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Diagnosis of Colorado's Healthcare Industry: Impact and Competitiveness Are Significant, but Warning Signs on the Rise

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In 2008 he co-founded the Rocky Mountain Children's Health Foundation to provide support to families whose children were in need of care or mothers requiring breast milk for their babies.

As a physician and strategic leader he was the Co- Founder and Medical Director of Rocky Mountain Pediatric Cardiology and expanded outreach clinics throughout a four-state area.

He earned his M.D. in 1977, became Board Certified in Pediatrics in 1980 and Board Certified in Pediatric Cardiology in 1981.



D.J. Summers – Director of Policy and Research

DJ Summers is Director of Policy and Research for the Common Sense Institute, where he oversees the efforts of analysts and fellows to produce the best in class analysis of Colorado's most pressing policy issues.

Prior to joining the institute, DJ spent a decade working as a journalist. He cut his teeth covering cyber security for Fortune before moving to Alaska to cover the commercial fishing industry. He left to write a book on the marijuana industry (The Business of Cannabis, ABC-CLIO, 2018), and spent time working for political research firms and think tanks before landing at FOX31 Denver. As FOX31's data reporter, DJ gathered and interpreted publicly available data to dive deep into Colorado issues, focusing in particular on housing, crime, migration, and business trends.



Cole Anderson – Research Analyst

Cole Anderson is a Research Analyst with Common Sense Institute. He is an alum of the University of Denver where he graduated with a double-major in Public Policy and Economics. His work covers a range of issues including homelessness, crime, inflation, housing, and the job market.

About Common Sense Institute

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of our economy. As a leading voice for free enterprise, CSI's mission is to examine the fiscal impacts of policies, laws, and to educate voters on issues that impact their lives.

CSI's founders were a concerned group of business and community leaders who observed that divisive partisanship was overwhelming policymaking and believed that sound economic analysis could help people make fact-based and common sense decisions.

CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the Colorado economy and individual opportunity.

Teams & Fellows Statement

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is belief in the power of the free enterprise system. CSI's work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. The CSI team's work is guided by data-driven research and evidence.

The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

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Introduction

Colorado's healthcare industry is a major contributor to the state's economy. In addition to protecting Coloradans' personal health and wellbeing, the healthcare industry supports 18% of all Colorado jobs.

The underlying economic and policy conditions that impact the healthcare system are more favorable in Colorado than in most other states, according to CSI's Free Enterprise Healthcare Competitiveness Index.

The sector's relevance is only expected to grow as Colorado's population ages and continues to demand more from healthcare services. Though the sector is set on a course for growth, it faces a series of headwinds which are adding financial strain to both providers and patients. A combination of market trends, inflation, state and federal regulations, and expansions of government-backed insurance coverage is increasing costs while constraining revenue. These constraints are reshaping markets across the state, especially in rural areas. All of this influenced the decision to project a negative outlook for the healthcare sector in CSI's Free Enterprise report.

Policymakers should recognize these problems and understand the long-term effects of recent policy actions prior to pursuing new system-level reforms. Both the economic importance of the sector and the critical need to maintain quality, access, and affordability demand it.

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Key Findings

- Colorado's healthcare system generates **\$148 billion** of economic output and supports over **744,000 Colorado jobs**—nearly 1 in 5 statewide.
- CSI's Free Enterprise Healthcare Competitiveness Index ranks Colorado **13th in the country** for its healthcare system's performance. Still, costs are high for both providers and consumers.
- Consumer prices are rising.
 - Between 2022 and 2023, the average monthly cost of a private health insurance plan in Colorado rose an average of **20%—the second-largest increase** among states during that period.
- Despite strong performance, the sector is facing increasing financial strain.
 - **Almost 3 out of 4 (72%)** Colorado hospitals report operating below sustainable margins. Among rural hospitals, the rate is 84%.
 - Operating costs, including the costs of labor and supplies, are outpacing inflation.
 - The share of Colorado's population covered by public insurance has risen by **69% from 2008 to 2022 from 20% to 34%**.
 - Rural counties lack sufficient hospital infrastructure and have shortages of healthcare professionals like pediatricians, obstetricians and gynecologists, and dentists.
- Bottom line – Colorado policymakers should heed the warning signs appearing throughout the healthcare system and cease burdening it with price controls and public subsidies.

