

# Colorado Health Services Plan (CHSP): Cost and Coverage Impacts

July 17, 2007

Draft Report - Version #2

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# CHSP Specifications

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**Preliminary Findings, Subject to Revision, Not for Citation**

# CHSP Specifications-Coverage

- CHSP would cover all Colorado residents, including local government workers, retirees, and beneficiaries of federal government programs (Tricare/CHAMPUS, Medicare, Medicaid, FEHBP).
- “Resident” means a person who has resided or worked in Colorado for at least 3 months.
- All individuals who present for services during the first 2 years of the program would be determined presumptively eligible.
- Employers would be permitted to purchase additional coverage not provided under the CHSP benefits package.

**Preliminary Findings, Subject to Revision, Not for Citation**

# CHSP Specifications-Benefits

- The CHSP would cover all services currently provided under the State's Medicaid program.
- Insurers and employers would be permitted to provide additional benefit plans based on specific regional needs.
- Long term care would be covered subject to the following:
  - ? For current Medicaid eligible people, room and board for a nursing facility stay would be a covered benefit; and
  - ? In the first year of the program, there would be a 25 percent increase in home and community-based care.

**Preliminary Findings, Subject to Revision, Not for Citation**

# CHSP Specifications-Cost Sharing

- Medicaid or CHP+ copays would be charged for people who would be eligible for Medicaid or CHP+ under current law;
- For all other people copays would be as follows:
  - ? No copay for preventive services;
  - ? \$5 for office visits;
  - ? \$15 for urgent and emergency care; and
  - ? \$5 (generic)/\$15 (brand name) copays for prescriptions

**Preliminary Findings, Subject to Revision, Not for Citation**

# CHSP Specifications-Provider Payment Levels

- Provider payment levels would be set at the average level of reimbursement across all payors for health services under current law. However, provider payment rates would be reduced to reflect:
  - ? Reduced cost-shifting for uncompensated care
  - ? Estimated administrative savings for providers under the system
- CHSP would centralize purchasing for prescription drugs and durable medical equipment to obtain greater rebates and price discounts from suppliers.
  - ? Assumes CHSP would negotiate discounts for prescription drugs similar to those received by the current Medicaid program of approximately 20 percent compared with an average discount of about seven percent in existing private employer plans.

**Preliminary Findings, Subject to Revision, Not for Citation**

# CHSP Specifications-Administration

- The CHSP would be administered by a publicly owned not-for-profit governing board comprised of 15 members.
- There would be 5 regional offices for the purpose of local administration, outreach, billing, medical directorship, and oversight that may be specific to each of the five regions.
  - ? North-central and Northwest;
  - ? South-central and Southwest;
  - ? Southeast and East-central;
  - ? Northeast; and
  - ? Denver Metro
- The CHSP Board decisions on program administration would be final unless otherwise directed by the courts or state law.
- Board responsibilities would include initial review of medical malpractice claims.
- The legislature cannot remove funds allocated to the CHSP trust without consent of the people.
- CHSP administrative overhead cannot exceed 5 percent of total spending.

**Preliminary Findings, Subject to Revision, Not for Citation**

# CHSP Specifications-Administration (continued)

## Derivation of Insurer Administrative Costs Per Enrollee Per Year Under the CHSP Model in 2007/08 <sup>a/</sup>

|  | Medicare Costs<br>Per Enrollee | Costs for non-<br>Medicare Enrollees<br>Under CHSP <sup>b/</sup> | Total    |
|--|--------------------------------|--|----------|
| Claims Processing  | \$64.45                        | \$38.67  | N/A      |
| Utilization Review   | \$29.13                        | \$17.48  | N/A      |
| Research/Demonstrations  | \$1.75                         | \$1.05   | N/A      |
| Agency Administration  | \$20.44                        | \$12.26  | N/A      |
| <b>Total</b>   | <b>\$115.77</b>                | <b>\$69.46</b>   | N/A      |
| Number People Enrolled (in thousands)                                | 438.6                          | 4,181  | 4619.8   |
| Total Administration Under CHSP Program in<br>Colorado (in millions) | \$50.78                        | \$290.43   | \$341.20 |

a/ Medicare Estimates from 2007 budget of the United States and the CBO March 2007 Baseline: Medicare.

b/ We adjusted these cost estimates to reflect data from the National Health Interview Survey (NHIS) indicating utilization of services for Medicare beneficiaries compared to privately insured people under age 65.

