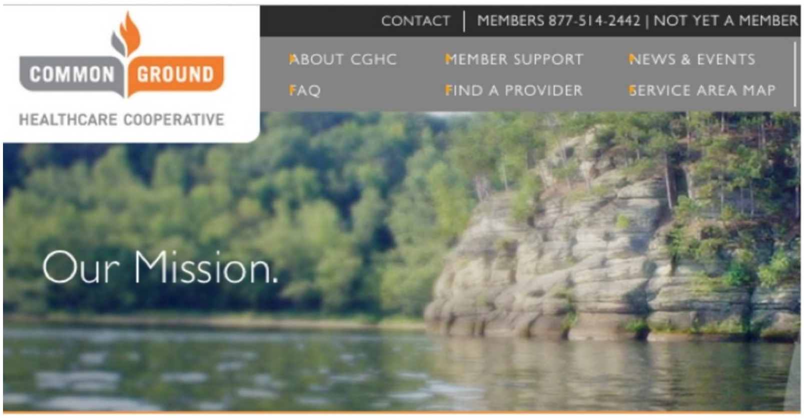
Written by Michael Tennant on April 13, 2016

Many More ObamaCare Co-ops Likely to Fail This Year



Over half of the ObamaCare co-ops have already failed, and financial reports from the remaining ones suggest that all but a handful of them are likely to fold this year, according to the Daily Caller.

The co-ops, officially known as Consumer Owned and Oriented Plans, are nonprofit health insurers that were supposed to offer meaningful competition to the private insurers on the ObamaCare exchanges.

Twenty-three co-ops were created; within three years, 12 of them had gone belly up. According to PolitiFact, that's a 40-percent faster failure rate than is typical for American businesses — and most of those businesses aren't launched with $2.5 billion in federal funding as the co-ops collectively were.

The 11 co-ops still standing aren't anything to brag about, either. In February, Mandy Cohen, chief operating officer of the Centers for Medicare and Medicaid Services (CMS), told a House subcommittee that eight of the remaining co-ops are on the brink of failure, though she declined to name which ones were in trouble.

By reviewing the annual reports the co-ops filed with state insurance regulators, however, the Daily Caller believes it has determined which eight are likely to fail this year. "Only four of them will be in business by year's end," the website asserted.

"Data shows last year all 11 co-ops lost money and the red ink also afflicted the four 'healthy' co-ops that may survive," wrote the Daily Caller.

Why are the co-ops in such trouble? As the Heritage Foundation's Ed Haislmaier put it, "The program was a Congressional exercise in not merely reinventing the wheel, but doing a bad job of it." The idea was to create member-owned insurance companies, much like the many "mutual" insurers that already existed. But the co-ops were required to "be non-profits, not have anyone affiliated with an existing health insurer on their boards, and not spend any of their federal funding on marketing," Haislmaier explained. They were also forced to spend at least 80 percent of their premium revenue on claims or refund the difference to policyholders, then fund their operations from the remaining 20 percent.

Remarked Haislmaier:

> Imagine how a business school class would react to their professor assigning them the task of planning a start-up, but with the restrictions that: 1) experts at other companies in its industry were barred from serving on its board; 2) it would have virtually no access to capital other than government loans; 3) it couldn't use those funds to market its products, and 4) if successful, it couldn't retain more than nominal profits to fund future growth?

Add to that the fact that ObamaCare's mandates on insurers have made insurance prohibitively expensive for those not getting subsidies, and it's not hard to see why the co-ops have failed to enroll enough people — especially the young, healthy people they need to subsidize the cost of covering the old and the sick — to stay afloat. "Given all of the foregoing," observed Haislmaier, "[12] co-ops failing within two years is less surprising then [sic] the fact that 23 of them actually got to market in the first place."

The remaining co-ops in the biggest trouble are those in Massachusetts, Oregon, Ohio, Connecticut, Montana, Wisconsin, Illinois, and New Mexico. "All eight burned through about 50 percent of their total assets in 2015," reported the Daily Caller. "The assets were supposed to last for 20 years under the terms of the federal funding program."

Oregon's co-op, the Health Republic Insurance Company, is in the worst shape. At the end of 2015, its losses outstripped its assets by $8 million. Significantly, it was founded by Sara Horowitz, whom the Daily Caller describes as "a long-time New York liberal political activist and former colleague of President Barack Obama" and who also founded the Empire State co-op, which flopped last year, costing taxpayers $365 million and leaving patients, doctors, and hospitals high and dry. (Horowitz's New Jersey co-op — can you say "cronyism"? — is one of the few not facing failure in the immediate future.)

The Illinois co-op reported assets of $107 million and net losses of $91 million. As bad as that looks, it may well understate the problem. The Daily Caller said the "co-op is not transparent about its expenses," noting that two co-op executives are listed as receiving modest or even no compensation while the co-op's sponsor, the Metropolitan Chicago Health Council, reported both earned hundreds of thousands of dollars.

High executive salaries are, in fact, common across the co-ops. Even as they have foundered, these organizations have paid top executives as much as $587,000 a year despite statutory language and CMS remonstrations to the contrary.

The Connecticut, Massachusetts, Montana, Ohio, Wisconsin, and New Mexico co-ops are also hemorrhaging cash, with losses equal to about half of their total assets. Furthermore, they are struggling to attract new enrollees, without whom they are certainly doomed. Connecticut's HealthCT, for instance, enrolled fewer than 8,000 of the 25,000 new customers it sought last year. The Bay State's Minuteman Health "projected it needed 40,000 enrollees to 'break even' but in 2014 it only garnered 14,000 customers," according to the Daily Caller.

Even the four co-ops projected to survive 2016 — Maryland, New Jersey, New Mexico (despite its high losses), and Maine — are hardly rousing successes. As noted above, every one of them still lost money last year, though some have enough cash on hand to remain solvent for a while. Maryland's co-op's assets went from $65 million to $37 million. New Jersey's lost "only" $18 million while retaining $140 million in assets. New Mexico had $61 million in assets and $23 million in losses. And while Maine was the only co-op to operate in the black in 2014, last year it lost $74 million and is now in danger of becoming insolvent.

The co-ops were always a bad idea: central planning masquerading as a free market. As such, they were also always doomed absent large and ongoing infusions of taxpayer cash. Fortunately for taxpayers, Congress has balked at pouring more of their hard-earned money down the co-op black hole. Unfortunately for those Americans who counted on the co-ops to help them afford healthcare, yet another ObamaCare promise has proven false.