Affordability in Colorado

Answers About Health Care Costs

Affordability and access to high quality health care are fixtures in Colorado's policy debates. The topic affects everyone: the rural rancher and the urban Millennial, the minimum wage worker and the successful entrepreneur, the small business and the large corporation. It influences our health and our financial stability.

Drastic changes in our health care system were ushered in by the Affordable Care Act in 2010, and changes under President Trump continue to shape Colorado's health care landscape. In January 2019, Colorado welcomes a new governor and legislature who will have the chance to make headway on our health care challenges.

Policy makers seeking solutions will need to grapple with an interconnected health care system that consists of many stakeholders, including patients, physicians, hospitals, insurance carriers, and state and federal governments. The Colorado Health Institute (CHI) is committed to supporting health policy discussions with evidence-based analysis and informed insight.

The Colorado Hospital Association commissioned CHI to develop this question-and-answer document on seven basic but important questions that often emerge in health policy discussions. The goal is to provide a basic understanding of several elements of the health care landscape to foster dialogue on steps Colorado can take to address its health care challenges.

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Colorado Hospital Association

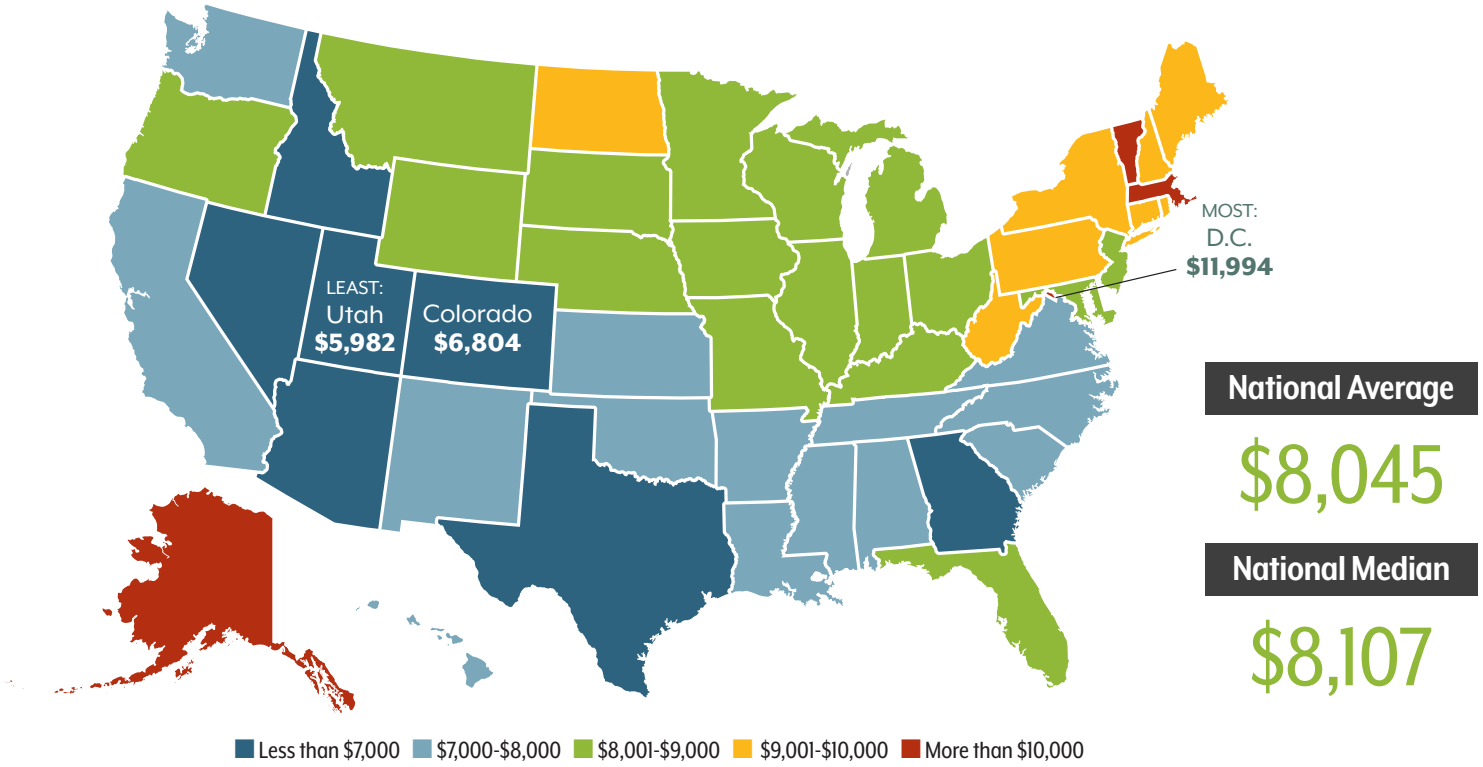
COLORADO **HEALTH** INSTITUTE

Informing Policy. Advancing Health.

