

Assessing Individual Market Hospital Outpatient Prices in the Context of the Colorado Option

Policy Brief

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Abstract

In 2023, Colorado launched the Colorado Option, a standardized health insurance plan with regulatory tools to enforce premium reductions, including state intervention in hospital payment negotiations. This brief examines whether these regulatory tools influenced hospital outpatient prices in the individual market. Using 2020–2024 claims data for four common outpatient procedures, we found that prices at hospitals targeted for rate reductions ("named hospitals") declined by approximately 10% in non-Colorado Option plans. These findings suggest the Colorado Option may be contributing to modest price reductions, with potential spillover effects across the individual market.

Background

Hospital prices are a leading driver of health care spending growth in the commercial insurance market, particularly for the privately insured. In many cases, insurers face challenges negotiating lower rates with increasingly consolidated hospital systems. In response, several states have implemented regulatory strategies to contain hospital prices and curb unsustainable price growth.

In 2023, Colorado launched the Colorado Option—a state-designed, standardized health insurance product offered on the individual and small group markets. The Colorado Option holds insurers accountable for meeting targeted premium reductions over time. If insurers fail to meet these benchmarks, the state can trigger a public rate hearing process that allows for regulatory intervention, including compelling hospitals to reduce their negotiated rates. For Plan Year 2024, the Division of Insurance (DOI) exercised its authority to assess compliance with the Colorado Option’s premium reduction targets, and requested targeted price reductions between those plans and specific hospitals (“named hospitals”). One of the goals of the Colorado Option legislation was to introduce affordable Colorado Option plans so that non-Colorado Option plans would compete to lower premiums to capture more consumers. As a result, the accountability mechanisms of the public hearing process may help reduce hospital prices not only within Colorado Option plans, but also across other individual market plans competing on the state’s Affordable Care Act exchange.

This policy brief examines how the public hearing process may be influencing hospital outpatient prices in the individual market. Specifically, we analyze prices for select procedures in both Colorado Option plans and non-Colorado Option individual market plans.

Methods

We used 2020–2024 claims data for common outpatient procedures—colonoscopies, foot x-rays, office visits, ED visits—from the Colorado all-payer claims database, the Center for Improving Value in Healthcare (CIVHC). These data include prices paid for these common outpatient services. Our primary outcome was the allowed amount, which is the negotiated rate between the insurer and hospital paid per procedure.

To assess changes in outpatient prices for Colorado Option plans, we conducted a difference-in-differences econometric analysis comparing average prices at named hospitals—those targeted for price reductions—to those at other hospitals before and after the DOI intervened by requesting price reductions between noncompliant plans and named hospitals.

To examine potential spillover effects on non-Colorado Option individual market plans, we used two empirical approaches. First, we conducted an interrupted time series analysis to assess whether trends in hospital prices for the four outpatient procedures diverged following the DOI's request for price reductions. Second, we implemented a difference-in-differences analysis comparing changes in prices at named versus non-named hospitals within non-Colorado Option individual market plans after the intervention. Our models included procedure, plan, and year fixed effects, and were weighted by procedure volume to account for differences in utilization.

Results

The DOI's public hearing process was associated with an 11% reduction in hospital outpatient prices in Colorado Option plans at named hospitals compared to non-named hospitals (95% CI: -29%, 13%) (Exhibit 1).

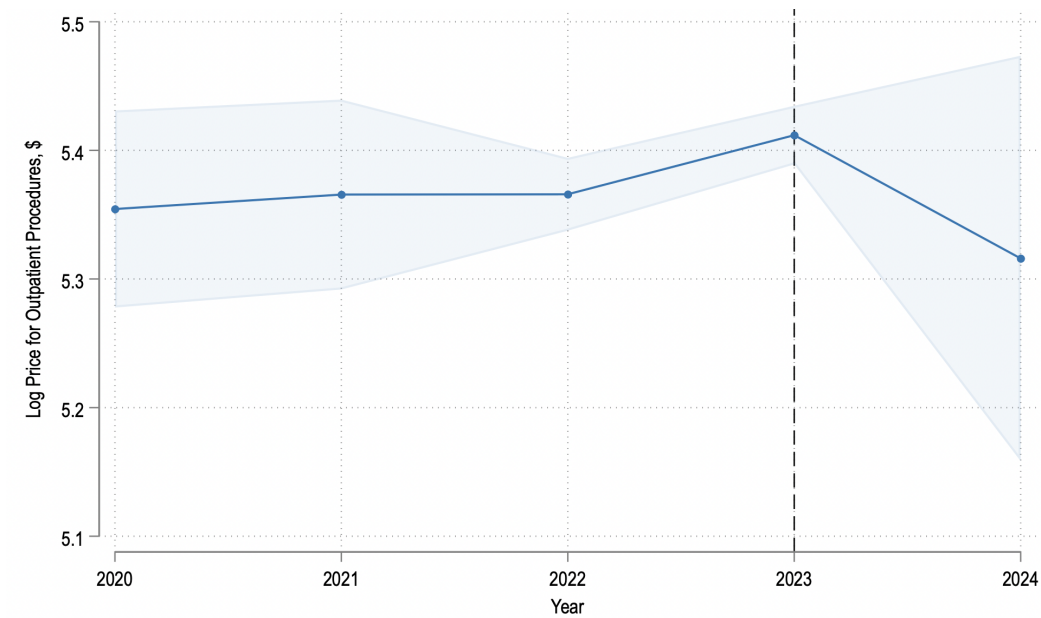
When examining changes in prices for the same set of outpatient procedures at non-Colorado Option individual market plans, prices were about 10% lower than projected based on pre-intervention trends (95% CI: -20%, 2%) (Exhibit 1 & 2). When examining changes within non-Colorado Option plans, prices at named hospitals were about 13% lower than those at hospitals not subject to the DOI's price reduction requests in 2024 (95% CI: -27%, 3%) (Exhibit 1 & 3).

