

# THE FUTURE OF COLORADO HEALTH CARE

A preview to the forthcoming report on an economic analysis of health care reform  
and the impact on Colorado's economy



This study is authored by the New America Foundation in collaboration with University of Denver's Center for Colorado's Economic Future with support from the Colorado Health Foundation and The Colorado Trust. Based on original and secondary state-specific data, the study describes the economic consequences of maintaining the current system of health coverage and delivery of health care services. It then analyzes the costs and benefits of increasing health insurance coverage and reforming the health care delivery system. The report's pairing of unique data and economic analysis is intended to help state policy and business leaders make well-informed decisions about the future of health policy in Colorado.

## about this study

The New America Foundation team is led by Health Policy Program Director Len Nichols,

PhD. The New America Foundation is a nonprofit, nonpartisan public policy institute that invests in new thinkers and new ideas to address the next generation of challenges facing the United States. The University of Denver's Center for Colorado's Economic Future team is directed by Charlie Brown. The Center informs and enhances public dialogue on issues affecting Colorado's long-term economic health and quality of life by providing information, research, and analysis. Henry Sobanet, principal of Colorado Strategies, serves as manager of this project for the University of Denver.

## INTRODUCTION

*Health care costs place increasing strain* on Colorado households, employers, and governments. Indeed, Colorado has the seventh highest health care costs in the nation.<sup>1</sup> In 2008, health insurance premiums in Colorado represented nearly 22 percent of median family income.<sup>2</sup> During that same year, the average deductible – the amount Coloradans must spend before insurance begins to pay for their medical care – was more than \$1,600. The cost of health insurance will continue to grow in the future. In fact, the Colorado Business Group on Health projects that premiums are expected to grow 10 percent per year.<sup>3</sup>

These high and increasing costs make health insurance and health care unaffordable for many of Colorado’s citizens, businesses, and governments. As many as 834,000 Coloradans are uninsured.<sup>4</sup> In addition, U.S. businesses spend nearly three times as much per worker per hour for health benefits, making it difficult to compete in a global economy.<sup>5</sup> Small business owners cite the high cost and inaccessibility of health insurance as fundamental obstacles to entrepreneurship. Finally, health care costs continue to claim a larger share of government budgets. Colorado spends almost \$1.6 billion on Medicaid alone. This represents roughly 21 percent of the \$7.5 billion in the Colorado General Fund.<sup>6</sup>

The upward trajectory of Colorado’s health care costs has profound implications for the state’s economy. To help explain the impact of these costs, this document previews a forthcoming report that analyzes how health care reform would impact the Colorado economy. Specifically, the analysis uses Colorado-specific data to show that:

- Failing to enact health reform in Colorado will lead to higher health care costs, more uninsured Coloradans, and higher health spending, especially by businesses.
- Increasing health insurance coverage in Colorado will spur increased economic activity and create more jobs, even after accounting for the costs of financing reform.
- Focusing Colorado’s health care delivery system on value and efficiency will allow the state to deliver higher quality care at lower costs over time, while freeing up resources for other state priorities.





## THE COLORADO BLUE RIBBON COMMISSION AND FEDERAL HEALTH CARE REFORM

The Colorado legislature created the Colorado Blue Ribbon Commission for Health Care Reform, also known as the “208 Commission,” (hereinafter the “Commission”) in 2006 to identify a sustainable future for the state’s health care system. The 27 commissioners were appointed by the bipartisan leadership of the Colorado legislature and by Governors Owens and Ritter. The commissioners represented consumers, health insurance purchasers, providers, business leaders, and health care experts.

After receiving 31 comprehensive reform proposals from across Colorado, the Commission selected four to analyze closely. The Commission then created its own fifth proposal.<sup>7</sup> This fifth proposal (hereafter the “Commission Proposal”) served as the basis for its nearly unanimous recommendations to the state legislature. It represents the clearest consensus for comprehensive health care reform in the state.

The structure of the Commission Proposal is similar to major federal health care reform proposals being developed currently. Both the Commission Proposal and federal reform proposals:

- Establish a new, regulated insurance marketplace to make health coverage accessible;
- Provide financial assistance to help make coverage affordable;
- Require all individuals to purchase coverage;
- Expand Medicaid eligibility; and
- Include key building blocks to improve the way care is delivered, which should lead to higher quality care and lower cost growth.<sup>8</sup>

The most important difference between the Commission Proposal and current federal legislation is their proposed sources of financing. In the absence of federal reform legislation, Colorado must finance its share of Medicaid expansion and the full cost of private insurance subsidies. The Commission proposed to finance Colorado’s share of reform costs exclusively through increased tax rates or new consumer taxes. Under similarly-structured federal legislation, Colorado would still need to finance its share of Medicaid expansion; however, the federal government would subsidize individuals who qualify for financial assistance to purchase private insurance. Federal reform will be financed through a combination of sources. Federal financing proposals include but are not limited to savings from the Medicare and Medicaid programs, sector-specific health industry fees, and an excise tax on high-cost health insurance plans. Accordingly, while the Commission and federal proposals would offer roughly the same level of coverage expansion, federal reform would offer two additional economic benefits to Colorado: 1) the federal government would finance a larger share of reform costs, and 2) less of the financing would be borne through household taxes.