Q How Much Do Coloradans Spend on Health Care?

A: Colorado actually fares well compared to other states, but still spends a lot on health care.

Figure 1. Personal Health Spending Per Capita, 2014



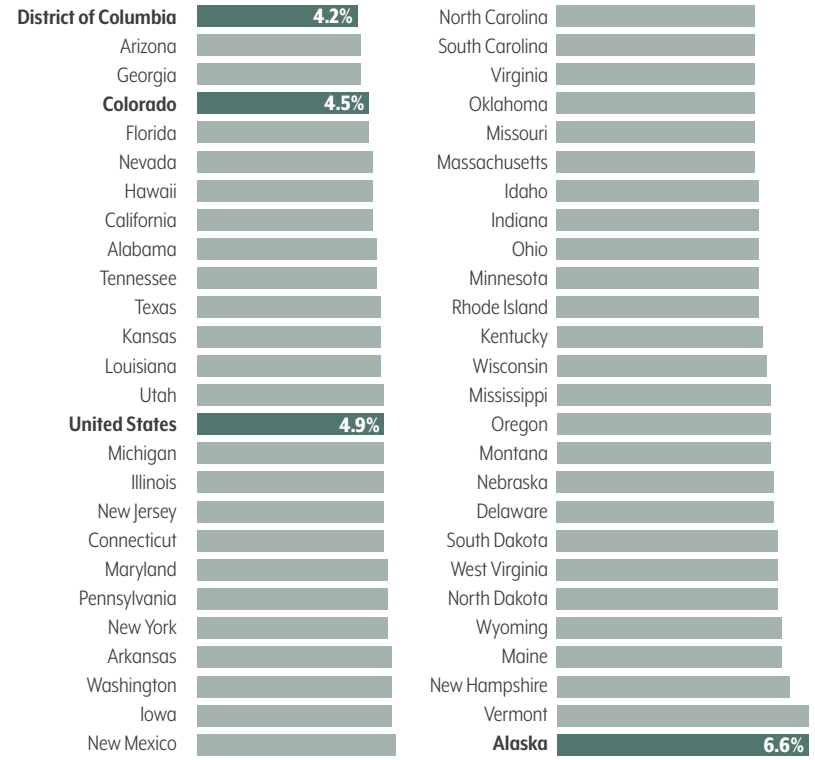
Health care spending in Colorado amounts to $6,804 per capita, based on the most recent federal data for 2014.[1]

That covers total spending for hospital care, physician office visits, drugs, medical devices, nursing homes, home health care and other categories. It's paid by consumers, businesses that offer insurance to their employees, and government.

This is a lot of money — about 14 percent of Colorado's per capita income — but it is actually low by national standards. Other Mountain West states also have comparatively low spending, while states in the northeast spend the most. (Figure 1.)

Health spending in Colorado has been growing steadily and faster than the overall inflation rate. But again, spending growth is among the slowest in the nation. (Figure 2.)

