

# ISSUE BRIEF | THE ECONOMIC IMPACT OF HEALTH REFORM IN COLORADO

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*As initial implementation of the Affordable Care Act (ACA) begins, questions remain as to what the actual budgetary impacts will be on Colorado families, businesses and on the state.*

*The New America Foundation, a nonpartisan research organization, conducted an in-depth economic study that assessed the effect of health care reform on the Colorado economy. The report gauged the impact of the two major pieces of the ACA: an expansion of health care coverage, and initiatives to improve efficiency in the health care system. The University of Denver's Center for Colorado's Economic Future independently validated the findings which were based on data provided by a broad range of Colorado stakeholders and government agencies. As the research for the study began prior to federal health care reform, it was based on the recommendations of Colorado's Blue Ribbon Commission for Healthcare Reform (2008 Commission). This issue brief summarizes the findings of that study, [The Future of Colorado Health Care: An Economic Analysis of Health Care Reform and the Impact on Colorado's Economy](#), and updates selected findings to reflect the specifics of the ACA.*

## » ABSTRACT

*The Future of Colorado Health Care: An Economic Analysis of Health Care Reform and the Impact on Colorado's Economy* projected that health care cost growth will be between 5.5% and 17% lower in Colorado than it would have been without reform. This translates into premiums for employer-sponsored insurance in 2019 that are between 10% and 25% lower due to lower overall cost growth. This means that families and businesses in Colorado could expect premiums for employer-sponsored insurance to be \$1,962 less per year for individual coverage and \$3,917 less per year for family coverage in 2019 than they would have been without federal health care reform.

The study also projects that increasing health insurance coverage in Colorado will spur increased economic activity and create more jobs, even after accounting for the costs of financing reform. In 2019, state economic output should be nearly 1% higher than it would be without reform and there will be roughly 19,000 new jobs as a result of the coverage expansion.

Key reasons for these savings include:

- **EXPAND COVERAGE AND LOWER UNCOMPENSATED CARE COSTS.** It is estimated that uncompensated care would have cost Coloradans \$1.8 billion dollars in 2019 without federal health care reform. The ACA calls for expanded coverage, equalization of Medicaid reimbursement levels and for private payers to hold down their cost increases.
- **MAKE THE MEDICAL SYSTEM MORE EFFICIENT.** The ACA encourages health system reforms such as paying health care providers for value rather than for volume and the expansion of programs like medical homes, accountable care organizations and health information technology.
- **INCREASE ECONOMIC ACTIVITY AND NEW JOBS.** As more Coloradans obtain health insurance and seek medical care, there will be an increased demand for health care workers. In turn, this increased demand will lead to more health care-related job opportunities in Colorado, resulting in more individuals with disposable income to buy other consumer goods from Colorado businesses.
- **IMPROVE PRODUCTIVITY WITH IMPROVED HEALTH.** The economic losses from the uninsured are between \$1.82 billion and \$3.87 billion in Colorado per year.<sup>1</sup> At least some of this value could be recouped through healthier, more productive workers who would earn more income and thereby increase the state's tax base.

»INTRODUCTION

The Affordable Care Act (ACA) will provide health care coverage to about 30 million Americans, including approximately 500,000 Coloradans, while also working to lower the growth of medical costs by:

- Establishing a new, regulated insurance marketplace to make health coverage accessible
- Providing financial assistance to help make coverage affordable
- Requiring all individuals to purchase coverage
- Expanding Medicaid eligibility
- Providing incentives to improve the way health care services are delivered.