All five proposals, including the Commission Proposal, were evaluated by the Lewin Group. The Lewin Group’s analysis of the Commission Proposal focused on quantifying the number of people who would be covered, the associated costs, and the potential savings to households. The broader implications for job creation and the Colorado economy as a whole were not considered.

The study discussed herein builds on the Lewin analysis by considering the Colorado-specific benefits and costs of comprehensive health care reform in a broader economic context. The Commission Proposal is used as the basis to explore the implications of comprehensive health care reform over the next decade on a variety of state economic indicators including gross state product (GSP), job creation, and health care cost growth. At the time of the Commission’s work, the prospects for comprehensive federal reform were dim. Thus, the Commission presumed little federal help. Even at the time of our project’s inception, the potential for federal health care reform was highly uncertain (and remains somewhat uncertain at the time of this publication). Therefore, we assess the economic consequences of health reform as if the Commission Proposal for coverage expansion and delivery system reform were implemented. We will also indicate where federal reform as currently being contemplated would have significantly different implications for Colorado’s economy or health system or both. This preview presents our current findings; additional information will be provided in the forthcoming report.

## THE CONSEQUENCES OF INACTION

A recent independent study by the Urban Institute – a nationally recognized, nonprofit, nonpartisan research organization – finds that the economic and social costs of failing to fix Colorado’s health care system are high. This research was critical to our own study, providing the basis for our assumptions about expected health care cost growth in the future. The Urban Institute study shows that without reform, the number of uninsured Coloradans will increase, while businesses, individuals, and governments will face increasingly higher health care costs.<sup>9</sup>

*Without reform, health care and premium costs will grow at more than twice the rate of economy-wide productivity.* Current patterns of high health care cost growth are not an anomaly – health spending will claim larger shares of family budgets for at least the next decade, as seen in Table 1.

TABLE 1. AVERAGE ANNUAL GROWTH RATE ASSUMPTIONS, IN FIVE-YEAR INTERVALS

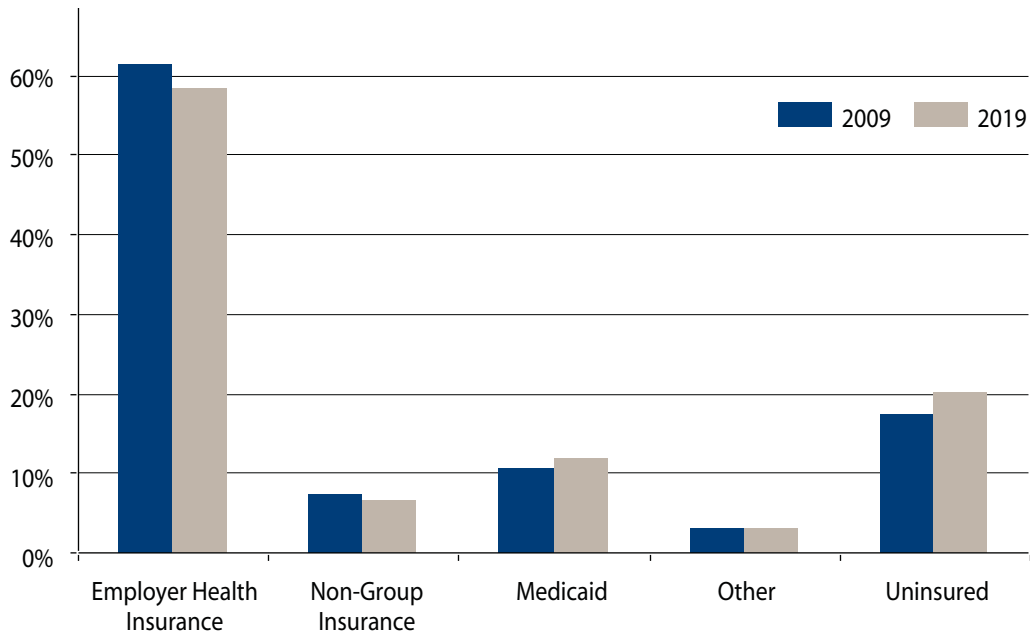
	Real Income Growth	Consumer Price Index	Private Health Spending per Capita	Private Premiums	Out-of-Pocket Health Care Costs
<b>2009 - 2014</b>	1.5%	2.0%	6.0%	7.0%	3.0%
<b>2014 - 2019</b>	2.0%	2.0%	6.0%	7.0%	3.0%

Source: Urban Institute, “Health Reform: Cost of Failure in Colorado,” August 2009.

