

# HEALTH INSURANCE AFFORDABILITY IN RURAL COLORADO



**CoRHAC**  
Colorado Rural Health Advocacy Coalition

## EXECUTIVE SUMMARY

Prepared by Colorado Health Institute for  
The Colorado Rural Health Advocacy Coalition

# CoRHAC

Colorado Rural Health Advocacy Coalition

**Colorado Rural Health Advocacy Coalition** is a voice in health care policy that serves as a conduit to educate, listen and advocate on shared rural health issues.

The Colorado Rural Health Advocacy Coalition has brought together five organizations—**Action 22**, **Club 20**, **Colorado Rural Health Center**, **Progressive 15**, and **Rocky Mountain Farmers Union**—to develop a structure and voice for the rural health care needs for Colorado. CoRHAC has received funding from The Colorado Health Foundation.

For more information:  
[www.corhac.com](http://www.corhac.com)

## PARTNER ORGANIZATIONS:

**ACTION 22:** The membership, which includes individuals, cities, communities, counties, associations, businesses and organizations, bands together for a stronger voice at the State Legislature and in Washington, D.C. Action 22's mission is to serve as a leader for cohesive action to affect change and shape the future of Southern Colorado.

For more information contact:

**Cathy Garcia**  
President/CEO  
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[www.action22.org](http://www.action22.org)

**CLUB 20** is an organization of counties, communities, tribes, businesses, individuals and associations in Western Colorado. Its activities include marketing and advertising, public education, promotion, meetings and events, and political action. CLUB 20 is the "Voice of the Western Slope".

For more information contact:

**Reeves Brown**  
Executive Director,  
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[www.club20.org](http://www.club20.org)

**The Colorado Rural Health Center (CRHC):** The mission of CRHC is enhancing health care services in Colorado by providing information, education, linkages, tools and energy toward addressing rural health issues. CRHC has over 3,000 general members, 65% of which represent rural Colorado. The Colorado Rural Health Center works with people, organizations, and communities statewide.

For more information, contact:

**Lou Ann Wilroy**  
Executive Director  
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[www.coruralhealth.org](http://www.coruralhealth.org)

**PROGRESSIVE 15** advocates and affects legislation and policy for the economic vitality and quality of life for citizens. The mission of Progressive 15 is to speak with a single, unified voice on issues of mutual concern facing Northeastern Colorado. Its membership includes individuals, government agencies, non-profits, health care agencies, counties, municipalities, education, business, and agriculture.

For more information contact:

**Cathy Shull**  
Executive Director  
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[www.progressive15.org](http://www.progressive15.org)

**ROCKY MOUNTAIN FARMERS UNION** is a progressive, grassroots organization dedicated to achieving profitability for family farmers and ranchers; promoting stewardship of land and water resources; delivering safe, healthy food to consumers; strengthening rural communities through education, legislation, and cooperation; and being the voice for family agriculture and rural communities. Since its beginnings in 1907, RMFU has led efforts to maintain and improve rural communities in Wyoming, Colorado and New Mexico through state and federal legislation, educational programs, and cooperatives.

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**Ben Rainbolt**  
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# HEALTH INSURANCE AFFORDABILITY IN RURAL COLORADO

## EXECUTIVE SUMMARY

The costs of health insurance have grown out of reach for an increasing number of Colorado workers and their families. Coverage is provided for the majority of older adults and those with a permanent disability through federal health insurance programs, such as Medicare. However, even in the Medicare program, the monthly premiums and associated co-payments have gone up faster than many seniors on Social Security can afford to pay.

There has been increasing policy attention to the plight of the underinsured and uninsured in Colorado. This policy attention results from the declining levels of coverage in the small-group market (i.e., firms with 50 or fewer employees), the unaffordability of individually purchased health insurance for all but the young and healthy, and the cost shifts that have taken place from employer to employee as health insurance premiums have risen so dramatically over the past 10+ years. In 2008, the Colorado Blue Ribbon Commission for Health Care Reform presented strategies to make insurance coverage more available and affordable through a number of private-market and public-investment proposals. Unfortunately, most of these proposals have significant cost implications at a time when state and personal budgets are shrinking because of the overall economic conditions that face Colorado and the nation at this time.

One out of every five working-age adults under the age of 65 is uninsured in Colorado. The current marketplace does not hold much promise for making generally affordable coverage available to these workers and their families. As a group, the uninsured tend to be low-wage earners and those working in small firms, including the self-employed. The problem of insurance affordability is pervasive in Colorado's rural communities. Being an employee or owner of a small firm, or family farm or ranch or residing in a low-income household, increases a person's risk of being uninsured.

The solutions to the insurance affordability problem are likely national in scope, but understanding the nature of the problem, the characteristics of the health insurance marketplace and the variability of costs in health insurance products that are currently available, is an important first step in finding local and state level policy fixes.

### Policy Options:

Policy options that can potentially impact the affordability of health insurance in Colorado include the following:

- 1) Centennial Choices, SB 08-217, calls for insurers and other interested parties to submit proposals for providing affordable low-cost, high-value plans to supplement the insurance products currently being marketed in Colorado.
- 2) Community-based initiatives, such as "Health Access Pueblo" in Pueblo County, may offer a solution to the insurance affordability dilemma. "Health Access Pueblo" has a coverage plan that was designed through a community prioritization process and includes a range of community-valued benefits based on price and affordability.
- 3) More aggressive enrollment strategies to get low-income children and pregnant women enrolled in Medicaid and CHP+ could help to extend coverage using existing public programs.



## WHAT IS THE PROBLEM WITH INSURANCE AFFORDABILITY?

Health insurance is no longer affordable for a large proportion of Colorado's population. Medical inflation has outstripped general inflation. In 2007, medical costs rose by 6.9 percent in the U.S., amounting to \$7,600 spent on medical care per person. In Colorado, the cost of health insurance has risen so rapidly, and at a faster pace than the U.S. average, that an increasing number of small employers are either dropping coverage altogether or passing on the cost increases to their employees who cannot afford to pay their share of the premiums.