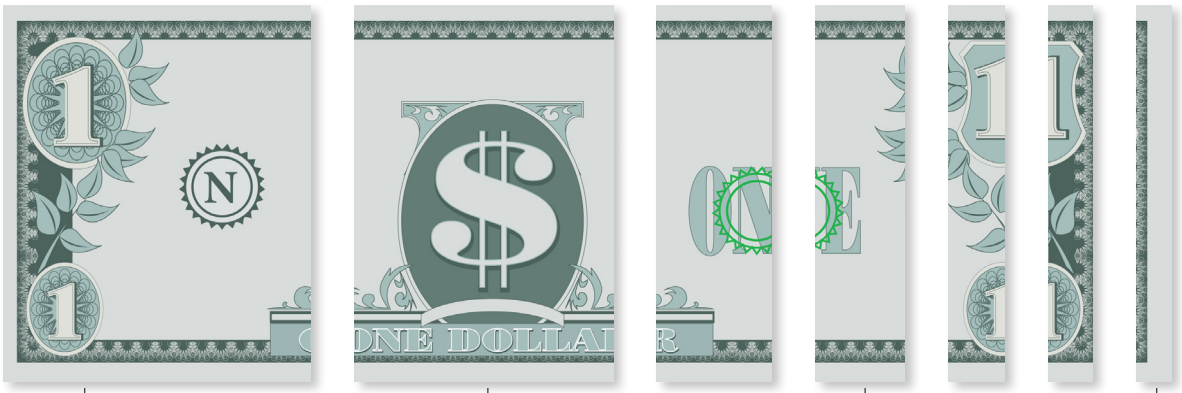
Figure 2. Average Annual Growth in Personal Health Spending Per Capita, 1991-2014



Q Where Do Colorado's Health Care Dollars Go?

A: To a lot of different providers, plus insurance companies.

Figure 3. Spending by Health Service Type in Colorado, 2017



About 75 percent of health care spending in Colorado goes to three categories: hospitals; physician, professional, and clinical services; and insurance administration costs (Figure 3).[2,3]

- **Hospitals (34 percent):** Includes patient care services such as room and board, operating room fees, and inpatient drug costs
- **Physician, professional and clinical services (29 percent):** Services billed by physicians, dentists, and other health care professionals for care delivered in hospitals, clinics, and provider offices.
- **Insurance administrative costs (12 percent):** The cost of administering insurance coverage, including private health plans and government programs like Medicare and Medicaid. These costs reflect the difference between what insurers take in and what they pay out in benefits.

Spending for nursing homes, home health, and other residential and personal care accounts for 10 percent. Retail sales of prescription and non-prescription drugs account for 7 percent.

Where Do Hospital Dollars Go?

About $18 billion flows through Colorado's hospitals in a year.

The largest source of money comes from private health insurance carriers (41 percent). Medicare and Medicaid account for 32 percent, and patient out-of-pocket spending accounts for another 15 percent of hospital revenue.[4]

More than half of hospital spending is devoted to patient care. Administrative and capital costs account for another 18 percent and 8 percent, respectively.[5]

Where do dollars come from, and what are they spent on?

Dollars In

- **41%** Private health insurance
- **32%** Medicare and Medicaid *(federal and state)*
- **15%** Out-of-pocket
- **13%** Other

** Totals do not sum to 100 percent due to rounding*

Dollars Out

- **54%** Patient care (inpatient and outpatient care)
- **18%** Administration (quality improvement activities, accounting, billing and insurance, IT)
- **9%** Other
- **8%** Capital (building infrastructure, and equipment)
- **7%** Personnel (human resources activities)
- **3%** Maintenance
- **2%** Uncompensated care

Q Are Insurance Premiums Out of Control?

A: Premiums have risen modestly if you have insurance through your employer, but if you get insurance on the individual market, you've seen premiums skyrocket.

Insurance administrative costs are rising faster than other categories of health care spending.

The price of insurance premiums reflects the underlying cost of health care plus insurance administrative costs, which includes profits.

Both premiums and health care spending have grown substantially in all categories since 2010 (Figure 4).[6] Premiums for employer-sponsored insurance (ESI) have risen 18 percent cumulatively (2.9 percent per year), adjusted for inflation. Expenditures have risen most rapidly for insurance administrative costs (30 percent cumulatively), followed by hospitals (20 percent) and retail prescription drug spending (18 percent).

Price increases depend greatly on where people buy their coverage. About half of Coloradans have health insurance through their employer, and they have seen their insurance premiums rise modestly. Average insurance premiums for a family that gets their insurance through an employer rose 4.5 percent annually between 2010 and 2016 (not adjusted for inflation).[7] A smaller group of Coloradans — about 8 percent of the state — buys insurance on their own through the individual market (Figure 5), and they have seen dramatic premium increases, with a 20 percent rise in 2017 and 32 percent rise in 2018.[8] Colorado's Division of Insurance regulates individual market insurance plans and only some of ESI plans (many employers are "self-insured" and offer their workers insurance plans that are regulated by federal authorities).

A variety of factors are influencing the rise in ESI premiums.