Source: Lewin Group estimates.

**Preliminary Findings, Subject to Revision, Not for Citation**

# CHSP Specifications - HIT

- There would be a statewide, fully integrated information technology network.
- Fully integrated HIT would include electronic medical records, billing/claims adjudication, and centralized data support.

**Preliminary Findings, Subject to Revision, Not for Citation**

# CHSP Specifications - Financing

- Colorado would seek agreement with the federal government for matching funds for CHSP services provided to people who would have been eligible for federal programs (i.e., Medicare, Medicaid, CHAMPUS, FEHBP)
- All current State and Local government health spending would be transferred to the program (i.e., Medicaid, employee health benefits, worker's compensation and other safety net program funding)
- The remainder of CHSP would be financed as follows:
  - ? All employers, including those that do not currently offer coverage and self-employed people, would pay a 4 percent employer payroll tax
  - ? Individuals and families, including self-employed people, would pay an income tax surcharge

**Preliminary Findings, Subject to Revision, Not for Citation**

# CHSP-Cost and Coverage Impacts Estimates in 2007/2008

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**Preliminary Findings, Subject to Revision, Not for Citation**

# Changes in State Health Spending under the CHSP in 2007/2008 (millions)

|   |           |                  |
|---|-----------|------------------|
| <b>Current State Health Spending</b>  |           | <b>\$30,100</b>  |
| <b>Change in Health Services Expenditures</b>                                     |           | <b>\$1,418</b>   |
| Change in acute care utilization for newly insured                                | \$924     |                  |
| Change in acute care utilization for currently insured                            | \$39      |                  |
| Change in long term care utilization  | \$455     |                  |
| <b>Reimbursement Effects</b>  |           | <b>\$0</b>       |
| Payments for previously uncompensated care  | \$645     |                  |
| Reduced Cost Shifting <sup>a/</sup>   | (\$645)   |                  |
| <b>Bulk Purchasing Discounts</b>  |           | <b>(\$322)</b>   |
| Bulk Purchasing of Prescription Drugs and Durable Medical Equipment <sup>b/</sup> | (\$322)   |                  |
| <b>Change in Administrative Cost of Programs and Insurance</b>                    |           | <b>(\$2,783)</b> |
| Insurer Administration  | (\$1,827) |                  |
| Hospital Administration   | (\$322)   |                  |
| Physician Administration  | (\$634)   |                  |
| <b>Total Change in State Health Spending</b>                                      |           | <b>(\$1,687)</b> |

a/ Assumes change in provider payment resulting from previously uncompensated care are passed on to CHSP in the form of lower payment rates.

b/ Assumes 13 percent additional discount on drugs and medical equipment.