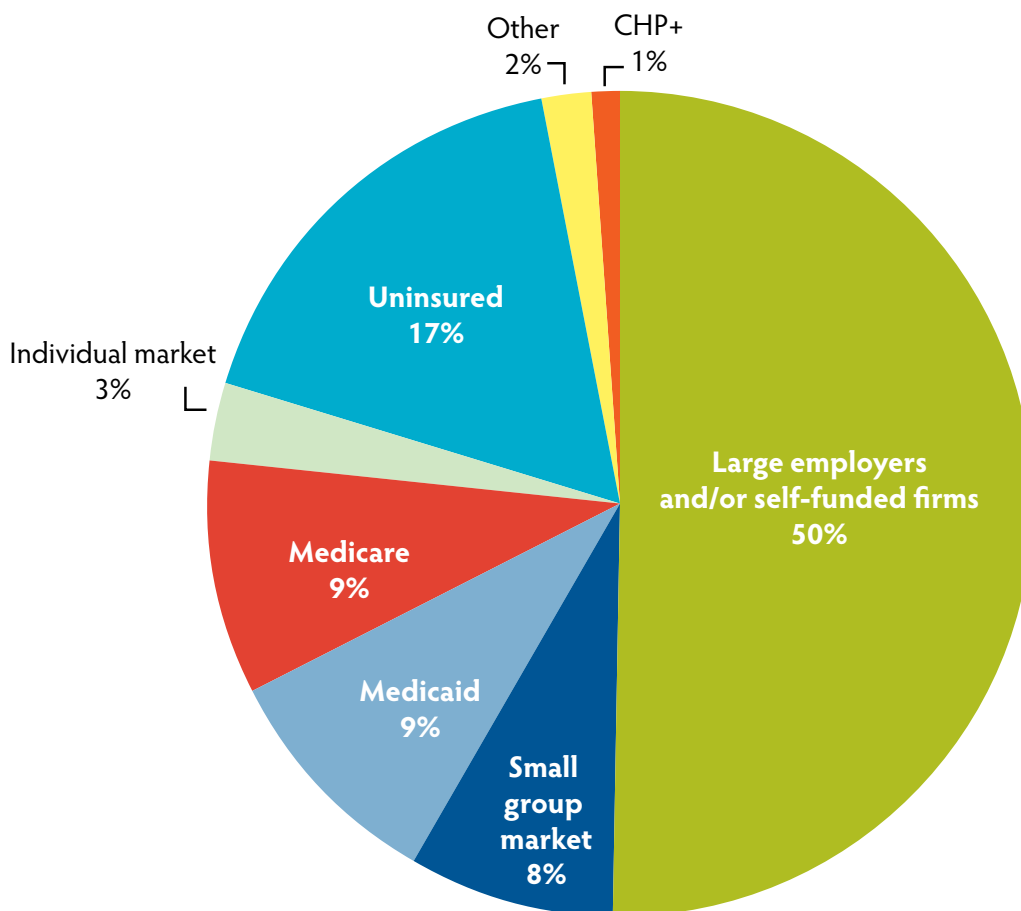
To illustrate this point, in the 10-year period between 1996 and 2006, employers' costs to provide health insurance to their employees in Colorado rose by 112 percent, while employees' costs rose by 105 percent. For family coverage, the increase was even more dramatic. For the same 10-year period, family coverage costs rose 161 percent for employers and 87 percent for employees. This problem is exacerbated in Colorado's rural communities, where a large proportion of wage earners work in small firms, are self-employed, or work for family-run businesses, such as ranching or farming.

## COVERAGE IN COLORADO

As can be seen in Figure 1, half of Colorado's population receives its health insurance through large employers that self-insure for the health benefits provided to their employees and employees' families. Large employers are more likely to pay the full costs of these premiums than smaller employers. Firms that self-insure are regulated by federal law through the Employer Retirement Insurance Security Act (ERISA) and therefore do not fall under the state's regulatory framework. The next largest slice on the pie chart, when dividing the population by insurance coverage, is the uninsured (17 percent).

The small-group market includes firms with 1-50 employees. Approximately 8 percent of the population in Colorado receives health insurance in the small group market. Individual purchasers of insurance include those Coloradans who purchase health insurance on their own, outside of their or their spouse's employer. Approximately 3 percent of Coloradans purchase health insurance in the individual market. As can be seen in Figure 1, 11 percent of Coloradans get health insurance through one of these two options. Some 18 percent are insured through Medicare and Medicaid.

Figure 1. Distribution of health insurance coverage, Colorado, 2006



Sources: The Lewin Group, Colorado Division of Insurance

Note: Individuals eligible for both Medicare and Medicaid are included in the Medicaid category.

The following four figures reveal problems that have led to failures in the small insurance market, resulting in the steady decline of coverage in this market. Figures 2 through 5 graphically illustrate that Colorado is a state of small employers that over time have seen their health insurance premiums rise at unsustainable rates. With increases of 112 percent for individual employee premiums and 161 percent for family policies, the number of small firms offering coverage declined from 500,000 in 1997 to approximately 350,000 in 2006 (Figure 5).