*Without reform, more Coloradans will be uninsured, fewer will be covered by employer-sponsored insurance, and more will rely on Medicaid coverage.* By 2019, more than one-in-five non-elderly (under the age of 65) Coloradans will be uninsured. Fewer than 60 percent will be covered by employer-sponsored insurance. Medicaid enrollment will increase by more than a percentage point. See Figure 1 on page 6.



FIGURE 1. DISTRIBUTION OF HEALTH COVERAGE 2009-2019, TOTAL NON-ELDERLY\* POPULATION



Source: Urban Institute, "Health Reform: Cost of Failure in Colorado," August 2009.

\*Non-elderly is defined as individuals under the age of 65.

*Without reform, employer health care contributions will continue to rise.* As illustrated by Table 2, total employer health care contributions will rise by 109 percent without action. In addition, premium costs per worker will increase by nearly 105 percent, climbing from \$5,563 in 2009 to \$11,375 by 2019. Further, uncompensated care costs – care that is delivered and not paid for – will rise by 113 percent. This is significant because uncompensated care costs typically result in higher hospital prices, which in turn lead to higher premiums for the privately insured. See Figure 2 on page 8 for further explanation.

TABLE 2. AGGREGATE SPENDING 2009-2019, NON-ELDERLY POPULATION (IN MILLIONS)

	2009	2019	Percent change 2009-2019***
Medicaid/SCHIP	\$1,490	\$2,792	87.3
Uncompensated Care*	\$871	\$1,858	113.2
Employer Share of Premiums	\$7,321	\$15,317	109.2
Premiums per Worker (in dollars)	\$5,563	\$11,375	104.5
Individual and Family Spending**	\$5,829	\$10,015	71.8

Source: Urban Institute, "Health Reform: Cost of Failure in Colorado," August 2009.

\*Uncompensated Care is the cost of care provided for which no payment is rized from the patient or insurer or government.

\*\*Individual and Family Spending constitute the household contribution toward insurance premiums and out-of-pocket expenses on health care.

\*\*\* Percent change may not calculate correctly due to rounding.



## COSTS AND BENEFITS OF HEALTH REFORM

### COSTS

Extending enough subsidies to cover all uninsured Coloradans will require a significant state investment, even with some (and possibly considerable) federal assistance. There are two ways to think about the costs of reform.

**Public budget cost.** The Lewin Group estimated that the public cost of financing comprehensive reform in Colorado is between \$980 million and \$2.7 billion per year.<sup>10</sup> This range of spending represents the total estimated cost of increased Medicaid enrollment and subsidies for the purchase of private health insurance included in the five proposals analyzed by the Lewin Group. Under the Commission Proposal, Colorado's share of the public cost will fall below this range because the federal government shares equally in the cost of Medicaid. Colorado spending would be reduced even further under federal reform, however, because the federal government will finance subsidies for lower-income Coloradans who do not qualify for Medicaid.

**Opportunity cost of new taxes to finance reform.** New Colorado taxes or increased tax rates would be paid ultimately by individuals or households, even if the tax takes effect indirectly through reduced business profits. Of course, new taxes reduce consumer spending by reducing consumers' disposable income. The Commission proposed several financing options, including increases in tobacco, alcohol, and income taxes and a new tax on unhealthy foods such as salty snacks and soda. The economic effect of an increase in taxation is less economic output, fewer jobs, and slower job growth. But can the benefits to tax-financed spending exceed the costs? We answer this question below as it relates to Colorado health care spending.

Failing to enact health reform in Colorado will lead to higher health care costs, more uninsured Coloradans, and higher health spending, especially by businesses.





## BENEFITS

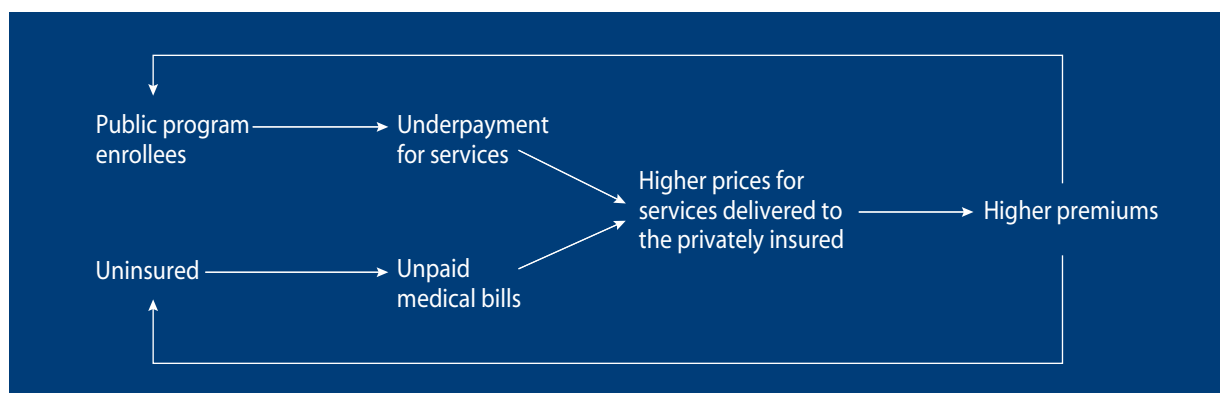
In addition to the immediate benefits of health reform – timely access to the life-saving and life-enhancing care that insurance provides<sup>11</sup> – there are also additional, less-obvious benefits. While it is not possible to quantify all of the positives of health reform, those that we can quantify are significant.