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

**Preliminary Findings, Subject to Revision, Not for Citation**

# CHSP Costs and Revenues in 2007/2008 (millions)

| Uses of Funds                             |          |                 | Sources of Funds                                      |   |                 |
|---|----------|-----------------|---|---|-----------------|
| <b>CHSP Acute Care Benefits Costs</b>     |          |                 | <b>\$22,458</b>                                       | <b>State &amp; Local Government Program Savings</b> | <b>\$3,843</b>  |
| Benefits costs at current payment rates   | \$24,381 |                 | Medicaid / CHP+                                       | \$1,053   |                 |
| Bulk Purchasing Savings                   | (\$322)  |                 | Employee and Retiree Benefits / <sup>a</sup>          | \$1,602   |                 |
| Reduced Cost Shifting                     | (\$645)  |                 | Workers Compensation                                  | \$647   |                 |
| Hospital Admin. Savings                   | (\$322)  |                 | Other Safety Net Programs / <sup>b</sup>              | \$541   |                 |
| Physician Admin. Savings                  | (\$634)  |                 |   |   |                 |
| <b>CHSP Long Term Care Benefits Costs</b> |          |                 | <b>\$2,362</b>  | <b>Federal Government Transfers</b>                 | <b>\$8,781</b>  |
| Nursing Home                              | \$1,611  |                 | Medicaid / CHP+                                       | \$1,140   |                 |
| Home Health                               | \$751    |                 | Medicare  | \$6,188   |                 |
|   |          |                 | CHAMPUS   | \$841   |                 |
|   |          |                 | FEHBP (employees & retirees) / <sup>a</sup>           | \$612   |                 |
| <b>CHSP Program Administration</b>        |          |                 | <b>\$341</b>  | <b>Taxes to Fund Program</b>                        | <b>\$12,383</b> |
|   |          |                 | Employers (4% payroll tax)                            | \$4,342   |                 |
|   |          |                 | Individuals and Families Income tax                   | \$8,103   |                 |
|   |          |                 | <b>State Income Tax Gain/(Loss) from Wage Effects</b> |   | <b>\$92</b>     |
| <b>Total Costs</b>                        |          | <b>\$25,161</b> |   |   | <b>\$25,161</b> |

a/ Includes net savings after additional benefits for employees and retirees and payroll taxes.

b/ Includes care currently paid for by other safety net programs. Assumes waiver is approved to allow state to continue to receive Federal DSH funding to be used for the program. Source: The Lewin Group estimates using the Health Benefits Simulation Model.

**Preliminary Findings, Subject to Revision, Not for Citation**

# Change in Federal Government Spending Under the CHSP in 2007/2008 (millions)

|  | Change in Spending |
|--|--------------------|
| <b>Federal Program Costs/(Savings)</b>                           |                    |
| <b>Savings to Public Programs</b>                                | <b>(\$8,169)</b>   |
| Medicaid / CHP+  | (\$1,140)          |
| Medicare   | (\$6,188)          |
| CHAMPUS  | (\$841)            |
| <b>Savings to FEHBP</b>  | <b>(\$1,022)</b>   |
| Workers and Retirees   | (\$1,200)          |
| Payroll Taxes to fund CHSP                                       | \$178              |
| <b>Total Federal Program Costs/(Savings)</b>                     | <b>(\$9,191)</b>   |
| <b>Federal Programs Transfers and Offsets</b>                    |                    |
| <b>Transfers to CHSP to fund program</b>                         | <b>\$9,191</b>     |
| <b>Tax Revenue (Gain)/Loss Due to Wage Effects <sup>a/</sup></b> | <b>(\$839)</b>     |
| <b>Net Cost/(Savings) to Federal Government</b>                  | <b>(\$839)</b>     |

a/ An Increase in tax revenue is counted as a reduction in Federal health spending.