Figure 2. The proportion of the Colorado workforce employed in small firms

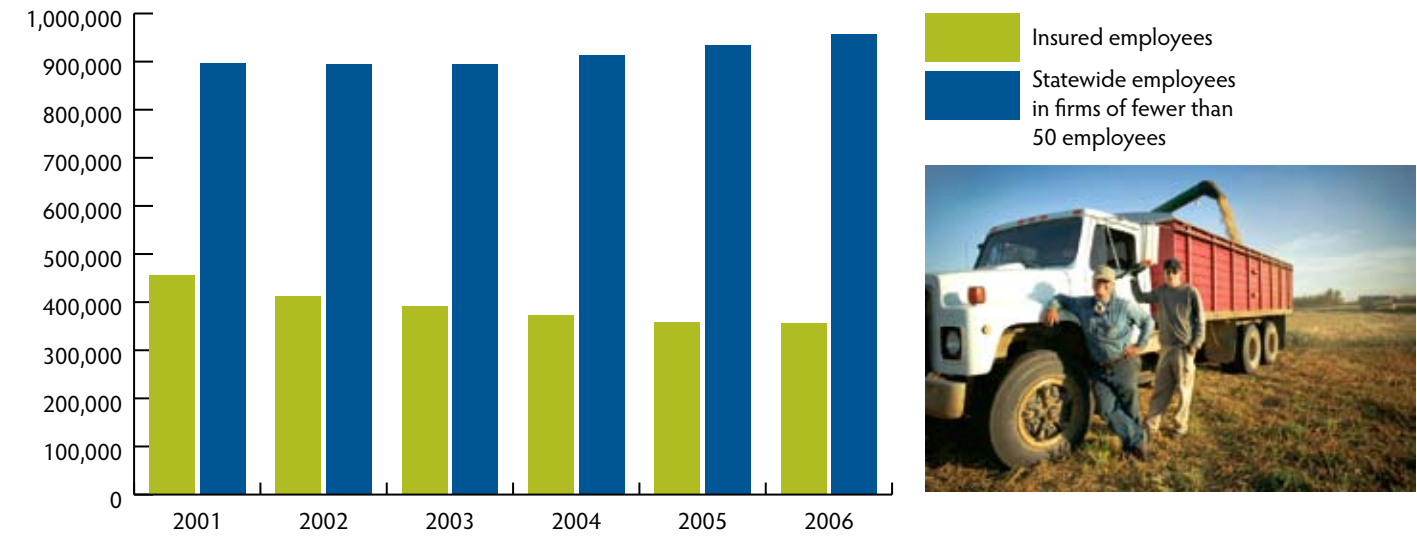


Figure 3. Average premiums for employer-sponsored family policies in Colorado, 1996-2006

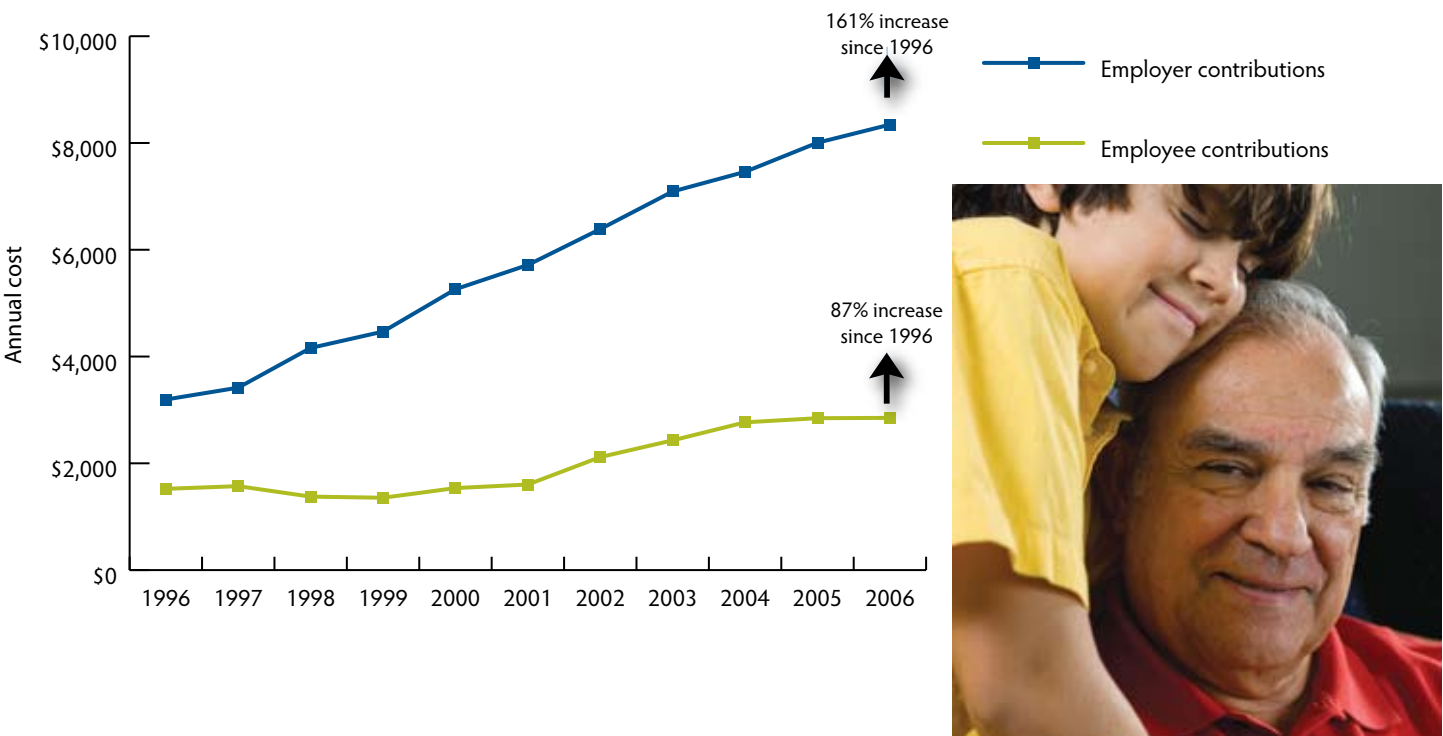


Figure 4. Premiums for employee policies among private-sector firms in Colorado, 1996-2006

