Mandate with penalty; Auto-enrollment; includes legal non-citizens	Modified Community for non-CoverColorado eligible people	Coverage Clearinghouse and Connector

a/ The State income tax rate is currently 4.6 percent.
b/ This was modeled with limited health status rating bands at the request of the author. The author intends to move to a modified community rating over time.
Source: The Lewin Group.

The Solutions for a Healthy Colorado proposal would mandate that all Colorado residents have health insurance. It would expand eligibility for pregnant women and children under CHP+ to 250 percent of the FPL. Medicaid eligibility for parents would be increased to 100 percent of the FPL. In addition the program provides a sliding scale tax credit to people living below 250 percent of FPL that people can use to purchase non-group coverage or to pay the worker share of the premium for ESI.

All carriers are required to offer a Core Limited Benefits plan specified in the proposal on a guaranteed issue basis to all people qualifying for the premium subsidy (i.e., tax credit). Premiums for these plans would be set using modified community rating. The individual mandate would be enforced with a $500 fine for all uninsured people filing state income tax and proof of health coverage would be required as a condition for registering a motor vehicle. The proposal does not require employers to contribute to the cost of coverage for their workers.

A Plan for Covering Coloradans would also require that all Colorado residents have insurance and penalizes those who do not. It would also require that employers offer coverage to their workers or pay a fee of $347 per uninsured worker (pro-rated for part-time workers). The proposal would expand Medicaid and CHP+ to cover all children, parents and pregnant women to 300 percent of FPL, and childless adults to 100 percent of FPL. It would also establish a purchasing pool combining the individual, small and large group insurance markets. Premiums in the private pool would be community rated. A subsidy would be available to people living below 400 percent of the FPL who are not eligible for the expanded Medicaid and CHP+ programs. The individual mandate would be enforced through the tax system by penalizing all uninsured an amount equal to the lowest cost premium.

The Colorado Health Services Program (CHSP), a single payer program would cover all residents in the State. Coverage for Medicare, Medicaid and other public programs would be folded into a statewide program. Employers would no longer cover their workers for services covered under the CHSP. The program would be funded with savings to government programs absorbed into CHSP, and employer payroll tax (i.e., a State Health Insurance Contribution) and an increase in the personal income tax rate by 8.1 percentage points.

The Commission's Proposal would require all legal residents in Colorado, including citizens and legal non-citizens to have health insurance with at least a minimum benefits package. The proposal increases Medicaid/CHP+ eligibility for children to 250 percent of the FPL and expands eligibility for non-custodial adults (including the aged and disabled) and parents through 205 percent of the FPL. In addition, it expands eligibility for disabled adults up to 450 percent of the FPL through a buy-in and establishes a Medically Needy program.

People with incomes up to 300 percent of the FPL would receive a sliding-scale subsidy for a comprehensive benefits package modeled on the CHP+ benefits package. People with incomes between 300 percent and 400 percent of the FPL receive a subsidy for the cost of a minimum benefits package in excess of nine (9) percent of their income. There is no requirement for employers to contribute to the cost of coverage for workers.

A detailed description of each of these Proposals is presented in ***Appendices C*** through ***G*** of this report.

B. Comparison of Coverage Provisions

Four of the five proposals include expansions in eligibility for the existing Medicaid and CHP+ programs together with a program to provide subsidies for the purchase of private insurance for lower-income people who would not qualify for the expanded Medicaid and CHP+ programs. As discussed above, the existing Medicaid and CHP+ programs cover pregnant women and children living below 205 percent of the FPL and parents with incomes below 60 percent of the FPL. Adults who do not have custodial responsibilities for children are not eligible for Medicaid at any income level unless disabled.

All but the CHSP would expand upon the existing Medicaid/CHP+ programs. All of these proposals would increase income eligibility for children (***Figure 12***). They also increase income eligibility for pregnant women in all but the Commission's proposal. Three of these proposals expand Medicaid eligibility for parents including: the "Solutions for a Healthy Colorado" proposal; "A Plan for covering Coloradans;" and the Commission's proposal. Only two of the proposals extend the current Medicaid program to non-disabled non-custodial adults; they are "A Plan for Covering Colorado," and the Commission's Proposal.[3]

All four of these proposals would provide some form of subsidy to assist people not eligible for these expanded Medicaid/CHP+ programs in purchasing private coverage. Premium subsidies would be provided to adults through 300 percent of the FPL under the Better Health Care for Colorado proposal and 250 percent of the FPL under the Solutions for a Healthy Colorado program. Both "A Plan for Covering Coloradans" and the Commission's proposal would provide at least some premium subsidies to all individuals and families not eligible for the expanded Medicaid program through 400 percent of the FPL; although the amount of the subsidy under the Commissions proposal is quite limited for people between 300 percent and 400 percent of the FPL.[4] All but the "Solutions for a Healthy Colorado" proposal would apply for a Medicaid 1115 waiver to obtain federal matching funds for these premium subsidy programs.

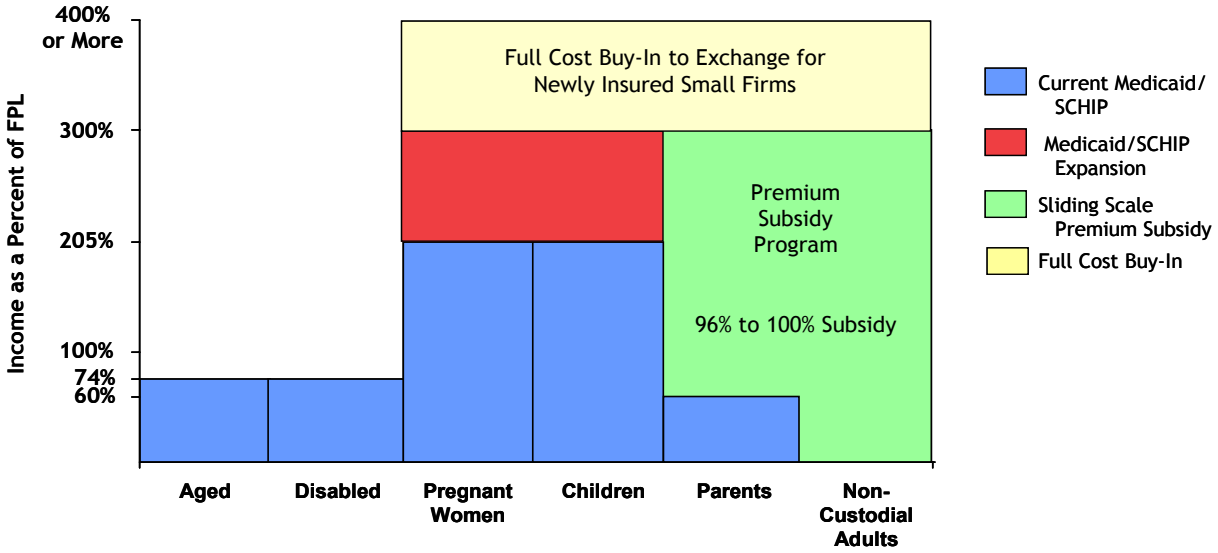
---

[3] The figures exclude eligibility for people receiving services through Medicaid Home and Community Based Waivers under Section 1915(b) of the Social Security Act, as those programs are not entitlements and subject to enrollment limits.

[4] The Commission's proposal pays the amount of the premium for the minimum benefits package in excess of 9 percent of income for people between 300 percent and 400 percent of the FPL.