***Additional spending in the Colorado economy.*** The amount of money that the Commission Proposal would spend on health care coverage expansion will be transmitted through the economy as individuals and health care providers spend more on health and household goods. One dollar in new spending results in more than one dollar in increased economic activity. This “multiplier effect” is true for both health care and household goods.<sup>12</sup> The multiplier effect is particularly significant for health spending because the vast majority of health care dollars are spent locally, rather than on products and services produced in other states or countries, as is the case for general household spending. For example, as doctors provide care to more patients they will buy more medical supplies; the new supplies will translate into increased economic activity in the medical supply industry, as well as those industries – both health and non-health – that supply goods to the medical supply industry.<sup>13</sup> While the Commission Proposal would certainly stimulate new health spending, it would also provide subsidies for the purchase of health insurance, thereby freeing Coloradans to spend more of their resources on non-health goods and services in the short run. In addition, health care cost growth would be lower in the long run. This would also lead to increased spending on non-health-related goods.

***More jobs.*** 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. This increased demand for consumer goods will create additional jobs throughout the economy.

***Reduced cost-shift.*** The uncompensated care delivered to the uninsured combined with low Medicaid provider payment rates (explained in Figure 2) leads to higher premiums and health care costs for the privately insured. As more individuals obtain insurance and the Colorado Medicaid program increases its payment rates to providers (as prescribed in the Commission Proposal), uncompensated care will be reduced. A reduction in uncompensated care will diminish the need for cost-shifting to insured individuals, which should make premiums lower than they would have been without reform.

FIGURE 2. EXPLAINING HOW COST-SHIFTING OCCURS IN THE HEALTH SYSTEM







Increasing health insurance coverage in Colorado will spur increased economic activity and create more jobs, even after accounting for the costs of financing reform.

*Reduced cost growth and higher quality care.* According to research, between 30 and 50 percent of health care spending does not improve health in any demonstrable way.<sup>14</sup> Recent innovations by health systems like Denver Health and community collaboration in places like Grand Junction indicate that getting higher quality and better value for the money spent on care and making the delivery of care more efficient can reduce the cost of health care for households, businesses, and governments.<sup>15</sup>

## COVERAGE EXPANSION

### EFFECT OF A COVERAGE EXPANSION ON ECONOMIC OUTPUT

Based on our analysis of the Lewin Group's findings, we estimate that the Commission Proposal would inject a total of \$2.45 billion<sup>16</sup> into the Colorado economy in 2010.<sup>17</sup> This money would be spent by consumers on health care and household goods. Industry-specific and inter-industry purchasing pattern data analysis by the U.S. Department of Commerce estimates that every \$1 in new health care spending in Colorado will generate \$2.44 in new economic output in Colorado. The Commission Proposal subsidizes lower income households, some of whom are spending their own money on health insurance and health care today. As a result, these subsidy dollars enable some households to spend more of their own money on other goods and services once their health care needs are addressed.<sup>18</sup> The U.S. Department of Commerce estimates that a \$1 increase in household spending on consumer goods generally will lead to \$1.66 in new economic activity. New health care spending generates more economic output than new household spending because the purchases that are made as a result of new health care spending occur primarily within the local economy. In contrast, a larger fraction of household spending benefits out-of-state and even foreign producers of many consumer goods.

Colorado's share<sup>19</sup> of the financing for the Commission Proposal will come primarily from new taxes or increased tax rates. Therefore, the Colorado-specific cost of reform will be borne ultimately by Colorado households. Just as the effects of new spending are iterative, the drain of financing reform is also multiplied throughout Colorado's economy. Indeed, \$1 in taxation results in more than \$1 in economic costs.





*Findings*

Health care coverage expansion – ensuring that most or all Coloradans have adequate health care insurance – would create \$3.8 billion in new economic output in 2019, even after accounting for the economic costs of the taxes necessary to finance reform. This means that the value of the Colorado economy will be \$3.8 billion higher as a result of the tax-financed health coverage expansion envisioned by the Commission. Expanding health care coverage alone would increase economic output by \$8.9 billion in 2019; however, the economic cost of tax-financed health care reform would reduce that gain by \$5.1 billion. Table 3 summarizes the overall gains from a health coverage expansion.

