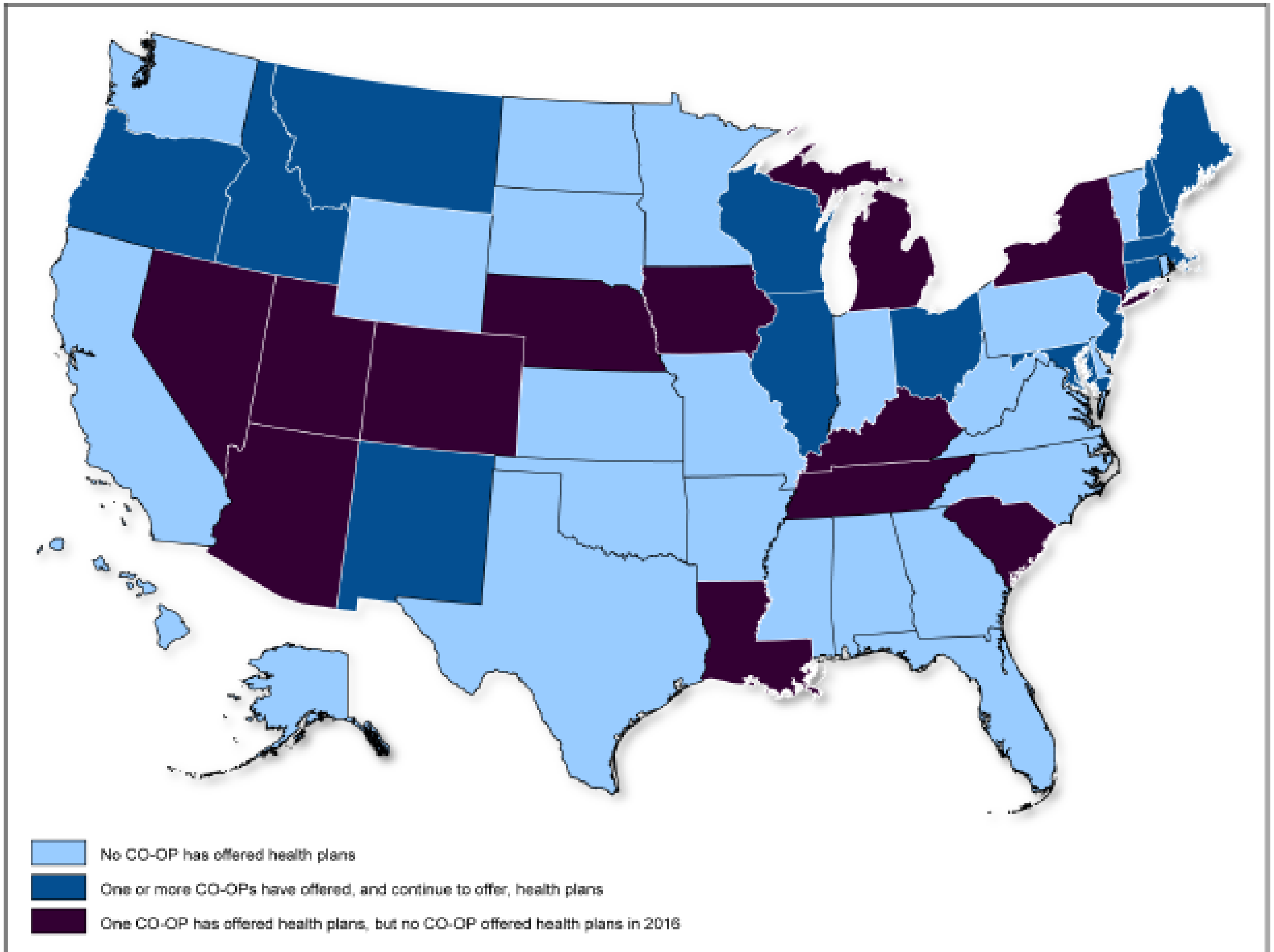
The Strange Tale of ACA CO-OPs

- Non-profit, focusing on consumers and integrated, coordinated care
- $2.4 billion in federal funding, 23 CO-OPs in 23 states in Jan. 2014
- 12 have closed, more to come, many under CMS Corrective Action Plans
- Very little of federal startup and solvency loans to closed entities will be repaid
- Solvent insurers face uncertain liability from state guaranty association assessments; some providers and consumers at risk
- All CO-OPs benefited significantly from ACA reinsurance
- A few were hit with large ACA risk adjustment transfers
- Some were relying heavily on ACA risk corridor payments to help fund large operating losses
- None have been profitable—even assuming full payment of risk corridor receivables

Figure 1: States Where Consumer Operated and Oriented Plans (CO-OPs) Offered Health Plans in the Health Insurance Exchanges, 2014 through 2016, as of January 4, 2016



Source: GAO analysis of Centers for Medicare & Medicaid Services, CO-OP, and state data; Map Resources (map). | GAO-16-326

Notes: In 2014 and 2015, two CO-OPs offered health plans in Oregon. One of these CO-OPs ceased operations on January 1, 2016.