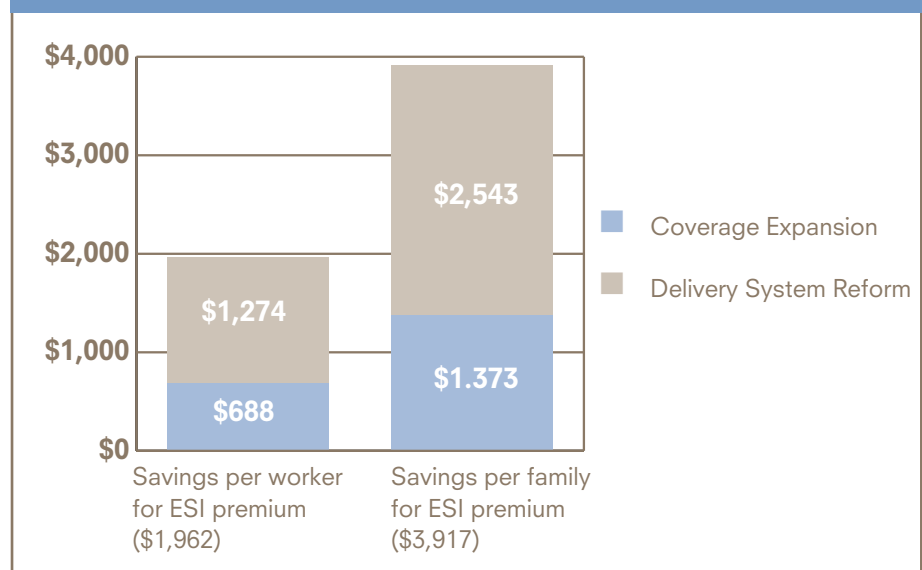
Colorado has begun to implement the provisions of ACA. The state has an implementation plan and health care stakeholders have partnered with state agencies to establish Getting Us Covered, the state’s high-risk pool for people with pre-existing conditions. Planning is also underway to design the state’s insurance exchange, which will provide more transparent and affordable options for individuals and small businesses. The state Interagency Health Reform Implementing Board and Director of Health Reform Implementation have taken the lead on many of these issues.

Yet even as implementation efforts progress, questions remain as to what the actual budgetary impacts of this specific piece of legislation will be on Colorado families, businesses and on the state.

In its study, *The Future of Colorado Health Care: An Economic Analysis of Health Care Reform and the Impact on Colorado’s Economy*, the New America Foundation (NAF) examined the prospects of the cost-controlling elements of federal health care reform that build on many related initiatives already underway in Colorado. This analysis projects that health care cost growth will be between 5.5% and 17% lower in Colorado than it would have been without reform. This translates into premiums for employer-sponsored insurance in 2019 that are between 10% and 25% lower due to lower overall cost growth, as well as mitigation of the “hidden tax” that results when the privately insured cover the cost of uncompensated care.<sup>2</sup> Families and businesses in Colorado therefore could expect premiums for employer-sponsored insurance (ESI) will be \$1,962 less per year for individual coverage and \$3,917 less per year for family coverage in 2019 than they would have been without health care reform (Figure 1).

*The Affordable Care Act will provide health care coverage to about 30 MILLION AMERICANS, INCLUDING 500,000 COLORADANS, while also working to lower the growth of medical costs.*

FIGURE 1. HEALTH REFORM SAVINGS IN COLORADO (2019)



The NAF study also projects that increasing health insurance coverage in Colorado will spur increased economic activity and create more jobs, even after accounting for the costs of financing reform. In 2019, state economic output should be nearly 1% higher than it would be without reform and there will be roughly 19,000 new jobs as a result of the coverage expansion. Since the 208 Commission's recommendations would have cost Coloradans more than the federal legislation, these estimates – explained in greater detail later in this brief – are conservative and the economic and job growth due to reform may be greater.

### » REDUCING COST GROWTH

In assessing whether the ACA will lower the cost of health care, it is important to understand that it would be impossible to reduce health spending in absolute terms in the short-run without having significant impacts on the quality of care we receive. On the other hand, there is a great deal of excess spending in the medical system and eliminating it over time will be beneficial to both our fiscal and personal health.<sup>3</sup> There is, however, no silver bullet for cost control. Therefore, the ACA includes programs that build on nearly every strategy that has shown promise of reducing health care costs including many that have been pioneered in Colorado. The NAF study predicts that these programs will reduce the rate at which health care costs are growing, leading to substantial savings for families and businesses.

The reduction in cost growth comes from two main sources that spring from the two main planks of the ACA: 1) the expansion of coverage; and 2) reform to the way that care is financed and delivered. Covering the uninsured costs money but also reduces the “hidden tax” that results from the costs of uncompensated care (health care services that are delivered but not paid for by patients) being shifted to those who are privately insured. Delivery system reform changes the current methods of financing and delivery of health care in ways that retain or increase quality while bringing down overall costs.

