Utah’s nonprofit insurer $19.9M in the red

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By Michelle L. Price and RICARDO ALONSO-ZALDIVAR The Associated Press
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A nonprofit Utah health insurer that received federal loans to get up and running lost nearly $20 million in its first year and is among co-ops around the country struggling with financial losses, according to a new audit.

The U.S. Health and Human Services inspector general's office reported Thursday that all but one of the 23 co-ops around the country saw financial losses last year. A co-op in Maine was the only exception, with $5.9 million in net income.

Arches Mutual Insurance in Utah is among those that lost money, reporting a $19.9 million loss for 2014.

The audit raised questions about whether co-ops will be able to repay $2.4 billion in taxpayer-financed loans that President Barack Obama's health care overhaul provided to help set them up.

Arches received nearly $94 million.

Arches Chief Executive Officer Shaun Greene said Thursday that his company and most other insurers faced higher-than-expected costs when consumers signing up for the first year of coverage under the health care law were sicker and costlier than projected.

"It's not simply just a co-op problem," he said. "It's an industrywide problem."

AT A GLANCE

As recently as the spring, the White House touted co-ops as an accomplishment. “In states throughout the country, co-ops have competed effectively with established issuers and attracted significant enrollment,” said a report by the president’s Domestic Policy Council on the fifth anniversary of the health law.

The IG’s audit paints a very different picture. Among its findings:

» Maine was the only co-op in the black for 2014, with $5.9 million in net income. Losses ranged from a high of $50.4 million for Kentucky’s co-op to $3.5 million for Montana’s. Most of the co-ops had previously projected losses for 2014, but the actual losses they experienced tended to be higher. Illinois had projected $28 million in income and instead came in with a loss of $17.7 million. New York, the leader in enrollment, had a $35 million loss.

» Thirteen co-ops fell far short of their enrollment projections, and nine met or exceeded them. New York enrolled 155,400 people, more than five times what it had projected. But co-ops in Arizona, Illinois and Massachusetts only hit 4 percent of their enrollment targets. There were no year-end data for the Iowa/Nebraska co-op that was shut down.

» Low enrollment and medical claims expenses that exceeded the income from premiums contributed to the losses. Nineteen co-ops had medical claims that exceeded premiums. The reasons included higher-than-expected enrollment of people with expensive health problems, lower-than-expected enrollment of younger people, and inaccurate pricing of premiums.

Arches is among many co-ops and traditional, for-profit insurers that plan to hike prices for health plans next year to compensate for a more expensive group of patients.

Greene also attributes the first-year losses to Utah's decision not to insure more residents through the government-run Medicaid program and the steep costs of new prescription drugs. One of those is Sovaldi, a cure for hepatitis C infections that costs about $1,000 a pill.

Greene said Arches expected to lose money in its first year, but the losses were about $10 million higher than expected.

Elsewhere, the Massachusetts co-op spent more than six times as much on administrative expenses as it collected in premiums. And one of the 23 co-ops in the report has already gone out business.

The Iowa/Nebraska co-op was shut down by state regulators over financial concerns. Another one, the Louisiana Health Cooperative, announced last week it will cease offering coverage next year, saying it's "not growing enough to maintain a healthy future."

Although the audit only goes through the end of 2014, problems apparently persisted into this year. A preliminary review of 2015 data by government officials shows that enrollments have increased, but co-ops continue to report financial losses.

"The low enrollments and net losses might limit the ability of some co-ops to repay startup and solvency loans, and to remain viable and sustainable," said the report.

The inspector general recommended closer supervision of the co-ops by the Obama administration as well as clear standards for recalling loans if a co-op is no longer viable.

Officially called Consumer Operated and Oriented Plans, co-ops were one of the compromises in the 2009-2010 health care debate. Liberals failed to achieve their goal of a government-run insurance program to compete with corporate insurers, and co-ops became the fallback. Under the deal lawmakers struck, taxpayers would provide two types of loans: startup money and reserve funds to meet solvency standards set by state regulators.

Separately, the AP used data from the audit to calculate per-enrollee administrative costs for the co-ops in 2014. It ranged from a high of nearly $10,900 per member in Massachusetts to $430 in Kentucky. Fourteen co-ops had administrative costs of more than $1,000 per member.

The audit found that the Massachusetts co-op collected $2.9 million in premiums, and spent $18.5 million on administration.