Awards and disbursements

- $2.44 billion of awards during 2011-2014
- $358 million of startup loans, initially treated as debt liabilities for determining capital and capital requirements
- $2.09 billion of solvency loans, classified as “surplus notes”, treated as capital and disbursed over time to meet target capital ratios

  As CO-OPs grew and lost money, additional disbursements were made to meet targets

  Additional solvency loans of $355 billion awarded in late 2014, including $188 million to three CO-OPs which later closed (IA/NE, KY, NY) and $167 million to three survivors (CT, ME, WI)—these loans exhausted the CMS award budget

  Subsequent requests for additional loans of $55 million (IA/NE) and $70.5 million (NY) were denied—there was no more money

- Most startup loans were converted to surplus notes in 2014-2015 to help meet capital targets

Closures through April 6, 2016

Company	Announced Closure	Total Loans Disbursed	Additional Award in 2014		Last Solvency Loan Disbursement	
			Amount	Date	Amount	Date
Co-Opportunty Health - IA & NE	12/23/2014	$145,312,100	$32,700,000	9/26/2014	$32,700,000	11/14/2014
Louisiana Health Coop	7/24/2015	$65,790,660			$9,263,798	11/27/2015
Nevada Health CO-OP	8/26/2015	$65,900,396			$5,854,666	6/29/2015
Health Republic of NY	9/25/2015	$264,966,400	$90,688,000	9/26/2014	$32,512,852	6/29/2015
Kentucky Health Coop	10/9/2015	$144,066,123	$65,000,000	11/10/2014	$45,800,000	12/23/2014
Community Health Alliance - TN	10/14/2015	$73,306,700			$34,297,300	2/26/2015
Health Republic of OR	10/16/2015	$60,623,505			$8,378,610	4/30/2015
Consumers' Choice - SC	10/22/2015	$87,578,208			$36,458,608	2/26/2015
Arches Mutual - UT	10/27/2015	$85,637,146			$10,250,000	11/23/2015
Meritus - AZ	10/30/2015	$93,313,233			$19,449,102	8/14/2015
Colorado Health Coop	10/30/2015	$72,335,129			$4,837,116	2/15/2015
Consumers Mutual of Michigan	11/3/2015	$71,534,300			$5,362,712	11/19/2015
Total		$1,230,363,900	$188,388,000		$245,164,764	

Accidents waiting to happen(?)

- Alternative to "public option"
- Rationale: promote competition, and consumer friendly, integrated care from non-profits
- Operational and financial challenges, including

  Pricing during an extraordinarily uncertain environment

  Inexperience and vulnerability to winner's curse
- Threading the needle: capture enough volume to spread fixed costs while avoiding underpricing

> **Absent taxpayer subsidies or special rules, co-ops would not have any inherent advantage over private health insurers in establishing provider networks, negotiating with providers, and monitoring health-care utilization and fraud. Proposed co-ops instead would require billions of dollars of "start-up" subsidies. [Their] creation would entail significant risk of ongoing subsidies by taxpayers. . . .**
>
> **Health Co-ops: Slow Road to Government Care**
> **The potential benefits are nil; the potential costs are large.**
> By Scott Harrington, *The Wall Street Journal,* August 19, 2009