#### *Expanded Coverage*

Uncompensated care will be reduced as more Coloradans become insured. In its 2009 study, the Urban Institute predicted that uncompensated care in Colorado would have cost \$1.8 billion dollars in 2019 without reform.<sup>4</sup> Their research estimates that by 2019 the ACA will provide coverage to between 412,201 and 586,914 Coloradans through the expansion of Medicaid to 133% of the Federal Poverty Level (FPL), coupled with subsidies for people up to 400% of FPL to make the purchase of private insurance more affordable.

With more insured patients, hospitals will not need to raise private rates as much to make up for unpaid medical bills. As a result, private payers will bargain for new, lower rates in the context of greater coverage levels. Private payers will not be able to reduce the amount they pay hospitals by the exact amount that hospitals will gain through having more insured patients. This is due principally to the substantial negotiating leverage held by providers over private payers. Therefore, the NAF study conservatively assumed that private payers can effectively negotiate hospital rates that recapture 40% to 75% of the reduction in uncompensated care costs. Mitigating these costs will mean that private premiums should be reduced by more than 2% by 2019.<sup>5</sup>

Higher premiums for private health insurance are also caused by underpayments by public programs. All Medicaid programs reimburse providers below market rates and often below provider costs. Colorado has begun to address this issue by approving HB 1293, the Colorado Health Care Affordability Act of 2009. This law allows Colorado to assess a provider fee on hospitals and receive equal federal matching funds to provide coverage to more than 100,000 uninsured Coloradans. As well, the ACA takes steps to start equalizing Medicaid reimbursement levels. It requires that Medicaid payments to primary care physicians be at or above Medicare levels in 2013 and 2014.

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### *Increased Efficiency*

The ACA contains dozens of initiatives designed to bring down health care costs and improve the quality of care, and many of these types of efforts are already well underway in Colorado. In particular, the law takes steps to “realign payment incentives” for health care providers. What this means in practical terms is a decisive move away from traditional fee-for-service payment toward a system that rewards value over volume. There are many pilot programs that will change the way that Medicare and Medicaid pay for medical services. In the past, however, many of the best practices of test programs were not expanded to the rest of the country. However, the ACA authorizes the Secretary of Health and Human Services (HHS) to expand on successful efforts in these areas. Notable projects include accountable care organizations, medical homes and bundling payments for entire procedures such as hip replacements to encourage efficiency in these complicated processes. Additionally, the ACA requires the HHS Secretary to disseminate reliable quality reporting measures, to enforce provider accountability and to develop purchasing systems for hospitals that are based on value.

Reducing the shift of costs to the privately insured will help lower cost growth in the short-run, but improving the way health care services are provided in Colorado is the best way to sustain lower growth in health insurance premiums over time. Through cooperation across a broad range of stakeholders, Colorado has already made considerable progress toward creating a more sustainable health care delivery system. This progress was made possible by several long-standing health care system improvement efforts, such as medical practice review committees, peer comparisons of provider performance and paying health care providers for value rather than for volume.

The effectiveness of any or all of these initiatives and programs remains to be seen; however, it is important to understand that the ACA made a major commitment not simply to reform the insurance market but to change the way that health care is delivered in order to improve quality and lower costs.

### » **INCREASED ECONOMIC ACTIVITY AND NEW JOBS**

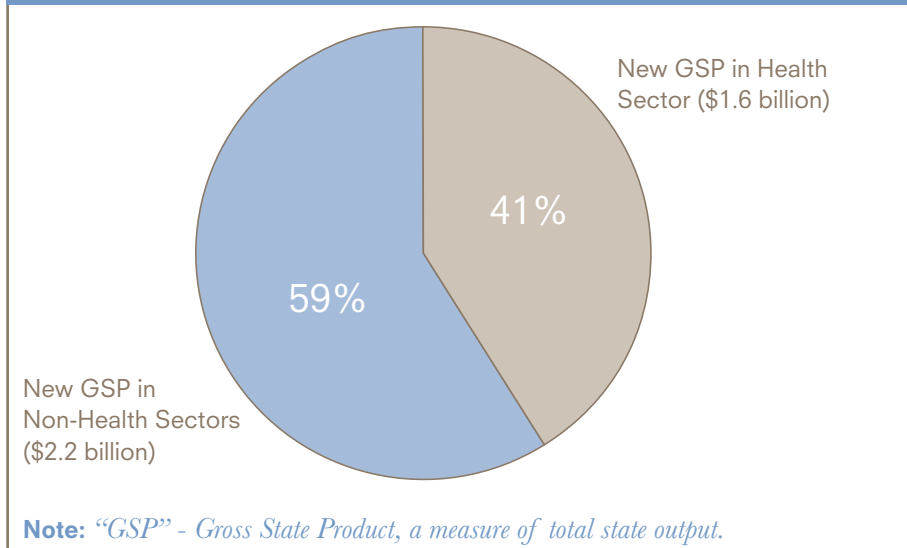
Although Colorado initially weathered the recession better than the nation as a whole, its economic and fiscal policy climate remains weakened. As more Coloradans obtain health insurance and seek medical care, there will be an increased demand for all levels of clinicians and health care workers. The increased demand will lead to more health care-related job opportunities in Colorado, resulting in more individuals with disposable income to buy other consumer goods from Colorado businesses. Additionally, as new health care workers have new income their spending will stimulate jobs in all sectors of the economy. Therefore, an increase in public spending will lead to even larger increases in economic activity than the value of the initial spending increase. There will remain challenges associated with training and deploying health care sector workers, particular primary care physicians, and these challenges are magnified in rural areas of the state. Nevertheless, the assumption that the health care sector will remain a major driver of economic growth is solid as it simply projects that a long-time trend will continue.

