Written by **Michael Tennant** on November 23, 2015

Insurance Giant May Leave ObamaCare Exchanges

Citing mounting losses from its ObamaCare exchange plans, UnitedHealth Group, the nation's largest health insurer, announced Thursday that it may withdraw from the exchanges after next year — a revelation that could be a harbinger of serious exchange troubles.

UnitedHealth has only about five percent of the Affordable Care Act (ACA) exchange market, yet this small portion of its business is the cause of significant red ink. According to the *Wall Street Journal*, "the company said its operating loss for the exchange business this year will amount to about $700 million, or 45 cents a share, including $275 million that will represent 'advance recognition of losses' for 2016. The company said it was projecting an additional $200 million to $225 million in losses for next year that it wouldn't include in its 2015 results."

"We can't sustain these losses," UnitedHealth CEO Stephen Hemsley told analysts. "We can't subsidize a market that doesn't appear at this point to be sustaining itself."

Why the huge losses? For one thing, not enough people are enrolling in exchange coverage to make it profitable; the Obama administration's goal for 2016 exchange enrollment is just 10 million, a very small increase over this year and only about half what the Congressional Budget Office forecast in June. For another, the people enrolling in coverage tend to be older and sicker and therefore more costly for insurers. Moreover, said Hemsley, "We have identified higher levels of individuals coming in and out of the exchange system to use medical services." That is, people are buying coverage when they need it and dropping it after running up large bills.

This is exactly the sort of thing ObamaCare's individual mandate was supposed to prevent. The law's authors recognized that forcing insurers to sell policies to people regardless of preexisting conditions would result in an immediate influx of unhealthy people into the market, so they added the requirement that everyone have coverage or pay a penalty in order to prod healthy people into buying coverage, thereby subsidizing the care of the sick.

Unfortunately, in the real world things don't always work out the way the planners expect. Healthy people have been reluctant to sign up for expensive and stingy exchange plans despite the penalty, though that may change as the penalty continues to rise in the coming years. In addition, although enrollment is supposed to take place during a limited period each year, the ACA's generous allowances for special enrollment periods due to major life events seem to have enabled many people to obtain coverage only when they need it rather than on an ongoing basis. Cynthia Cox, associate director of

health reform and private insurance for the Kaiser Family Foundation, told MarketWatch "that it could be the group who takes advantage of special enrollment are more likely to want medical coverage."

Republicans were quick to pounce on the UnitedHealth announcement. Representative Fred Upton (R-Mich.) told the *Washington Examiner* that the company represented "a very large piece of the Obamacare Jenga tower" and said "the law is already on shaky ground." Representative Jason Chaffetz (R-Utah) told the *Journal*, "The consequences we see from this hastily and poorly conceived legislation were entirely foreseeable and not at all surprising."

Just as naturally, the Obama administration attempted to downplay the news, with a Department of Health and Human Services spokesman telling reporters that UnitedHealth's remarks are "not indicative of the marketplace's strength and viability."

However, given that not just UnitedHealth's stock but also the stocks of other large insurers and hospitals fell in the wake of the announcement, it's clear that the market does not view UnitedHealth's exchange troubles as an anomaly — and with good reason.

UnitedHealth, after all, isn't exactly a greenhorn in the health-insurance business, nor is it unfamiliar with ObamaCare. Indeed, the company is a consummate Washington insider. Its technical unit, OptumHealth, actually helped rescue Healthcare.gov in its early, glitch-filled days. Later, Andrew Slavitt, a top Optum executive, was hired by the Obama administration, which even "waived conflict-of-interest rules so Mr. Slavitt could participate in decisions affecting UnitedHealth and Optum," reported the *New York Times*. Slavitt is now the acting administrator of the Centers for Medicare and Medicaid Services, which oversees implementation of the ACA.

"If one of the largest and presumably, by reputation and experience, the most sophisticated of the health plans out there can't make money on the exchanges, then one has to question whether the exchange as an institution is a viable enterprise," Mizuho Securities analyst Sheryl Skolnick told Bloomberg.

UnitedHealth is hardly alone in its exchange woes. "All the other big insurers are signaling the same problems," Ana Gupte, an analyst with Leerink Partners LLC, told the *Journal*, which pointed to disappointing results from Aetna, Humana, and Cigna. Furthermore, wrote the paper:

> A Goldman Sachs Group Inc. analysis of state filings for 30 not-for-profit Blue Cross and Blue Shield insurers found that their overall companywide results were "barely break-even" for the first half of 2015. Goldman analysts projected the group would post an aggregate loss for the full year — the first since the late 1980s. The analysis said the health-law exchanges appeared to be a "key driver" for the faltering corporate results.

Because of the exchange troubles, some insurers are reducing the number of plans they are offering on the exchanges and further narrowing their provider networks on the remaining plans. Many are also seeking significant rate hikes on exchange policies; and state regulators, in recognition of insurers' struggles, are approving the increases.

Bloomberg noted other indicators of ObamaCare distress: "About a dozen non-profit 'co-op' plans created under the Affordable Care Act have failed, after charging too little to cover the cost of patients' medical care, and because an Obama administration fund designed to stabilize the market paid out just 12.6 percent of what insurers requested." Add to that the fact that the various ACA programs designed to ameliorate losses will end next year, and it's not difficult to see why most insurers and investors are rather bearish on the future of the exchanges.

The only insurance companies looking forward to 2016 and beyond are those that "focus closely on the Medicaid population," reported the *Journal*. In fact, these Medicaid managed-care companies are actually planning to *increase* their exchange presence.

That may sound like a good thing: Other companies are picking up where UnitedHealth, et al., leave off. However, as Scott Gottlieb of *Forbes* observed, "The cheap health plans that they end up selling on the exchanges mirror what they offer in Medicaid — in terms of the skinny doctor networks, the closed drug formularies, as well as the basic design of the austere health coverage.… Most of the plans this year are closed network 'exclusive provider organizations' that are the most restrictive HMOs structure possible."

"In short order," Gottlieb maintained, "Obamacare is evolving into a Medicaid marketplace."

Americans with exchange coverage may soon find that while they ostensibly have health insurance, they cannot readily use it to obtain care — the situation already faced by actual Medicaid beneficiaries. That is surely not the outcome ACA supporters envisioned, but it is the natural result of such a shortsighted, convoluted, and unconstitutional law.