Exhibit 1. Association between the public hearing process and hospital outpatient prices for individual market plans

	Policy Effect	[95% Confidence Interval]
Colorado Option Plans at Named Hospitals (v. non-Named)	-11%	[-29%, 13%]
Non-Colorado Option Plans Overall	-10%	[-20%, 2%]
Non-Colorado Option Plans at Named Hospitals (v. non-Named)	-13%	[-27%, 3%]

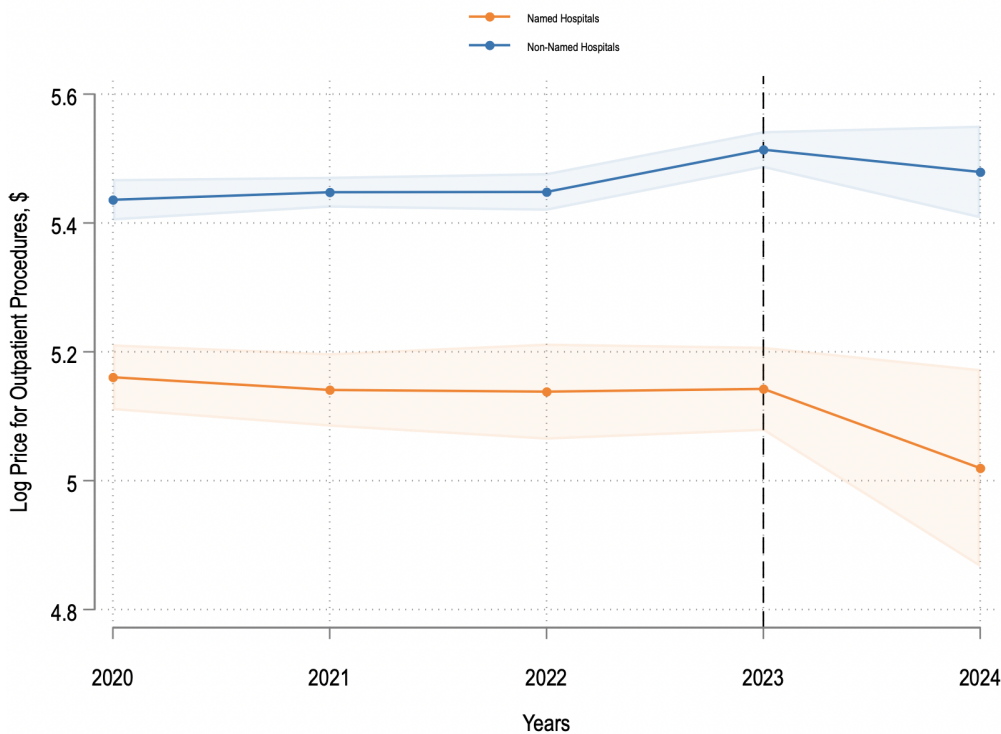
Source: Authors analysis using the Center for Improving Value in Healthcare, 2020-2024

Exhibit 2. Changes in non-Colorado Option individual market hospital outpatient prices for common outpatient procedures, 2020-2024



Source: Authors analysis using the Center for Improving Value in Healthcare, 2020-2024

Exhibit 3. Changes in non-Colorado Option individual market hospital outpatient prices for common outpatient procedures at named hospitals versus non-named hospitals, 2020-2024



Source: Authors analysis using the Center for Improving Value in Healthcare, 2020-2024

Conclusion

We find that the DOI's ability to request price reductions among non-compliant plans and hospitals was associated with a reduction in prices for common outpatient procedures in Colorado Option and non-Colorado Option individual market plans. These preliminary findings offer some encouragement about the viability of the public hearing process to constrain hospital prices.

This analysis has several important limitations. First, it focuses on a subset of four common outpatient procedures and, therefore, may not reflect broader trends in hospital pricing. Second, our results could be biased if unobserved factors changed over time in ways that differentially affected prices at named versus non-named hospitals. Third, we were unable to assess hospital outpatient prices under Colorado Option plans prior to 2023, as these plans were not implemented until that year. Fourth, price reductions achieved by individual market plans at named hospitals may have influenced negotiations with non-named hospitals, potentially affecting our estimates.

While this analysis provides a preliminary assessment of the Colorado Option's relationship with hospital outpatient prices for common procedures, a more comprehensive study should examine broader impacts across other types of services and settings.

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