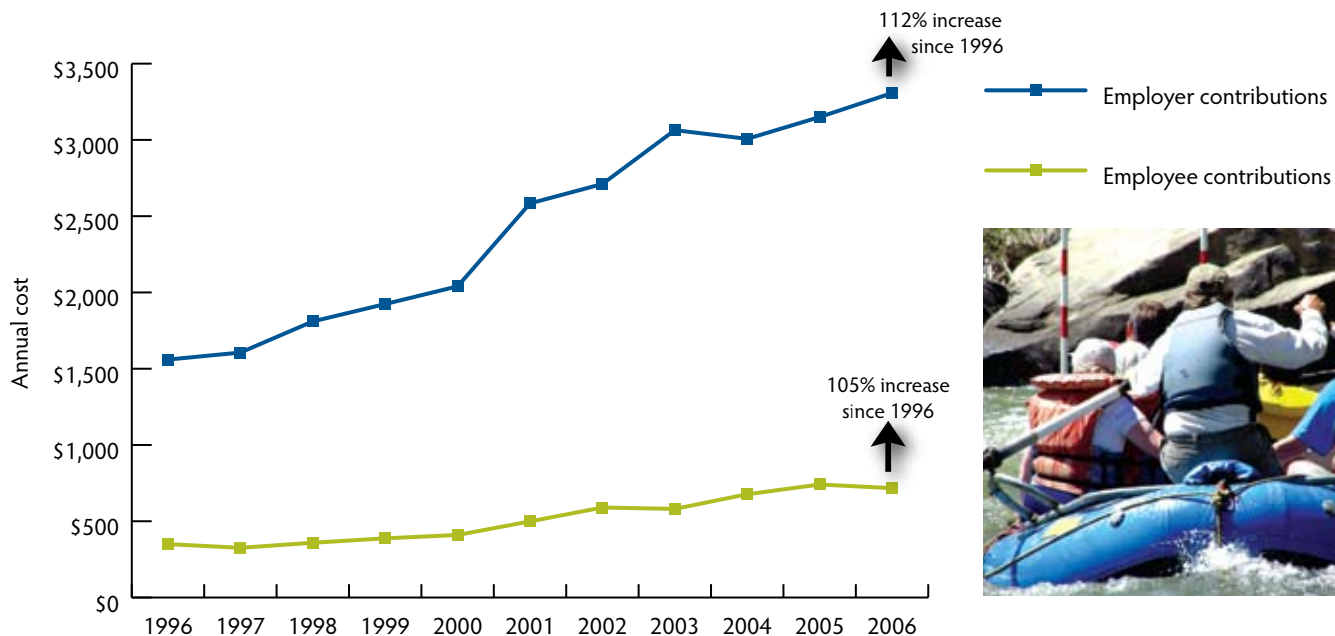
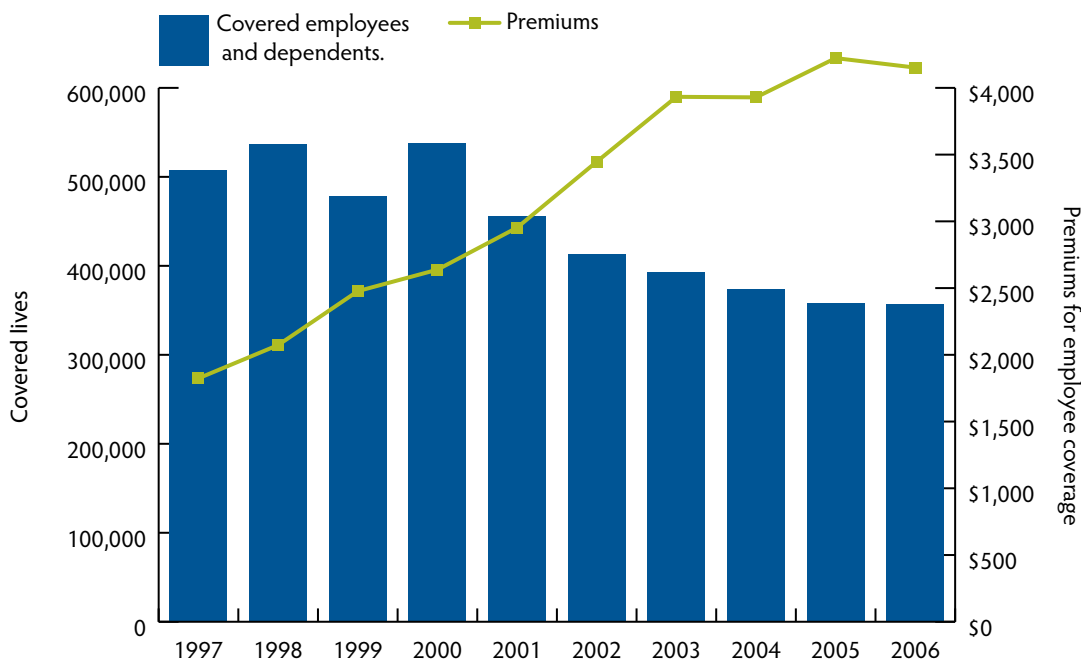
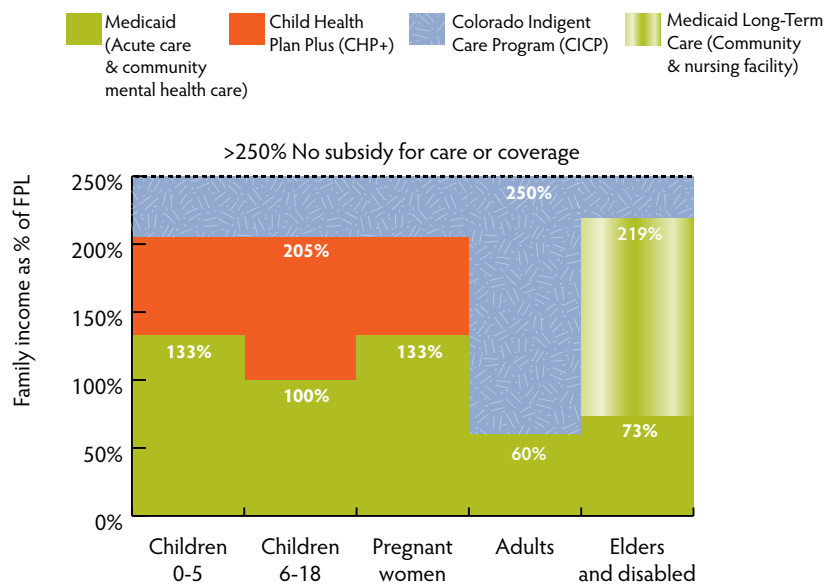


Figure 5. The declining rate of small firm insurance coverage relative to premium increases, 1997-2006



Filling the gaps in private insurance coverage, the Medicaid and CHP+ programs largely serve children in low-income families, many of whom live in households with uninsured adults. Figure 6 shows the coverage levels for children of different ages, parents of children in very low-income families (adults), and elders and people with disabilities on the Medicaid program. The only adults covered in the CHP+ program are pregnant women.