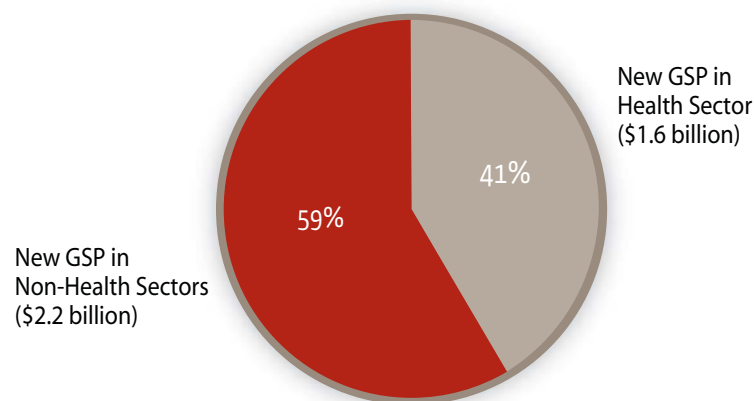
TABLE 3. TOTAL ECONOMIC EFFECT OF COVERAGE EXPANSION (IN BILLIONS), 2009 – 2019

Year	Baseline Gross State Product (GSP)*	New Economic Output from Coverage Expansion	Economic Output Lost from Financing Expansion	Net New Economic Output	Total GSP from Expansion Net of Financing
2010	\$253.7	\$4.9	\$2.6	\$2.3	\$256.0
2014	\$305.9	\$6.4	\$3.5	\$2.9	\$308.8
2019	\$410.3	\$8.9	\$5.1	\$3.8	\$414.1

\*Gross State Product includes the economic value of all goods and services created and purchased within the boundaries of the state.

A good indicator of the economic benefit of health care coverage expansion is how much of the new spending will benefit areas of the economy not related to health care. Under the Commission Proposal, nearly 60 percent of new economic activity in Colorado would occur outside of the health care sector. As illustrated in Figure 3, a public sector investment in health insurance coverage benefits the state’s entire economy, not just the health care sector.

FIGURE 3. DISTRIBUTION OF NEW ECONOMIC OUTPUT POST-REFORM IN 2019





### EFFECT OF HEALTH INSURANCE COVERAGE EXPANSION ON EMPLOYMENT

Successfully expanding health insurance coverage will not only enhance the Colorado economy, but also create new jobs for Coloradans. Health care coverage expansion will increase demand for both health care services and household goods. As a result, job growth will increase in all sectors of the Colorado economy.

#### Findings

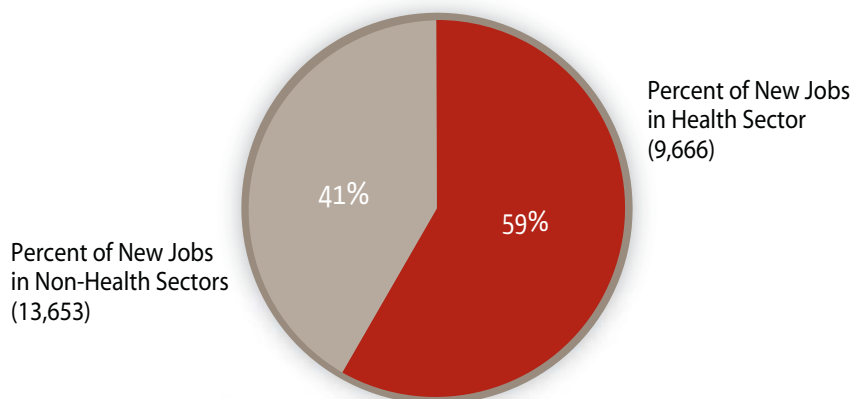
Health care coverage expansion in Colorado would create 23,319 jobs by 2019, even after accounting for the economic cost of the new taxes necessary to finance reform. Expanding health care coverage alone would create 45,000 new jobs in the state; however, the economic cost of tax-financed reform would reduce that gain by 21,681 jobs. Table 4 summarizes the overall job growth as a result of coverage expansion.

TABLE 4. EMPLOYMENT FROM A COVERAGE EXPANSION NET OF FINANCING, 2009 - 2019

Year	Baseline Jobs	New Jobs from Coverage Expansion	Loss of Jobs from Financing Expansion	Net New Jobs	Total Jobs from Expansion Net of Financing
2010	2,891,519	37,548	18,351	19,197	2,910,716
2014	3,090,073	40,938	20,007	20,931	3,111,003
2019	3,314,433	45,609	21,681	23,319	3,337,751

Currently, job growth in Colorado and across the country is highly concentrated in the health care sector,<sup>20</sup> but health care coverage expansion would create new jobs throughout the economy. In fact, we find that over 40 percent of job growth would occur outside of the health care sector under the Commission Proposal.

