Summary of Colorado’s Health Insurance Option Hospital Rate-Setting Formula and Subsidies

On Monday, February 24, the Colorado Departments of Insurance and Health Care Policy and Financing released details regarding their proposed approach to setting hospital reimbursement under the Health Insurance Option program. The release included a report from Wakely Consulting that provides more detail regarding the state’s proposal to use Federal pass-through funding to establish expanded premium and cost-sharing subsidies in the individual market. Together, these policies would drive an 18,100 decrease in the number of uninsured in the state when the program goes live in 2022, a substantial increase from the initial estimate of 5700.

Details of Hospital Reimbursement Formula
The Governor’s proposal, delivered to the state legislature in November 2019, recommended that hospitals be required to participate in the public option program at reimbursement levels set by the state. The recently issued details specify that the reimbursement methodology would set hospital rates between 155 and 218 percent of what Medicare pays. Statewide, the average reimbursement rate would be 168 percent of Medicare, yielding average statewide premium savings of 12 percent.

Hospitals could receive additional compensation under four adjustment factors:
1. If the hospital is an independent hospital (i.e. not owned by a system with more than two hospitals) or critical access hospital (20 percent for each, up to 40 percent if both);  
2. If the hospital serves a high percentage – 65 percent or more – of Medicare or Medicaid beneficiaries (up to 30 percent, depending on percentage served); and  
3. Relative to state averages, whether the hospital is good at managing administrative costs and the underlying cost of care, or if it already charges reasonable rates (up to 40 percent).  
   a. Hospitals can receive: (1) up to 10 percent if operating costs are lower than the state average, (2) up to 10 percent if prices charged are lower, and (3) up to 20 percent if profit margins are lower.

Proposed Subsidies Expansion
While the state had already indicated it intends to apply for a Federal waiver to fund new benefits, this release provides more detail regarding the additional premium and cost-sharing subsidies the state would pursue. Using over $40 million in annual pass-through funding from the waiver, the state would reduce the portion of household income that subsidized consumers are required to contribute to their premium by between 0.7 to 1.2 percent, which equates to $280 annually on average per person.

The state would also apply waiver funding to increase cost-sharing subsidies. Households with incomes between 200 to 249 percent of the Federal Poverty Level (FPL) enrolling in silver level plans would see the actuarial value (AV) of their benefit increase from 73 to 77 percent. Those with incomes between 250-399 percent FPL, who currently do not qualify for any cost-sharing assistance, would see the AV of their silver plan options increase from 70 to 73 percent.