- Premiums depend on the level of overall health care spending. Federal data show that total health care expenditures in the US rose about 4.3 percent per year between 2010 and 2016.
- One reason we are spending more dollars on health care is that the price of services rises over time. Medical prices are subject to inflation, like any other product in the economy. And medical price inflation has historically outpaced general inflation as the demand for health grows faster than the overall economy. Health care accounted for 13 percent of the economy in 2000 but grew to 18 percent in 2016.[9]
- Spending and premiums are also rising because more people are using more health care services. One recent national study found that roughly 60 percent of the growth in total health care spending is due to greater use of services.[10]

Individual market insurance premiums skyrocketed over the last few years as insurance companies were reeling from losses in their individual market line of business and responded with steep increases. The market is showing signs of stability, however, and average premiums are predicted to rise by 6 percent in 2019 — a more "normal" growth rate in line with ESI.

Figure 4. Trends in ESI Premiums and Health Care Spending

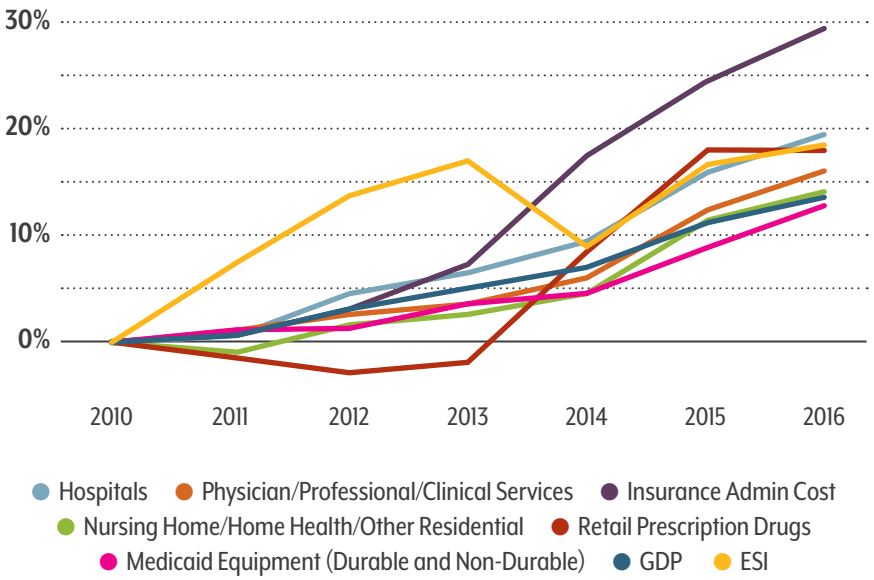
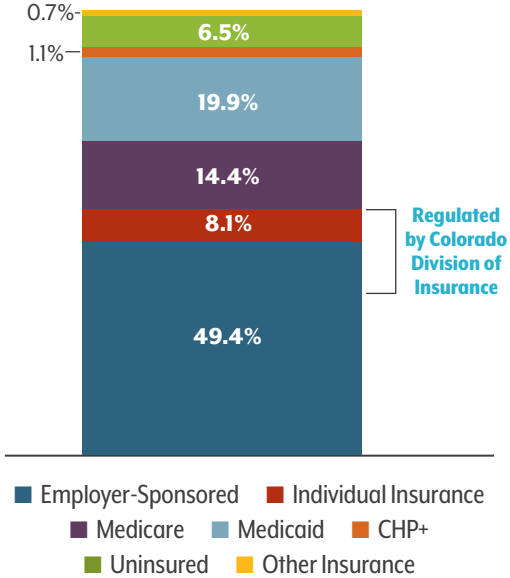