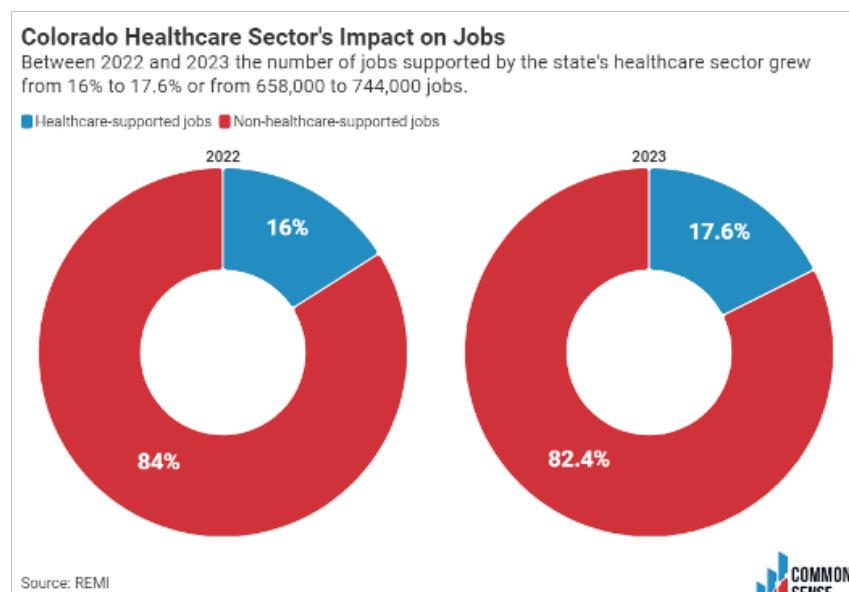
The Economic Status of Colorado's Healthcare System

Both its economic footprint and its performance on CSI's Free Enterprise Competitiveness Index convey the overall status of Colorado's healthcare sector.

Healthcare's Economic Footprint in Colorado

Colorado's healthcare sector directly creates over 311,000 jobs and accounts for \$45.16 billion of final industry sales. Accounting for all direct, indirect, induced, and dynamic impacts of the healthcare system, its total contribution to output is \$147.53 billion and its total employment impact is over 744,000 jobs (18% of Colorado's total employment). Employment in the REMI model is based on BEA (Bureau of Economic Analysis) data which include full-time, part-time and self-employed workers, unlike the BLS (Bureau of Labor Statistics) surveys of the number of people employed.

Figure 1



Healthcare is a growing sector in Colorado—the 744,000 jobs that it now supports is up from 658,000 in 2022. In just the space of that one year, the sector's employment impact grew from 15% to 17.6% of total Colorado employment (Figure 1). This trend will deepen over the next decade as demand for care rises.

The economic impacts of the combination of healthcare sectors can be measured by several dimensions. First, sectors make a direct contribution, summarized by the jobs, sales, and value added at the companies classified within the healthcare North American Industry Classification System, or NAICS sectors. Second, the healthcare sectors create indirect and dynamic impacts across virtually all industries, given their supply chain for material inputs, and the consumption of other local goods and services from its massive workforce income.

Using REMI’s dynamic economic forecasting and simulation model, the estimated direct, indirect, induced, and dynamic impacts on employment and output are shown in Figure 2.

The network of doctors, hospitals, medical device companies, other service providers, and manufacturers fall within four major industry sectors as classified by the NAICS codes.