Insurance insolvency risk, history, guarantees

- CO-OPs' insolvency risk was very high
- Weak financial incentives for solvency

  No owners' financial capital at risk

  No going concern value at risk

  Price sensitive but risk insensitive enrollee demand

  No risk sensitive private counter-parties

- Historical insolvency record highlighted dangers

  Rapid growth, inadequate premiums

  Understated claim liabilities

- State guaranty funds—less than universal for health plan claims
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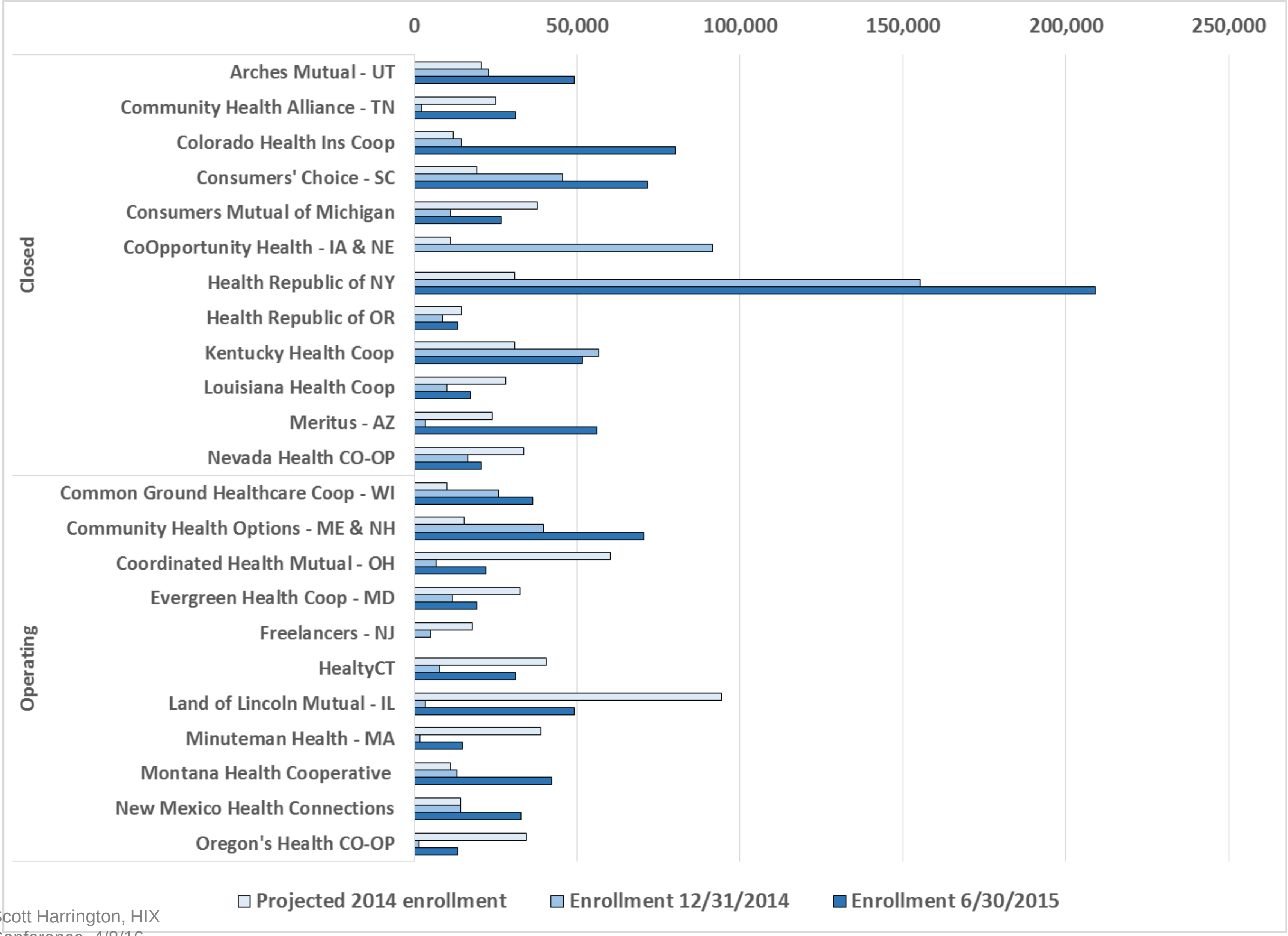
Growth Vastly Exceeded Projections for Some CO-OPs