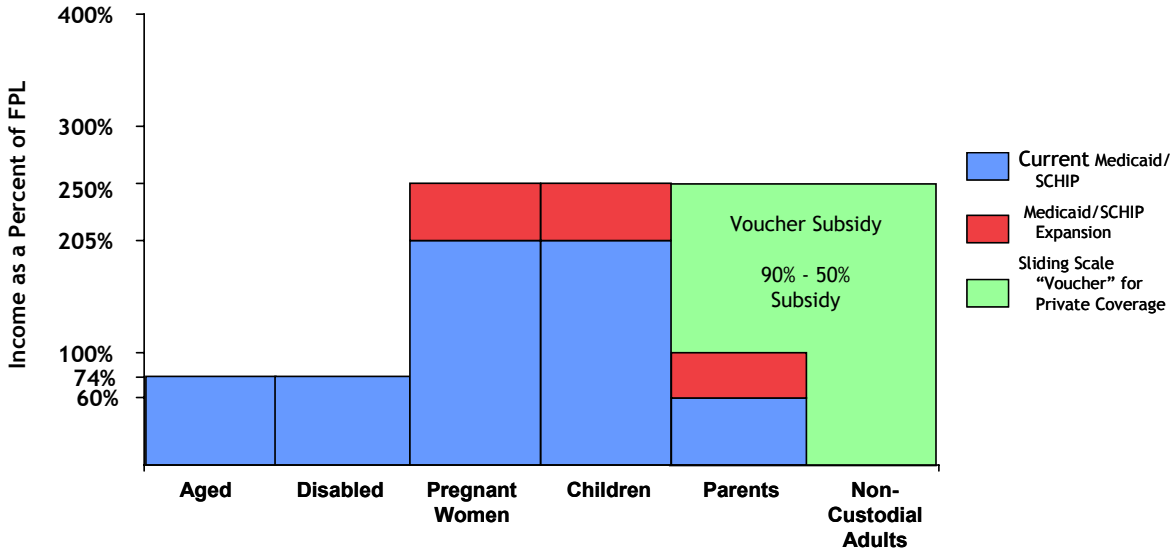
Figure 12
Eligibility for Subsidized Coverage under Health Reform Proposals

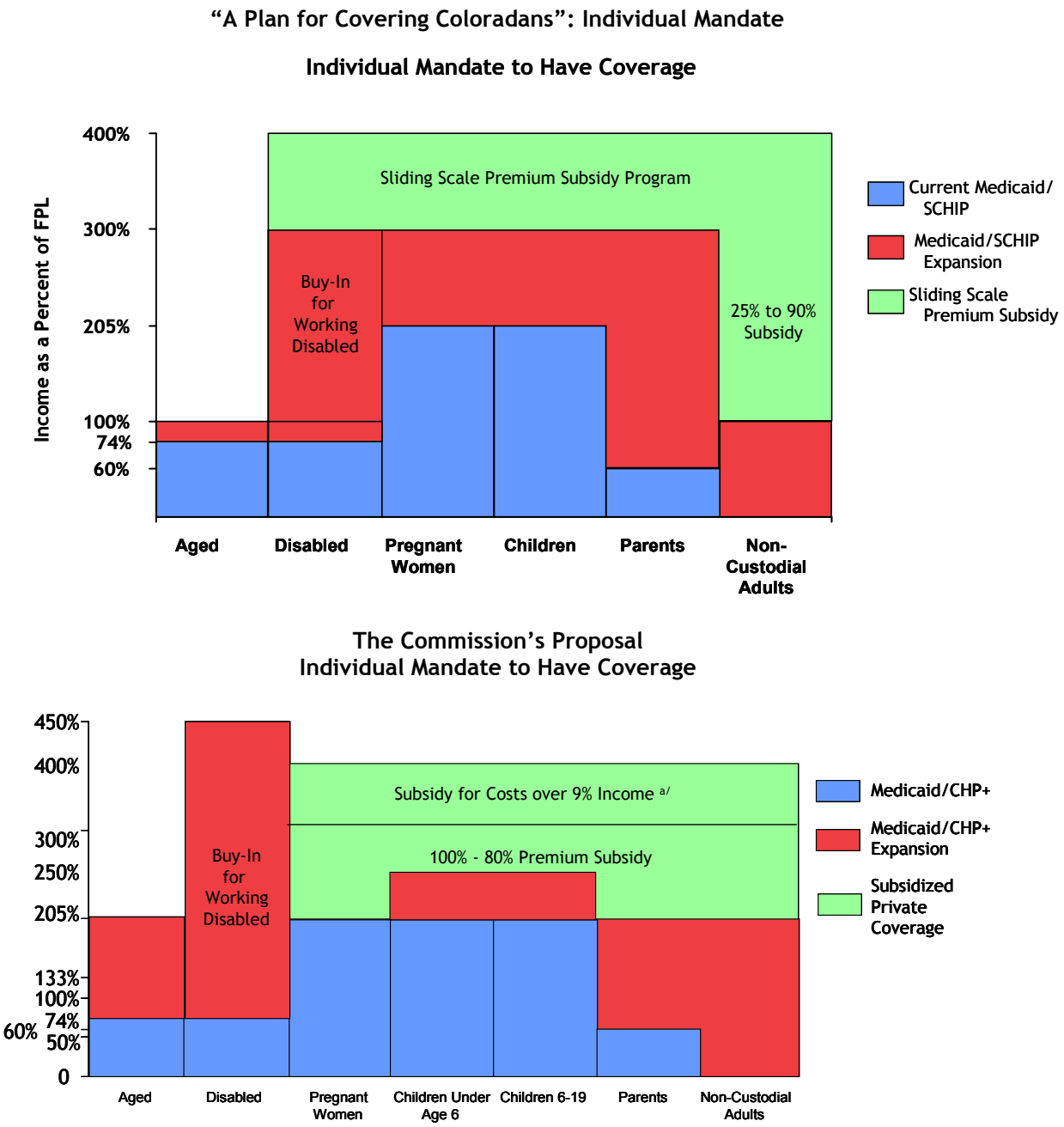
"Better Health Care for Colorado": No Mandate for Coverage



"Solutions for a Healthy Colorado": Individual Mandate

Individual Mandate to Have Coverage





a/ Does not display medically needy program and full-cost buy-in for disabled
Source: The Lewin Group.

None of these plans provide premium subsidies to employers as an incentive to provide coverage. However, under "Better Health Care for Colorado," uninsured Colorado residents who work in small businesses with 50 or fewer workers (including part-time workers) who have not offered coverage for a year would be able to purchase private insurance coverage through the Exchange created under the proposal. In addition, income-eligible workers are permitted to use the subsidy for the employee share of the premium for ESI. Also, under

Solutions for a Healthy Colorado, income-eligible workers are permitted to use the subsidy for the employee's share of the premium for ESI. Under the Commission's proposal, income-eligible people are also permitted to use the subsidy for their share of the employer premium, but only if the worker has been uninsured for at least six months.

Under the CHSP program, all Colorado residents, including those who would be eligible for Medicaid under current law, would be enrolled in a single public insurance program. The CHSP eliminates all distinctions in eligibility by income and family status. This simplifies coverage and eliminates the cost of determining income eligibility for coverage.

