

# Executive Summary

of

## “Three Possibilities for Colorado’s Future Health Care Financing and Delivery”

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COLORADO FOUNDATION FOR  
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Health care cost, quality, access, and coverage continue to be among today's most hotly and frequently debated issues. In spite of the Supreme Court ruling upholding most of the Affordable Care Act (ACA), there is still active discussion of repealing it; the implementation of the ACA and the Exchanges will address many problems, but there are complaints that it costs too much; and Senator Irene Aguilar, M.D. is promoting legislation for Colorado to move to establish a locally operated statewide Cooperative using waivers from the ACA. While national polls indicate that concern about the uninsured has fallen since the ACA was passed, public concern about the escalating costs of health care remains high.

Economic impacts and sustainability are at the center of the debate. To inform Coloradans, the Colorado Foundation for Universal Health Care commissioned Dr. Gerald Friedman to conduct an economic analysis of the "Three Possibilities for Colorado's Future Health Care Financing and Delivery," and examine the implications of three health care options over the next decade.

- The Affordable Care Act (ACA) is repealed—no-ACA baseline
- The ACA is implemented as currently designed—ACA
- The Colorado Health Care Cooperative as proposed by Senator Aguilar is approved on the ballot in 2013 and fully implemented on January 1, 2016—Cooperative

Because there is substantial literature and evaluation of the no-ACA and ACA options, the majority of Dr. Friedman's analysis is devoted to the economic impact of financing Colorado's health care through the Cooperative. These are his findings:

#### **What happens if the ACA is repealed (no-ACA)?**

- Colorado Health Expenditures (CHE) have been rising. Without the ACA, they would continue to rise until 2024, when they would comprise 17.5% of the Gross State Product (GSP). This increase far exceeds the growth in the state economy.
- By 2016, administrative costs would account for \$15.2 billion (31%) of Colorado's \$49 billion in health expenditures, and administrative costs would continue to be one of the fastest-growing health care expenses.
- There would be no plans for payment reform and/or long-term cost containment.
- The number of uninsured Coloradans would rise from 17% in 2016 to 23% in 2024.



#### **What happens if ACA implementation continues according to current law?**

- Overall health care spending (including federal funds) will increase to more than the no-ACA baseline—to 18.5% of the GSP. Again, this rise in costs far exceeds the growth in the state economy.
- Health care costs will decrease for lower-income families (due to federal subsidies) and increase for higher-income families due to high-income levies in the ACA.
- Savings:
  - The Obama administration believes that the cost containment features of the ACA will reduce Colorado health expenditures (CHE) by 1% by 2016. These measures include an excise tax on expensive insurance plans, competition between insurers through the Exchanges, payment reform to promote better health care and reduce hospital admissions, the promotion of Accountable Care Organizations (ACOs), and the establishment of an Independent Advisory Board. Even if achieved, these savings do not substantially slow the rising expenditures.

- If there continues to be political pressure for fraud reduction, payment reform, and the expanded use of electronic medical records, health care expenditures may be reduced in the future, but cost savings are not expected in the next few years.
- In 2016, administrative costs would account for \$15.6 billion (31%) of the \$50.5 billion CHE, and administrative costs will continue to be one of the fastest-growing health care expenses.
- The number of uninsured is reduced to 8% in 2016 and 4% in 2024.