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

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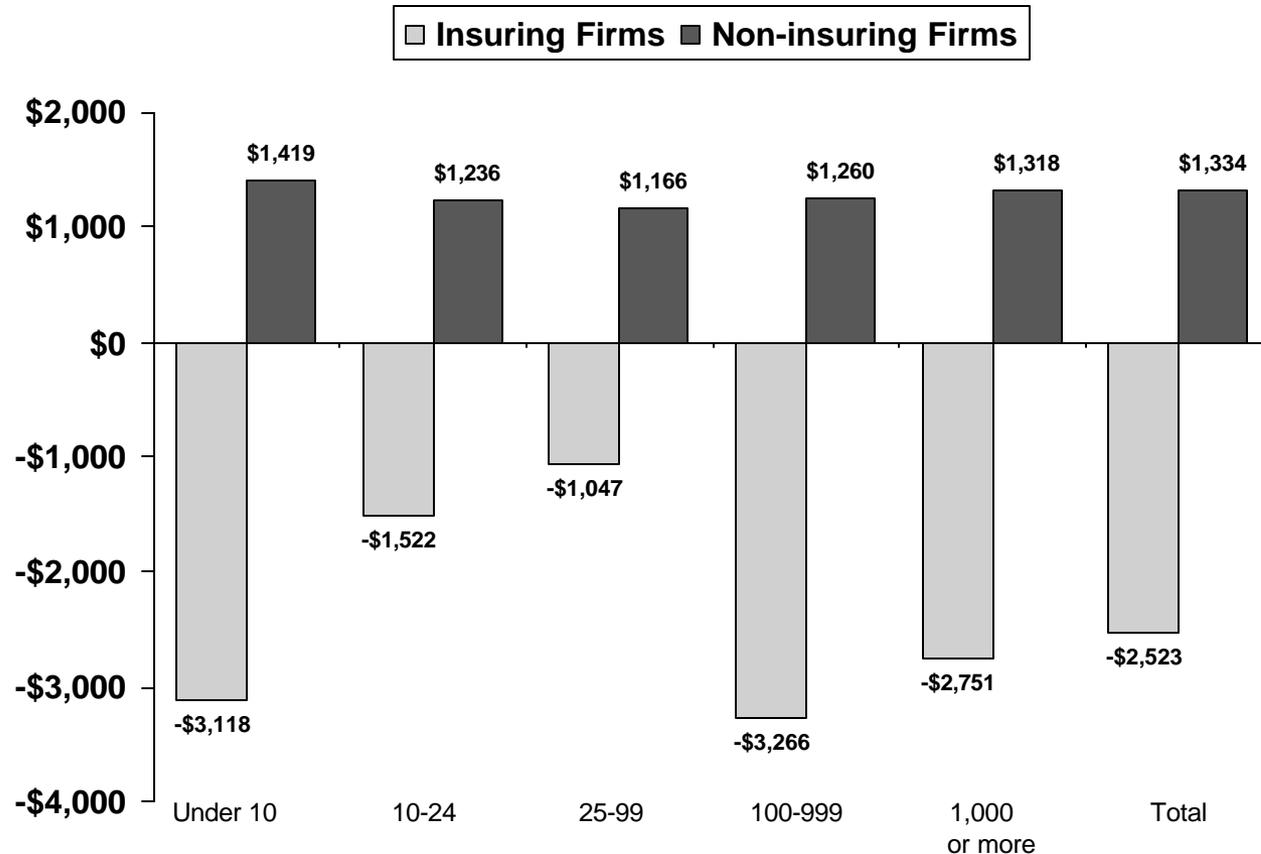
# Changes in Private Employer Health Benefits Costs Under the CHSP in 2007 (millions)

|  | Currently Insuring Employers | Currently Non-Insuring Employers <sup>a/</sup> | All Employers    |
|--|------------------------------|--|------------------|
| <b>Private Employer Spending Under Current Law</b> |                              |  |                  |
| <b>Current</b>                                     |                              |  |                  |
| Workers & Dependents                               | \$6,498                      | --   | \$6,498          |
| Retirees   | \$542                        | --   | \$542            |
| <b>Total</b>                                       | <b>\$7,040</b>               | <b>--</b>                                      | <b>\$7,040</b>   |
| <b>Private Employer Spending Under the Policy</b>  |                              |  |                  |
| Wrap-around coverage                               |                              |  |                  |
| Workers & Dependents                               | \$488                        | --   | \$488            |
| Retirees   | \$24                         | --   | \$24             |
| Payroll Taxes (4% to fund CHSP)                    | \$2,896                      | \$754  | \$3,650          |
| <b>Total</b>                                       | <b>\$3,408</b>               | <b>\$754</b>                                   | <b>\$4,162</b>   |
| <b>Net Change (before wage effects)</b>            | <b>(\$3,632)</b>             | <b>\$754</b>                                   | <b>(\$2,878)</b> |