C. Benefits Packages under the Proposals

All of these proposals include specifications of benefits packages to be provided to Coloradans. The CHSP program would cover all Coloradans for the same list of services now covered under Medicaid, as well as enhanced preventive care services and adult dental benefits. The other four proposals expand eligibility for the Medicaid and CHP+ programs largely with their existing benefits and specify a minimum benefits package for lower-income people with incomes too high to qualify for Medicaid/CHP+.

The Medicaid and CHP+ benefits packages cover physicians care, hospital inpatient and outpatient care, mental health, prescription drugs and services from other health professionals. Medicaid also covers long-term care services and extends a wide range of services to children under the Early Periodic Screening Diagnosis and Treatment (EPSDT) services program, much of which includes therapeutic services for developmentally delayed children. Adult dental services under Medicaid are limited and there are limits on mental health and other services for children under CHP+. Due to the low-incomes of the people served under these programs, co-payments for services are small (e.g., $1.00 to $3.00 per visit) and there are no deductibles.

With the exception of the CHSP, these proposals establish minimum benefits packages to be available to lower-income people who do not qualify for the expanded Medicaid/CHP+ program under the proposal. These plans provide a minimum set of benefits including physician services, inpatient and outpatient hospital services, prescription drug coverage, and mental health services (***Figure 13***). Although all five plans require point-of-service cost-sharing, the co-payments under these proposals are generally lower than under a typical employer health plan such as the Blue Cross Blue Shield (BCBS) Standard Option plan provided to federal workers.[5] All four plans eliminate co-payments for preventive services as an incentive to use these services.

The Commission's proposal combines Medicaid and CHP+ into a single program for children, parents and pregnant women. All of these people would be covered under private managed care plans as under the current CHP+ delivery system. There would be a single benefits package for these enrollees based upon the Medicaid list of covered services (except nursing facility care) plus comprehensive dental care for adults. This would extend certain Medicaid covered services to CHP+ enrollees that are not now covered by CHP+ including elimination of

[5] We have estimated that the Federal workers health plan is at about the 60th percentile of employer health plans in terms of the Actuarial value of the plan.

visits and days caps for mental health, EPSDT services and reductions in co-payments. In addition, the premium subsidies for people between 205 percent and 300 percent of the FPL would apply to a benefits package modeled upon the existing CHP+ benefits package.

The CHSP program would cover all of the services now covered under the Medicaid program for all Colorado residents. The plan does not include deductibles. Co-payment requirements under CHSP would range from $3 for low income people to $15 for the general population. Because CHSP co-payments are small, the plan does not specify a limit on family out-of-pocket payments as do many employer plans with substantial co-payment requirements.

Figure 13
Summary of Benefits under a Typical Commercial Plan and the minimum Benefits Package that should be Available under the Five Health Reform Proposals [a/]

	Typical Plan; BCBS "Standard Option"	"Better Health for Colorado"	"Solutions for a Healthy Colorado"	"A Plan for covering Coloradans"	"Colorado Health Services Program (CHSP)"	Commissions Proposal
Physician Service	$15 copay	$10-$20 copay	$15 copay 11 visit max	$5: <250% FPL $10: 250%-400% FPL	$2 low-income $5 other	$10-$20 copay
Inpatient Hospital	$250 deductible	$100 copay $25,000 max	$100 plus 20% copay $3,000 per day max	None: <250% FPL 10%: 250%-400% FPL	$15 per visit	$100 copay
Outpatient Hospital	10% copay $250 deductible	$25-$50 copay	20% copay	None: <250% FPL 10%: 250%-400% FPL	$3 low-income $15 other	$25-$50 copay
Emergency	$250 deductible	$50 copay $1,000 max	$100 copay $3,000 max	None: <250% FPL $25-$50: 250%-400% FPL	$3 low-income $15 other	$50 copay
Mental Health	$15 copay	Sliding scale	20% copay $1,000 max	Parity	Parity	Sliding scale
Prescription Drugs	$10 generic $35 brand	$5 generic 50% brand $2,500 max	$10 generic $20 preferred 100% brand	$2-$5: <250% FPL $10-$25: 250%-400% FPL	$1 - $15	$5 generic 50% brand
Deductible	$250	None	$100	None: <250% FPL $150: 250%-400% FPL	None	None
Out-of-Pocket Maximum	$4,000	$5,000 or 0% - 4% of income by income as percent of of FPL	$3,000	5% of family income	None	$5,000
Annual Benefit Limit	$1 million	$35,000 (reduces premium by 15%)	$50,000 (reduces premium by 27%)	none	none	$50,000 max

a/ The Commission's proposal uses a different benefit package as the minimum benefit that people who do not qualify for subsidies must purchase to satisfy the mandate.
Source: The Lewin Group

In an effort to hold down the cost of the minimum benefits package, three of the proposals would impose limits on the amount of covered benefits. The "Better Health Care for Colorado" plan imposes a limit on benefits of $35,000 per person per year while the "Solutions for a Healthy Colorado" proposal limits covered benefits to $50,000 per individual. The minimum benefits package under the Commission's proposal is similar to that of the "Better Health Care for Coloradans" proposal but (i.e., for people over 300 percent of the FPL) would have a maximum benefit limit of $50,000. The CHSP program and "A Plan for Covering Coloradans" do not impose limits on benefits.

D. Provider Payment Levels under Proposals

As discussed in the prior chapter, provider payment levels differ widely across payer groups for the same services. For example, payment rates for hospitals in Colorado under Medicaid are equal to about 65 percent of the cost of providing these services. Medicare hospital payment levels are equal to about 75 percent of costs. Payment differentials for physician services are similar.

These payment shortfalls and uncompensated care for the uninsured are typically covered by increasing charges to privately insured people. In fact, private insurer payment levels for hospital services are on average equal to about 131 percent of costs in Colorado. The increase in charges to private insurers to cover uncompensated care and underpayments in public programs is called the "cost-shift."

Under the "Better Health Care for Colorado" proposal, Medicaid and CHP+ service providers would be paid at the current Medicaid and CHP+ payment levels (***Figure 14***). This could represent an increase in cost-shifting for people who are newly covered under the proposal. Payment rates for people obtaining private insurance under the proposal's premium subsidy program would be at Medicare payer levels. However, payment levels for all privately insured people would be equal to 130 percent of Medicare payment levels, which generally represents a reduction in reimbursement for hospital care, but a small increase in reimbursement for physician care.

Figure 14
Changes in Reimbursement Rates under Five Health Reform Proposals

	Better Health Care for Colorado	Solutions for a Healthy Colorado	A Plan for Covering Coloradans	Colorado Health Services Program (CHSP)	The Commission Proposal
Medicaid and CHP+	Current Medicaid/CHP+ payment rates; Medicare rates for premium subsidy program	Increase to Medicare payment rates	Increase to Medicare payment rates	Public programs absorbed into single-payer	Increase Medicaid to CHP+ levels
Private Insurance	Current private insurer payment rates; Medicare rates for the core benefit package	Average of 130% of Medicare for all private; varied by 125% to 150% with quality	Current private insurer payment rates	Private insurance absorbed into single-payer	Current private insurer payment rates
New Public Program	--	--	--	Providers reimbursed at current average across payers	--

Source: The Lewin Group.

The "Solutions for a Healthy Colorado" proposal would increase payment rates for Medicaid to Medicare payment levels. However, private sector payment levels, including those for people who now have private coverage, would be revised under a "pay for performance" program where payments vary between 125 percent and 150 percent of Medicare payment levels depending on quality measures. On average, payment levels would be equal to 130 percent of the Medicare payments, which would generally represent a reduction in reimbursement for hospital care, but a small increase in reimbursement for physician care.