### **What happens if the Cooperative is implemented in 2016?**

- In 2016, Colorado health expenditures would decrease from the ACA level of 14.5% of the GSP to 14% of the GSP, and by 2024, CHE would account for 14.5% of the GSP compared to 17.5% and 18.5% of GSP with the no-ACA and ACA respectively.
- Health care costs would decrease for 80% of Colorado families whose family annual income is currently less than \$100,000, and increase for families whose income is currently more than \$100,000.
- Compared to no-ACA, the Cooperative decreases per capita spending on health care by \$888 in 2016 and \$2,427 in 2024.
- Businesses will benefit on the average with the greatest benefit going to the businesses that have been paying the highest health insurance premiums. Currently employers and their employees pay on the average 11.8% of payroll for health insurance plus employers pay for workers' compensation insurance, which includes medical expenses that would be covered by the Cooperative. These combined payments would be lowered to 9%, with the employer paying 6% and the employee paying 3%, and an option for the employer to pay the employee share.
- Savings—the Cooperative creates a number of efficiencies in the financing of health care. Some begin soon after day one of operation, and others might take years to develop. Consequently, the savings from the Cooperative increase with time. The major savings come from the fastest-growing areas of health care—administration and pharmaceutical prices. Savings and costs are measured against the no-ACA baseline.
  - Administrative efficiencies in provider offices result in \$2.2 billion savings in 2016, and \$6 billion in 2024.
  - Administrative efficiencies from reducing unnecessary insurance and government administration result in \$3.7 billion savings in 2016, and \$6.4 billion in 2024.
  - Reduced prices for pharmaceuticals and medical equipment due to the power to negotiate price decreases result in \$1.2 billion savings in 2016, and \$3.1 billion in 2024.
  - Fraud reduction due to a transparency and a single billing system results in saving \$.7 billion in 2016, and \$2 billion in 2024.
  - Savings from restraining increasing administrative costs and drug prices, and from universal electronic records with smartcards (portable electronic medical records on a wallet-sized card), as well as payment reforms through ACOs, and other methods will be developed slowly. In 2020, they save \$2.2 billion with savings growing to \$6.4 billion in 2024.
  - Total savings in 2016 are \$7.7 billion and \$23.9 billion in 2024.
- Increased costs—Some of the savings are offset by increased costs that improve health care in Colorado.
  - Health care services for the previously uninsured increase expenses by \$1.2 billion in 2016, and \$2.1 billion in 2024.
  - Increased use of health care services due to removing access barriers increases costs

- \$3 billion in 2016, and \$3.2 billion in 2024.
- Medicaid reimbursements in the no-ACA baseline have been so low that many providers could not serve Medicaid patients. Raising reimbursements to the level needed to bring Medicaid into the Cooperative increases costs \$.8 billion in 2016, and \$1.4 billion in 2024.
- The Cooperative adds some administrative expenses such as tracking income and residency and developing smartcards. This costs \$.6 billion in 2016, and \$1 billion in 2024.
- Total increased costs are \$2.9 billion in 2016 and \$7.7 billion in 2024.
- Spending on health care administration in 2016 decreases from 31% CHE in the no-ACA and ACA (\$15.2 billion and \$15.6 billion respectively) to 21.5% CHE (\$9.5 billion) in the Cooperative.
- Effects on economy and employment:
  - The Cooperative will, compared to the ACA, identify 19% more people who are Medicaid eligible. Additional federal Medicaid funds coming to Colorado would create 8,000 jobs in 2016.
  - The \$2.2 billion reduction in administrative services in provider offices will cause the loss and subsequent shift of 15,000 jobs to provider medical offices, retail stores, and other businesses that are created by the \$2.2 billion of savings spent in the Colorado economy. This is one-fifth of the typical monthly turnover of 75,000 jobs in the Colorado economy.
  - Colorado businesses, government, and residents will have a combined savings of \$4.8 billion due to efficiencies in the Cooperative, which may be spent in the Colorado economy. Each billion spent in the Colorado economy creates 7,000 jobs.
  - The Cooperative generates jobs by redirecting \$3.7 billion of health care spending back to Colorado. Sixty percent of insurance jobs that will be unnecessary are out-of-state, and the savings on pharmaceutical expenses reduces the flow of dollars out of Colorado.
  - Employers will use some of their savings to hire more employees and some to increase salaries, further stimulating the economy.
  - By reducing the cost of health care, the Cooperative will lower the cost of hiring labor, generating additional jobs by allowing Colorado business to prosper.
- Due to the Cooperative's one-year residency requirement, 13,600 people will be uninsured (0.3% uninsured rate) in 2016.

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