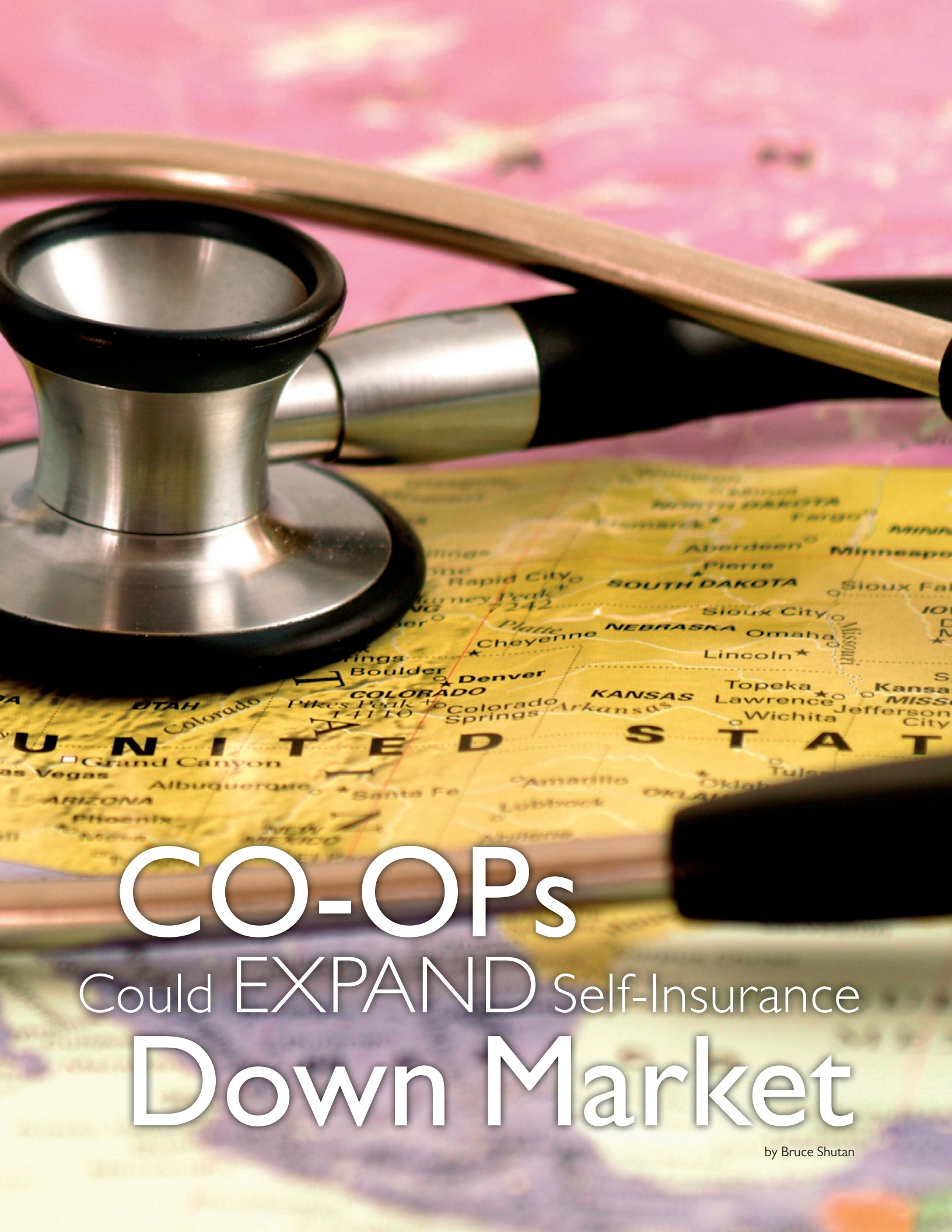

CO-OPs Could EXPAND Self-Insurance Down Market

by Bruce Shutan

With the Affordable Care Act (ACA) comes compliance headaches for employers, but there also are opportunities to expand avenues for self-insurance that trickle down market. One such solution involves consumer operated and oriented plans known as CO-OPs, which offer small businesses and individuals a competitive alternative to traditional approaches.

Initially envisioned for all 50 states under the ACA, these nonprofit entities are operational in only about half the country. Hopes are running high for CO-OPs to help reduce costs, despite their startup funding being slashed to about $2 billion in low-interest loans from $6 billion.

Public health insurance exchanges that offer these plans as an option have premiums that are 8.4% to 9.4% lower than states that don't offer them. The research finding was included in an analysis by the National Alliance of State Health CO-OPs (NASHCO) based on exchange weighted average premiums from 47 states and the District of Columbia that serve as the basis for determining federal subsidies. The data did not include calculations from Kentucky, Hawaii and Massachusetts.

Strength In Numbers

The presence of CO-OPs in certain markets across the U.S. could not only help advance self-insurance among smaller groups, but also enable various carriers that serve this market segment grow their businesses.

Any small group self-insured health plans with fewer than 50 lives that are served by CO-OPs on the public exchanges in 2014 would be confined to associations involving multiemployer plans, explains Martin Hickey, M.D., CEO of New Mexico Health Connections and NASHCO board chairman. The threshold, of course, would jump to 100 lives next year.

