Utah shuts down Arches, the state's nonprofit insurance co-op

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Arches Health Plan, a membership cooperative that was born out of the Affordable Care Act and insures 66,000 Utahns, has been ordered out of the insurance market for 2016.

Arches insures more low-income Utahns on the federal exchange, healthcare.gov, than any other company besides SelectHealth. But it also has customers who get their insurance on their jobs and individuals who buy plans through insurance agents or brokers.

Those 35,000 people who bought Arches plans via the exchange or from insurance brokers or agents will now have to find new health insurance for 2016. The co-op also has to stop writing new policies for businesses immediately, Utah Insurance Commissioner Todd Kiser said. Arches insures 31,000 people through employer-sponsored plans, a spokeswoman said.

The Utah Insurance Department put Arches in receivership Tuesday afternoon, an emergency action because of the looming open enrollment period for 2016 health plans for those who don't get their insurance through their jobs. Open enrollment begins Monday. Receivership means the insurance department will oversee Arches' termination of insurance plans.

The Centers for Medicare and Medicaid Services (CMS) demanded a decision by Tuesday afternoon, Kiser said, culminating a week of scrambling by Arches to find a solution to a cash flow problem created, in part, by a change in federal policy.

In the end, Arches was not able to raise the cash needed to assure regulators that it would be solvent enough to handle claims through 2016. The co-op has enough money to ensure existing policyholders have a "soft landing," with all claims paid, Kiser said.

The nonprofit co-op's failure has big implications for rural Utah.

In 20 counties, Arches' departure leaves consumers with just one insurer offering plans on the exchange for 2016: SelectHealth, owned by Intermountain Healthcare. The exchange is the only place people with low incomes can buy subsidized healthcare.

Residents of the 20 counties — mostly rural, but also residents of St. George and Logan — might be faced with a dilemma, Kiser said.

If his agency cannot persuade other insurers to offer plans on the exchange, those consumers might have to pick a subsidized SelectHealth plan that does not have in-network providers in the same county. Or, they might forgo subsidies so they can have in-network providers in their home counties. Rural Utahns could be pinched either way, he noted.

Kiser said he has preliminary approval from the feds to ask other insurers to step in to the exchange, although several already dropped out for 2016. "Miracles could happen," he said. "I'm praying and hoping we can find somebody ... to help with that need."

Utah's is the 10th state co-op to fail in the individual market this fall; a Health and Human Services report this summer said 22 of the 23 were losing money.

The insurance department had approved rate increases averaging 43 percent for Arches' 2016 individual plans.

Tricia Schumann, chief communications officer for the Salt Lake City-based co-op, said the CMS the Utah Insurance Department on Oct. 20 that it was concerned about Arches' financial viability.

The CMS on Oct. 1 notified insurers that it would be able to cover 12.6 percent of their losses through its risk corridor program. That's because Congress, after Obamacare began, put new restrictions on the program that was designed to cushion insurers' losses by reallocating funds between them for the first few years.
The consequence to Arches was huge: The company is not getting $8.7 million from the feds that it had expected this fall.
"For any company, that degree of cash adjustment is very challenging," Schumann said. "We think everyone's back is against the wall on this. We really don't fault anyone, but it's a tough political climate."
The co-ops came into existence with the Affordable Care Act and were intended to offer more competitive plans for low-income health care shoppers. They generally lack the deep pockets of other insurance companies, and because they are member-owned, they can't raise capital by selling stock.
It's hard for co-ops to borrow money because the federal government is first in line to get repaid. Arches has $90 million in loans from the feds, Schumann said.

Utah Sen. Orrin Hatch called Arches failure "a direct consequence of Obamacare's inability to put Utah patients first.

"Because of Obamacare's broken promises, patients in Utah will be forced out of their health plans and federal taxpayers will be left footing the bill for this botched experiment," he said in a news release. Arches' shuttering underscores the need to repeal the Affordable Care Act, the release said.

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