Medical Xpress

Insurer warnings cast doubt on ACA exchange future

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In this Oct. 6, 2015, file photo, the HealthCare.gov website, where people can buy health insurance, is displayed on a laptop screen in Washington. Health insurers are reporting steep losses from their business on the Affordable Care Act's insurance exchanges and some are considering dropping the business. But experts also see signs of growth in this critical component of the federal law and ways to make it better. (AP Photo/Andrew Harnik, File)

Political uncertainty isn't the only threat to the Affordable Care Act's future. Cracks also are spreading through a major pillar supporting the law

Health insurance exchanges created to help millions of people find coverage are turning into money-losing ventures for many insurers.

The nation's largest, UnitedHealth Group Inc., could lose as much as $475 million on its exchange business this year and may not participate in 2017. Another major insurer, Aetna, has questioned the viability of the exchanges. And a dozen nonprofit insurance cooperatives created by the law have already closed, forcing around 750,000 people to find new plans.

More insurer defections would lead to fewer coverage choices on the exchanges and could eventually undermine the law, provided the next president wants to keep it.

However, insurance experts aren't writing an ACA obituary yet: Enrollment is growing and appears to getting younger in some markets, a crucial factor for stability. Insurers also are learning more about their new customers and adjusting their coverage to do better financially. The future of the exchanges depends on whether those improvements continue and some other, big worries ease.

This Tuesday, Oct. 16, 2012, file photo, shows a portion of the UnitedHealth Group Inc.'s campus in Minnetonka, Minn. Health insurance exchanges that were created to help millions of people find coverage are turning into money-losing ventures for several insurers. The nation's largest, UnitedHealth Group, expects to lose $245 million on its exchange business in 2016 and may not participate in 2017. (AP Photo/Jim Mone, File)

"Sometimes I think of (the exchanges) as a little campfire that's going to grow, but right now it needs a little more oxygen or kindling," said Katherine Hempstead, director of health insurance coverage programs for the Robert Wood Johnson Foundation, a nonpartisan organization that has assisted state governments on ACA insurance expansions.

BALANCING THE SICK AND HEALTHY

The biggest problem with the exchanges reflects a basic insurance rule: Insurers need healthy, premium-paying customers to balance claims they cover from the sick. Insurers have struggled in many markets because people who couldn't get coverage previously due to a condition were among the first to sign up when the exchanges opened a few years ago. Healthy customers have been slower to enroll.

Insurers say they've also been hurt by customers who appear to be waiting until they become sick to buy coverage. The companies blame liberal enforcement of the ACA's special enrollment exceptions.

The law provides an annual enrollment window for several weeks starting in the fall. This is the main chance most people have to enroll or change coverage.

But customers can enroll outside that window if insurance needs change because they've moved, gotten married or had a child, among other exemptions.

Exchanges have not been asking for birth certificates, marriage licenses or other proof of these life-changing events. Insurers say that leaves them vulnerable.

The Montana Health Co-Op had a severely ill customer in a hospital sign up for its coverage in October and then drop a $250,000 bill on the insurer. CEO Jerry Dworak said he asked the exchange operator for details on whether the patient had a legitimate reason for the special enrollment. The exchange would only say that the patient changed ZIP codes.

"They've got to do something about the special enrollment because we just got killed on that," Dworak said.

The federal government runs exchanges in most states and announced Wednesday that it will start seeking proof that customers qualify for these special enrollment periods. This new requirement will unfold over the next several months.

Its effectiveness will depend on how aggressively the government enforces it, Goldman Sachs insurance industry analyst Matthew Borsch said in a research note.

HIGHER COSTS

Many insurers also are struggling with higher-than-expected costs in general. Part of that comes from either starting an insurance business from scratch, as the co-ops did, or breaking into a new market.

Medical costs almost tripled to more than $181 million through the first nine months of 2015 for Maine Community Health Options. Outpatient services like expensive drug infusions and orthopedic procedures for hips and knees, in particular, hurt the insurance cooperative.

CEO Kevin Lewis isn't sure yet whether they need to consider that higher-than-expected use in setting future rates or if it was pent-up demand from people who haven't had coverage.

Community Health Options covered nearly 71,000 people as of late September. That's up 78 percent from the end of 2014, and Lewis said the customer base is getting younger, which is important because those customers generally contribute fewer expenses.

Now the insurer has to hit the right balance of raising rates enough to cover claims but not so high that it scares away those newer customers.

"If higher prices prompt healthier people to bail, it won't be long until it unravels," Lewis said.

THE FUTURE

Challenges remain for companies selling coverage on the exchanges.

Some government programs that provided temporary financial support for insurers as they set up their exchange business are winding down.

At the same time, premiums are rising in many markets, and that makes the high-deductible coverage found in many exchange plans a tough sell for healthy people.

Despite all the concerns, insurers aren't anxious to dump exchange coverage. Companies like Molina Healthcare Inc. say they make money off this business. Even Mark Bertolini, the Aetna Inc. CEO who spoke cautiously about the future, has said it is too early to give up.

The Montana Health Co-Op lost nearly $38 million in the first nine months of 2015, but Dworak thinks it can turn a slight profit this year. Most of the loss came from a charge the co-op took when the federal government delivered only a fraction of a payment due under a program designed to limit insurer losses.

The co-op has dropped an unprofitable plan and caught a break when a state Medicaid expansion took away high-cost patients.

"We're cautiously optimistic," Dworak said.

Insurers will continue to shuffle in and out of the exchanges for a few years, predicts Larry Levitt, a senior vice president for the Kaiser Family Foundation, which studies health care issues.

But ultimately, he expects them to keep supporting this still-new business opportunity, which also is important to customers because the exchanges offer income-based tax credits to help buy coverage.

"That money is just too important to walk away from, for both people and insurers," Levitt said.