To quantify the precise impact of the coverage expansion, the NAF study employed input-output models which reflect data on the supply and demand of goods between sectors of the economy. Based on these calculations, it was estimated that a coverage expansion of a similar dimension to that of the ACA will expand the economic activity in Colorado by 1% and would create approximately 19,000 new jobs by 2019. The main reason that an expansion of coverage benefits Colorado economically is that more of the new health spending – as compared to other spending – remains in Colorado. Its “multiplier effects” are more greatly concentrated among local businesses and workers. Taxation, necessary to finance the coverage expansion, does reduce other spending but in a way that has a lower multiplier effect.

The specific set of multipliers used in the NAF study were those of the Regional Input Output Modeling Systems (RIMS II) that researchers often rely on to evaluate the

consequences of various public policy choices. The New America Foundation worked closely with the University of Denver’s Center for Colorado’s Economic Future to develop this part of the analysis. Of particular note is that much of the economic growth will occur outside of the health care sector (Figure 3).

**FIGURE 3. DISTRIBUTION OF NEW ECONOMIC OUTPUT POST-ACA IN COLORADO (2019)**



This simulation may, in fact, understate the number of jobs that will be created since it is based on the recommendations of the 208 Commission that would have required the state to pick up a larger percentage of the subsidies for private insurance. However, given the uncertainty around accounting for the true cost of the coverage expansion, the NAF study used a more conservative set of assumptions to gauge the impact of the ACA.

» **IMPROVED PRODUCTIVITY FROM IMPROVED HEALTH**

There are additional economic benefits of an expansion of health care coverage that, although difficult to quantify, are significant and substantial. The uninsured are more likely to die prematurely and experience poorer health over the course of their lives. A multi-year Institute of Medicine study<sup>6</sup> found that the increased mortality and morbidity costs of the uninsured was between \$65 billion and \$135 billion in lost economic value in the United States in 2001 alone. These costs were based on the lost hours and years of workplace productivity and earnings that uninsured individuals forego because of their diminished health. The lower \$65 billion figure represents the lost economic value of increased mortality alone; while the higher \$135 billion figure takes into consideration the lost economic value of increased sickness as well as increased mortality, a more complete approximation of the true economic value lost.

Following the Institute of Medicine’s methodology, by 2007, the economic losses from the uninsured nationwide were between \$103.9 billion and \$207.3 billion per year and between \$1.82 billion and \$3.87 billion in Colorado.<sup>7</sup> It is unlikely that Colorado can capture all of these former output losses as some of the economic value is improved quality of leisure time; however, at least some of this value could be recouped through healthier, more productive workers who would earn more income and thereby increase the state’s tax base.

» **SMALL IMPACT ON STATE BUDGET**

In addition to concern about their own health care premiums and business costs, Coloradans are focused on the impact of health care reform on the state budget. After all, the total amount that Coloradans spend on health care is reflected not

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only in the amount they pay in premiums but also in the amount of taxes they pay to support public programs. If taxes go up more than premiums go down, Coloradans will not see lower health care expenses in the wake of health care reform. The impact of the expansion of health care coverage on the state budget is projected to be modest since the federal government will pick up the vast majority of the cost of covering these new individuals.