Healthcare sectors include:

- Ambulatory Health Care Services - NAICS 621
 - Offices of physicians, dentists, other – NAICS 6211 - 6213
 - Outpatient care centers, medical and diagnostic laboratories, home health and other care services – NAICS 6214, 6215, 6216, 6219
- Hospitals - NAICS 622
 - General Medical and Surgical Hospitals – NAICS 6221
 - Psychiatric and Substance Abuse Hospitals – NAICS 6222
 - Specialty (except Psychiatric and Substance Abuse) Hospitals - 6223
- Nursing and Residential Care Facilities- NAICS 623
 - Nursing Care Facilities – NAICS 6231
 - Residential Mental Retardation, Mental Health and Substance Abuse Facilities – NAICS 6232
 - Community Care Facilities for the Elderly – NAICS 6233
 - Other Residential Care Facilities – NAICS 6239
- Social Assistance - NAICS 624

Figure 2

Healthcare Sector Contributions 2023		
	Output	Jobs
Direct	\$45.162 billion	311,200
Indirect	\$12.314 billion	56,700
Induced	\$62.696 billion	182,800
Dynamic	\$27.359 billion	193,900
Total	\$147.531 billion	744,500

Colorado collected a total of \$10.5 billion in individual income tax in FY 2022.ⁱ Based on an average payment of \$3,181 per filer, CSI estimates that those directly employed by the healthcare sector directly contributed almost \$1 billion to the total income tax collection.

Healthcare Competitiveness Index - Performance Rating: 4 out of 5

CSI's Free Enterprise Competitiveness Index covers eight policy areas including healthcare.ⁱⁱ This index helps inform an overall rating of the healthcare sector's performance. The rating reflects the policy area's current performance relative to all other states.

Overall, the relative performance of Colorado's healthcare system has remained fairly consistent over the past decade. Its relative ranking on employer-based insurance and the percentage of people using private insurance have increased slightly over the past decade. Offsetting these increases in competitiveness are decreases in active physicians per 100,000 (10.7% decrease), and in spending per capita on Medicare and Medicaid (1.1% increase).

There are multiple factors pressuring Colorado's healthcare system: insurers leaving the state due to premium-reduction targets associated with the "Colorado Option Plan," the ongoing disenrollment of approximately 300,000 individuals who no longer qualify for Medicaid following the end of the federal COVID-19 emergency order, upward pressure on premiums as a result of medical inflation, workforce supply problems, particularly in rural areas, and growing trouble addressing mental and behavioral health.

Healthcare System Performance Outlook Negative amid Growing Financial Challenges

Though the Free Enterprise Healthcare Competitiveness Index revealed that Colorado's current performance is relatively strong, the outlook for future performance is negative.

Providers in Colorado are facing financial problems even despite rising insurance premiums. Between 2022 and 2023, the average monthly cost of a private health insurance plan in Colorado rose by 19.6%. This marks the second-largest increase in the country over that year, behind only Georgia (20.3%).ⁱⁱⁱ The price of an average health insurance plan on the individual market increased by 10.4% from 2022 to 2023.^{iv} Many healthcare providers, including hospitals, insurance companies, physicians, and others, face recent cost growth that outpaces revenue growth.

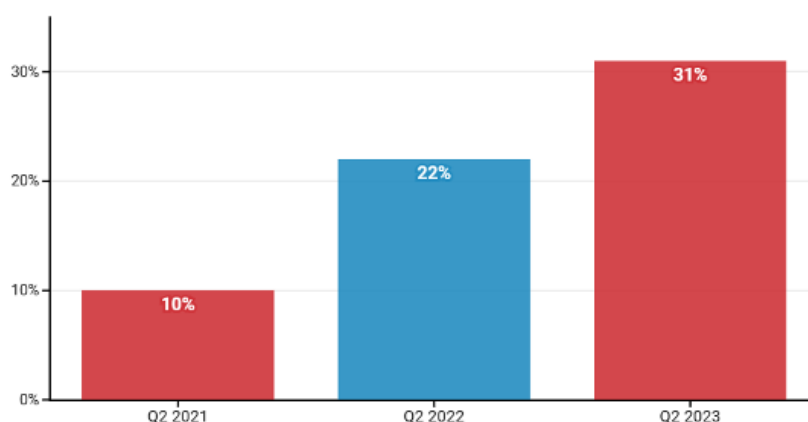
Medical inflation, which has outpaced overall inflation, will continue to pressure Colorado's market as insurance carriers and providers renegotiate contracts on an ongoing basis. Carriers offering the Colorado Option Plan will face particular pressure given the legal requirements to cut premiums further. It is likely that providers will no longer offer some services as a result.