Figure 5. Insurance Coverage in Colorado

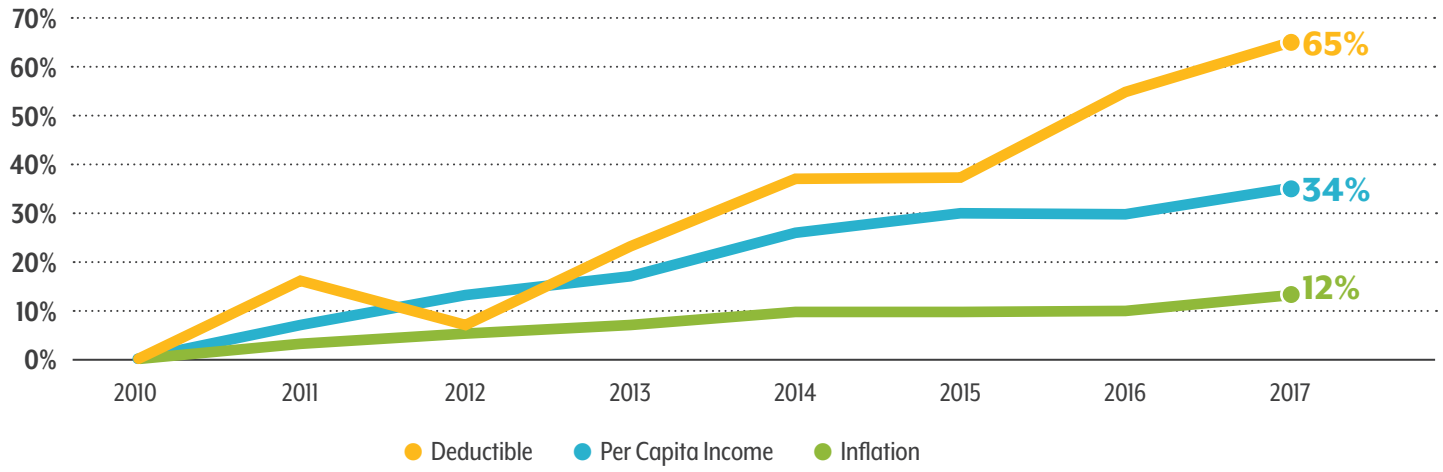


Q Are Consumers Facing Higher Out-of-Pocket Costs to Get Health Care?

A: Yes. Insurance plans are shifting costs to consumers through higher deductibles.

Deductibles are Growing

Figure 6. Average Deductible ESI Family Coverage



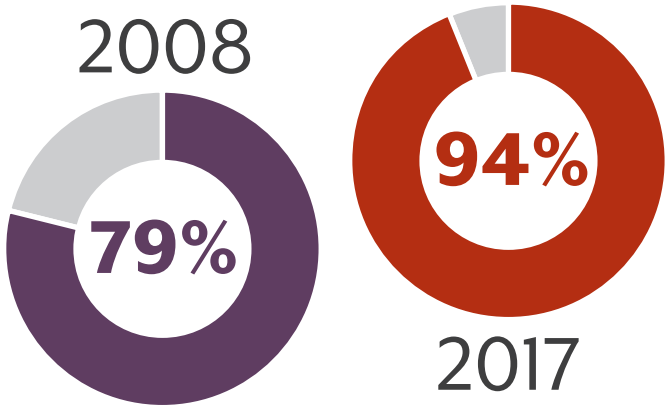
Many consumers are facing high out-of-pocket costs in the form of health insurance deductibles.

Even as premiums for those with employer-sponsored insurance have been rising only modestly, consumers are facing high and growing out-of-pocket costs. A recent analysis of 23 states showed that Colorado families had the second-highest average out-of-pocket costs, about $800 in 2017, which was 10 percent higher than in 2016.[11]

A big contributor to rising out-of-pocket costs is escalating deductibles. The average deductible in Colorado for a family plan was about $3,700 in 2017, which is 10 percent higher than the national average.[12] In 2008, the average deductible stood at $2,100 and has grown by an annual average of 7 percent. (People with individual market plans are also facing high deductibles.[13])

Since 2008, the growth in deductibles has far outpaced the growth in per capita income and inflation (Figure 6). Deductibles are putting more and more pressure on family budgets.

Figure 7. Percent of ESI Insurance Plans that Include a Deductible



Almost all insurance plans come with a deductible. In Colorado, 79 percent of ESI insurance plans had a deductible in 2008, but that increased to 94 percent in 2017.

The shift towards higher out-of-pocket expenses and deductibles is probably going to continue. A 2017 survey of Colorado employers found that 18 percent were planning to increase deductibles and 15 percent were likely to increase the maximum out-of-pocket expense in their employees' health plans.[14]

Q Is There A Lot of Waste in Our Health Care System

A: Yes. High administrative costs and overuse of health care services represent opportunities to make health care more efficient.

Administrative costs are a necessary part of providing and paying for care, but studies suggest that some of that spending is excessive.