Figure 6. Coverage under publicly sponsored insurance and financing programs



#### SMALL-EMPLOYER INSURANCE OPTIONS

Small group insurance products in Colorado are regulated by the Colorado Division of Insurance. The rules that govern the small-group market include guaranteed issue; that is, insurers cannot refuse coverage to an individual employee in a small firm because of a pre-existing health condition. Colorado is a modified community rating state, which means that a limited number of factors may be used to set premiums, including age, geography, industrial classification, smoking status and family size. Colorado allows sole entrepreneurs, also known as "Business Groups of One" (BG1), to purchase insurance as a small group. Colorado regulates BG1s as employers in the small-group market.

Prior to 2009, Colorado had been a file-and-use state, which means that health insurers were only required to file their proposed premium charges with the state insurance commissioner who then determined whether the rates were actuarially sound. Beginning in 2009, insurers must file a detailed description of their rating methods and practices to demonstrate that they are actuarially sound based on commonly accepted actuarial practices. The Commissioner will then determine the appropriateness of proposed rate changes based on the completeness and details of the information provided.

#### INDIVIDUALLY PURCHASED PRIVATE INSURANCE POLICY

Roughly 3 percent of Colorado's population is in the individual health insurance market. There is no guaranteed issue in the individual market, and few benefit mandates apply. The state subsidizes health insurance for people in the individual market who are deemed to be "uninsurable" because of a pre-existing medical condition. This state-subsidized high-risk pool is known as "CoverColorado," which has almost 9000 participants. The premiums charged to "CoverColorado" enrollees can be up to 150 percent of the average premium charged in the individual products market.

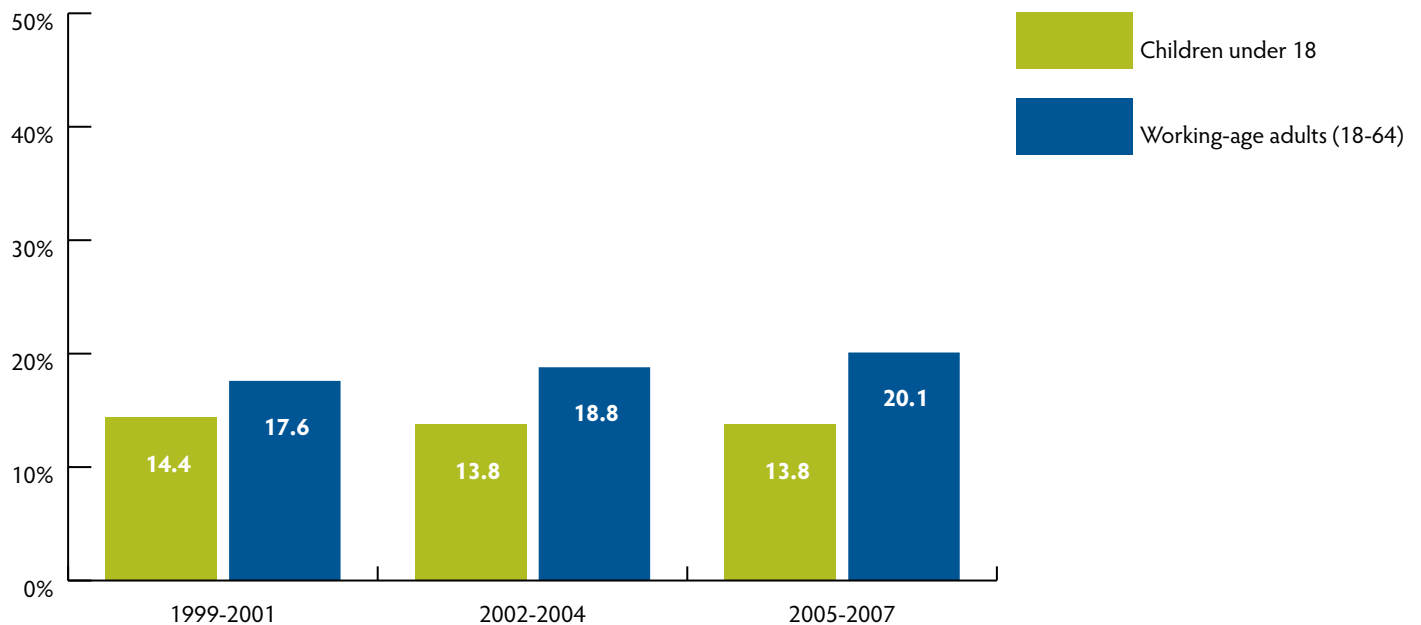
#### THE UNINSURED IN COLORADO: NUMBERS AND CHARACTERISTICS

Probably the most important observations about the uninsured are the characteristics of those who are included in their ranks. The absolute numbers of uninsured Coloradans have grown since 1999, but so has the overall population, so that in general, the rate has remained fairly constant at around 17 percent of the population. One in every five Colorado adults over the age of 18 (and under the age of 65) is uninsured. Among children, the uninsured rate is 14 percent. This lower rate can be attributed to the Medicaid and CHP+ programs. A closer look at the uninsured reveals the following:

- The largest group is Coloradans with incomes under 100 percent of FPL (federal poverty level) (42 percent);
- Two-thirds of uninsured adults are working, and most are working full-time;
- Young adults age 18-34 have the highest rates by age (27 percent);
- Rural residents have higher rates of being uninsured than the overall population (18 percent);
- Individuals of Hispanic origin are by far the largest racial/ethnic group to be uninsured in Colorado (36 percent);
- People who work for small businesses (fewer than 10 employees) are more likely to be uninsured (29 percent); and
- One-half of uninsured adults have less than a high school diploma (51 percent).