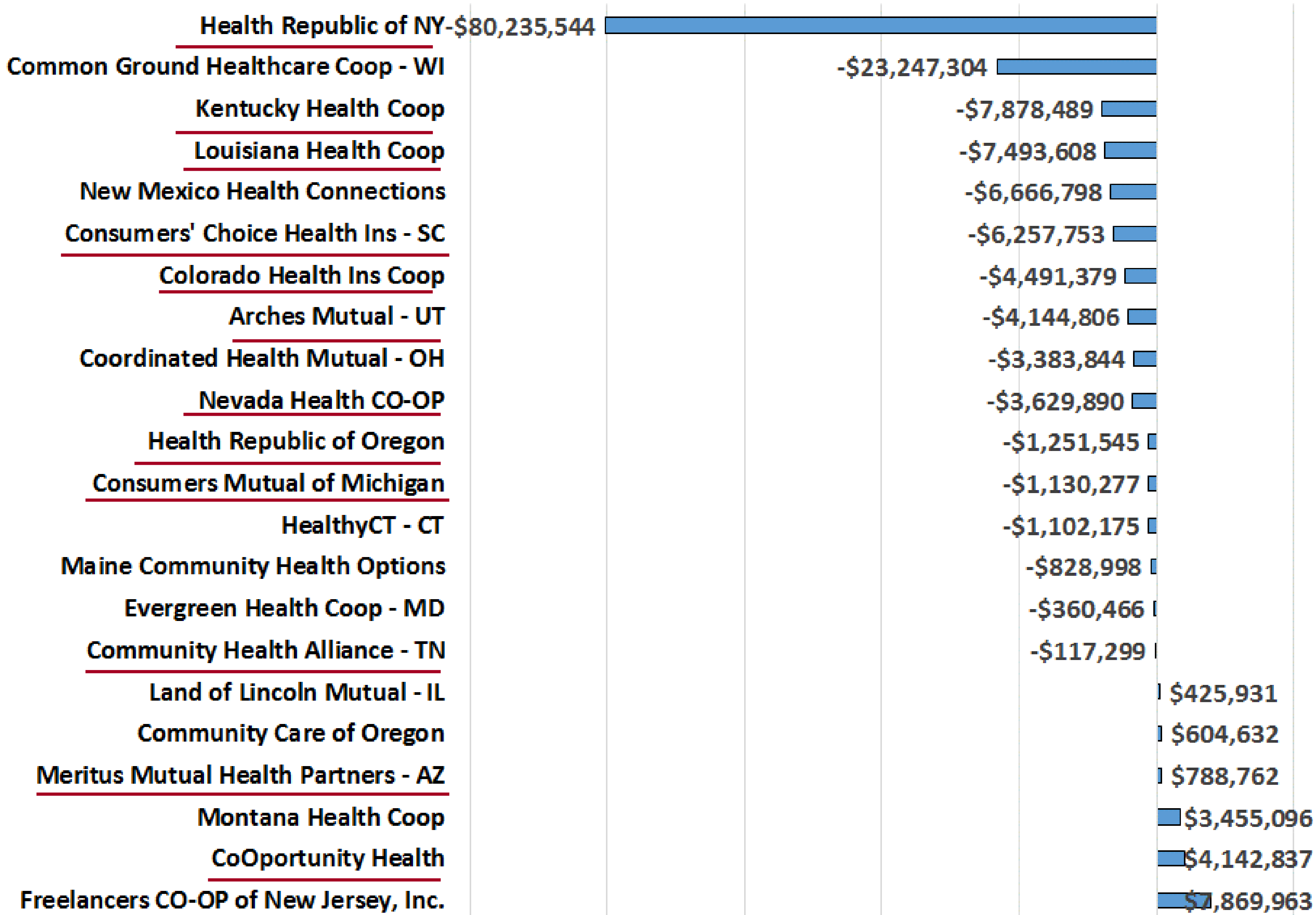


Reported Results as of 6/30/2015 ($mill.)

	21 Reporting	10 Surviving	11 Closed
Enrollment 6/30/15	958,753	331,855	626,898
Startup and solvency loans	$1,774	$746	$1,028
Total assets	$2,197	$811	$1,386
Risk corridor receivables	$511	**$70**	**$441**
Reinsurance receivables	$410	$136	$275
Total obligations	$3,101	$1,152	$1,948
Cumulative net income	-$620	**-$202**	**-$417**
Without risk corridors	-$1,131	**-$272**	**-$859**
Assets – obligations	-$904	**-$341**	**-$562**
Without risk corridors	-$1,415	**-$411**	**-$1,004**

(Figures do not include CoOpportunity Health or Freelancers of NJ.)

Risk Adjustment Transfers for 2014 (CMS)



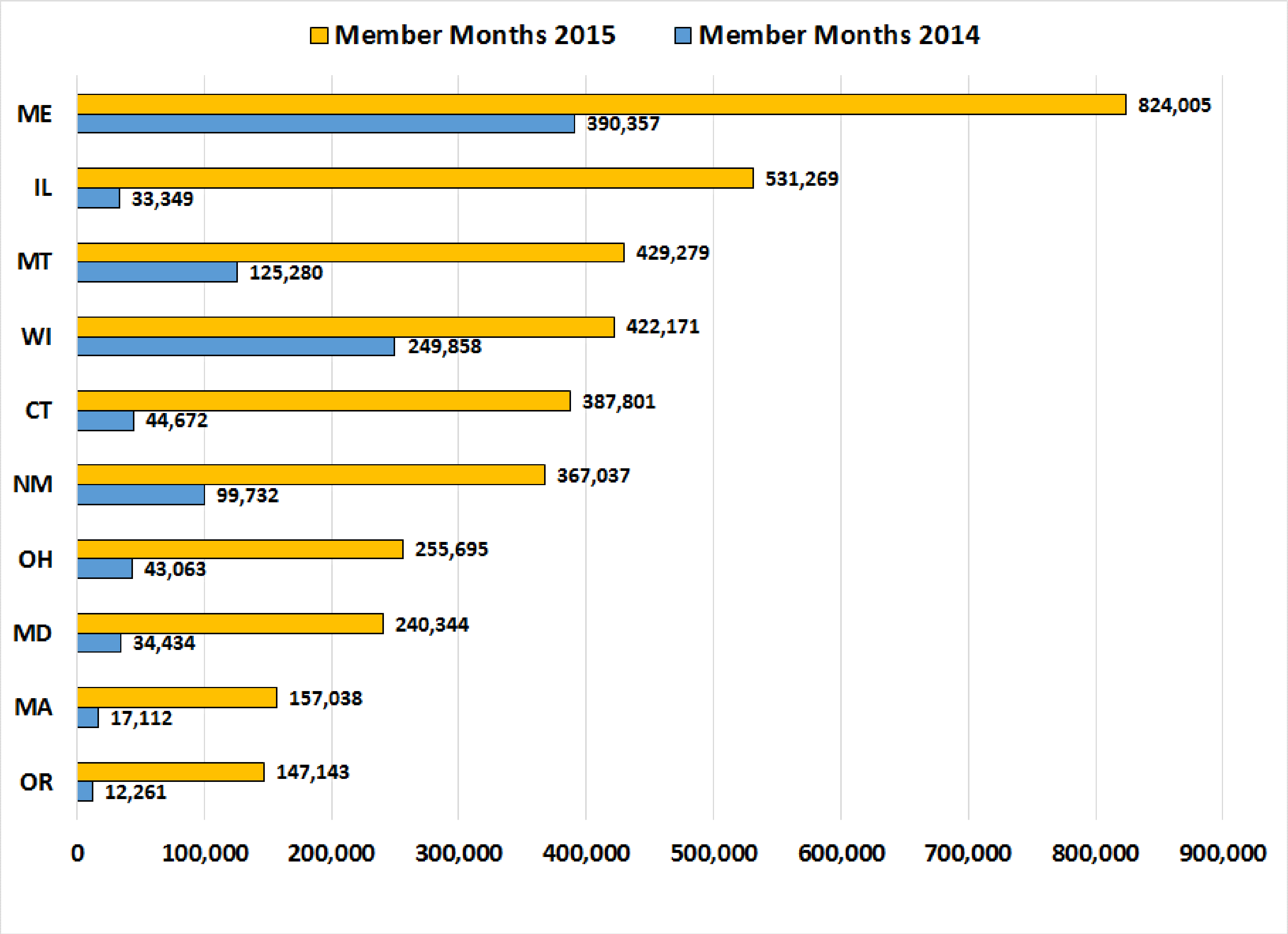
Health Republic of NY, Jan. 1, 2014 – June 30, 2015 (revised year-end and second quarter financials)