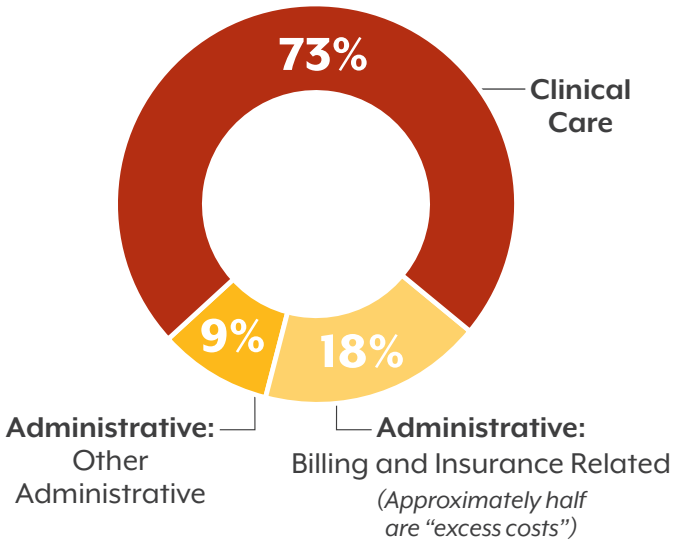
- **Billing- and insurance-related (BIR) activities** include providers filing insurance claims, getting prior authorization for patient care, and managed care administration. These tasks account for 18 percent of health care spending.[15] Roughly half of BIR costs could be considered as "excess" administrative costs, according to a study by the Institute of Medicine.[16] There are opportunities to reduce administrative costs within the current system by adopting practices used by the best- performing providers and payers. For example, greater standardization of insurance billing forms and processes could reduce the administrative burden.

- **Other administrative activities,** including scheduling and medical records management, account for 9 percent of health care spending. Some of these activities reflect regulatory requirements to collect and report quality metrics. Hospitals, for example, must satisfy Medicare's health, quality, patient safety and operational standards (known as Conditions of Participation), and these requirements may even exceed hospital BIR costs, according to the American Hospital Association.[17] (Note: Estimates of administrative costs vary because there is no universal definition of the activities that should be considered as administrative. Such costs also vary by type of provider.)

As much as one-third of health care spending is for unnecessary services.

One recent study found that about one-third of health care spending was for services deemed as wasteful.[18] The analysis compared national clinical treatment recommendations against the actual use of health care services in Washington state. Other studies have found less waste. In 2010, the Institute of Medicine estimated that unnecessary health care services accounted for approximately 10 percent of health care spending.[19]

Figure 8. Administrative Costs Account for 27 Percent of Health Care Spending



Consumers often tend to think that more health care is better, but that isn't always the case. Some medications (antibiotics, for example) are prescribed even though they aren't effective for some conditions. And doctors may order too many tests and procedures even though the costs may outweigh the benefits.

Determining whether a particular service is wasteful will depend on the specific clinical situation, but experts believe that providers and patients need to combat the traditional bias towards more health care. The Choosing Wisely initiative seeks to do this by promoting conversations between clinicians and patients to choose care that is "supported by evidence, not duplicative of other tests or procedures already performed, free from harm and truly necessary."[20]

Health care experts at the Advisory Board have also targeted unwarranted care variation (UCV). The type and intensity of health care services used to treat a specific condition can vary substantially across hospitals. Care that is "unexplained by illness, medical evidence, or patient preference is inappropriate," unwarranted, and represents an opportunity for clinicians and hospital executives to improve the quality of health care and reduce costs.[21]

Q Is There Enough Competition in Colorado's Health Care Markets to Help Control Spending?

A: Probably not.

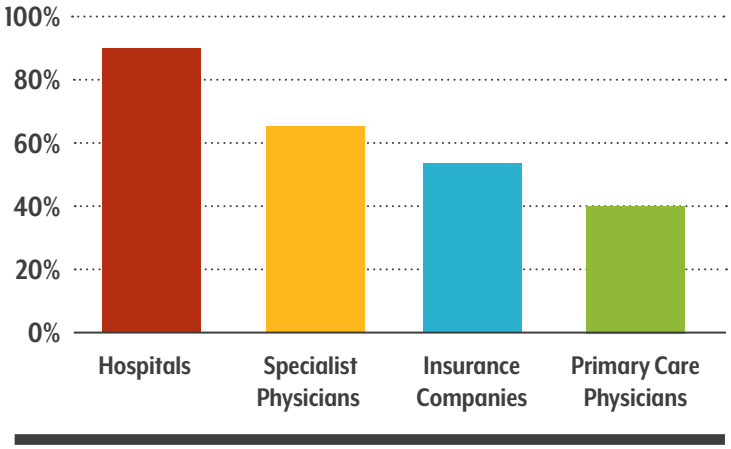
Increasing competition is often seen as a way to control health care costs. Greater competition among hospitals, physicians and insurance companies can bring a market discipline that focuses on efficiency and value, and this can help control health care spending.