FIGURE 4. DISTRIBUTION OF NEW JOBS POST-REFORM IN 2019





## HEALTH DELIVERY SYSTEM REFORM

### EFFECT OF HEALTH DELIVERY SYSTEM REFORM

The Commission recommended several policies designed to increase quality and efficiency in the health care delivery system. In particular, it recommended policies that included medical homes and disease management programs, health information technology, provider payment based on performance, transparent insurer and provider pricing, and improved end-of-life care. These are exactly the type of delivery system reforms that many health system stakeholders, researchers, and policymakers agree must happen in order to develop a patient-centered, high quality, and efficient health system.<sup>21</sup> Transforming the health care delivery system will require active employer involvement, visionary stakeholder leadership, and sustained communication with consumers. Federal reform can accelerate this transformation. In particular, changing Medicare payment policy to encourage coordination, quality, and efficiency could help strengthen many of Colorado's existing initiatives.

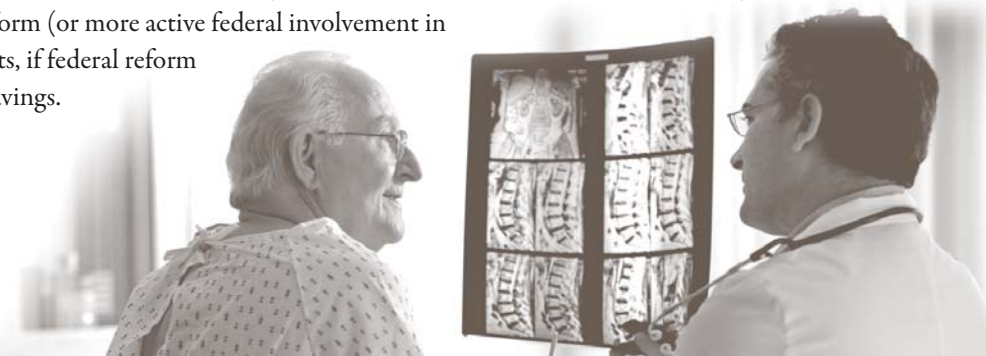
#### *Findings*

Colorado has already made progress toward health care delivery system reform. In fact, Colorado probably has more potential for transformative health system change than any other state in the nation. This progress is evidenced by several initiatives underway in Colorado that are discussed at greater length in the forthcoming full report.

Projections that measure the impact of delivery system reform are inherently uncertain. Given Colorado's existing infrastructure and local examples of care coordination and leadership (e.g., Grand Junction, Denver Health, Kaiser Permanente), however, Colorado is in an excellent position to improve health outcomes while lowering cost growth by between one to three percent per year over the next 10 years. This is a conservative estimate compared to what many researchers and stakeholders think is feasible.<sup>22</sup>

Savings of three percent and beyond are more likely if the employer community and the government demand that insurers facilitate the delivery system reforms championed by interdisciplinary initiatives already underway in Colorado.<sup>23</sup> This level of savings will take a concerted and coordinated effort among all health care system players. While employers stand to gain from this effort in the form of more productive workers and lower costs, they also have the responsibility to harness their purchasing power to demand more coordinated and efficient care.

Based on the potential to reduce cost growth described above and Colorado's commitment to a more sustainable health system, we conclude that delivery system reforms could yield between \$11 and \$38 billion in savings over the next decade in Colorado. This leaves \$11 to \$38 billion more to spend on other Colorado business, household, and governmental priorities. These dollars, like the resources spent on coverage expansion, will generate multiplier effects throughout the Colorado economy. In addition, these savings would lead to premiums that are 5.5 to 17 percent lower in 2019 than they would have otherwise been without delivery system reform. Again, federal reform (or more active federal involvement in state delivery system reform efforts, if federal reform fails) could lead to even greater savings.





Focusing Colorado's health care delivery system on value and efficiency will allow the state to deliver higher quality care at lower costs over time, while freeing up resources for other state priorities.

## POTENTIAL EMPLOYER SAVINGS

In the absence of health care reform, the Urban Institute projects that family premiums (represented as ESI family premium in Table 5 on page 14) will rise to \$22,706 by 2019. Comprehensive health care reform – either the Commission Proposal or federal reforms – could change the trajectory of private premiums in three important ways:

***Reduced uncompensated care.*** Uncompensated care – care that is delivered but not paid for – will be reduced as more Coloradans become insured. 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 likely be unable to reduce the amount they pay hospitals by the exact same amount that hospitals gain through more insured patients. Therefore, as shown in Table 5 on page 14, we assume that private payers can effectively negotiate hospital rates that reflect 40 to 75 percent of the reduction in uncompensated care costs. As a result, private premiums should be reduced by more than two percent because of lower uncompensated care costs.

