

Obama administration defends troubled health care co-ops

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Dr. Mandy Cohen, chief of staff, Centers for Medicare and Medicaid Services, testifies on Capitol Hill in Washington, Tuesday, Nov. 3, 2015, before the House Health subcommittee hearing on the state of the health care CO-OP Program. The Obama administration defended the health care law's struggling insurance co-ops Tuesday, suggesting to Congress that cutbacks demanded by lawmakers themselves put added pressure on an altruistic alternative to mega-insurers. (AP Photo/Cliff Owen)

The Obama administration defended the health care law's struggling

insurance co-ops Tuesday, suggesting to Congress that cutbacks demanded by lawmakers themselves put added pressure on an altruistic alternative to mega-insurers.

State regulators have ordered 11 of the 23 nonprofit co-ops shut down over solvency concerns, forcing several hundred thousand customers to seek new coverage. Only one co-op, the one in Maine, made money last year. Congressional Republicans say the taxpayer-financed program exemplifies "crony capitalism" in which the government backs certain businesses for political purposes.

The argument at Tuesday's hearing before the House Ways and Means Committee was the administration's most direct response to a wave of seven co-ops closing last month. State insurance regulators appear to be moving proactively to avoid serious disruptions for consumers by winnowing out plans that could fail next year. Most customers affected have been able to keep their co-op plans through the end of this year, but must find new coverage for 2016.

"Only in Washington would a group of bureaucrats think they knew how to micromanage 'competition' instead of letting consumers and markets do what they do best," said Rep. Kevin Brady, R-Texas, who chairs the health subcommittee.

The formal name of the program is Consumer Operated and Oriented Plan, or co-op. The federal government provided \$2.4 billion in loans to get the co-ops going, and repayment from the ones that have failed seems doubtful.

Nevertheless, administration official Mandy Cohen told lawmakers that co-ops have played an important role in fostering competition and choice in the law's health insurance markets, now in their third year.

"There have been successful co-ops which have provided consumers in their states an additional choice of health insurance and have improved competition," Cohen said in written testimony. "And there also have been Co-ops that for a number of reasons have faced compliance, technical, operational, or financial difficulties." Cohen is chief operating officer at the Centers for Medicare and Medicaid Services, which oversees government health insurance programs.

Cohen noted that President Barack Obama's health care law had originally provided much more money for the program—\$6 billion—but that Congress took away most of that.

"New entrants to any market, especially the insurance market, can face pressures, particularly in early stages," said Cohen. "Co-ops entered the health insurance market with a number of challenges, including building a provider network and customer support, no previous claims experience on which to base pricing, and competition from larger, experienced issuers."

Republicans say the program was flawed from the start and spending more money on it would have been a waste. "I suspect we're never getting this money back," Brady said.

The National Association of Insurance Commissioners, which represents state regulators, says there's no single reason why so many co-ops failed. Among the factors: co-ops were new companies, taking on patients they did not know and operating in a very competitive marketplace.

NAIC says the closings may have peaked, since state regulators were anxious to get weak co-ops off the market before the start of the health care law's sign-up season on Nov. 1. The group says some co-ops may yet succeed.

The co-ops were the health care law's alternative to corporate insurers. After congressional Democrats were unable to rally support for a government plan to compete against insurers, the fallback option became nonprofit co-ops. The administration says it ran a rigorous screening process, sifting through nearly 150 applicants.

As recently as spring, the White House touted co-ops as an accomplishment.

But a report this summer from the inspector general of the Health and Human Services department found that the co-ops were awash in red ink. Nineteen co-ops had medical claims that exceeded premium income. The reasons included higher-than-expected enrollment of people with expensive health problems, lower-than-expected enrollment of younger people, and inaccurate pricing of coverage.

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