Specifically, according to the Urban Institute,<sup>8</sup> the cost within the Colorado state budget for the expansion of Medicaid will be between 1.8% and 2.9% higher than baseline projections due to health care reform. This works out to an additional \$286 million to \$470 million cost to the state over a period of six years (2014-2019), or a cost per Coloradan per year of between \$9.50 and \$15.67 for the Medicaid expansion. This is dwarfed by the \$688 per worker per year reduction to expected growth in employer-sponsored insurance premiums by 2019 (cited above) due to premiums being lower since there will be fewer uninsured people requiring uncompensated care. In short, Coloradans might be paying slightly more in taxes, but they will be paying substantially less in premiums.

If the many cost-controlling elements in federal health care reform that build on efforts already underway in Colorado are successful, then the cost of both public programs and private insurance will be even lower.

#### » CONCLUSION

This issue brief summarizes the findings of an in-depth analysis of the economic impact on Colorado of comprehensive health care reform of the type envisioned by Colorado stakeholders in the development of the 208 Commission's recommendations to the State Legislature. Similar to the 208 Commission's recommendations, the ACA entails a substantial expansion of Medicaid eligibility, insurance market reforms for the small group and individual markets, and sliding scale subsidies for lower-income individuals who are not eligible for Medicaid. The ACA also included a host of delivery system reforms designed to make the health system more sustainable over time, including information systems, best practice information dissemination and payment reforms.

The NAF study suggests that the net impact of comprehensive reform on the Colorado economy will be positive even without delivery system reform. Further, it has the potential to lower health costs for employers and households considerably if delivery reform is carried out in appropriate and feasible ways. The NAF study predicts that the health coverage expansion alone will generate roughly 1% more state economic output in 10 years than would otherwise be the case and will create approximately 19,000 new jobs. At the same time, health care delivery system reform projects that are planned, already in place or underway in Colorado have the potential to lower employer premiums by 10% to 25% in 10 years. This too could serve to increase state economic output as the least efficient health spending is eliminated and the effects of more productive health spending and freed up non-health spending reverberate through the economy. However, to be conservative, the NAF study did not model this effect.

These net gains will not come without cost, though. It will be necessary to finance federal health care reform and revenue will be required to fund the modest portion of the Medicaid expansion for which the state is responsible. A significant expansion of health care coverage will generate a net economic gain to the state as a whole, not just to the health sector, but there is no doubt that the proverbial piper must be paid. The anticipated gains may not be achievable, though, if Colorado does not commit to full and careful implementation of federal health care reform. That is precisely why public dialogue is necessary to resolve ongoing health reform debates. This analysis aims to provide a solid evidentiary foundation for these conversations by assessing the expected economic impact of these policy changes.

*The NAF study predicts that the health coverage expansion alone will GENERATE ROUGHLY 1% MORE STATE ECONOMIC OUTPUT IN 10 YEARS ... AND WILL CREATE APPROXIMATELY 19,000 NEW JOBS.*



» **ENDNOTES**

- 1 Sarah Axeen and Elizabeth Carpenter, "The Cost of Doing Nothing," *New America Foundation*, November 2008.
- 2 Len Nichols and Peter Harbage, "Estimating the 'Hidden Tax' on Insured Due to the Care Needed and Received by the Uninsured," *New America Foundation*, May 2007.
- 3 Raymond Fabius, "Consensus at Blair House," *The Hill*, March 2010.
- 4 John Holahan, Bowen Garrett, Irene Headen, and Aaron Lucas, "Health Reform: The Cost of Failure," *Robert Wood Johnson Foundation*, May 2009.
- 5 For the full set of calculations, please see: "The Future of Colorado Health Care: An Economic Analysis of Health Care Reform and the Impact on Colorado's Economy," *New America Foundation*, April 2010.
- 6 Institute of Medicine, "Hidden Costs, Value Lost: Uninsurance in America," *National Academies Press*, June 2003.
- 7 Sarah Axeen and Elizabeth Carpenter, "The Cost of Doing Nothing," *New America Foundation*, November 2008.
- 8 John Holohan and Irene Headen, "Medicaid Coverage and Spending in Health Reform: National and State-by-State Results for Adults at or Below 133% FPL," *The Henry J. Kaiser Family Foundation*, April 2010.



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