Under "A Plan for Covering Colorado," payment levels for the Medicaid program would be increased to Medicare payment levels. Payments for private providers would be based on current private sector rates.

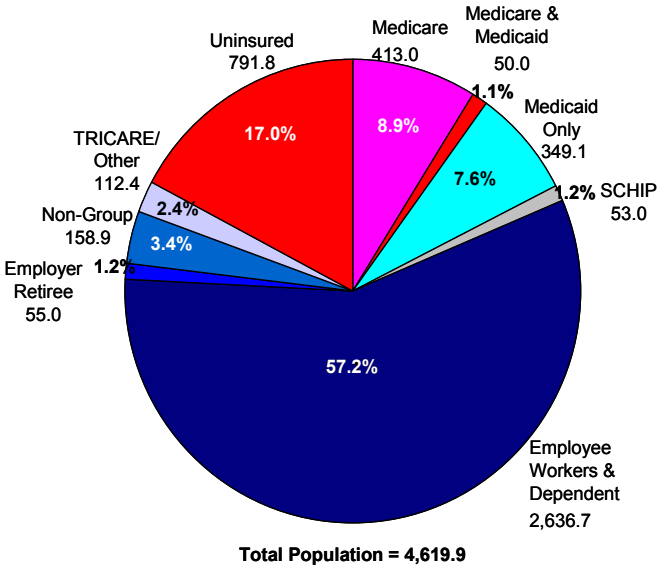
Under the CHSP single payer, provider payment levels would be set at the average level of reimbursement across all payers for health care services under current law, including payments under public and private health plans. This is designed to assure that there is no net change in aggregate provider revenues for each unit of service in the first year of the program. However, we assume that provider payment rates for each service category would be adjusted to reflect the near elimination of uncompensated care (i.e., some indigent non-residents would remain); and estimated administrative savings for providers resulting under the CHSP.

The Commission's proposal merges the Medicaid and CHP+ programs under the CHP+ delivery system, which is comprised of managed care plans and managed fee-for-service coverage. To attract health plans to the program, premiums would need to be about 10 percent higher than average costs under the Medicaid fee-for-service program, which would represent an increase in provider payments. The Commission also proposes to increase Medicaid physician payment levels for people who remain in the current program to 75 percent of Medicare payment levels (i.e., aged, disabled and foster children). The private insurance that would be eligible for premium subsidies under the plan would use commercial payment levels.

E. Changes in Sources of Coverage under the Proposals

Figure 15 presents our projection of the distribution of Colorado residents by primary source of coverage in 2007/08. These estimates are based upon our analysis of the Colorado sub-samples of the Current Population Survey (CPS) for 2004 through 2006 discussed above, which we aged to reflect trends in population growth and health coverage. We estimate that the number of uninsured people in Colorado will increase from 785,200 people in 2004-2006 to 791,800 people in 2007-2008.

Figure 15
Projected Number of Colorado Residents by Average Monthly Primary Source of Coverage in 2007-08 (thousands)[a/]



a/ Primary payer is determined on the basis of prevailing coordination of benefits practices now in use.
Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

Employer-Sponsored Insurance (ESI) is the primary source of health insurance for most people in Colorado. More than one-half of the population (57.2 percent) will have employer-based coverage as a worker or a dependent at any given point in time. Another 55,000 people are receiving employer coverage as early retirees (i.e., excludes retiree supplemental coverage for Medicare eligible retirees). In addition, about 158,900 people have individually purchased non-group coverage as their primary source of coverage.

Medicare will be the primary source of coverage for 462,400 aged or disabled people of whom about 49,400 are also covered under Medicaid. Average monthly enrollment in Medicaid will be about 398,500 people, including the 49,400 people who are also covered under Medicare. Another 53,000 people will be covered under CHP+. There will be about 112,400 people covered as military retirees or dependents under the TRICARE program. This leaves an average of about 791,800 uninsured people on an average-monthly basis in 2007/2008.

The "Better Health Care for Colorado" proposal provides coverage through a public program expansion and premium subsidies for private insurance. The public program expansion results in a net increase in the number of people with public coverage (i.e., Medicaid and CHP+) of about 66,100 people (***Figure 16***). Lower-income uninsured people are also able to buy subsidized coverage in the private market through a newly created Exchange. This results in an increase in the number of people with private non-group insurance of 302,600 people. ESI enrollment falls by about 43,900 people as some people who are eligible for the subsidies become covered under either the expanded Medicaid/CHP+ programs or subsidized non-group coverage.

Figure 16
Changes in Sources of Coverage for Coloradans in 2007-08 (thousands)

	Public Coverage	Employer Insurance	Private Non-Group	Uninsured
Coverage Under Current Policy				
	977.4	2,691.7	158.9	791.8
Changes in Coverage Under Proposals				
"Better Health Care for Colorado" (No mandate: Subsidies below 300% FPL; Limited core benefit)	66.1	(43.9)	302.6	(324.6)
"Solutions for Healthy Colorado" (Individual mandate: Subsidies below 250% FPL; limited core benefit)	114.4	84.5	454.7	(653.4)
"A Plan for Covering Coloradans" (Individual mandate: Subsidies below 400% FPL; comprehensive benefits)	475.7	(28.3)	236.4	(683.2)
"Colorado Health Services Program (CHSP)" (Single payer: Tax financed; comprehensive benefits)	3,642.5	(2,691.7)	(158.9)	(791.8)
Commission Proposal (Individual Mandate: Subsidies <400% FPL)	484.3	(44.1)	254.1	(694.3)

Source: Lewin Group Estimates using the Health benefits Simulation Model (HBSM).

The combined effect of these provisions is a reduction in the number of people without insurance of about 324,600 people. This leaves about 467,200 people uninsured, reflecting that this proposal does not include a mandate for all to have insurance.

Under the "Solutions for a Healthy Colorado" program, all Colorado residents are required to have health insurance. There would be a net increase in Medicaid and CHP+ enrollment of 114,400 people. In addition, the mandate and subsidies for private coverage results in 454,700 more people obtaining private non-group coverage. Individuals who previously did not take-up employer coverage would do so as a result of the mandate, thus, increasing employer coverage by 84,500 people. The proposal reduces the number of uninsured in Colorado by 653,400 people, leaving about 138,400 people uninsured.

"A Plan for Covering Coloradans" also mandates that all people have coverage. It provides coverage through a Medicaid/CHP+ expansion and through a newly created private insurance pool with low-income premium subsidies. The Medicaid/CHP+ expansions result in about 475,100 more people with public coverage. The private pool with low-income premium subsidies would result in an increase in private non-group coverage of 236,400 people. In addition, some covered workers who are newly eligible for subsidized coverage will shift to

public coverage resulting in a reduction in the number of people covered through ESI by 28,300 people. The proposal would reduce the number of uninsured people in Colorado by 683,200 people leaving 108,600 people without health insurance.

An important feature of "Solutions for a Healthy Colorado" and "A Plan for Covering Coloradans" plans is that they both permit permits workers to use the subsidy to pay the employee share of the premium for ESI. This enhances the desirability of employer coverage which would help discourage employers from discontinuing their health plans as subsidies for non-group coverage become available to their lower-income employees under the program.