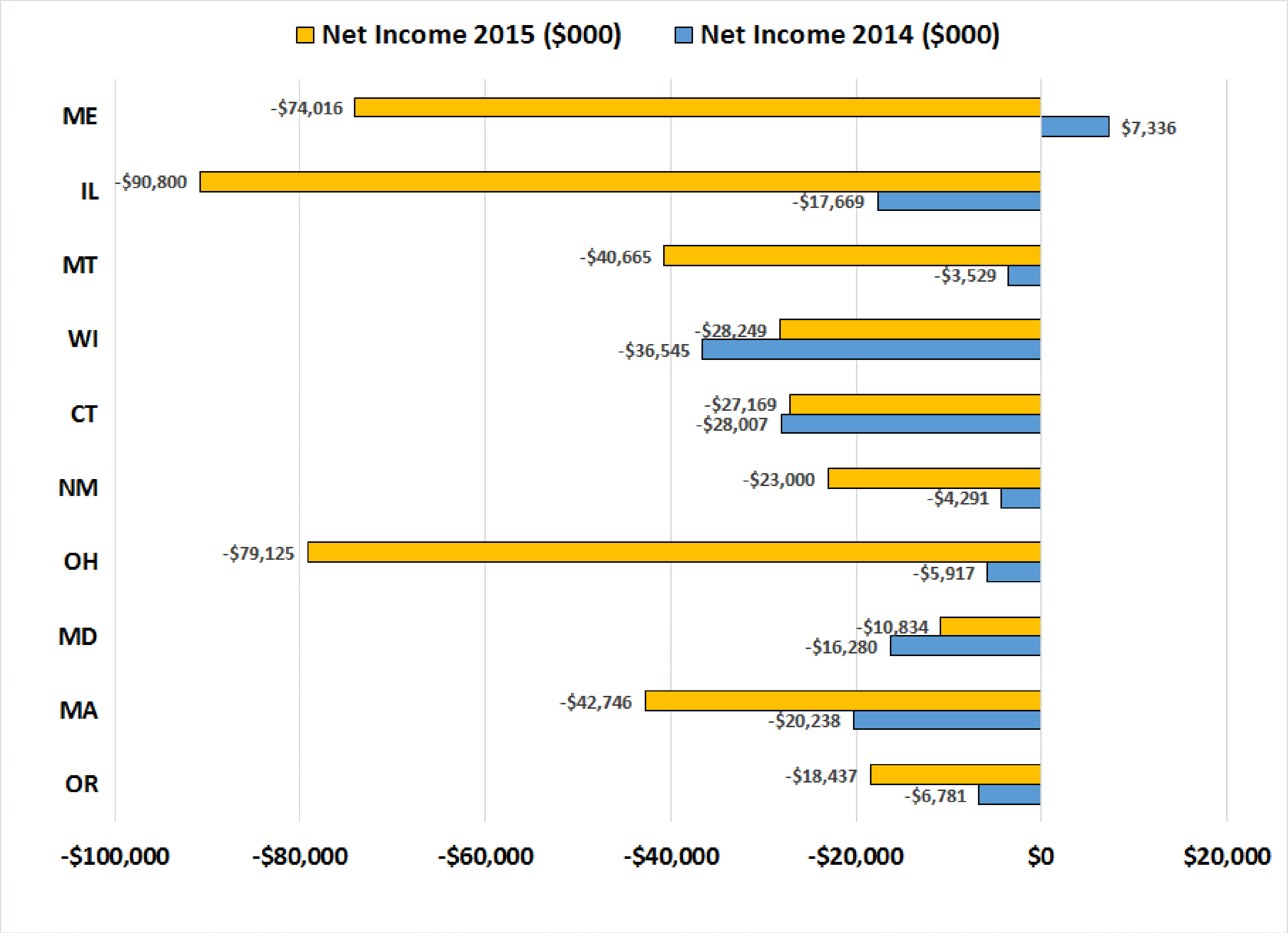
	Amount ($1,000s)	Percent of premiums	Per member month
Premiums (enrollees+subsidies)	$930,427	100.0%	$372
Medical costs before reinsurance	-$1,044,201	-112.2%	-$418
Claim adjustment & admin. expense	-$200,520	-21.6%	-$80
Underwriting loss before 3Rs	-$314,294	-33.8%	-$126
Projected reinsurance	$102,827	11.1%	$41
Reinsurance program charges	-$10,693	-1.1%	-$4
Projected risk adjustment transfers	-$173,312	-18.6%	-$69
Projected risk corridors @ 100%	$270,388	29.1%	$108
Underwriting loss @100%	-$125,084	-13.4%	-$50
Uncollectible risk corridors	-$252,160	-27.1%	-$101
Underwriting loss	-$377,244	-40.5%	-$151

