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The Calamitous Collapse of the Obamacare Co-Ops

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Hundreds of thousands of people will lose their insurance plans as a raft of health insurance cooperatives (co-ops) created by the Affordable Care Act will cease operations.

Just last week, co-ops in Oregon, Colorado, Tennessee and Kentucky announced that they would be winding down operations due to lower than expected enrollment and solvency concerns (although the one in Colorado is suing the state over the shutdown order). They join four other co-ops that have announced that they would be closing their doors.

These closures reveal how ill-advised this aspect of the ACA was both in terms of lost money and the turmoil for the people who enrolled in them.

The eight that have failed have received almost $1 billion in loans, and overall co-ops received loans totaling $2.4 billion that might never get paid back. In addition, roughly 400,000 people will lose their plans.

Health Insurance CO-OPs in the United States. Sources: Sabrina Corlette et al. "The Affordable Care Act CO-OP Program: Facing Both Barriers and Opportunities for More Competitive Health Insurance Markets," The Commonwealth Fund, March 12, 2015; Erin Marshal, "8 Things to Know About Insurance CO-OP Closures," Becker's Hospital Review, October 20, 2015. Created using Tableau. Notes: Hawaii and Alaska not shown. Neither state had a CO-OP. CoOportunity Health served both Iowa and Nebraska. CATO INSTITUTE

Proponents of the co-ops believed that they would be able to offer lower premiums than for-profit insurers because they did not have the same profit motive, but even non-profit insurers cannot operate at a financial loss indefinitely.

When they were created, these co-ops had no customers, no experience in setting premiums, no networks and limited capital. The government tried to subsidize the early period of uncertainty by disbursing loans to help with startup and solvency issues, and money from other provisions like risk corridors would dampen losses in the initial years.

Lower than expected payments from the risk corridors have exacerbated the issues facing some of these co-ops, who were counting on substantial payments to stay afloat. But this is hardly the only factor contributing to their struggles, some of them the product of other government policies like delaying employer mandate penalties and giving states the option to allow transitional policies through 2017.

Some of these later developments could not have been anticipated, but many analysts, including Cato scholars, were skeptical about the prospects of co-ops from the beginning. Even some ACA supporters recognized the flaws inherent in the co-ops design: Paul Krugman derided them as a "sham" and in a 2009 interview Professor Timothy Jost said could not see how a co-ops "does anything to control costs."

There have been multiple warning signs that many co-ops were in trouble. Earlier this year, the Centers for Medicare and Medicaid Services sent letters to 11 co-ops placing them on "enhanced oversight" due to financial concerns, and a 2014 report from the HHS Office of Inspector General found that "most of the 23 co-ops we reviewed had not met their initial program enrollment and profitability projections," and that the government "had not established guidance or criteria to assess whether a co-ops was viable or sustainable."

These co-ops were not a good idea at inception and were always going to face many obstacles to success. Multiple changes to the law since they were established have exacerbated these problems, and already struggling co-ops have folded. Competition is indeed vital in health insurance markets, but the co-ops were a bad way to try to foster this competition.

With these closures, billions of taxpayer dollars could be lost and hundreds of thousands of people will discover that the "if you like your plan, you can keep it" promise does not apply to them.

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