The CHSP single-payer program provides coverage to all Colorado's 4.6 million residents (i.e., residing in the state at least 3 months). Employers are permitted to provide supplemental coverage for services that are not covered under the single payer program. However, the CHSP single payer would be the primary source of coverage for all Colorado residents, resulting in an increase in the number of people in Colorado who have publicly sponsored coverage of about 3.6 million people. All of Colorado's 791,800 uninsured people would become covered, although outreach will be necessary to extend health services to some difficult to reach populations such as the homeless or mentally ill.

The Commission's proposal would cover 694,300 of the uninsured people in Colorado, leaving about 97,500 people without coverage. This proposal would increase the number of people in Colorado with public coverage (i.e., Medicaid and CHP+) by about 484,300 people. Coverage under private non-group plans would increase by about 230,100 people, while employer coverage would decline by about 44,100 people.

F. Program Costs and Revenues

Figure 17 presents cost of public programs (state and federal) for each of the proposals, including program offsets and new taxes under these proposals. Total program costs under the "Better Health Care for Colorado" program would be $980 million if fully implemented in 2007/2008. This includes the cost of increased eligibility under Medicaid and CHP+ and premium subsidies provided under the plan for people not eligible for the expanded Medicaid/CHP+ program who have incomes below 300 percent of the FPL.

By comparison, costs under the "Solutions for a Healthy Colorado" proposal would be $1.4 billion even though subsidies are provided to only those with incomes less than 250 percent of the FPL; however, it also includes a mandated and people can use their subsidies towards ESI coverage. Program subsidy costs would be about $2.7 billion under the Commission's proposal, reflecting that the program includes a mandate and subsidizes coverage for all people living below 400 percent of the FPL.

The "Plan for Covering Coloradans," which also provides subsidies through 400 percent of the FPL, would have new program costs of $3.1 billion, reflecting that it provides more substantial subsidies to those between 300 percent and 400 percent of the FPL than does the Commission's

proposal.[6] It also reflects that unlike the Commission's proposal, workers are permitted to apply their subsidy towards the worker share of the premium for ESI under "A Plan for Covering Coloradans. Total spending under the CHSP single-payer program, which would cover all 4.6 million Coloradans, would be $26.6 billion.

Under all five proposals, there would be offsets to other state and local safety-net programs such as clinics, state mental health programs, substance abuse treatment, the Ryan White program and other safety-net programs.[7] These offsets would be $31 million under the "Better Health care for Colorado" proposal, $179 under the Solutions for a Healthy Colorado program, $191 million under "A Plan for Covering Coloradans" and $179 million under the Commission's proposal. Total offsets under the CHSP program would be $3.1 billion, including state funding for the current Medicaid program ($1.4 billion), safety-net program funding ($565 million), employee and retiree benefits ($378), workers compensation (assumes employer premiums of $702 million are redirected to the program, and tax revenue adjustments.

Figure 17
Program Costs and Revenues under Health Reform Options (millions)

		Funding Source				
	New Public Program Costs	Offsets to Current State Spending	Federal Funds: Non-Waiver Dependent	Federal Funds: Waiver Dependent	Specified New Revenues	Unspecified Revenue Requirement
"Better Health Care for Colorado" (No mandate: Subsidies < 300% FPL)	$980	$31	$74	$486	$336	$53
"Solutions for a Healthy Colorado" (Individual mandate: Subsidies < 250% FPL)	$1,366	$179	$280	$54	$853	--
"A Plan for Covering Coloradans" (Individual mandate: Subsidies < 400% FPL)	$3,146	$191	$607	$334	$2,014	--
"Colorado Health Services Program (CHSP)" (Single payer: Tax financed)	$26,578	$3,128	--	$8,425	$15,025	--
Commission Proposal (individual Mandate: Subsidies < 400% FPL)	$2,666	$179	$302	$967	$1,232	--

Source: Lewin Group Estimates using the Health Benefits Simulation Model (HBSM).

6 The Commission's proposal pays only the amount of the premium for the minimum benefits package that exceeds 9 percent of family income, while "A Plan for Covering Coloradans" would subsidize between 60 percent and 25 percent of the premium for those between 300 percent and 400 percent of the FPL.

7 Offsets include reductions in the net cost of operating safety-net programs as they begin to be reimbursed for services provided to newly insured people would have been provided free of charge to under the current system. Offsets also include any changes in state tax revenues due to wage effects.

Some of the expansions in coverage under Medicaid and CHP+ would qualify for federal matching funds without obtaining a waiver. For example, Medicaid permits states to increase income eligibility for children and parents under the Medicaid and CHP+ programs simply by filing a plan amendment. However, each of the proposals would require federal 1115 demonstration waivers to:

- Retain and redirect existing federal disproportionate share hospital (DSH) revenues to fund coverage expansions (all five proposals);
- Obtain federal matching funds to cover categorically eligible groups with premium subsidies for private coverage (parents under the "Better Health Care for Colorado" Proposal" and the Commission's proposal);
- Obtain federal matching funds for non-custodial adults ("Better Health Care for Colorado," "A Plan for Covering Coloradans" and the Commission's proposal); and
- Obtain federal matching funds to cover children and parents with incomes between 205 percent and 300 percent of the FPL under the CHP+ benefits package ("A Plan for Covering Coloradans" and the Commission's proposal).

All of these waivers can be obtained upon application to the Centers for Medicare and Medicaid Services (CMS) without Congressional action using guidelines specified in Medicaid law. If these waivers can not be obtained, the state would need to cover the full cost of the program without federal assistance.

The CHSP single-payer plan is particularly dependent upon Congressional cooperation in establishing the program. Under this plan, Congress would need to act to convert about $8.4 billion in spending for Coloradans under federal programs to a block grant to the state to help fund the CHSP program. This includes spending under Medicaid, Medicare, TRICARE and Veterans.

All of the five reform proposals create new taxes to fund the program. The proposal all assume an increase in the cigarette tax from $0.84 per pack to $2.00 per pack, and nearly a four fold increase in taxes for alcoholic beverages (***Figure 18***). The "Solutions for a Healthy Colorado" proposal also places a tax on food items with low nutritional value raising $522 million in revenues.

Figure 18
Revenues from Taxes Created Under Five Health Reform Proposals for Colorado

	Better Health Care for Colorado	Solutions for a Healthy Colorado	A Plan for Covering Coloradans	Colorado Health Services Program (CHSP)	The Commission Proposal
Tobacco Tax Increase ($2.00 per pack)	$210 million	$210 million	$210 million	$210 million	$210 million
Alcohol Tax Increase (Four Fold increase)	$126 million	$126 million	$126 million	$126 million	$126 million
Tax on Low Nutrition Foods	--	$522 million	--	--	$41 million
Premium Tax	--	--	$240 million (5.8 percent)	--	--
Provider Tax	--	--	$688 million (3.1 percent)	--	--
Employer Payroll Tax	--	--	--	$6.5 billion (6.0 percent of payroll)	--
Increase State Income Tax Rate (currently 4.6%)	--	--	$571 million (0.6 percentage points)	$8.2 billion (8.1 percentage points)	$854.4 million (0.8 percentage points)
Employer Assessment of per $347 non-covered FTE	--	--	$179 million	--	--

Source: The Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

The Commission's proposal includes a much smaller tax on low-nutrition foods of $41 million. The remainder of the program would be funded with an increase in the state's personal income tax rate of 0.8 percent.