- The share of hospitals operating at unsustainable margins jumped from 55% to 72% between 2021 and 2022. This is according to the annual Healthcare Cost Report Information System (HCRIS) report, which sets the threshold for a sustainable margin at 4%, the amount deemed needed to plan for capital investments and other expenditures.
- Operating expenses increased by 31% between Q2 2020 and Q2 2023—well above the Denver metro area's inflation rate of 22% over that period. Medical supplies cost 35% more now than in 2019. Labor expenses for Colorado hospitals grew by 33% between the second quarter of 2019 and 2023.^v

- The share of Coloradans covered by Medicare or Medicaid is higher than ever. It rose by 69% between 2008 and 2022 from 19.9% to 33.6%.^{vi} Because Medicare and Medicaid do not pay providers for the full cost of delivering care, this increase produced an estimated \$2.8 billion shortfall to providers in 2021.^{viii} According to Colorado Hospital Association figures, public insurance options reimburse an average 73% of provider costs.

Figure 3

Change in Total Operating Expenses for Colorado Hospitals Compared to 2020
Changes are shown from Q2 2020 to subsequent Q2's. The largest increase was between 2021 and 2022, a 12% jump.



Source: Colorado Hospital Association



Colorado Service Closures

The financial problems affecting Colorado's healthcare sector are already impacting quality and access, as recent service closures at some hospitals suggest. In the past half decade, many metro-area hospitals have cut services that are no longer financially sustainable. Obstetrics, pediatrics, and mental health services are often among the first to go.

Known recent service closures include:

- Boulder Community Health – Pediatric physical therapy, pediatric speech therapy
- Craig Memorial Hospital – Obstetrics, prenatal
- Denver Health – Inpatient beds, additional taxpayer funding
- Durango – Mercy Hospital – Urgent care
- Estes Park Medical Center – Obstetrics, prenatal, pediatrics, skilled nursing facility
- Fort Collins – UC Health – Surgery center
- Hugo – Lincoln Community Hospital - Oncology
- Julesburg – Sedgwick County Memorial Hospital – Obstetrics, prenatal
- Leadville – St. Vincent Hospital – At risk of closure
- Loveland Banner Health – Surgery center
- Pueblo – Parkview Hospital – Inpatient behavioral health unit, inpatient beds, surgery center, downgraded trauma services

