Arches Mutual Insurance Co. loses $19.9M in first year

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A health insurance co-op that launched the first new health plan in Utah in almost two decades ended with $19.9 million in losses last year.

SALT LAKE CITY — Utah's first consumer-driven health insurance company ended with $19.9 million in losses last year.

Arches Mutual Insurance Co. is one of 23 health insurance co-ops across the U.S. that, with one exception, ended 2014 in the red, according to a report from the Health and Human Services Office of Inspector General.

"We got the pricing wrong," said Arches CEO Shaun Greene, who was open about the nonprofit sustaining $10 million more in losses than projected.

Enrollees were sicker and used more services than expected, according to Greene. As a result, the company took in $53.5 million in premiums last year but had claims of $61.2 million, according to the government audit.

“As a result of no Medicaid expansion, you had a lot of people that would be better served in Medicaid plans coming into the commercial market, and they’re very high users,” Greene said.

The company was also hit by pricey prescription drugs, according to Greene, who said the $1,000-a-pill hepatitis C drug called Sovaldi contributed to about $1 million in unanticipated cost.

The report raised concerns that co-ops will struggle to repay the billions of dollars of federal loans they received. Created through the Affordable Care Act, as a compromise to a government-run insurance program, nonprofit co-ops were meant to drive down prices by competing against for-profit insurers.

Jason Stevenson with the Utah Health Policy Project said Arches, which received just under $90 million in taxpayer-financed loans, remains unproven.

"Like any startup company, they are spending money to make money later on, and that's really what this is," Stevenson said. "If you look at it with a business sense, then you realize there's not that much wrong with that picture."

Stevenson said Arches' aggressive marketing and innovative health plans, including one with no deductible for accidents, have attracted young people.

And with 56,000 members, Arches is second only to SelectHealth in terms of exchange enrollees — a surprising coup for the scrappy startup, Stevenson said.

"Innovative ideas are a way to upend the insurance marketplace (and) create a little bit of disruption that creates more options and better options for consumers," Stevenson said. "I think it's an experiment that is still very early on, and we can't say 'case closed' based on the first year of data."

For some, purchasing insurance from a startup isn't without hiccups.

Chris Nowell, a 48-year-old contractor in Salt Lake City, signed up with Arches last year because it was the first insurance company to reach out to him.

But Nowell said the company lost his address and member ID and his insurance remained inactive after several months of complaints.

Nowell ended up canceling his policy, choosing to face the tax penalty instead.

He eventually rejoined Arches this year because he liked his plan and his girlfriend is also on an Arches plan, but he remains skeptical about the company.

Greene acknowledged complaints about customer service were likely fair.

"It's a very complex industry that lends itself to very complex situations that do create some unsatisfied folks, and that's actually one of our goals, is to really simplify health care placements and pricing," Greene said.

He believes the company, now with a year's worth of data, can break even this year.

To do that, Arches — along with many other co-ops — requested rate hikes averaging 45 percent for 2016, the highest of any insurer in Utah.

Greene said the requested rate, while significant, is a one-time adjustment.

"The risk is underpriced and this is a price correction," Greene said. "A lot of our competitors, they've got billions on their balance sheet, we've got millions. We can't just play around with it and do a soft landing. We had to do the price correction in one year."

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