Unfortunately, there is low competition in many U.S. metro areas.[22] This is especially true for hospitals. (Figure 9.) But low competition levels are also often found among specialist physicians and insurance companies.

Denver's hospital market is similar to the national average in terms of competition, but it would nevertheless be considered as having low competition according to federal guidelines.[23] (Figure 10.)

The insurance market in Colorado is relatively robust. Compared with other states, Colorado ranks as having the sixth highest level of competition, according to a study that examined the market in 388 urban areas across the country.[24]

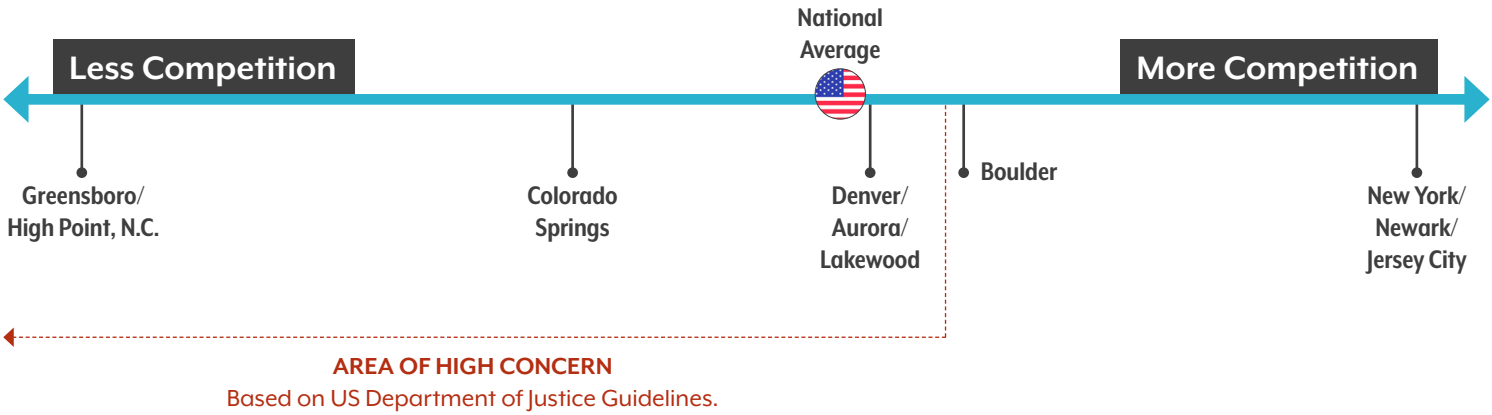
Figure 9. Percentage of U.S. metro areas with low levels of competition in different health care markets



Colorado's rural areas continue to have little competition.