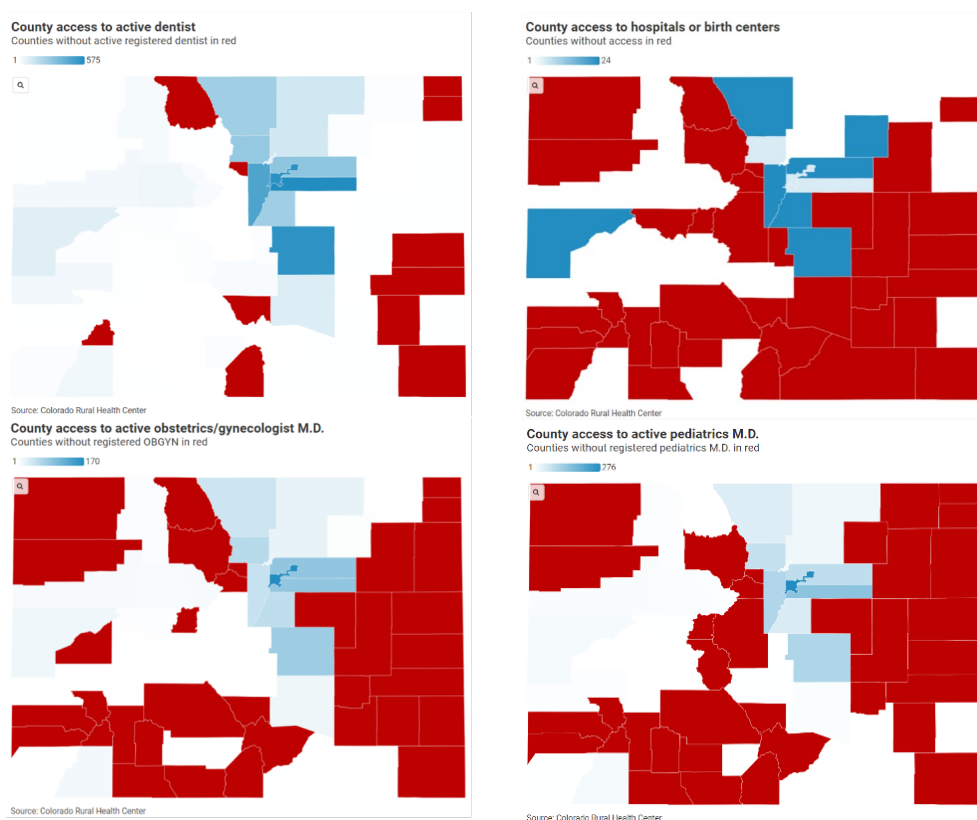
Colorado's Rural Healthcare System

As it is across the state, Colorado's healthcare system is one of the main economic pillars of many rural communities. Healthcare is one of the top three sources of employment in rural Colorado. One rural physician creates about 26 additional jobs, worth nearly \$1.4 million in income.^{viii}

The market dynamics harming Colorado's healthcare sector are even more severe in rural areas.

- As of 2022, an estimated 21% of those living in rural Colorado counties were 65 or older. In urban counties, only 15% of the population was 65 or older.^{ix}
- According to Colorado Rural Health Center reports, Colorado's rural populations are less privately insured than urban ones. In 2023, less than half (46.3%) of rural residents were covered by private insurance and 62.7% of urban residents were. One in four rural residents (25%) is covered by Medicaid and 16% are covered by Medicare, whereas only 17.6% of urban residents are on Medicaid and 13% are on Medicare. The share of uninsured rural residents has grown from 8% to 11.4%—about double the rate of uninsured Coloradans in urban areas (6.7%).
- Of the 42 rural hospitals in Colorado, 84% are operating with unsustainable margins, and 16 have had to cut services.^x Among these 42 hospitals, nine are at risk of closing in the next 6–7 years and four are at immediate risk of closing in the next 2–3 years.^{xi}
- Most Colorado counties do not have a registered pediatrics M.D., gynecology or obstetrics M.D., or hospital/birth center access. Eleven counties have no registered active dentists. Recruitment for an advanced practice nurse or physician's assistant in rural areas took 6 months on average as of 2022.^{xii}

Figure 4



State Policy Going Forward

Policymakers cannot control some factors impacting Colorado's healthcare system, including an aging population and federal policy. Even so, state policy will play a critical role in relieving the financial pressures facing the sector. This will help ensure the sector's strong future performance and Coloradans' access to high quality, affordable care.

KEY CONSIDERATIONS

- Aging workforce** - Colorado's aging workforce will impact both healthcare demand and worker availability. Between 2000 and 2023, the share of Colorado's population under the age of five has shrunk by 1.58%, while the share of the population ages 65 and over has increased by 6.71%. This trend will deepen in the next decade. The Colorado State Demography Office estimates that the share of 65+ residents will increase by 2.55% by 2033.
- Workforce shortage** - It's projected that Colorado will be short 54,000 "lower-wage" healthcare workers and 10,000 registered nurses by 2026, many of whom are aging out of the workforce.^{xiii} Roughly 32% of Colorado nurses are aged 55 or older, and it's expected that 2,000 nurses will retire annually over the next 10 years. The state is predicted to require an annual inflow of 3,300 nurses each year to meet demand.^{xiv} Shortages will be more pronounced among services most often cut to keep providers afloat financially. By 2026, for example, Colorado is projected to have the 5th-highest shortage of mental healthcare workers in the U.S (4,400 in total).^{xv} As of 2021, there are 14 counties whose populations are designated "medically underserved": Alamosa, Eagle, Garfield, Hinsdale, Jackson, La Plata, Larimer, Mesa, Montezuma, Morgan, Park, Routt, and Summit.
- Ripple effects of the Colorado Option Plan** - The Colorado Option Plan is in its second year and will impose further premium reduction requirements next year. In a 2021 report, CSI analyzed the impacts of implementing top-down government price caps without lowering service delivery costs. CSI's economic modeling estimated that payments to doctors, nurses, hospitals, and other healthcare providers would have been cut an estimated \$830 million to \$1 billion by 2024 without reducing costs. The impact on access and affordability could cut between 4,300 and 5,400 jobs across all sectors. It will be important to monitor the Colorado Option Plan's impact on providers before pursuing strict enforcement as hitting rate targets grows more difficult. Already four carriers have left the individual market, the small-group market, or both.
- Cost of compliance with insurance coverage mandates** - The Colorado Association of Health Plans identified 11 different policies besides the Colorado Option that have increased health insurance premiums by a total of 5.53–7.92% annually (between \$321 and \$405 million) within the fully-insured individual, small-group, and large-group markets.^{xvi} The coverage mandates, alongside the Colorado Option's premium reduction requirements, poses great financial challenges.

