The Salt Lake Tribune

Utah: There's a new health insurer in town

Reform • Industry leaders starting local co-op that vows better care at lower prices.

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The Salt Lake Tribune

Published: July 13, 2012 08:56PM
Updated: July 13, 2012 11:06PM

Imagine dictating how your health insurer spends its money.

Would you demand better doctors, cheaper preventive care or a share of the company's profits?

It will soon be a possibility in Utah, where a powerhouse group of industry leaders, fueled by an $85.4 million federal loan, are starting a non-profit, consumer-driven health insurance company that by this time next year will be luring customers with low rates and the promise of better care.

Aarches Community Health Care, a health co-op, or "Consumer Operated and Oriented Health Plan," is a new breed of insurer championed by a bipartisan group in Congress as a private-market alternative to the hotly debated public option, or government-run health plan.

"Aarches represents a rare opportunity to change how insurance is done," said Chief Operating Officer Shaun Greene.

Financed with start-up loans under a little-known provision of the Affordable Care Act, health co-ops function like rural electric or dairy co-ops, providing an under-produced good or service — in this case, affordable health coverage. Because it's a nonprofit, Aarches won't be beholden to shareholders and is supposed to use year-end surpluses to lower premiums or boost benefits.

Utah insurance giants, nonprofits SelectHealth and Regence BlueCross BlueShield, have a similar charge. Their influence is partly why Utah's health costs are among the nation's lowest.

But until now they haven't had much competition, said Aarches CEO Linn Baker. "Utah's costs are going up slower than nationally, but they're still going up and at an unacceptable rate. SelectHealth could probably be more efficient. They've never had the pressure."

Aarches is angling to offer the lowest rates in the state, if only by a few dollars initially. It will do this partly by keeping operations lean.

Baker's salary, $250,000, is well below that of SelectHealth CEO Patricia Richards, who earned $411,000 in 2010.

But Aarches' selling point, and true cost advantage, comes from changing how doctors are paid and, subsequently, how they deliver care, said Baker. It's what drew the 70-year-old founder of Utah's Public Employee Health Plan out of retirement.

"I've been pushing payment reform since the early '90s. To get involved in a company that can actually do something about it, that's what I'm looking for."

Today insurers pay doctors for services as provided, a system that rewards volume over value and contributes to soaring spending, said Baker.

Aarches will assign patients to medical homes and pay those providers retainers, a lump sum per-patient, giving them an incentive to keep patients healthy and out of the hospital.

For specialty care the co-op will mine Utah's All-Payer Database, a repository of private insurance claims, to find "centers of excellence," or docs with the best prices and patient outcomes, and steer consumers to those providers.

The insurer is teaming up with a network of five private clinics and 11 community health centers with a combined patient load of 150,000, giving it a head start in drumming up business.

Feasibility studies put it on track to sign up 13,000 customers the first year and 42,000 by 2021. That, and $79 million in reserves ($6 million of the federal loan goes to start-up costs) places it in league with the state's top five health insurers.

The level of investment required is "why you don't see many insurance start-ups," said Greene.

But critics have questioned whether co-ops will succeed and be able to repay the loans.

"Utah spends $15 billion a year on health care. How much does $85 million actually buy you, especially if the people signing up have deferred, expensive health problems? Million-dollar patients aren't unheard of," said Joe Jarvis, a semi-retired doctor in Utah who favors a single-payer system where all residents, including those on Medicaid and Medicare, are in the same pool. "Baker has experience doing this. I admire him and his work. I hope he proves me wrong. I just don't know if it's enough money."

Aarches opens for business just as 300,000 uninsured Utahns will be shopping for the best insurance deals on state exchanges, many of them with government vouchers. Insurers will be vying for those customers, but not without risk.

Like others, Aarches is targeting small employers and Latinos who comprise 13 percent of the state's population but 30 percent of its uninsured. Latinos also shoulder a greater burden of illness and aren't accustomed to paying for insurance.

"It's going to be a tough sell, because most Hispanics come from south of the border, a socialized medicine environment, but not impossible," said Jorge Arce-Larreta, CEO of the Alliance for Community Services, which is working to inform Latinos about the benefits of federal health reform and penalties for those who choose to go without coverage.

Health reform protects insurers by forcing those that cherry-pick healthy customers to share proceeds with those that cover disproportionate numbers of high-cost patients. But how that risk-adjustment mechanism will work from state to state hasn't been sorted out.

Still, supporters like Judi Hilman, executive director of the Utah Health Policy Project, say Aarches is Utah's "best chance to build a health plan that is truly member driven."

Paying your premiums won't get you a front-row seat at Aarches board meetings, but the board will be consumer-elected, and by 2016, consumers must have two-thirds of the seats.

If nothing else, it will fuel competition. "It'll be good to have another player in town," said Baker.

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What is Aarches?

Aarches Community Health Care is a health co-op, a new nonprofit health insurer run by consumers.

When does it open? • The insurer is one of 16 in 16 states awarded a start-up loan by the Obama administration on Friday. It will begin enrolling customers next July for coverage effective Jan. 1, 2014.