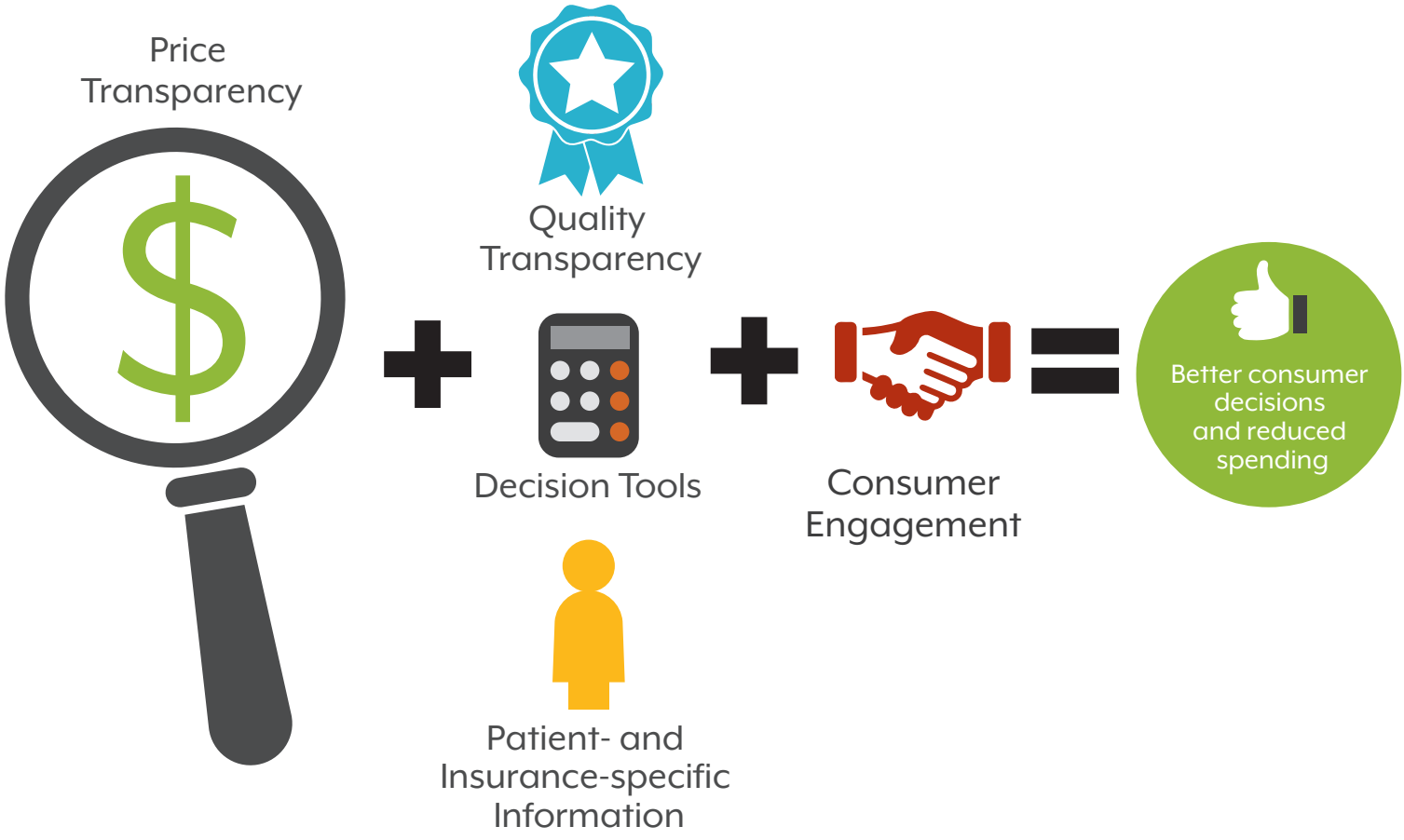
The sparse population in rural markets is a barrier to attempts to increase competition there. Those areas often cannot support multiple hospitals, physicians, and insurance carriers. This challenge is apparent in the individual market for health insurance. In 14 counties, only one insurance carrier offers plans.[25]

Figure 10. Hospital Competition



Q Can Greater Transparency in Health Care Prices Help Reduce Spending?

A: Price transparency has to be accompanied by other information and tools to be effective.



Price transparency is just one factor to help consumers make better decisions and control health care spending.

Greater transparency about the price of health care has potential to address costs — but that alone isn't enough.

Several studies have cast doubt on whether transparency translates into useful information. Consumers often don't use online tools to compare health care services, for example.[26, 27]

Price information isn't actionable for consumers unless there is additional information and tools to help them make decisions.

- **Price information has to be paired with quality information.** Consumers need to know what value they're getting for the price, and that means getting a quality service at the right price.
- **Consumers need decision tools to make sense of what can be a daunting amount of data**. Accessible, easy-to-understand information is needed to make informed decisions.
- **Pricing information needs to be relevant to specific patient circumstances.** "List prices" for hospital and physician services often don't represent what consumers will pay when insurance coverage is taken into account.
- **Consumers need be engaged.** They need to be aware that they are not just passive receivers of health care services, but that they have the power to make decisions that can positively affect their health and finances.

Endnotes

How Much Do Coloradans Spend on Health Care?

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Where Do Colorado's Health Care Dollars Go?

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