InsideHealthPolicy
An Inside Washington news service

DAILY NEWS

Three More ACA Co-Ops Announce Closure, Blame Risk Corridor Shortfall

Posted: October 16, 2015

A prophesy from the early days of the Affordable Care Act that the law's nonprofit insurers, consumer-operated and -oriented plans, were likely to fail as start-ups is increasingly true this week, as three co-ops announced they will shut down at the end of the year after being shortchanged by the federal risk corridor program.

Health Republic Insurance of Oregon, Colorado HealthOP and Community Health Alliance in Tennessee will not offer plans in 2016, leaving nearly 125,000 residents without coverage after Dec. 31. Those enrollees, in individual and small group coverage on and off the exchange, will have to return to the marketplaces starting next month.

Co-op officials in Colorado, however, promised to fight back against the state regulators' decision to shut them down. The Division of Insurance let local and national politics hurt Coloradans' access to affordable plan options and hit taxpayers with significant avoidable costs, HealthOP CEO Julia Hutchins wrote to members Friday (Oct. 16).

“We are astonished and disappointed by the DOI’s decision. We believe it is both irresponsible and premature,” Hutchins said. “Colorado HealthOP is a profitable start-up insurance company that is in a strong financial position and, for two years, has served the critical needs of Coloradans like you by enhancing competition in the Colorado insurance market, driving down prices in the state health insurance marketplace and offering new, innovative choices to our more than 80,000 members throughout Colorado.”

Colorado HealthOP's board of directors is calling on the state to let them appoint an independent consumer protection ombudsman to assist members during the transition, including third-party review of claim denials. The co-op will pursue all possible remedies to serve their members during the transition, Hutchins said.

“Colorado HealthOP is poised to make a profit and be cash-flow positive throughout 2016 and pay back its loans ahead of schedule,” Hutchins said after CMS revealed its risk corridor payments. “Our business model works. It’s the vagaries of politics that are broken and threaten to place an unnecessary burden on the backs of Colorado consumers. Colorado HealthOP has fulfilled its responsibility; now it is time for Congress to step up and fulfill theirs.”

The state's insurance division painted a different picture. Regulators said that because of the funding shortfall, HealthOP does not meet the state’s minimum capital and surplus requirements -- a complaint of national co-op leaders who want CMS to lower the 500 percent risk-based capital requirement to a more feasible level.

The insurance division put the HealthOP under supervision in February, when it met capital and surplus benchmarks. Not receiving the risk corridor payment means the Colorado HealthOP's rainy day fund will be completely wiped out, the division said, and is expected to post a negative $34 million by the end of the year.

“Our decision is a direct result of this shortfall by CMS, and I sympathize with the HealthOP, but the Division has requirements and it has to protect consumers,” Commissioner Marguerite Salazar said. “It is a key function of Colorado Division of Insurance to make sure that insurance carriers are financially stable enough to pay the claims of their policyholders. While Colorado HealthOP can continue to pay claims for the rest of 2015, we cannot allow it to sell or renew policies on the exchange for 2016.”

Other plans signaled that their closures were more voluntary. In Oregon, Health Republic CEO Dawn Bonder noted that because low risk corridor payments would result in a negative financial impact of over $20 million, the co-op believes the most ethical move is to wind down business.

Co-ops that have folded or plan to do so this year include CoOportunity Health in Iowa and Nebraska, Louisiana Health Cooperative, Nevada Health Co-Op, Health Republic Insurance of New York and Kentucky Health Cooperative. All told, their nearly 500,000 collective enrollees need to find new plans. Fifteen of the original 23 co-ops are still in business.

Deep Banerjee, director of financial services ratings at Standard & Poor's, said it is very important that the co-ops start pricing their products correctly, since they don't have the outside funding like other start-ups to pad their losses. More co-ops may shutter in the two weeks before open enrollment begins to spare current and future customers from bigger problems that would occur from a closure later this year or shortly after new coverage begins in 2016, he said.

Banerjee added that S&P is looking into how the redistribution of former co-op enrollees to other exchange plans will affect their business. Consumers are likely to be faced with higher premiums to cover their claims better than the co-ops did, and the addition of more exchange patients could further skew the risk pools after 2016 premiums have already been set.

Market analysts decline to speculate on how many more co-ops will close in the near future.

"The dissolution of three CO-OPs this week is a devastating blow to Americans who seek competition, choice, innovative benefits, and non-profit alternatives when selecting a health insurer," Kelly Crowe, CEO of the National Alliance of State Health CO-OPs, said in a release Friday (Oct. 16). "Many of the CO-OPs now closing were well on their way to longer term financial sustainability, but few businesses can sustain hits like the CO-OPs and other small and new insurance companies have endured from unexpected risk adjustment obligations and much lower-than-promised risk corridor payments."

Issuers will receive only 12.6 percent of the payments they sought under the ACA's temporary risk corridor program because CMS collected just $362 million from insurers, HHS officials said Oct. 1. The insurers asked for $2.87 billion for 2014 claims. Colorado HealthOP expected to receive $16.2 million from the risk corridor payments this year, but will get about $2 million instead, according to the Colorado Division of Insurance. Other recently folded companies are in similar situations.

NASHCO had no comment for *Inside Health Policy* when asked whether the group is working with CMS on an emergency measure to protect the rest of the co-ops, whether consumers should be wary of enrolling in the remaining co-ops going forward and whether the remaining are co-ops doing anything in particular to assure members that their coverage is safe. *The Columbus Dispatch* also reported Tuesday (Oct. 13) that Ohio's Coordinated Health Mutual, or InHealth, co-op is under enhanced federal oversight after reporting a $9.1 million loss in the first half of 2015.

The HHS Office of Inspector General said in July that CMS had recently placed four CO-OPs on enhanced oversight or corrective action plans and two co-ops on low-enrollment warning notifications, but had not established guidance or criteria to assess whether a co-op was viable or sustainable. CMS will not divulge the names of the other co-ops that have been placed under closer watch.

"We haven't released information on who is and who is not on enhanced oversight or corrective action plans," a CMS official told *IHP* Friday when asked about which co-ops have been on enhanced oversight and who could be added. "And, not necessarily all of those that have announced were on one or the other (or both)."

Meanwhile, NASHCO leaders are upset that the Obama administration is not doing more to give co-ops additional access to capital or make their federal loans easier to pay back.

Congressional offices have so far stayed away from the issue other than to praise or decry each new closure.

Crowe says she wishes policymakers would do more to back the innovative, localized insurers instead of playing politics or pretending to be hamstrung.

“With HHS already issuing lower ACA enrollment projections and health insurance giants merging to further limit competition, the presence of CO-OPs is needed now more than ever,” she added. “Though federal regulators have taken some modest steps to ease CO-OPs’ short term financial burdens, a firmer commitment to fulfill the obligations of the ACA’s risk programs is needed to provide stability to the marketplaces.” -- *Rachel S. Karas*(*rkaras@iwpnews.com*)