Any stand-alone, self-insured group health plans that CO-OPs serve would have to be done off the exchanges and sold "basically as a TPA product," he says. "I don't know if any of the CO-OPs for 2014 are doing TPAs, but I think some are planning it for their 2015 filings."

Adam Russo, an attorney who co-founded the Phia Group, LLC, sees smaller plans, particularly municipality groups, gravitating toward CO-OPs largely in response to state legislation restricting their ability to purchase stop loss.

"There's nothing stopping a 10-life group from being self-funded," he says, "but there's a lot out there stopping a 10-life group from purchasing stop loss, depending on where they are in the country." The movement is part of a larger trend he sees in the small group space to find strength in numbers through CO-OPs, consortiums and captives for better control of health care costs.

Russo predicts a significant growth opportunity for stop-loss carriers, reinsurers and TPAs to administer more self-insured groups "that maybe alone would not have the ability to purchase stop loss, whether from an actuarial or legal standpoint in that particular state." But there's a caveat to consider. He sees potential minefields because many states have vague rules or laws pertaining to smaller groups banding together.

Whatever ends up happening, it could take time before these market opportunities gain traction. Despite receiving more than 18,000 proposals for stop-loss insurance in any given year and close associations with thousands of brokers and TPAs, Sun Life Financial US has not yet been approached about CO-OPs, reports Scott Beliveau, VP of the firm's stop-loss division. In stark contrast, he adds that Sun Life has been repeatedly contacted by multiple employer captives to share risk.

Addressing Solvency Concerns

The CO-OP model has produced decidedly mixed results, according to Brad Kopcha, executive VP of actuarial services at Benecon. While acknowledging that some of these plans are well-constructed and have been in existence for a while, others aren't so fortunate. "There has to be a lot of due diligence and care as to where the risk transfer points are and at what price," he says.

While ACA critics have expressed concern over whether CO-OPs are adequately funded and can compete with commercial carriers, it's worth noting that the public exchanges can set certain standards on capital requirements – not just network adequacy among other things. So says Larry McNeely, policy director for the National Coalition on Health Care in Washington, D.C., a nonprofit and non-partisan group of more than 70 organizations representing about 150 million Americans.

Another point to consider is that each CO-OP, whose startup funds range from about $10 million to $20 million, also must have solvency funds reserved at 500% of risk-based capital in a best-case scenario. Hickey describes this amount as "extremely healthy," adding that his own CO-OP is reserved at about 800% because of expectations that there might be more risk involved in New Mexico where the plan operates.

Under the ACA, CO-OPs offered on the public exchanges are eligible

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for reinsurance and risk corridors for a three-year transitional period, as well as a permanent risk-adjustor program, according to Cliff Gold, chief operating officer of CoOportunity Health, a CO-OP serving Iowa and Nebraska. These layers of protection against the most costly claims provide carriers with a redistribution of payment in the event that they attract a disproportionately bad risk pool, he says.

In the case of reinsurance, he says CO-OPs would receive 80% reimbursement on anywhere from $40,000 to $250,000 worth of claims for those three years. Gold notes that reinsurers can sell to CO-OPs "any layers of that risk not covered by the federal government to the level at which they are comfortable in assuming all of that risk."

Matt Rhenish, SVP of marketing and strategy at RBS Re, says reinsurance enables CO-OPs that may not have significant reserves "to draw on the reserves and financial positions of more established, well-capitalized companies."

He believes self-funded employers will approach CO-OPs cautiously for several reasons. One is that some CO-OPs lack a track record of paying claims, as well as managing customer service centers and other administrative functions.

"Self-insured plans today procure those services from well-established third party administrators, Blues plans and national carriers," he explains, adding that abandoning these traditional sources for a new and untested entity could be seen as a risk not worth pursuing.

Another possible explanation is that "self-funded plans are still waiting to see the exchange markets reach equilibrium in terms of cost, regulation and member experience," according to Rhenish. "Working with a CO-OP brings in these larger market uncertainties into consideration for a self-funded plan, regardless of how good the CO-OP is, so employers likely will wait until those other items are more settled."

Managing Volatility

While CoOportunity Health will not self-insure groups below 50 lives, Gold is aware of some arrangements that go down market to 25 or even 10 lives. "Our belief is that when you start to self-insure down to the small group market, the structure of those programs looks very much like insurance," he says. "So when you start putting a $10,000 deductible, for example, on a self-insured policy, it looks a whole lot like a $10,000 fully insured policy."

Small groups, no doubt, would save 5% to 6% on fees associated with the ACA if they self-insure, "but they also put themselves in a much higher risk of volatility of their claims expense by not being fully insured," Gold observes.

Smaller groups of self-insured employers that end up with a sicker pool of covered lives may be better off steering those employees to public exchange plans to buy their own insurance where they're eligible for federal subsidies, according to Hickey. He says this could be particularly true for low-wage employees who have had to pick up half the cost of their insurance. ■

Bruce Shutan is a Los Angeles freelance writer who has closely covered the employee benefits industry for 26 years.