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

**Preliminary Findings, Subject to Revision, Not for Citation**

# Change in Private Employer Health Spending Per Worker by Current Insuring Status Under the CHSP in 2007/2008



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

**Preliminary Findings, Subject to Revision, Not for Citation**

# Impact of the CHSP on Family Health Spending in 2007/2008 (in millions)

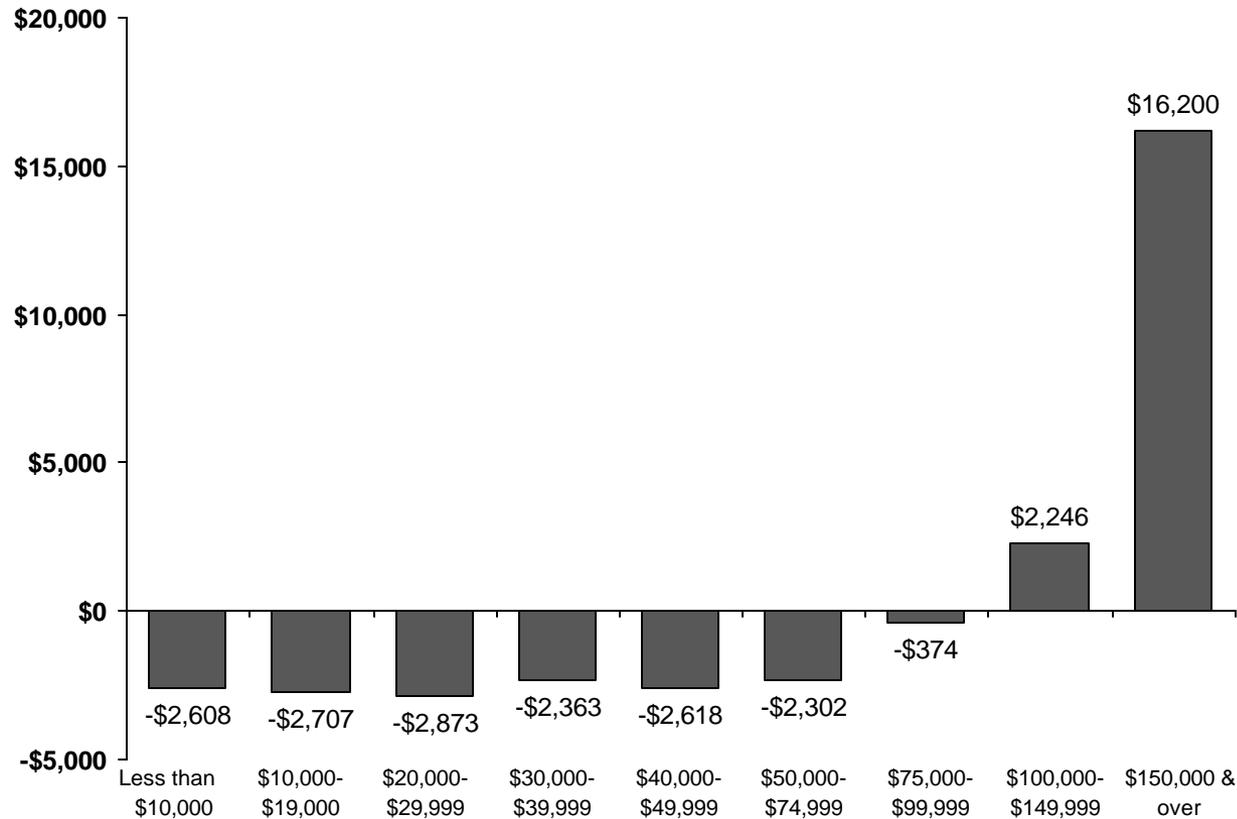
|                                      | Change in Spending |
|--------------------------------------|--------------------|
| Change in Premiums                   | (\$4,256)          |
| Change in Out-of-pocket Payments     | (\$2,748)          |
| Individual Income Tax to Fund CHSP   | \$8,103            |
| After Tax Wage Effects <sup>a/</sup> | (\$1,429)          |
| <b>Net Change</b>                    | <b>(\$330)</b>     |

a/ The increase in after-tax wage income resulting from reduced costs to employers are counted here as a reduction in family health spending.