"A Plan for Covering Coloradans" imposes four additional taxes. These include: an assessment on employers of $347 per full-time-equivalent (FTE) uninsured worker; a provider tax of 3.1 percent on hospitals and physicians and other professionals calculated to recover reduced uncompensated care for providers; an insurer premium tax of 5.8 percent calculated to recover administrative savings; and an increase in the state personal income tax rate of 0.6 percentage points. The CHSP single-payer proposal includes a 6.0 percent payroll tax on employers and an 8.1 percentage point increase in the personal income tax rate (currently 4.6 percent).

G. Changes in State-wide Health Spending

As discussed above, we estimate that health spending for Colorado residents will be about $30.1 billion in 2007/2008. This includes spending for all health services by all payers including Medicare, Medicaid, ESI, non-group insurance, workers compensation and various safety-net programs. Spending includes payments to providers for services and the cost of insurance and public program administration. All of the proposals analyzed would affect health spending.

1. Utilization of Health Services

We estimate an increase in utilization of health services for newly insured people under each proposal. We assume that currently uninsured people who become insured would use health care services at the same rate as insured people with similar age, sex and health status characteristics. In general, we expect increased access to primary care for this population would result in savings due to a reduction in avoidable emergency room visits and hospitalizations. However, these savings would be more than offset by a general increase in the use of more elective care such as preventive care, advanced diagnostic tests, and other care that the uninsured often forego or delay.

Using this assumption, we estimate that health spending among the newly insured population would increase by about $1.0 billion under the CHSP program, which would cover all of the uninsured (***Figure 19***). The increase in utilization would be only $374 million under the "Better Health Care for Colorado" proposal, reflecting that it does not include a mandate to have coverage and therefore covers less than half of the uninsured population. Spending for the newly insured would be $781 million under "Solutions for a Healthy Colorado," $868 million under "A Plan to Cover Coloradans" and $826 million under the Commission's proposal. CHSP also expands coverage for long-term care resulting in an increase in utilization of these services of $765 million.

2. Provider Reimbursement and the Cost-shift

All of these proposals would have an impact on provider reimbursement and the cost-shift. We estimate that the cost of charity care provided by hospitals, physicians and other health professionals will be about $777.1 million in 2007/2008 (***Appendix B***). This would be reduced by about $109 million under the Better Health Care for Colorado plan, $203 million under the Solutions for a Healthy Colorado plan, and $226 million under A Plan for Covering Coloradans. The CHSP single-payer plan would cover about $682 million of this care reflecting that CHSP covers all of the uninsured with a broad benefits package and no deductible.

The Plan for Covering Coloradans would increase reimbursement for services provided to Medicaid enrollees by about $462 million. By contrast, provider reimbursement levels would actually decline by about $761 million under the Healthy Solutions for Colorado program even though it increases Medicaid payment rates because it also includes a larger mandatory reduction in hospital payments for privately insured people. Provider payment levels under CHSP would be set at the average of the payment levels for comparable services under existing public and private health plans, resulting in no net change in provider reimbursement.

Figure 19
Changes in Statewide Health Spending Under Five Proposal to Reform the Colorado Heath Care System in 2007/2008 (millions)

	Better Health Care for Colorado	Solutions for a Healthy Colorado	A Plan for Covering Coloradans	Colorado Health Services Program (CHSP)	The Commission Proposal
Statewide Health Spending Under Current Law	$30,100	$30,100	$30,100	$30,100	$30,100
Changes in Health Service Utilization	**$374**	**$781**	**$868**	**$1,774**	**$826**
Utilization for Newly Insured	$374	$781	$868	$1,009	$826
Long-term Care Utilization	-- [a/]	--	--	$765	--
Changes in Provider Reimbursement	**$65**	**($558)**	**$412**	**$0**	**$137**
Reduced Uncompensated Care	$109	$203	$226	$682	$240
Provider Reimbursement Levels	--	($761)	$462	--	($11)
Increase/Reduction in Cost-shift	($44) [b/]	n/a [c/]	($276) [b/]	($682) [d/]	(92)
Changes in Administration	**$164**	**$81**	**$65**	**($2,847)**	**($66)**
Insurer and Program Administration	$164	$81	$65	($1,856)	$100
Provider Administration	--	--	--	($991)	($166)
Bulk Purchasing	**($8)**	**--**	**--**	**$322**	**--**
Prescription Drugs	($8)	--	--	$290	--
Medical Equipment	--	--	--	$32	--
Other Provisions	**--**	**($33)**	**($56)**	**--**	**--**
Net Change in Statewide Health Spending	**$595**	**$271**	**$1,289**	**($1,395)**	**$987**

a/ The proposal includes expansions in long-term care coverage that could not be modeled due to data limitations.
b/ Assumes that 40 per cent of reductions (increases) in uncompensated care and payment shortfalls in public programs are passed on to private payers in the form of lower increased in charges over time.
c/ Provider payment levels are determined through regulation which effectively pre-empts the cost shift.
d/ Under CHSP, provider payment levels are set at the average levels of reimbursement across existing health care payers. We assume that the program would reduce payment levels for providers across the board to reflect the near elimination of uncompensated care.
Source: Lewin Group Estimates using the Health Benefits Simulation Model (HBSM)

Historically, about 40 percent of uncompensated care and payment shortfalls under public programs are passed on to privately insured people in the form of higher charges. Based upon these data, we estimate that the cost-shift would be reduced by about $44 million under the "Better Health Care for Colorado" proposal, $276 million under "A Plan for Covering Colorado" and $92 million under the Commission's proposal. These cost-shift savings would be passed-on to consumers in the form of slowed premium growth over time.

However, the provider's capacity to cost-shift is eliminated user the CHSP and "Health Solutions for Colorado" due to the adoption of provider payment rates designated in the law.

3. Administrative Costs

We estimate that of the $30.1 billion spent on health care in Colorado, about 29 percent ($8.6 billion) will be spent on administration. The cost of administration of insurance, including profits, and public health benefits programs will be about $2.3 billion. Administrative expenses will be about $3.3 billion for hospitals and $3.1 billion for physicians.

The cost of insurer and program administration will generally increase in proportion to the number of uninsured who become covered under any program that builds upon the existing system of public and private insurance such as the "Better Health care for Colorado" proposal, "The Healthy Solutions for Colorado" plan, "A Plan for covering Coloradans," and the Commission's proposal. However, we estimate savings of about $166 million in hospital and physician spending due to several administrative simplification provisions in the proposal. These include:

- Require all health plans to issue ID cards that conform to ANSI and WEDI standards and require all ID cards to use magnetic strips that conform to WEDI standards;
- Standardize provider credentialing procedures;
- Simplify eligibility and coverage verification processes;
- Standardize and streamline claim form attachments;
- Standardize prior authorization procedures, including those of Medicaid; and
- Create standardized and simplified appeals process for all carriers

However, we estimate that the CHSP program would reduce administrative costs by $2.8 billion if fully implemented in 2007/2008. This is because it establishes a single source of health insurance for everyone in the state with uniform coverage and reimbursement rules. It eliminates changes in coverage due to job change, broker commissions, insurer profits, medical underwriting and managed care network formation costs for managed care. For providers, it standardizes coverage and reimbursement rules, and eliminates the cost of developing provider networks.

