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Public holds bill for health co-op's collapse

By Elizabeth Wright, March 28, 2015

Iowa, like the rest of the country, has experienced a lot of disruption in health care since the enactment of the Affordable Care Act, or ObamaCare. In fact, Iowans have suffered additional indignities due to the financial collapse of CoOpportunity Health. But even with the demise of that plan, the heavy hand of government continues to oversee, regulate and deliver health care.

CoOpportunity Health was a Consumer Operated and Oriented Plan, which under ObamaCare was supposed to be a substitute for a true “public option,” or government-run plan. The co-ops are nonprofit organizations owned by their members (enrollees). They are supposed to return their profits to members in the form of lower premiums and more services, spur competition among private insurance companies, and help those seeking insurance in the individual and small group market. The co-ops were allowed to be set up in states or defined geographic regions and provide certain types of plans. They were supposed to pay back their federal start-up loans within five years and solvency loans within 15 years of each drawdown.

Since there was great uncertainty about how many people would enroll and no prior claims data to gauge risk and premium costs correctly, it was not surprising that 24 states declined to create a co-op. Unfortunately, Iowa took the gamble and lost.

Many health care policy experts believed co-ops were destined to fail due to their shaky financial underpinning and the excessive regulations governing their practices. In 2012, the Office of Management and Budget estimated that taxpayers would lose more than \$3.1 billion in co-op startup and solvency loans. A July, 2013 Department of Health and Human Services Office of Inspector General audit found that co-ops had “limited private monetary support.” Congress enacted a series of laws, including the 2012 American Taxpayer Relief Act, to protect taxpayers from huge losses by cutting funding to the co-op program.

CoOpportunity received approximately \$145.3 million in federal loans, including \$32.7 million in additional solvency loans from the Centers for Medicare and Medicaid Services (CMS), the agency that oversees ObamaCare. The Iowa co-op told CMS it was in a precarious financial situation and requested additional funds in July 2014. Yet, Iowa Insurance Commissioner Nick Gerhart approved a rate increase in October 2014 allowing CoOpportunity to proceed. Subsequently, the request for additional funds was denied by CMS in December 2014. CoOpportunity lost \$163 million in 2014, and an additional \$4.6 million in January 2015.

Just two months after approving the rate increase, Commissioner Gerhart took over CoOpportunity and asked a court to liquidate it in January 2015. Iowa Life & Health Insurance Guaranty Association, which is funded by Iowans' health insurance premium dollars, will step in to provide insurance coverage to CoOpportunity members until their policies expire. They are all scrambling to find new insurance.

The commissioner expects the federal government to shell out more money to pay off CoOpportunity's debt. That seems highly questionable given CMS's refusal to provide money directly to the company last year and Congress's cuts in funding to the whole co-op program. Regardless of how the debt is paid off, taxpayers and policy holders will be paying the bill.

The well-known risks of co-ops and the subsequent fiscal collapse of CoOpportunity raise the question as to why Commissioner Gerhart approved the nonprofit insurer in the first place and certainly why he re-approved it in October 2014.

Iowa's co-op may be the first to implode, but it is not the only one facing insolvency. By the end of 2014, CMS had furnished approximately \$2.5 billion in loans for co-ops. According to A.M. Best, an insurance rating firm, all but one co-op had reported operating losses in 2014.

If politicians have learned nothing else in the wake of ObamaCare and the government's ill-conceived foray into the health insurance marketplace, they certainly know now that the health care sector is highly complex, that government is ill equipped to understand it, let alone manage the system. It is time for politicians and bureaucrats to stop interfering with health care.

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