

Estimating the Individual Market Premium Impacts of the Colorado Option

Policy Brief

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Abstract

The Affordable Care Act (ACA) has faced several challenges, including the elimination of the individual mandate, phase-out of reinsurance programs, and insurer exits, all of which threaten the stability of the individual health insurance market. To address these issues, states like Colorado have introduced public option plans to lower premiums. This brief examines the impact of the "Colorado Option" on premiums for the lowest- and second-lowest-cost silver plans. We used 2020–2024 data from the Centers for Medicare and Medicaid Services Health Insurance Exchange Public Use Files and a difference-in-differences approach to compare premium trends in Colorado with comparison states. We found that the Colorado Option was associated with a statistically-significant \$101 reduction in monthly premiums per enrollee for these plans. While promising, future research should explore regional variations and broader market dynamics, including insurer behavior and enrollment patterns.

Background

The Affordable Care Act (ACA) has been facing a series of challenges, including the elimination of the individual mandate, the phase-out of the ACA's reinsurance program, the expiration of cost-sharing reduction payments, and insurer exits, all of which has threatened to undermine the stability and affordability of the individual health insurance market.¹ In addition, plans offered on the ACA exchanges face the same financial pressures as other sources of commercial insurance—increases in premiums that are driven by provider prices.²

To help manage rising premiums, states could introduce public option plans to compete with private insurers in the individual market exchanges. Public option plans aim to offer lower premiums through cost containment measures, such as caps on provider prices or premium savings targets. Presumably, these lower premium plans may prompt private insurers to negotiate better rates and improve offerings to stay competitive.³ In this policy brief, we examine the impact of Colorado's public option program—the "Colorado Option"—on monthly premiums for more affordable plans offered in the individual market.

Methods

We used 2020–2024 data from the Centers for Medicare and Medicaid Services (CMS) Health Insurance State-based Exchange Public Use File (PUF) and the CMS Health Insurance Exchange PUF. These files include information on health insurance plans and premiums in state-based and federally facilitated exchanges under the ACA. Premiums are reported at the plan-rating area-enrollee age level.

Our primary outcome was the monthly insurance premiums per enrollee for the lowest- and second-lowest-cost silver plans in the individual market. We focused on the lowest- and second-lowest-cost silver plans because the second-lowest-cost plan is used as the benchmark for ACA subsidy calculations, determining the premium tax credits available to

¹ Cox C, Levitt L. Data Note: Changes in Enrollment in the Individual Health Insurance Market through Early 2019. Kaiser Family Foundation. 2019 Aug [cited 2025 Jan 7]. Available from: <https://www.kff.org/private-insurance/issue-brief/data-note-changes-in-enrollment-in-the-individual-health-insurance-market-through-early-2019/>

² Kanimian S, Ho V. Why Does the Cost of Employer Sponsored Coverage Keep Rising?. Health Affairs Scholar. 2024 Jun 4;qxae078.

³ Monahan C, Stovicek N, Giovannelli J. State Public Option Plans Are Making Progress on Reducing Consumer Costs. The Commonwealth Fund. 2023 Nov [cited 2025 Jan 7]. Available from: <https://www.commonwealthfund.org/blog/2023/state-public-option-plans-are-making-progress-reducing-consumer-costs>

individuals and families with incomes between 100% and 400% of the federal poverty level.⁴ If individuals choose a plan with higher premiums, they must cover the difference, while selecting a lower-premium plan results in lower overall costs.

For our main analysis, we used a difference-in-differences approach to examine changes in individual market premiums in Colorado relative to comparison states. We selected comparison states that closely resembled Colorado and had individual market plans and premium data available in the CMS PUF files. Specifically, we chose states with reinsurance programs in place by 2020, as these programs have been shown to significantly reduce individual market premiums.^{5,6} The selected states included Delaware, Maryland, Minnesota, Montana, North Dakota, Rhode Island, and Wisconsin. The analysis was conducted at the plan-rating area-enrollee age level. We controlled for age, rating area, plan actuarial value, and the number of insurers competing on the exchange. Our model included state and year fixed effects.