We estimated administrative costs for the CHSP based upon administrative costs under the fee-for-service Medicare program, which can be thought of as a single-payer program for the elderly and disabled. Medicare administrative costs for the fee-for-service Medicare program are equal to about 1.8 percent of covered benefits compared with an average of about 14 percent of covered benefits under private insurance arrangements in Colorado. Based upon these data, we estimate that shifting Coloradans to such a system would reduce insurer administrative costs by $1.9 billion.

We estimated savings to providers based upon detailed data on administrative costs for hospitals from the Colorado Medicare Cost Report data and a survey of physician practice expenses developed by the Medical Group Management Association (MGMA). These data allowed us to separate administrative costs that would be affected by a single-payer model from functions that would not be affected such as nursing administration and housekeeping. The primary areas of potential savings include patient billing, managed care administration, credit

and collections, admission and other finance related functions. We then estimated saving in these areas based upon interviews with experts in provider administration.

Using this approach, we estimate provider administrative savings of $991 million. However, these savings are not savings to the system unless provider payment levels are reduced accordingly. Therefore, we assumed in this analysis that provider reimbursement rates would be reduced under CHSP to reflect the expected administrative savings.

4. Bulk Purchasing

The CHSP proposal would establish a single purchaser for all prescription drugs and durable medical equipment in Colorado. The single-payer effectively aggregates the purchasing power of all Coloradans into a single bargaining unit capable of negotiating price discounts. For illustrative purposes, we have assumed that the single-payer negotiates discounts and rebates similar to those obtained by the existing Colorado Medicaid program.[8] Using these assumptions, we estimate savings of about $322 million under CHSP.

5. Net Changes in Statewide Health Spending

As shown above in ***Figure 19*** we estimate that total health spending in Colorado would increase under the four proposals that build upon the existing system of public and private coverage. Health spending would increase by $595 million under Better Health Care for Colorado, $271 million under Solutions for a Healthy Colorado, $1.3 billion under A Plan for Covering Coloradans, and $987 million under the Commission's proposal. This reflects the net effects of increased utilization, changes in provider reimbursement, changes in administration and bulk purchasing. Health spending would decline by $1.4 billion under CHSP due to savings in administration and bulk purchasing savings.

H. Changes in Health Spending by Payer Group

As discussed above, we estimate that total spending for health care in Colorado will be about $30.1 billion in 2007/2008, including both payments for health services and insurer/program administration. Under current law, ESI will account for 44 percent of all health care spending, including $11.9 billion for workers and dependents and $1.3 billion for retirees (***Figure 20***). Medicaid/CHP+ will account for about 10 percent of state-wide health spending while Medicare would account for another 19 percent. About 14 percent of all spending would be out-of-pocket payments including co-payments under insurance and spending for non-covered services, including the amounts paid by the uninsured.

As sources of coverage change, so do spending levels for the various public and private health payers of health care. Under the "Better Health Care for Colorado" proposal, spending under the Medicaid and CHP+ programs would increase from $3.0 billion under current law to about $3.1 billion under the program as the CHP+ program is expanded to 300 percent of the FPL.

---

[8] Under federal law Medicaid payments for prescription drugs must be no less than the largest discounts granted to any other purchaser in the country.

Spending for coverage under the exchange would be about $1.4 billion, of which about $864 million would be financed with premium subsidies (the authors propose is to obtain federal matching funds for these premium subsidies). There would be a reduction in spending under private non-group insurance reflecting the shift of some individuals from private coverage to the expanded CHP+ premium subsidy program, which are available only through the exchange.

The "Solutions for a Healthy Colorado" program would increase spending for Medicaid and CHP+ from about $3.0 billion under current law to about $3.5 billion under the program assuming full implementation in 2007/2008. Total spending for private insurance in the newly formed Connector would be about $1.5 billion. However, total spending in the non-group market would fall from about $1.2 billion under current law to about $458 million under the proposal as income-eligible people shift to subsidized coverage in the Connector. There also would be a small reduction in spending under ESI due to changes in private reimbursement levels under the proposal and changes in the number and characteristics of people with such coverage under the proposal.[9]

Medicaid and CHP+ spending would increase from about $3.0 billion to about $4.7 billion under "A Plan for Covering Coloradans." Total spending for private non-group insurance would increase from about $1.2 billion under current law to about $1.9 billion, reflecting the availability of premium subsidies under the program. There also would be a small reduction in ESI coverage as some workers shift to the subsidized coverage programs under the proposal.

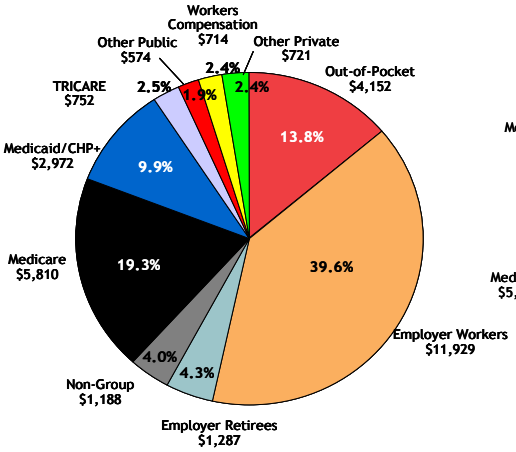
The Commission's proposal would see spending under Medicaid and CHP+ increase to $4.9 billion, which is largest increase in Medicaid spending under proposals studied. This reflects the cost of benefits improvements and the HCBS waivers as well as the expansion in eligibility under the program. Total spending for non-group coverage would drop from $1.2 billion under current law to about $995 million under the proposal, reflecting a shift of income eligible people from private coverage to Medicaid and CHP+. However, of the $955 million, about $554 million would be paid with premium subsidies that the Commission proposes to finance through Medicaid with federal matching dollars under an 1115 waiver.

Under the CHSP, 92.6 percent of all health spending ($26.6 billion) would be covered by the single-payer program. We estimate about $460 million in continued employer spending for benefits that are not covered under the CHSP (e.g., orthodontia etc.). Out-of-pocket spending for Coloradans would decline from $4.2 billion under current law to $1.6 billion under the program.

[9] Firms with higher cost people are more likely to drop coverage to take the community rated (i.e., modified by age) subsidized coverage.

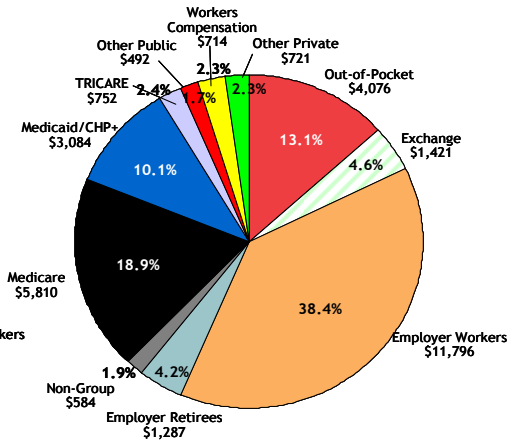
Figure 20
Estimated Spending by Source of Payment in Colorado under Current Law And Under the Proposals

