

In the Spotlight: Health Care Reform and Consumer Operated and Oriented Plans

Somewhere between government-run health care and total market system lies a concept so elusive, few even know it exists in the health insurance world. Consumer operated and oriented plans (co-ops) are non-profit insurance pools that are created and run by members. Co-ops were the United States Senate's answer to the opposition of a public option. As Senator Kent Conrad (D-ND) said, "The co-op structure came to mind because it seems to fulfill some of the desires of both sides. ... [For] those who want a public option because they hope to have a competitive ... model able to take on the private insurance companies, a co-op model has attraction. And for those against a public option because they fear government control, the co-op structure has some appeal because it's not government control."

The Affordable Care Act (ACA) requires the US Department of Health and Human Services (HHS) to establish a Consumer Operated and Oriented Plan (CO-OP) program, which will provide loans and grants to foster the creation of new qualified non-profit health plans to offer coverage in the individual and small group markets.

The ACA and Co-ops

The ACA sets aside \$6 billion for HHS to dole out in the form of loans and grants to help alleviate start-up costs and meet state solvency requirements. This budget was cut to \$3.8 billion in the 2011 fiscal year budget. This funding will be made available by no later than July 1, 2013. In order to be qualified, co-ops must meet the following general requirements:

- Be incorporated as a not-for-profit business.
- Use any profits to lower premiums, improve benefits or for other programs intended to improve the quality of health care delivered to members;
- The money is prohibited from being used by the recipients on lobbying and marketing;
- Have substantially all their activities involve providing health insurance coverage in the individual and small group markets;
- Not be "sponsored" by state governments;
- Not be an existing organization that provides insurance prior to July 16, 2009, nor an affiliate or successor to such company.

In addition to the general requirements, HHS was instructed to give priority to applicants that will offer statewide coverage, use integrated care models, and have significant private support.

Those entities that receive funds will receive a tax exemption from federal income taxes. Loans and grants are required to be repaid within five and 15 years respectively. Recipients who fail to function as outlined by the ACA will have to repay 110% of the amount received in addition to interest.

Successful Co-op Examples

Co-ops are by no means a new idea. Housing, agricultural, credit union and utility cooperatives are just a few examples of co-ops that have been in existence for decades. In Washington State, [Group Health Cooperative](#) was formed as a consumer-driven non-profit health insurance co-op in 1947 and has grown to more than 500,000 members. Group Health Cooperative provides coverage and care to its members and has been praised for using electronic health records, which are made available to all its members. In Minnesota lies the largest consumer-owned non-profit health insurance cooperative in the United States, [HealthPartners](#). HealthPartners offers medical and dental insurance to 1.25 million members and owns 25 primary care clinics. Their claim to fame is the low cost of medical care members enjoy, estimated at about 38% lower than the national average.

North Carolina has several examples of organizations with similar characteristics of co-ops. However, according to the ACA, none of these organizations would be eligible for ACA funds since they have been in existence since before July 16, 2009 or are sponsored by state government. In North Carolina, Community Care of North Carolina has been cited as an example of a high-performing, community-based system of care that contracts both with individual and group practices and community health center. This model has been praised at a national level by several sources. Also in North Carolina, FirstCarolinaCare (FCC) is a non-profit health insurance company that is wholly owned by FirstHealth hospital system. FCC has publicly expressed interest in transitioning to a co-op.

Co-op Challenges

Many touted co-ops as the ideal answer between a totally for-profit controlled industry and government-run health insurance. Others have pointed out the difficulty in establishing new co-ops. Some groups, like Service Employees International Union and MoveOn.org, have questioned the ability of co-ops to compete with for-profit insurers, who have more negotiating power, and expressed concern that the co-ops may never become large enough to actually reduce costs to consumers. At the root of many of these concerns is general dissatisfaction with co-ops as a compromise to creating a public option for health care.

There is also significant concern about the solvency of these federally-supported co-ops. It can be difficult for insurers to raise the appropriate amount of funds for reserves and protect their customers from unexpectedly high claims costs. Because the ACA requires that the co-ops not to have been in existence prior to July 16, 2009 or an affiliate of an entity that has, and that co-ops use all profits to lower premiums, improve benefits, or otherwise improve the quality of health care for their members, the challenges to meeting solvency requirements may be compounded.

BCBSNC Views

Blue Cross and Blue Shield of North Carolina believes all individuals should have access to meaningful insurance coverage. We welcome and encourage competition in a fair, balanced environment. We believe HHS should ensure that grants and loans are only available to those co-op applicants that demonstrate – without waiver of existing standards for health plans – that they have the capital, business plans, and management capacity to remain viable in the individual and small employer markets in 2014 and beyond. A level playing field is essential to providing consumers with secure health plan choices, structuring effective competition, and protecting government investments.

For More Information

Healthcare.gov Cooperatives: <http://www.healthcare.gov/glossary/i/insuranceco-op.html>

NYTimes Article “So What’s a Health Insurance Co-op, Anyway?”:
<http://prescriptions.blogs.nytimes.com/2009/08/17/so-whats-a-health-insurance-coop-anyway/>

CCIIO on Co-ops: <http://cciio.cms.gov/programs/coop/index.html>

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