***Increased Medicaid provider payment rates.*** All Medicaid programs reimburse providers below market rates. Both the Commission and the Colorado legislature recognize that Medicaid payment rates burden the ability of Colorado's health system to function sustainably. While the Commission proposed to increase Medicaid payment rates to providers, Colorado has since taken additional action to address this issue by approving the Health Care Affordability Act of 2009, which is in the process of being implemented. Colorado House Bill 09-1293 seeks to increase Medicaid hospital payments from 55 to 85 percent of costs, among other provisions. As such, Medicaid payment rates will “only” underpay providers by 15 percent under the Act. Again, assuming that private payers can only achieve savings equal to between 40 and 75 percent of increased payments to hospitals as a result of higher Medicaid payment rates, private payers should see a 1.3 to 2.5 percent reduction in premiums. Some, but not all, federal reform bills and the Commission Proposal increase Medicaid provider payment rates to average cost. Another 0.7 to 1.3 percent private premium savings can be achieved if the final reform package – at either the state or federal level – commits to raising Medicaid payment rates closer to average costs.

***Reformed delivery system.*** Improving the way care is delivered in Colorado is the best way to sustain lower premium growth over time. As discussed above, building and using a health information infrastructure, clinical effectiveness data, decision-support tools, new provider payment incentives, and consumer engagement is expected to reduce health care cost growth. Unlike other effects of health reform discussed above, employers should be able to capture the majority of the savings from delivery system reform in exchange for demanding higher quality and more efficient health services for their employees. As a result, we estimate that delivery system reform in Colorado could reduce private insurance premiums by, and employers could realize savings equal to, between 5.5 and 17 percent in 2019.



TABLE 5. POTENTIAL SAVINGS FOR EMPLOYERS FROM HEALTH REFORM IN 2019

	Percent Savings		Premium per Worker		ESI Family Premium	
Cost of health insurance with no reform*	n/a		\$11,375		\$22,706	
Effects of Reform						
	Conservative Estimate	Optimistic Estimate	Conservative Estimate	Optimistic Estimate	Conservative Estimate	Optimistic Estimate
Uncompensated Care Savings	-2.20%	-4.10%	\$11,125	\$10,909	\$22,206	\$21,775
Raising Medicaid Payment Rates to 85% of Costs	-1.34%	-2.52%	\$10,975	\$10,634	\$21,908	\$21,227
Raising Medicaid Payment Rates from 85% to 100% of Costs	-0.67%	-1.26%	\$10,902	\$10,500	\$21,761	\$20,960
Delivery System Reform Savings	-5.47%	-16.93%	\$10,305	\$8,722	\$20,570	\$17,411
Cost of Health Insurance After Reform**	-9.69%	-24.81%	\$9,307	\$6,559	\$18,578	\$13,092

\*Source: Figures are from Urban Institute, "Health Reform: Cost of Failure in Colorado," August 2009.

\*\*Cost of health insurance after reform may not sum due to rounding. All figures show cumulative effects of health reform.

## methods

Our economic model focuses on the net impact of specific increases in health spending (under scenarios of both reform and non-reform of health care coverage and care) on statewide economic output (measured as gross state product) and employment. The impact is measured using the Regional Input-Output Modeling System ("RIMS") generated by the Department of Commerce, Bureau of Economic Analysis using specific multipliers for Colorado.

There are two major inputs to our economic model: baseline health spending in Colorado and the necessary injection of health spending to finance coverage expansion. Each of these elements is used to calculate likely costs or benefits of health system reform in Colorado. Our data for these inputs come from the Lewin Group's estimates of the Commission Proposal to expand health care coverage. We also rely on the Urban Institute's determination of likely future health spending in Colorado to inform our projections of the Lewin Group's findings over the next decade.

For more detail, please see the forthcoming paper "The Future of Colorado Health Care: An Economic Analysis of Health Care Reform and the Impact on Colorado's Economy."

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## ENDNOTES

<sup>1</sup> Metro Denver Economic Development Council Report (forthcoming November 2009).

<sup>2</sup> Sarah Axeen and Elizabeth Carpenter, "The Cost of Doing Nothing," *New America Foundation*, November 2008.

<sup>3</sup> These projections are based on historical trends. Colorado Business Group on Health, "Health Care and Business: The Bottom Line," available at: <http://www.coloradoguidelines.org/pdf/pcmh/employers/BusinessHealth-Brochure.pdf>.

<sup>4</sup> Findings from the American Community survey, available at: [http://www.census.gov/hhes/www/hlthins/acs08paper/2008ACS\\_healthins.pdf](http://www.census.gov/hhes/www/hlthins/acs08paper/2008ACS_healthins.pdf). The Colorado Health Institute estimates that nearly 14 percent of all Coloradans (approximately 690,000 individuals) were uninsured in the first quarter of 2009 and that nearly 20 percent were uninsured at some point in the previous twelve months; according to the Urban Institute, 776,000 Coloradans are uninsured in 2009.

<sup>5</sup> Len M. Nichols and Sarah Axeen, "Employer Health Costs in a Global Economy: A Competitive Disadvantage for U.S. Firms," *New America Foundation*, May 2008.