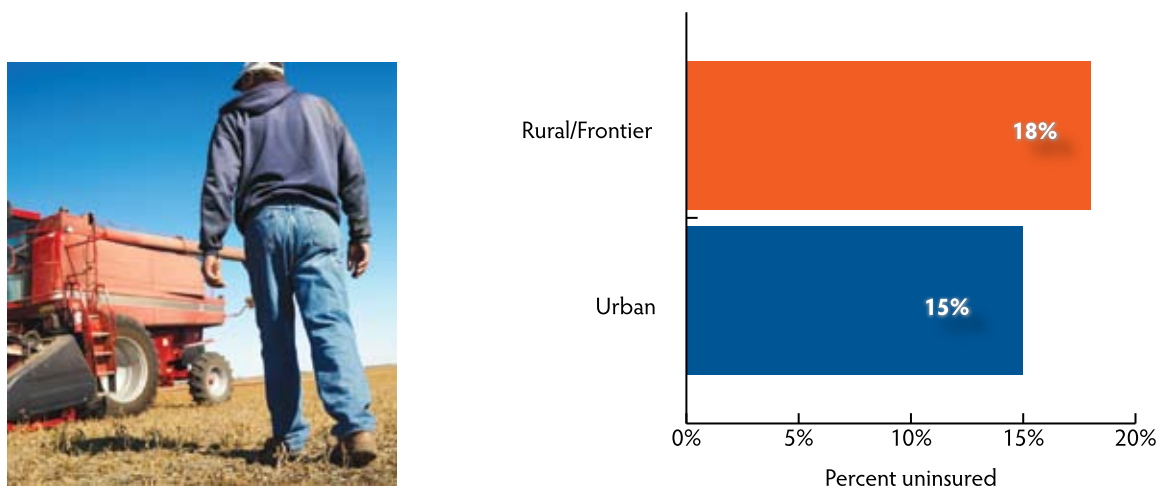


Figure 7. Colorado uninsured rates, by age group, 1999-2007



Source: Colorado Health Institute (CHI) analysis of the U.S. Census Bureau's Current Population Survey (CPS)

Figure 8. Uninsured rates for Coloradans by urban and rural/frontier county designations, 2000



Source: CHI analyses of data from the U.S. Census Bureau, Small Area Health Insurance Estimates (Released 2005), and urban, rural, and frontier county designations provided by the Colorado Rural Health Center (as of 11/05).



Figure 9. Population without health insurance, 200 percent of federal poverty level, Colorado 2004