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

**Preliminary Findings, Subject to Revision, Not for Citation**

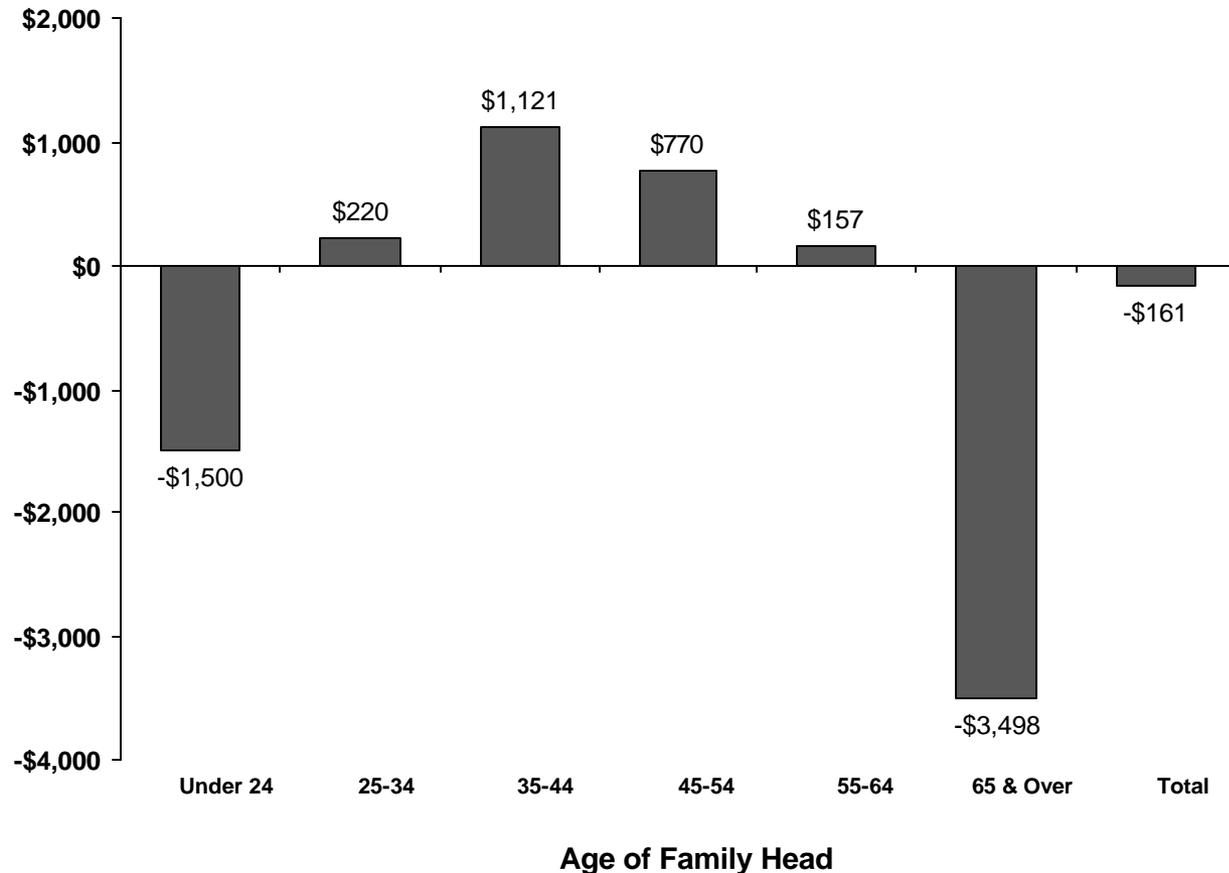
# Change in Average Family Health Spending by Income Group Under the CHSP in 2007/2008



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

**Preliminary Findings, Subject to Revision, Not for Citation**

# Change in Average Family Health Spending by Age of Family Head Under the CHSP in 2007/2008



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

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