



DAILY REPORT FOR EXECUTIVES



VOL. 0, NO. 0

REPORT

SEPTEMBER 29, 2009

Health Care

As Health Cooperatives Gain Ground, Critics Question Capacity for Change

It's a system that many Americans are familiar with, either through credit unions, electric power co-ops, or local supermarkets, but as health insurance co-ops have emerged as a possible solution to rising costs, critics from across the spectrum have begun to question whether co-ops can offer real savings and solutions.

Sen. Kent Conrad (D-N.D.) originally proposed co-ops as a way to increase competition and give consumers a greater choice of health care plans, but without greater government involvement in the current health care system. The concept emerged through negotiations within the Senate Finance Committee, led by Chairman Max Baucus (D-Mont.), in an effort to draw Republican votes on the eventual legislation. He said publicly that such a system of regional cooperatives could help reduce health insurance costs and add competition without the introduction of a government-run public option.

But as the debate continues, supporters and opponents alike have been wary of health care co-ops, with some believing they would do too little to curb rising costs or would lack the ability to compete on a wide scale.

A Congressional Budget Office analysis of the Finance Committee's health reform proposal, America's Healthy Future Act of 2009, dismisses the effect of co-ops, saying they would not affect enrollment in health care or the total cost of the bill. "They seem unlikely to establish a significant market presence in many areas of the country or to noticeably affect federal subsidy payments," CBO said in a report released Sept. 16.

According to projections, the overall legislation would yield \$40 billion in savings over a 10-year period, with the \$500 billion increase in coverage costs offset by reductions in Medicare payments, increased taxes on high premium plans and other fees.

\$6 Billion in Startup Grants for Co-Ops. Included in the bill is \$6 billion to start nonprofit, member-run health insurance cooperatives that would compete in the individual and small group insurance markets. The \$6 billion would be distributed as loans and grants, but only to organizations not previously involved in providing health insurance. The grants will be made by an advisory

board appointed by the secretary of health and human services.

The U.S. Department of Agriculture and the University of Wisconsin's Center for Cooperatives released a study this year detailing the role of current health care cooperatives in the marketplace. The study identified 305 various health care co-ops and their economic impact, which include more than \$1 billion in assets, \$5 billion in revenue, and total membership of nearly 2 million people.

While systems that allow hospitals and health providers to collectively bargain for products are widespread, there are fewer cooperatives devoted to the purchasing of health insurance for its members. Some health care co-ops are integrated systems, providing health insurance, patient care, and other services to their members. Co-ops such as HealthPartners of Minnesota offer such services to its members.

'Consolation Prize.' Paul Ginsburg, president of the Center for Studying Health System Change, a nonpartisan policy research group, said co-ops were offered as a "consolation prize" to policymakers interested in a public option. He said co-ops formed under the current plan would not have advantages, such as brand recognition, that current companies have, and that it can be difficult as a new entrant into a complex market.

"I am not enthusiastic about their potential to become major players in many markets," Ginsburg said.

He added that many co-ops form naturally through a shared need or service, such as farmers forming a co-op to help set prices for their crops, while people searching for insurance might not share the same commonalities.

The larger insurance companies, such as United-Health Group, have yearly revenues up to \$81 billion, and can offer coverage to larger numbers of people than a co-op receiving a share of \$6 billion in federal seed money, according to Ginsburg.

Sen. John D. Rockefeller IV (D-W.Va.), a leading proponent of a public insurance option in health reform legislation, has said publicly that he will not support co-ops, calling them "untested" and "unsubstantiated," with no guarantee that creating the co-ops would bring down costs or make health insurance more available to people who need it. He cited a Government Accountability Office report in 2000 that found cooperatives in health care offered small employers more options and eased administrative burdens, but were unable to provide lower prices or negotiate better plans.

Rockefeller plans to introduce an amendment that would strike the cooperatives from the Senate Finance proposal and replace them with a public option.

Some Republicans in the House and Senate have pushed to reduce or eliminate co-ops altogether.