Wind-up of closures

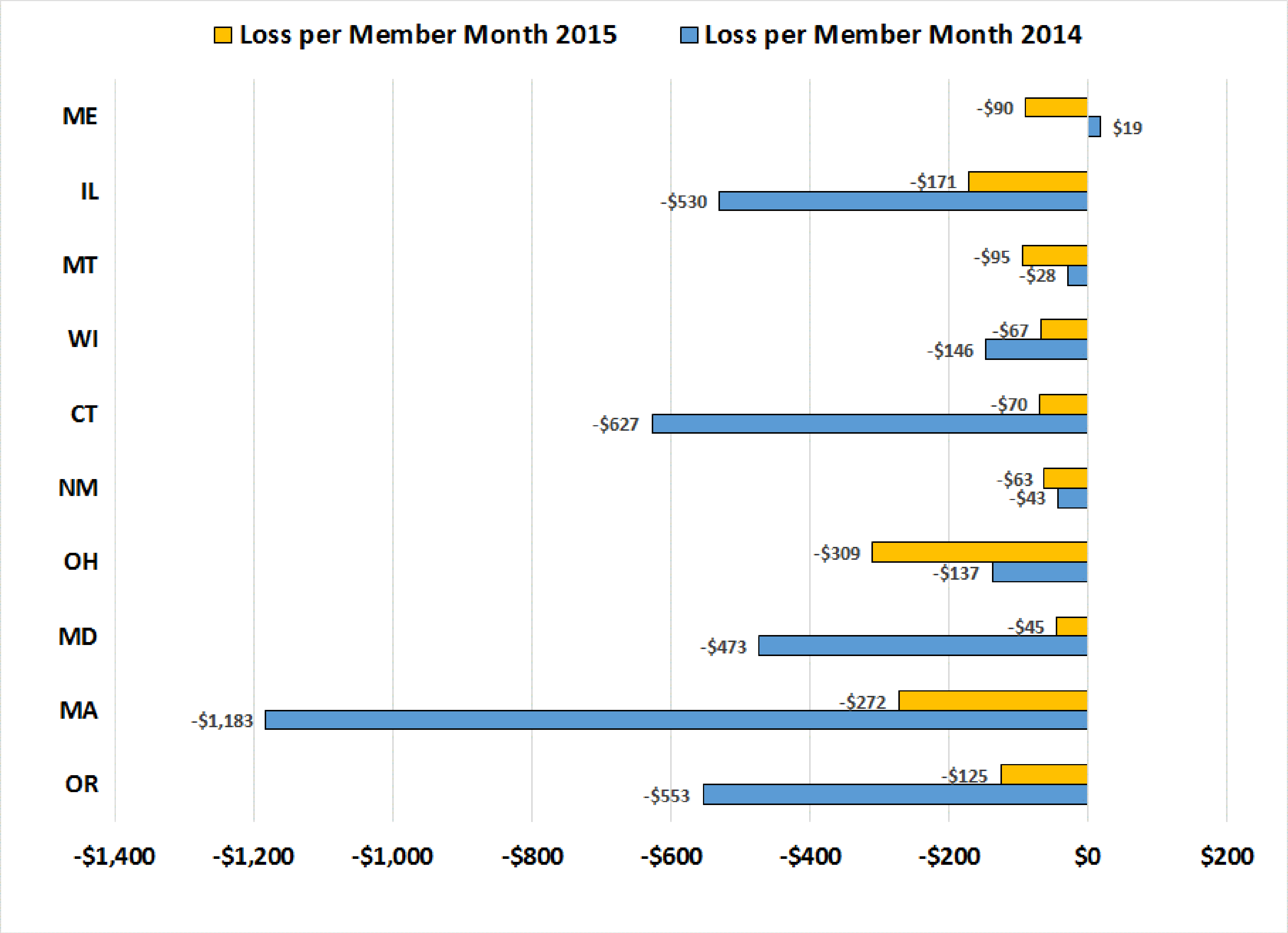
- Ultimate cost will depend on final tally of medical expenses
- Very little, if any, of loans will be repaid
- HR of NY has more than $200 million projected shortfall of amount needed to pay medical costs—without a state guaranty system
- A few states project substantial guaranty fund assessments on surviving insurers
- Iowa and Nebraska have made substantial assessments—not clear whether most or all will be repaid
- Some states in addition to NY do not have guarantees