⁴ Ortaliza J, Cox C. The Affordable Care Act 101. Kaiser Family Foundation. 2024 May [cited 2025 Jan 7]. Available from: <https://www.kff.org/health-policy/101-the-affordable-care-act/?entry=table-of-contents-what-is-the-affordable-care-act>

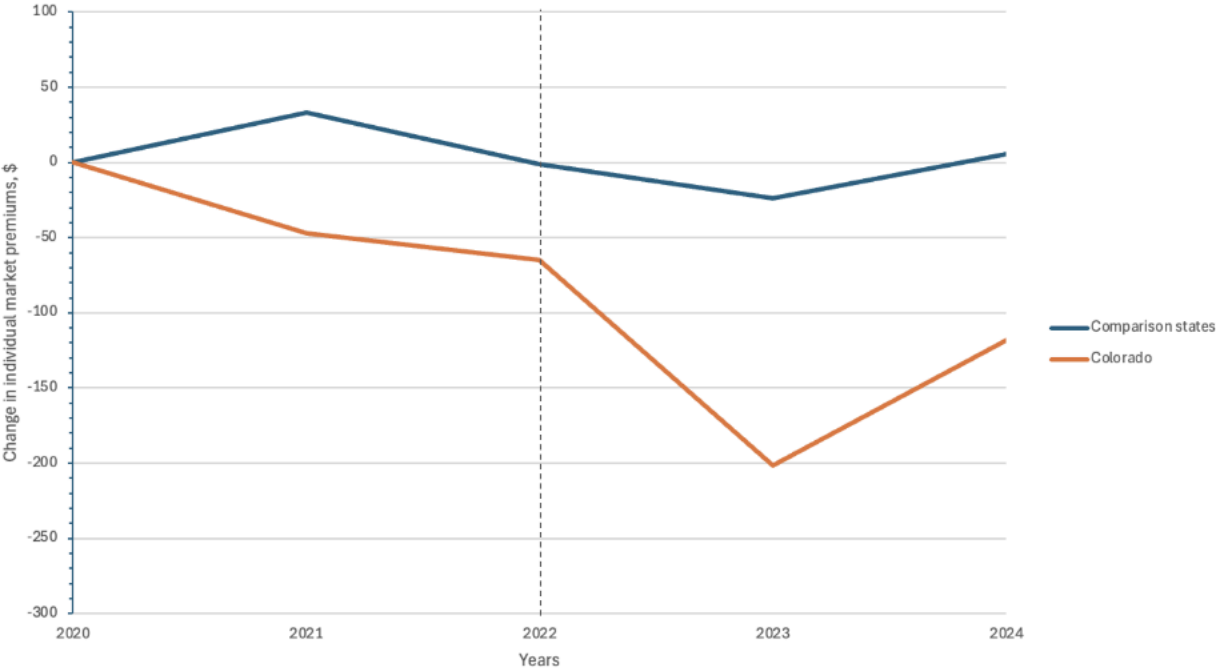
⁵ Oyeka O, Wehby GL. Effects of state reinsurance programs on health insurance exchange premiums and insurer participation. *Health services research*. 2023 Oct;58(5):1077-88.

⁶ Fung DW, Wei P, Yang CC. State subsidized reinsurance programs: Impacts on efficiency, premiums, and expenses of the US health insurance markets. *European Journal of Operational Research*. 2023 Apr 16;306(2):941-54.

Results

Exhibit 1 shows that the Colorado Option was associated with a \$101 reduction in premiums per enrollee per month (95% CI: -191, -12, p=0.032) for the lowest- and second-lowest-cost silver plans, compared to premiums for the same plans in the comparison states.

Exhibit 1. Changes in individual market premiums for the lowest- and second-lowest-cost silver plans in Colorado compared to comparison states, 2020-2024



Source: Authors analysis using the Centers for Medicare and Medicaid Services (CMS) Health Insurance State-based Exchange Public Use File (PUF) and Health Insurance Exchange PUF, 2020-2024

Note: Control states include other states with individual market plans in the CMS PUFs that had reinsurance programs in place by 2020 (i.e., Delaware, Maryland, Minnesota, Montana, North Dakota, Rhode Island, and Wisconsin).

Conclusion

We find that the Colorado Option was associated with a \$101 reduction in monthly premiums per enrollee for the lowest- and second-lowest-cost silver plans relative to comparison states. These preliminary findings offer some encouragement about the viability of public option plans to offer more affordable premium options for individual market enrollees.

This analysis has several important limitations. First, it relies on the assumption that, in the absence of the Colorado Option, premiums in Colorado would have followed the same trends as premiums in the comparison states over time. While we only had two years of pre-trend data, premiums in Colorado appear to have followed similar patterns to those in the comparison states from 2020 to 2022. Second, if unobserved factors change over time and differentially affect premiums in Colorado versus the comparison states, our results could be biased. For example, if a state introduced a reinsurance program during the study period, it could distort our findings, which is why we selected comparison states that already had reinsurance programs in place. Additionally, exits of insurance plans from the individual market could reduce competition and drive up premiums. To account for this, we controlled for the number of insurers participating in each state's exchange, helping mitigate the potential impact of insurer exits on premiums.

While this analysis provides a preliminary assessment of the Colorado Option's impact on premiums for more affordable exchange plans, a more comprehensive study should examine variations in the treatment effect across regions and populations, as well as broader market dynamics, including shifts in insurer behavior and enrollment patterns.

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