House Minority Whip Eric Cantor (R-Va.) has said that co-ops would be the same as a public plan backed by the government, and that co-ops would lead to an eventual government takeover of health care.

In the Senate, Sen. Orrin G. Hatch (R-Utah) plans to offer an amendment to strike the cooperatives provision from the Finance bill and use the savings to reduce the federal deficit.

Co-Ops Less Threatening. William Schiffbauer, a Washington attorney who has represented insurance companies and has written about health care, said that the reason this bill was met with less resistance from the insurance industry may be because the industry does not see health care co-ops as a threat.

He said that co-ops probably would be useful in discrete, limited markets, but would be limited by how they raise capital and might be unable to compete in larger markets. He compared the concept of co-ops to mutually owned insurance companies that provide plans, which he pointed to as another way policyholders can be involved in the company.

Schiffbauer cited the goal of co-ops as providing more competition, but said that the market will only support a certain number of companies, and that no one knows how this number translates into adequate competition.

America's Health Insurance Plans, an organization representing almost 1,300 health insurance providers, sent a letter Sept. 21 to the Finance Committee expressing "strong concerns" about government-created health care co-ops. The group cited the loans and grants from the government as an unfair competitive advantage and wrote that the role of the government would be "player and referee" in dealing with the health insurance industry as a whole.

Market Power. The National Cooperative Business Association (NCBA), a national membership organization representing co-ops across industries, has engaged in talks with various policymakers over the issue of health care co-ops. NCBA's position is that cooperatives can only be a potential solution for lowering health care costs if it is done on a large enough scale to negotiate lower prices and better coverage.

But NCBA's position is that there still are underlying problems associated with rising costs that co-ops would not be able to fix, according to published position papers.

NCBA Chief Executive Officer Paul Hazen said it would probably take about 15 percent to 20 percent of the market in a given area to give a health insurance co-op the power and size it would need to function properly.

Currently, the Finance proposal calls for seed money for at least one co-op in each state and the District of Columbia, but does not exclude the possibility of multiple co-ops existing in the same state. He said that co-ops are a better business model if Congress wants to achieve its goal of more insured, because these companies combine business with a social purpose.

But Hazen also said that too much government control over these co-ops would interfere with their ability to operate on behalf of their owners—the customers. When compared to private insurance companies and a public option, co-ops have the potential to be the best of the three, he said.

The Commonwealth Fund, an organization that lobbies for health care reform and supports a public plan, does not support the idea of co-ops, according to published position papers. Weak or small co-ops would be unable to negotiate lower prices, and the creation of co-ops would not deal with the underlying cause of rising health care costs, the group said.

One example of a recent health insurance co-op is the Farmers' Health Cooperative of Wisconsin. Formed in 2007 to help farmers and agricultural businesses afford health insurance, the organization is credited with offering farmers better choices of health insurance. With seed money from several organizations, the co-op now has 2,200 members and the majority of members see premium increases of about 7.9 percent.

Long-Term Savings Sought. Ralph G. Neas, CEO of the National Coalition on Health Care (NCHC), an umbrella group of more than 70 organizations, said that the primary purpose of a health reform bill needs to be long-term savings and cost reductions. It needs to cover more people and offer a wider choice of competitors.

While NCHC does not endorse specific bills, the group is disappointed with the Finance Committee bill. Neas said that the group believes there is already enough money in the system to finance its overhaul without adding any more federal funds. Neas said the final bill the Senate and House vote on may be entirely different from the current legislation, whether that means a public option or co-op proposal.

Health care co-ops might not even be formed for several years after the legislation is passed. The Department of Health and Human Services has until the end of 2012 to begin disbursing the funds, and until 2015 to finish, according to the Finance Committee's proposal. A committee formed out of members of Congress would be responsible for reviewing applications for funding.

BY ANDREW MEDICI

For the entire Senate Finance Committee bill, go to http://finance.senate.gov/sitepages/leg/LEG%202009/091609%20Americas_Healthy_Future_Act.pdf.

The University of Wisconsin's Center for Cooperatives report is available at <http://reic.uwcc.wisc.edu/summary>.