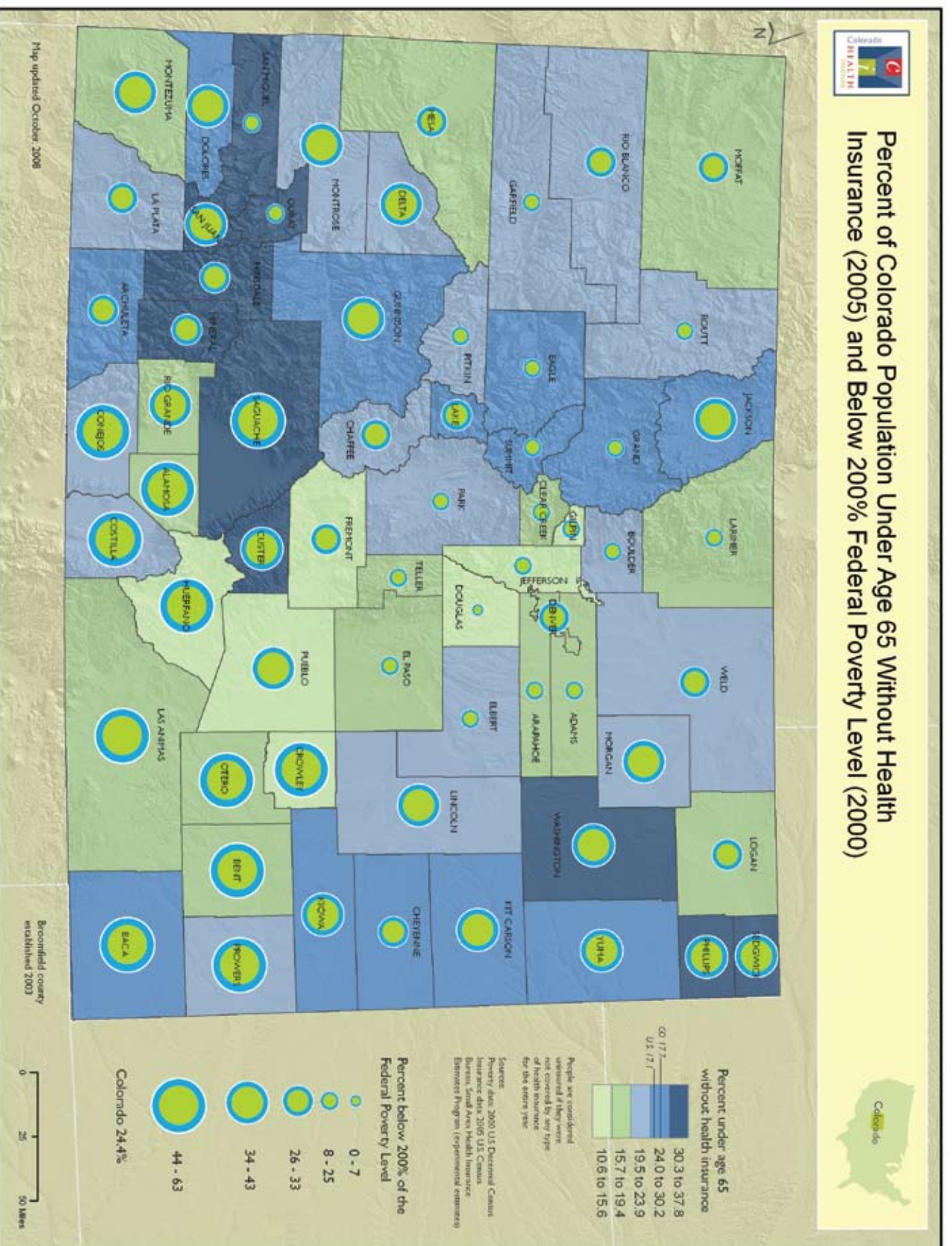
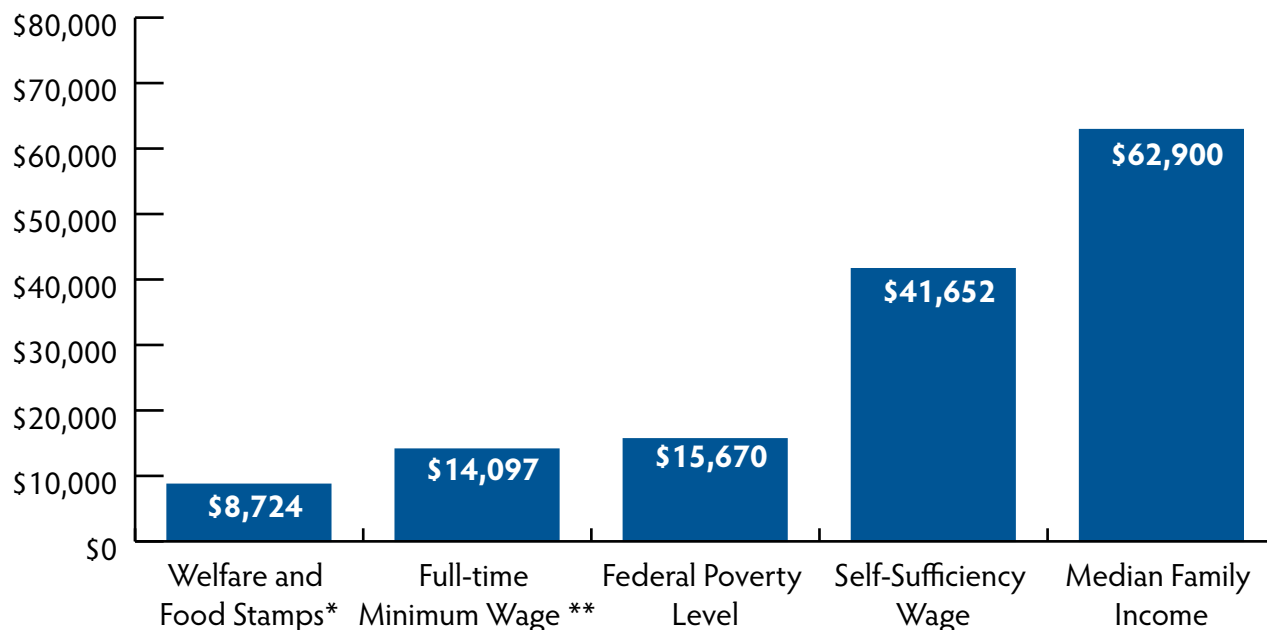


Figure 10. Self-sufficiency standard relative to other poverty benchmarks, Colorado, 2004



Source: Colorado Fiscal Policy Institute, *The Self-Sufficiency Standard for Colorado 2004: "A Family Needs Budget"*

Table 1. Counties not included in Colorado MSAs with populations over 20,000

County	Population Count
Delta	32,185
Eagle	52,638
Fremont	49,833
Garfield	55,823
La Plata	50,743
Logan	22,442
Montezuma	26,306
Montrose	40,552
Morgan	29,736
Otero	20,033
Routt	23,012
Summit	28,850

Source: The Colorado Health Institute, 2007

### Setting Insurance Premiums: What is Involved?

#### UNDERSTANDING THE COMPARABILITY OF PREMIUMS BETWEEN PRODUCTS AND GEOGRAPHIC REGIONS IN COLORADO

Household income, employer size and geographic area affect the premiums charged to small employers and individuals in the private insurance market. What we don't fully understand are the reasons for the variability that exists between geographic areas. As previously noted, insurers in Colorado use many factors to set rates in the small-group market, geography being one of many. The geographic rating factor divides the state into seven metropolitan statistical areas (MSAs), counties with fewer than 20,000 population, and all others (see Table 1).

Within the nine geographic rating regions, the Division of Insurance (DOI) determined the average premium rates by insurance carrier based on age, family size and type of coverage (i.e., indemnity, PPO and HMO) for the basic and standard plans that are defined in statute. Table 2 shows a representative sample of insurance products reported to DOI in 2007 that are marketed in rural communities. This is for illustrative and comparative purposes only. It is not possible to drill down far enough to know what levels of co-payments or deductibles are associated with each plan, but we do know that they represent the benefit packages for the basic and standard plans defined in Colorado statute. The basic plan is a "mandate light" benefit package, whereas the standard plan includes certain mandated services. It should also be noted that indemnity plans tend to be the most expensive and HMOs the least, because indemnity plans offer the most choice of providers and have no preferred provider restrictions, whereas preferred provider plans (PPOs) require the insured to seek health care from a defined network of providers and HMOs even more so.



## Policy Options

The lack of insurance affordability is pervasive in Colorado's rural communities. Being an employee or owner of a small firm, low-income household, family farm or ranch increases a person's risk of being uninsured. The solutions to the insurance affordability problem are likely national in scope, but understanding the nature of the problem, the characteristics of the health insurance marketplace and the variability of costs in health insurance products that are currently available, is a small but important first step in finding local and state-level fixes.

The following explains three policy options that directly impact the affordability of health insurance in Colorado.

