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Regulators try to ease co-ops' cash pressures

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CMS and state regulators have tried to ease financial pressures for at least five Obamacare co-ops by letting them reclassify certain loans as surplus, a move that financial analysts say will make the health plans' balance sheets look better and potentially keep them from shutting down.

The new nonprofit insurers, which were seeded with hundreds of millions of dollars in low-interest start-up loans, are required to pay that funding back to the federal government within five years. But according to a firm that analyzes insurers' financial performance, five have received federal and state regulators' permission to treat their start-up loans as capital rather than debt on their financial filings: New Mexico Health Connections, Colorado HealthOP, Health Republic Insurance of Oregon, Common Ground Healthcare Cooperative in Wisconsin, and Nevada Health Co-op.

"The big game is to have the capitalization of these companies be solvent so that the insurance departments aren't required or don't feel compelled to step in," said David Paul, a principal at Alirt Insurance Research, which flagged the five co-ops. "It is kind of dressing up these companies showing more capital than they really should hold."

But Paul and others question how much the move will help, especially after CMS announced insurers this year will receive only a fraction of payments they requested under the ACA's risk corridors program, which is meant to protect plans from high losses. Plus, Nevada's co-op announced in August it will shut down, even after it was allowed to convert millions in startup loans from debt to surplus.

"This just lets them in the short-term, helps them get their risk-based capital up and avoid a payment default," said Deep Banerjee, an analyst at credit rating agency Standard & Poor's. "You move money around, but the total amount is still the same."

Apart from Nevada, co-ops in Louisiana, New York and Iowa have also collapsed. Others are expected to fold.

CMS issued guidance in July allowing the co-ops to make the loan conversion, according to an agency spokesperson. New Mexico Health Connections CEO Martin Hickey, who also chairs the co-ops' trade association, said the plans had long asked for the change.

Of the five plans, Wisconsin’s co-op reported the highest surplus at the end of June because of the change — $45.3 million instead of $37.7 million, according to Alirt and filings with the National Association of Insurance Commissioners.

Heads of the nonprofit plans say the accounting change was helpful, but an infusion of new cash would have been better.

“The hole in the risk corridor payments is much more significant than the conversion would be,” said Julia Hutchins, CEO of the Colorado co-op.

The Colorado co-op requested $14 million in risk corridor payments but is set to receive roughly $1.8 million. According to NAIC filings, the insurer reported $34.5 million in capital at the end of June; it would have only had $19.3 million if it couldn't count the start-up loans as an asset.

The New Mexico co-op was able to report a $31.5 million surplus at the end of June, instead of $18.4 million.

“We were able to turn that into an asset,” Hickey said. “In that $13 million we created a company. Like any future startup, you create value.”