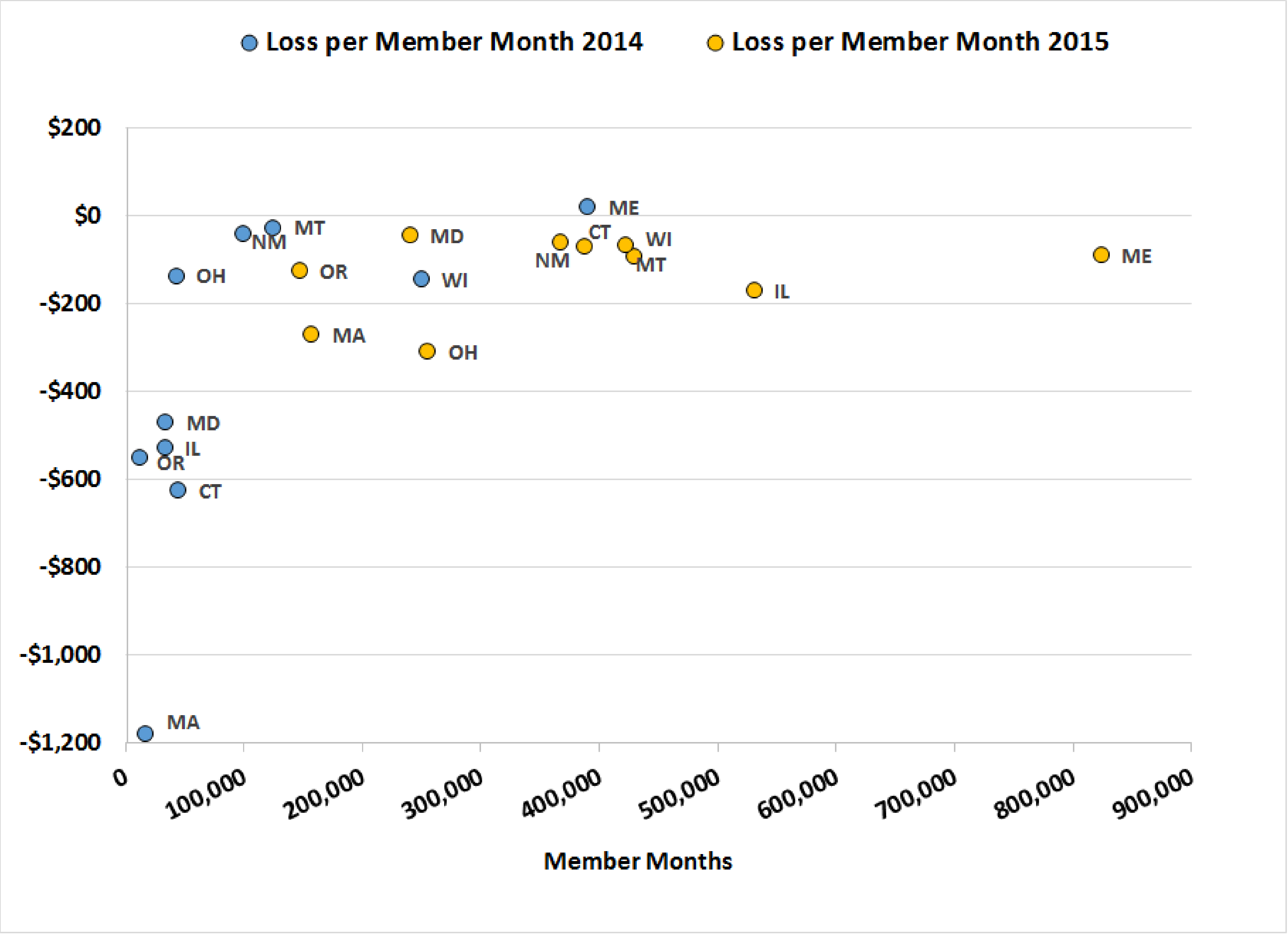
Surviving CO-OPs' December 31, 2015 Financials


Member Months 2015
Member Months 2014
ME
824,005
390,357
IL
531,269
33,349
MT
429,279
125,280
WI
422,171
249,858
CT
387,801
44,672
NM
367,037
99,732
OH
255,695
43,063
MD
240,344
34,434
MA
157,038
17,112
OR
147,143
12,261
0
100,000
200,000
300,000
400,000
500,000
600,000
700,000
800,000
900,000

