



Co-Opted: Why Health Insurance Co-Ops Are Bad News for Consumers

The health insurance purchasing co-ops proposed by Sen. Kent Conrad (D-ND) and a number of Senate conservatives have been tested and largely failed throughout the country. At best they do not have the market clout to leverage discounts and good policy choices with health insurers. At worst, co-ops are a path to gutting state consumer protection laws.

Too Small to Negotiate Meaningful Discounts

Co-ops have largely failed (see below) to provide health care savings for small businesses and the self-employed because they could not amass enough purchasing power to leverage better prices from the health insurance industry.¹ Health insurers, hostile to co-ops, have been free to ignore them and refuse to sell coverage.² Insurers' hostility and neglect also prevented co-ops from offering a sufficient variety of plans with good benefits to attract a large enough group of members.

As described by Sen. Kent Conrad, the chief proponent of co-ops, state-based or regional co-op health plans would remain beholden to for-profit insurance companies for provision of coverage. Conversely, the proposed "public option" would allow business and individuals and small businesses to bypass the private insurance market altogether, if they chose, and avoid wasteful administrative costs and profits that are ten times greater than administrative costs of public health plans like Medicare.³

According to proponents, a health co-op would need 25,000 members to be financially viable, and at least 500,000 members to negotiate coverage discounts.⁴ A 2002 report by the Commonwealth Fund described various reasons for the failure of previous co-op experiments, all related to lack of clout:⁵

- The Florida Community Health Purchasing Alliances enrolled 92,000 people when enrollment peaked in 1998, had increasing difficulty attracting any but the smallest employers and gradually found themselves losing health plans. As a consequence, enrollment also fell, and the purchasing alliance ceased operations in 2000.
- The Texas Insurance Purchasing Alliance, begun in 1994, never reached the enrollment levels of the Florida effort, covering only about 1,000 firms and 13,000 people at its height. Difficulty in attracting employers led to the withdrawal of insurers, and the Alliance governing board ultimately decided that the operation was not viable and closed it down.

¹ See Elliot K. Wicks, *Health Insurance Purchasing Cooperatives*, Issue Brief, The Commonwealth Fund, November 2002, page 3-4.

² *Id.*

³ Jacob S. Hacker, Ph.D., *Case for Public Plan Choice in National Health Reform*, Institute for America's Future & U.C. Berkeley School of Law, December 2008, page 5.

⁴ Robert Pear and Gardiner Harris, *Alternate Plan as Health Option Muddies Debate*, New York Times, August 17, 2009.

⁵ *Supra*, note 1, page 3.

- The Alliance in Colorado was the most recent failure. Established in 1995, the Alliance closed in the summer of 2002 after one of its three health plans withdrew from the state small-group market, a second capped enrollment, and the last decided to stop participating.

A Government Accountability Office report in 2000 came to similar conclusions.⁶

Wolf in Sheep's Clothing: Eliminating State Insurance Regulation

Some lawmakers, led by Senator Mike Enzi (R-Wyo.), see co-ops as not just a weak pseudo-reform but as the insurance companies' top prize: a vehicle to avoid state insurance regulation.

Under a similar plan authored by Enzi in 2006, state co-ops would have been exempted from state consumer protection laws. As a result, consumers would lose benefits such as a woman's right to visit an OB/GYN, screenings for cervical and prostate cancers, newborn care, bans on "drive thru" deliveries, and guarantees of independent medical review if an insurer denies coverage for a medically necessary treatment. The plan would have also extended the Employee Retirement Income Security Act (ERISA) exemption from state common law to any company that sells these bare bones plans. If health insurers inappropriately denied claims, policyholders would be unable to collect damages. Enzi's measure, S. 1995—the so-called "Association Health Plan" legislation—failed in the Senate in 2006, but Enzi continues to show strong interest in reviving it.

Enzi's bill (S. 1955), like Conrad's co-ops, was touted as a way to insure more people but would in fact have eroded existing coverage for those who already had health insurance. Under it, any HMO or insurer could ignore state patient protections, courts and regulators to sell junk health insurance.

Shifting the Burden to the Middle Class

All of the bills being considered require Americans to buy private insurance policies. The fragmented co-ops, with a few possible large-state exceptions like California, would not be capable of protecting their customers from the worst insurance company abuses, including double-digit premium increases and other steady cost-shifting onto the middle class. Any effort by states to band together in regional alliances would raise a demand by insurers to be exempted from any state patient protections or controls.

Only a national public option would have the clout to bargain with providers and bypass the insurance companies altogether.

⁶ *Cooperatives Offer Small Employers Plan Choice and Market Prices*, Government Accountability Office, March 2000. Available at: <http://www.gao.gov/archive/2000/he00049.pdf>