Current Law



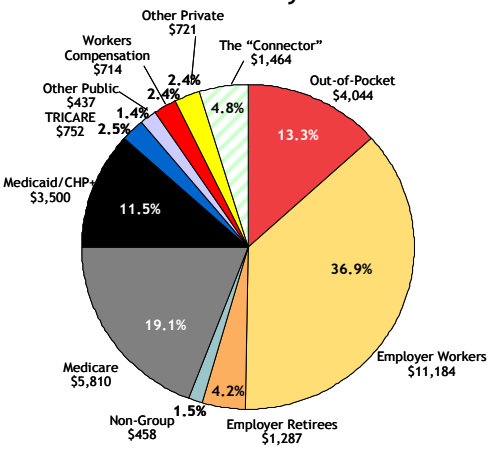
Total Spending = $30,100 million

Better Health Care for Colorado



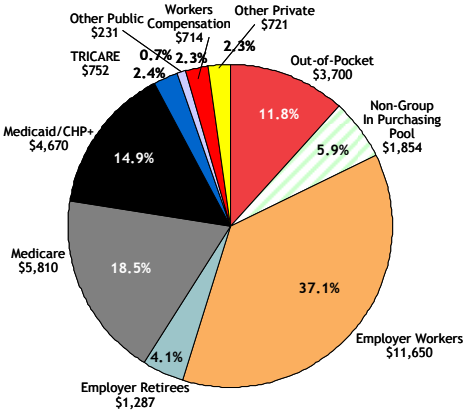
Total Spending Under "Better Health Care for Colorado" Program = $30,695 million

Solutions for a Healthy Colorado



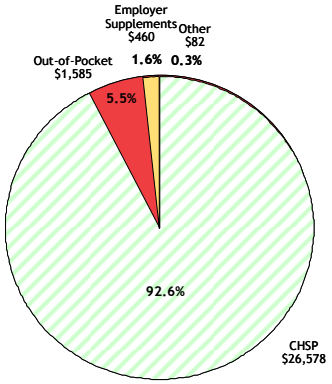
Total Spending With Program = $30,371 million

A Plan for Covering Coloradans



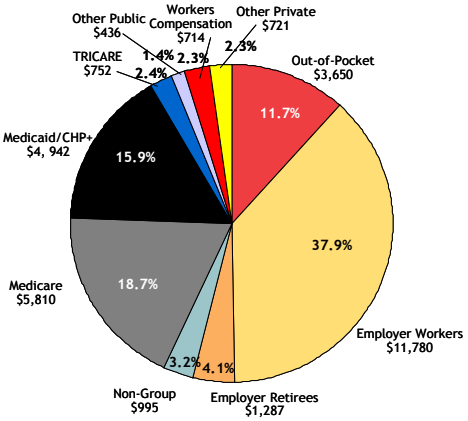
Total Spending Under Program = $31,389 million

Colorado Health Services Program (CHSP)



Total Spending with CHSP Program = $28,705 million

The Commission's Proposal



Total Spending Under Program = $31,087 million

I. Target Efficiency Measures

Figure 21 compares the five health reform plans across several measures of their impact, including measures of the program's effectiveness in targeting new program spending to the uninsured. For example, the "Better Care for Colorado proposal would cover about 41 percent of the 791,800 uninsured people in Colorado, leaving 467,200 Coloradans without coverage. The program leaves a large number of people uninsured because it does not include a mandate for all state residents to have coverage as do the other proposals.

Figure 21
Selected "Target Efficiency" Measures for the Five Health Reform Proposal for Colorado

	Percent of Uninsured who Become Covered	Number Remaining Uninsured (thousands)	New Program Spending (Millions)	Percent of Funds Going to Currently Uninsured	Program Spending per Newly Insured Person
"Better Health Care for Colorado" (No mandate: Subsidies below 300% FPL)	41.0%	467.2	$980	68.4%	$3,015
"Solutions for a Healthy Colorado" (Individual mandate: Subsidies below 250% FPL)	82.5%	138.4	$1,366	36.5%	$2,091
"A Plan for Covering Coloradans" (Individual mandate: Subsidies below 400% FPL)	86.3%	108.6	$3,146	65.7%	$4,605
"Colorado Health Services Program (CHSP)" (Single payer Tax financed)	100.0%	--	$26,578	n/a	n/a
Commission Proposal (individual Mandate: Subsidies < 400% FPL)	87.6%	97.5	$2,666	68.7%	$3,843

Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

Programs that do include a coverage mandate will not necessarily achieve full coverage. For example, the "Solutions for a Health Colorado" program would cover about 82.5 percent of the uninsured. "A plan for Covering Colorado" would cover about 86.3 percent of the uninsured and the Commission's proposal would cover about 87.6 percent of the uninsured. Coverage among these four proposals is greatest for the Commission's proposal because it establishes automatic enrollment for eligible people through other income-tested programs such as Food Stamps. It also extends coverage to legal non-citizens who do not meet the federal five-year residency requirement to be eligible for the Medicaid and CHP+ programs.

Those who remain uninsured under these options include undocumented immigrants who do not qualify for subsidies under the various programs. Also, some of the uninsured have such low-incomes that they do not pay taxes, and are therefore beyond the reach of a tax based enforcement mechanism and penalties under the program.

The CHSP single-payer program would cover all people in the state including all citizens and non-citizens (legal or otherwise) who have resided in Colorado for three or more months. Once an individual has accessed the health care system they remain covered under the program until they leave the state or die, which eliminates the losses of coverage that can come from changes in employment or failure to apply for recertification of coverage under Medicaid or CHP+. Also, people can not evade paying into the program by not enrolling because their contribution is collected separately through income and payroll taxes. However, outreach of some form will still be needed to bring health care to certain hard-to-reach populations.

Total new program spending under the "Better Health Care for Colorado" proposal would be $980 million including both state and federal funds. Of these funds, about 68.4 percent would go to subsidize coverage for the uninsured while about 31.6 percent would go to people who already have coverage. These include individuals who would have purchased private non-group coverage under current law who would be eligible to enroll in the expanded Medicaid/CHP+ program. The program has a six-month waiting period for people who have employer coverage so few of those enrolling are people who would have had employer coverage. The program spending per newly insured person would be $3,015 under the plan.

Program spending under the "Solutions for a Healthy Colorado" proposal would be $1.4 billion. Only about 36.5 percent of this spending would go to currently uninsured people. This reflects that the premium subsidies are available to income-eligible workers to pay their share of the premium contribution for their employer plan. Also, the plan increases Medicaid and CHP+ provider payment levels, which applies mostly to services provided to currently eligible people. The plan spends only about $2,091 per newly insured person, reflecting that many of the uninsured people who would take coverage due to the mandate are at higher income levels and would not require a subsidy.

"A Plan for Covering Colorado" would require $3.1 billion in new program spending. The higher cost reflects that the program provides subsidies to people through 400 percent of the FPL compare to 300 percent of the FPL under the "Better Health Care for Colorado" and 250 percent of the FPL under the "Solutions for a Healthy Colorado" plan. Although 65.7 percent of the spending under this proposal would go to currently uninsured people, average costs per newly insured person would be $4,605. This reflects that the program would increase Medicaid and CHP+ payment levels to Medicare levels, and that the subsidies under the premium subsidy program are relatively high, even at higher income levels (e.g., 25 percent at 400 percent of the FPL).

New program spending under the Commission's proposal would be $2.5 billion, of which 68.7 percent would go to the uninsured. Much of the cost of the proposal would be for expanded benefits and increasing provider reimbursement for the Medicaid population. Average costs per newly insured person would be $3,843 under the Commission's proposal.

It is difficult to compare the CHSP to the other programs. This is because the program is intended to fundamentally reform all aspects of the health care financing system to achieve improved efficiency as well as to extend coverage to the uninsured. In view of the broader goals of the CHSP, it seems inappropriate to evaluate the program on the basis of measures the share of spending that goes to currently uninsured people.