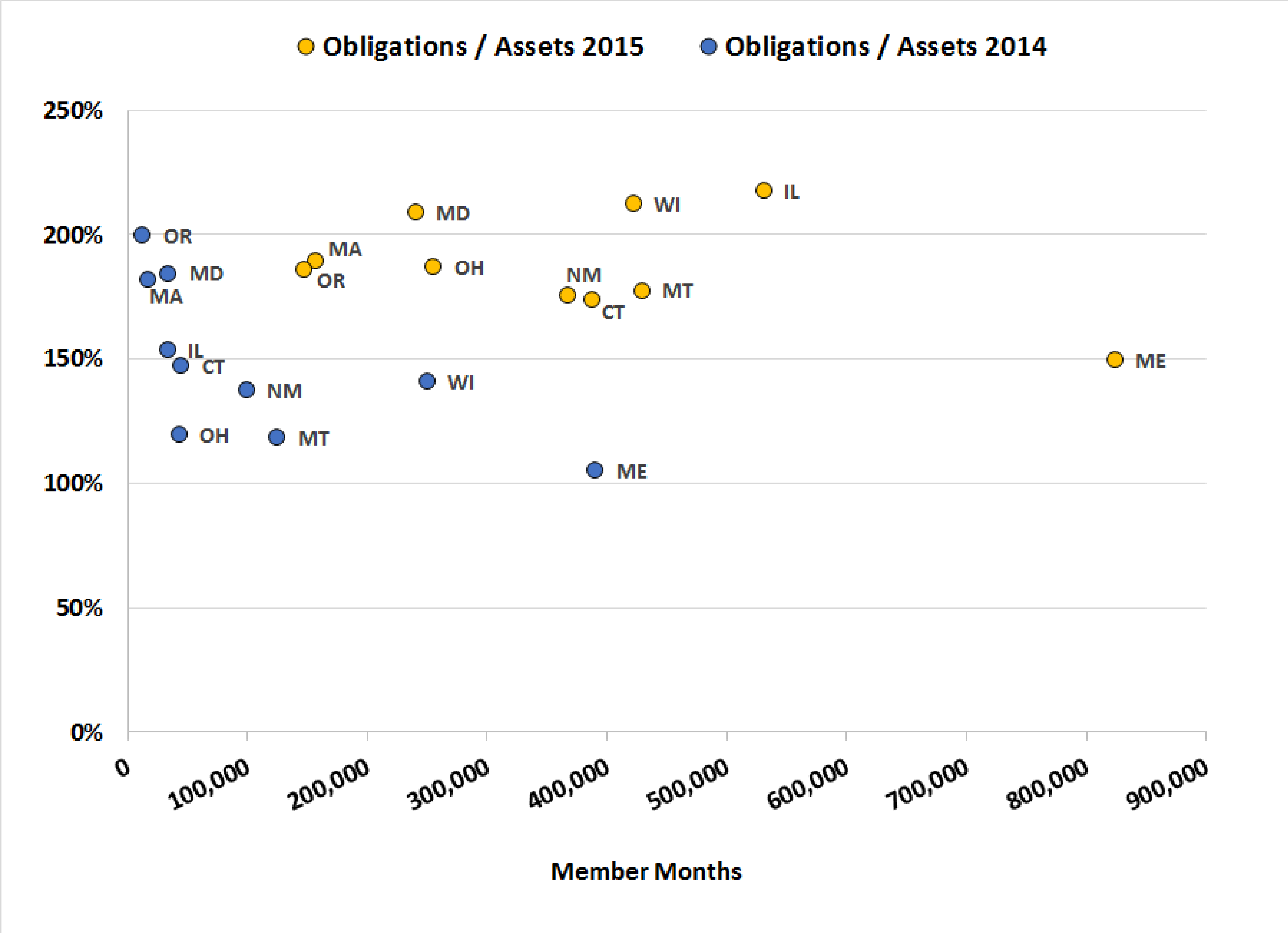


Net Income 2015 ($000)
Net Income 2014 ($000)
ME
-$74,016
$7,336
IL
-$90,800
-$17,669
MT
-$40,665
-$3,529
WI
-$28,249
-$36,545
CT
-$27,169
-$28,007
NM
-$23,000
-$4,291
OH
-$79,125
-$5,917
MD
-$10,834
-$16,280
MA
-$42,746
-$20,238
OR
-$18,437
-$6,781
-$100,000
-$80,000
-$60,000
-$40,000
-$20,000
$0
$20,000


Loss per Member Month 2015
Loss per Member Month 2014
ME
-$90
$19
IL
-$171
-$530
MT
-$95
-$28
WI
-$67
-$146
CT
-$70
-$627
NM
-$63
-$43
OH
-$309
-$137
MD
-$45
-$473
MA
-$272
-$1,183
OR
-$125
-$553
-$1,400
-$1,200
-$1,000
-$800
-$600
-$400
-$200
$0
$200



Loss per Member Month 2014
Loss per Member Month 2015
$200
$0
-$200
-$400
-$600
-$800
-$1,000
-$1,200
0
100,000
200,000
300,000
400,000
500,000
600,000
700,000
800,000
900,000
Member Months
ME
MT
NM
MD
OR
OH
WI
MA
CT
IL


Obligations / Assets 2015
Obligations / Assets 2014
250%
200%
150%
100%
50%
0%
0
100,000
200,000
300,000
400,000
500,000
600,000
700,000
800,000
900,000
Member Months
OR
MD
MA
IL
CT
NM
WI
OH
MT
ME
MA
OR
MD
OH
NM
CT
MT
WI
IL
ME

Questions

1. Was it appropriate and prudent for the CO-OPs to begin operations in 2014, as opposed to delaying start up for a year or two before selling tens of thousands of policies?

2. Why were low premium rates charged by some CO-OPs not viewed as a signal of potentially inadequate rates, especially when their rate filings anticipated relatively high provider reimbursement and administrative expenses?

3. Why were some CO-OPs permitted to enroll far more customers than anticipated in financial projections supporting their applications, as opposed to having some formal or informal limits on growth imposed by CMS and/or state regulators?

4. Why didn't CMS delay solvency loan disbursements, or possibly terminate loan agreements, when confronted with enrollments far greater than anticipated and evidence of operating losses?

Debating the debacle

Point	Counterpoint(s)
• Marketing restrictions undermined viability	• Restrictions were loose • Did not prevent rapid expansion of some CO-OPs
• Congressional cuts in CO-OP program award funding undermined viability	• Largely prevented CO-OPS in additional states • Additional awards to existing some established CO-OPs would have likely increased ultimate deficits
• Failure to pay full risk corridor requests caused closures of potentially viable CO-OPs	• Requests were high in large part due to operating losses from rapid growth at inadequate premium rates • Greater risk corridor payments would have risked further expansion at inadequate rates