New American

Written by Michael Tennant on July 1, 2015

ObamaCare Co-ops Lose Money While Executives Get Rich

ObamaCare's health insurance co-ops are fast running out of money — one has already failed — but that hasn't stopped their executives from fattening their own wallets at taxpayer expense, even when their salaries appear to exceed legal limits.

The Affordable Care Act (ACA) created health insurance co-ops as nonprofit competitors to private insurers with the aim of serving the working poor and others in need of health coverage. Thus far, 23 co-ops have been established, and they are clearly taking the "nonprofit" part of their mandate seriously. According to the *Daily Caller's* Richard Pollock, "net losses for the co-ops reached a record $614 million in 2014" — this despite $2 billion in initial federal funding plus additional "solvency loans," including $317 million in such loans "to one out of every three co-ops last year." As of the end of September, "the ratio of surplus notes outstanding to capital and surplus exceeded 100% for all of the co-ops," according to a January report from insurance ratings firm A.M. Best.

Things have hardly improved since September. The co-ops suffered nearly 62 percent of last year's losses in the fourth quarter alone. One of them — Co-Opportunity Health, which served Iowa and Nebraska — was shuttered on Christmas Eve after losing $163 million in its lone year of operation, leaving over 120,000 customers in the lurch. The co-op had already received $145 million in low-cost loans from the Centers for Medicare and Medicaid Services (CMS) in 2012 and got another $32 million last year; a subsequent request for $55 million more was rejected.

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And this is for one of the supposed success stories of ObamaCare. Pollock reported:

> Co-op supporters hailed Co-Opportunity Health because it had initially enrolled 50,000 customers, the second highest in the nation.
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> "We are very pleased with the market response to our products," said David Lyons, Co-Opportunity's chief executive officer and a politically-connected former Iowa insurance commissioner.
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> What Lyons failed to say was that Co-Opportunity slashed prices and offered very low, below-market premiums to attract new customers.

> The low premiums came at a cost. Co-Opportunity's ratio of costs to premiums was 140 percent. That meant that for every dollar it collected in premiums, it had to pay out $1.40 in medical claims.
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> The ratio is not much better among the other remaining co-ops. According to Scott E. Harrington of the University of Pennsylvania's Leonard David Institute of Health Economics, "The ratios for the first three quarters of 2014 produced" a total ratio of costs-to-premiums of 116 percent.

Co-Opportunity, in fact, wasn't even the biggest loser last year. Co-ops in Utah, Colorado, Michigan, Tennessee, Maryland, Oregon, and Connecticut actually lost more as a proportion of their remaining funds than did Co-Opportunity, according to a report from Standard & Poor's.

It's not hard to see why the co-ops are in trouble. They are classic socialist enterprises. They were established by the government and get all their funding either from taxpayers or from premiums, which, as noted above, are often below market rates, while their medical costs are extraordinarily high because they're covering people private insurers don't want. They are prohibited from accessing private capital markets. And when they spend lavishly, as most people do when disbursing other people's money, "they don't have any other cushion except for taxpayers to bail them out or lend them more money," American Enterprise Institute resident healthcare fellow Thomas Miller told Pollock. "When that's gone, so is the co-op."

Among the extravagant expenses incurred by the co-ops are their executives' salaries. "Most of the Obamacare co-op executives are paid more than members of Congress, Supreme Court justices, U.S. cabinet secretaries and the governors of all 50 states," Pollock reported in another article. The salaries for top executives at 18 of the co-ops ranged from $263,000 to $587,000, according to 2013 Internal Revenue Service (IRS) filings.

"Before its collapse, David Lyons, Co-Opportunity's president and CEO[,] received $261,000 in compensation. Stephen Ringlee, Co-Opportunity's CFO, received $257,000, despite having failed in several previous startups. Clifford Gold, its COO, took in $288,00[0]," penned Pollock. These salaries, he calculated, were seven times the average individual income in Iowa.

Other executives have padded their bank accounts even more excessively.

Thomas Policelli, CEO of Massachusetts' Minuteman Health, topped the list with a whopping $587,000 salary. Minuteman had a net operating loss of $21 million last year and had enrolled just 1,700 people, one of the lowest enrollments in the nation.

Number two on the list is South Carolina's co-op president and CEO Jerry Burgess, who took home $490,000, or 14 times the average individual income in the Palmetto State. Burgess surely was not rewarded so handsomely because of his stellar performance: The co-op had a net $10 million operating loss last year and, according to A.M. Best, had spent half of its taxpayer cash-on-hand by the third quarter.

Then there's Tom Zumtobell, CEO of Nevada Health CO-OP, who took in $414,000. Zumtobell is a former vice president of casino-workers' union UNITE HERE. Other ex-UNITE HERE officials also hit the jackpot as co-op employees: Treasurer Kathy Silver, the former board president of the local union chapter, scored $377,000; and secretary Bobbette Bond, former chief lobbyist for UNITE HERE, made $222,000. Her husband, Donald Taylor, is the union's national president and, perhaps not coincidentally, a director of the co-op. Nevada Health lost $20 million last year.

And the list goes on, proving that, as always, socialism is a dismal failure at anything except enriching the politically connected.

It was not, of course, supposed to be like this. The co-ops were, according to CMS, intended to provide "affordable, consumer-friendly and high quality health insurance options." They were not, the agency reminded them in 2011, supposed to expend taxpayer dollars on "excessive executive compensation." Moreover, "a section of the Bipartisan Budget Act of 2013 established limits for federal contractor executive compensation at $487,000," wrote Pollock. "At least five co-op executives were paid above those limits."

"What they have done is the worst of both worlds," Galen Institute president Grace-Marie Turner told Pollock. "Their organizations are failing and they're paying CEO's exorbitant salaries that are completely in contrast with the concept the co-ops were supposed to stand for."

Don't look for the situation to improve. Although some of the co-ops are trying to stay afloat by significantly hiking their rates — so much for "affordable" insurance — most are still burning through cash at rapid rates.

"We're certainly going to have fewer co-op's by the end of the year," Miller told Pollock.

Once more, ObamaCare has failed to live up to its wildly unrealistic promises. But at least the co-ops' failure is instructive. If out-and-out healthcare socialism on such a small scale has gone belly up so soon, how much worse a disaster would "single-payer" healthcare be?