- Single-payer insurance** – Legislators have tried to incrementally initiate the process of creating a single-payer system in Colorado in past sessions. A 2019 bill established a task force and funded a study of “alternative approaches to health care financing.”^{xvii} The findings indicated that a publicly funded and privately delivered healthcare system would reduce overall healthcare expenditures from the status quo. This report has underpinned more recent legislative efforts to establish a single-payer system in Colorado, despite that Colorado voters rejected a ballot measure to establish one in 2016. The theoretical savings under a single-payer system derive from allowing the government to set prices. The 2021 report does not evaluate the financial viability of its price-setting scenarios. Although any single payer system would require substantial tax increases to cover new costs, policy discussion should center on just how further price controls can avoid exacerbating current financial trends.
- State plan flexibility for employers** – Whereas many recent state policy efforts aim to exert greater control over the healthcare market, maintaining and expanding plan flexibility should be prioritized. Efforts from several years ago created the Summit County Peak Health Alliance, which has been striving to provide a better marketplace for employers and providers to negotiate carrier rates. Separately, Taft-Hartley insurance plans, known as multi-employer plans, are collectively bargained insurance plans between a labor union and more than one employer in a specific industry. Because these plans are regulated under federal guidelines through ERISA (Employee Retirement Income Security Act), they have remained largely beyond state control. Evidence from one multi-employer plan indicates that insurance consumer prices rose by just 3.8% over the last nine years. This is well below the rate at which public spending and other state-regulated premiums have risen over the same period.
- Promote transparency** – Patients, the ultimate consumers of health care, should be able to benefit from comparison shopping. Hospital price transparency needs to be thoughtfully explored, particularly in light of the passage of hospital transparency and reporting requirements in 2023.^{xviii} It is difficult for a consumer to compare prices of a given procedure based simply on his/her diagnosis—knee replacements, for example, cost more for obese and diabetic patients. Facility fees can also impact total costs of procedures. Colorado’s hospitals are currently facing the new restrictions of HB23-1215, which requires that providers give explanations of facilities fees.^{xix} The bill also created a steering committee scheduled to draft a preliminary report in Aug. 2024 and a final report in October 2024. The committee should thoroughly explore and understand the use of the facilities fees they are studying. Consumer cost transparency is important. Providers could deepen it by explaining fee usage, whether it is to cover overhead or to subsidize teaching or research. Services should not be more expensive if they are in a hospital owned facility as opposed to a smaller setting. These fees are different for locations owned by large hospital systems versus small independent hospitals.

Bottom Line

Colorado's healthcare sector is a major driver of the state's economy and is poised to only expand its role in the next 10 years. Though the sector supports over 700,000 jobs, nearly 1 in 5 across the state, there are developing trends which raise concern for the financial stability of our state's current system.

The passage of several recent policy reforms will have lingering effects over time. Policy makers will need to ensure that new programs and policies will not further weaken the financial sustainability of many services that people rely on across the state. CSI will continue examining the aspects of the healthcare industry that affect both producers and consumers in upcoming studies.

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