<sup>6</sup> Colorado Joint Budget Committee Fiscal Year 2009-10 Appropriations Report, p. 14.

<sup>7</sup> The Lewin Group, "Cost and Coverage Impacts of Five Proposals to Reform the Colorado Health Care System," *The Colorado Blue Ribbon Commission for Health Care Reform*, December 29, 2007.

<sup>8</sup> For example, the Commission proposed several potentially cost-saving delivery system reforms including: implementation of medical homes and disease management programs, adoption of health information technology, provider payment based on performance, transparency in pricing, and improving end-of-life care, among other strategies.

<sup>9</sup> The Urban Institute's assumptions about baseline health care cost growth are more optimistic than some, like the Colorado Business Group on Health cited above. This is because their assumptions are based on longer-run and national trends.

<sup>10</sup> The dollar amounts presented are in 2007 dollars. The Lewin Group, "Cost and Coverage Impacts of Five Proposals to Reform the Colorado Health Care System," *The Colorado Blue Ribbon Commission for Health Care Reform*, December 29, 2007.

<sup>11</sup> Sarah Axeen and Elizabeth Carpenter, "The Cost of Doing Nothing," *New America Foundation*, November 2008; *Hidden Costs, Value Lost: Uninsurance in America*, Institute of Medicine (Washington, D.C.: National Academies Press, 2003); New American Foundation, "The Case for Health Reform: The Moral, Economic, & Quality Motives for Action," February 2009.

<sup>12</sup> The multiplier effect is the process by which a \$1 investment grows in the economy to produce more than \$1 in economic activity. Authors' calculations, explained in "The Future of Colorado Health Care: An Economic Analysis of Health Care Reform and the Impact on Colorado's Economy," forthcoming 2009.

<sup>13</sup> U.S. Department of Commerce, Bureau of Economic Analysis, "Regional input-output data tables," accessed April 2009.

<sup>14</sup> National Academy of Engineering and Institute of Medicine, *Building a Better Delivery System* (Washington D.C.: National Academies Press, 2005).

<sup>15</sup> See for example, Health CEOs for Health Reform, "Realigning U.S. Health Care Incentives to Better Serve Patients and Taxpayers," *New America Foundation*, June 2009.

<sup>16</sup> The Commission Proposal would inject \$2.45 billion of health spending into the Colorado economy in 2010. The \$2.45 billion value is the result of growing the Lewin Group's estimate of baseline health costs in 2007/2008 by the sector-specific growth rates identified by the Urban Institute forward to 2019. The Lewin Group originally reported that \$2.14 billion would be injected in 2007.

<sup>17</sup> This injection of funds will be "re-injected" into the economy each year that health reform persists, relative to the baseline. However, the amount of money injected each year will grow as we account for health care cost growth and inflation, as explained in note 16.

<sup>18</sup> Of the \$2.45 billion in public subsidy cost, only \$1.06 billion is actually net new health spending, with \$1.39 billion being shifted by low income households from their former health care bills to other goods and services from across the Colorado economy.

<sup>19</sup> Colorado's share of the cost of health reform is equal to \$1.55 billion of the \$2.45 billion total cost. Authors' calculations, explained in "The Future of Colorado Health Care: An Economic Analysis of Health Care Reform and the Impact on Colorado's Economy," forthcoming 2009.

<sup>20</sup> Bureau of Labor Statistics, "The Employment Situation, September 2009," <http://www.bls.gov/news.release/pdf/empsit.pdf>; Bureau of Labor Statistics, "Regional and State Employment and Unemployment, September 2009," <http://www.bls.gov/news.release/pdf/laus.pdf>.

<sup>21</sup> Christine Eibner, et al., "Controlling Health Care Spending in Massachusetts: An Analysis of Options," *RAND Health*, August 2009; Health CEOs for Health Reform, "Realigning U.S. Health Care Incentives to Better Serve Patients and Taxpayers," *New America Foundation*, June 2009; David M. Cutler & Judy Feder, "Financing Health Care Reform: A Plan to Ensure the Cost of Reform is Budget-Neutral," *Center for American Progress*, June 2009; Brookings Institute, "Bending the Cost Curve: Practical, Realistic Strategies to Contain Costs and Improve Value," *Brookings Institute*, June 2009.

<sup>22</sup> Ibid.

<sup>23</sup> These efforts and organizations include but are not limited to: Center for Improving Value in Health Care (CIVHC), Colorado Regional Health Information Organization (CORHIO); Improving Performance in Practice (Patient-Centered Medical Home) of the Colorado Clinical Guidelines Collaborative; Colorado Medicaid Accountable Care Collaborative; Colorado Foundation for Medical Care's Care Transition project; Rocky Mountain Patient Safety Organization; and Colorado Collaborative Quality Improvement Project (CCQIP).

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