**1) Centennial Choices**, SB 08-217, calls for insurers and other interested parties to submit proposals for providing affordable low-cost, high value plans to supplement the insurance products currently being marketed in Colorado. The Department of Health Care Policy and Financing and the Division of Insurance worked with an expert panel to develop a Request for Information (RFI) to solicit proposals from insurers and other interested parties for "value benefit plans," which must be affordable and targeted to the state's uninsured population. In addition, the RFI specified that proposals may offer more far-reaching coverage strategies, such as: **a)** expanding Colorado's Medicaid program to cover adults up to 100 percent of the federal poverty level (FPL); **b)** development of an individual mandate plan that would require all Coloradans to purchase health insurance; **c)** proposing a sliding fee schedule that would subsidize the purchase of a value benefit plan (the subsidy would include individuals and families between 100-300 percent of FPL); and **c)** submitting proposals for a dedicated revenue source to fund the subsidies. Many of the provisions contained in the RFI are consistent with recommendations previously put forth by the Section 208 Commission for Health Care Reform. Engaging the state's private health insurers in solving the affordability issue is an important part of solving the problem. Although holding promise as a viable policy solution on the affordability front, Centennial Choices is a longer-term fix that will require a significant commitment of public financing to implement the subsidy. The subsidy will likely be necessary to allow low-wage earners to buy into the market. The working group is required to send its recommendations to the governor and legislature by March 3, 2009.

**2) "Health Access Pueblo"** has a coverage plan that was designed through a community prioritization process and includes a range of community-valued benefits that were based on price and affordability. Also known as a three-share plan, costs are shared between the employer, employee and the community. The community share is funded by philanthropy and government sources. Health Access Pueblo is not insurance and is therefore exempted from the state's regulation of the small-group market. The plan is community-owned and operated as a nonprofit organization. Benefits include primary care in a physician's office, specialty office visits, lab and x-ray services, urgent care, health screenings and appraisals, and health improvement classes. Community physicians and the two community hospitals provide covered services. Each "shareholder" pays \$50-\$75/month. For more information about **Health Access Pueblo** go to <http://healthaccesspueblo.org/>.

**3)** More aggressive enrollment strategies to get low-income children and pregnant women enrolled in **Medicaid and CHP+** could help to extend coverage using existing resources. CHI has estimated that approximately 100,000 of Colorado's low-income children (under 200 percent of FPL) age 19 and younger are currently eligible but not enrolled in either the Medicaid or CHP+ program. These children could be enrolled with a more targeted effort at the community level. Medicaid and CHP+ are more affordable because both programs are a partnerships between the federal government and the states. In the case of Medicaid, for every state dollar invested in a Medicaid child, the federal government matches the dollar towards the cost of the child's health care services. Likewise, in the CHP+ program, the federal government matches \$.60 of every Colorado dollar spent on care.



Table 2.

Locale	Line of Business	Single Age 21	Single Age 36	Single Age 62	Family (2 parent family of 4)	Family (2 parent family of 4) Age 54
<b>Aetna Life Insurance Company</b>						
Counties with 20,000 or fewer residents	Basic Indemnity	\$453	\$283	\$706	\$885	\$1,227
Other Colorado Counties	Basic Indemnity	\$287	\$417	\$1,040	\$1,304	\$1,809
Counties with 20,000 or fewer residents	Basic PPO	\$250	\$284	\$709	\$889	\$1,233
Other Colorado Counties	Basic PPO	\$271	\$209	\$522	\$654	\$907
Other Colorado Counties	Standard Indemnity	\$184	\$246	\$614	\$770	\$1,067
Counties with 20,000 or fewer residents	Standard Indemnity	\$271	\$432	\$1,077	\$1,350	\$1,873
Counties with 20,000 or fewer residents	Standard PPO	\$151	\$202	\$503	\$631	\$875
Other Colorado Counties	Standard PPO	\$370	\$395	\$986	\$1,235	\$1,714
<b>HMO Colorado, Inc.</b>						
Counties with 20,000 or fewer residents	Basic HMO	\$762	\$492	\$1,276	\$1,601	\$2,216
Elbert, Fremont, Montezuma	Basic HMO	\$646	\$581	\$1,504	\$1,887	\$2,613
Alamosa, Baca, Bent, Clear Creek, Conejos, Costilla, Crowley, Custer, Gilpin, Huerfano, Kiowa, Las Animas, Lincoln, Mineral, Otero, Park, Prowers, Rio Grande, Saguache, Teller	Basic HMO	\$762	\$546	\$1,414	\$1,774	\$2,456
Counties with 20,000 or fewer residents	Standard HMO	\$368	\$528	\$1,369	\$1,717	\$2,378
Elbert, Fremont, Montezuma	Standard HMO	\$623	\$557	\$1,442	\$1,809	\$2,504
<b>Humana Insurance Company</b>						
Eagle, Garfield, Summit, Routt	Basic PPO	\$325	\$356	\$1,009	\$1,102	\$1,758
Counties with 20,000 or fewer residents	Basic PPO	\$320	\$242	\$686	\$749	\$1,196
Pitkin	Basic PPO	\$225	\$398	\$1,129	\$1,233	\$1,967
Elbert	Basic PPO	\$236	\$279	\$792	\$865	\$1,380
Teller	Basic PPO	\$237	\$474	\$1,344	\$1,467	\$2,342
Eagle, Garfield, Summit, Routt	Standard PPO	\$336	\$677	\$1,919	\$2,096	\$3,345
Counties with 20,000 or fewer residents	Standard PPO	\$182	\$307	\$871	\$951	\$1,518
<b>Kaiser Foundation Health Plan Of Colorado</b>						
Clear Creek and Gilpin Counties	Basic HMO	\$321	\$295	\$696	\$878	\$1,207
Fremont and Teller Counties	Standard HMO	\$232	\$495	\$1,169	\$1,473	\$2,026

Data provided to CHI by the Colorado Division of Insurance, October 2008