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Health Law Turns Obama and Insurers Into Allies

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WASHINGTON — With the health insurance marketplace now open for a second year, President Obama will be depending more than ever on the insurance companies that five years ago he accused of padding profits and canceling coverage for the sick.

Those same insurers have long viewed government as an unreliable business partner that imposed taxes, fees and countless regulations and had the power to cut payment rates and cap profit margins.

But since the Affordable Care Act was enacted in 2010, the relationship between the Obama administration and insurers has evolved into a powerful, mutually beneficial partnership that has been a boon to the nation's largest private health plans and led to a profitable surge in their Medicaid enrollment.

The insurers in turn have provided crucial support to Mr. Obama in court battles over the health care law, including a case now before the Supreme Court challenging the federal subsidies paid to insurance companies on behalf of low- and moderate-income consumers. Last fall, a unit of one of the nation's largest insurers, UnitedHealth Group, helped the administration repair the HealthCare.gov website after it crashed in the opening days of enrollment.

"Insurers and the government have developed a symbiotic relationship, nurtured by tens of billions of dollars that flow from the federal Treasury to insurers each year," said Michael F. Cannon, director of health policy studies at the libertarian Cato Institute.

The relationship is expected only to deepen as the two sides grow more intertwined.

"These companies all look at government programs as growth markets," said Michael J. Tuffin, former executive vice president of America's Health Insurance Plans, the main lobby for the industry. "There will be nearly $2 trillion of subsidized coverage through insurance exchanges and Medicaid over the next 10 years. These are pragmatic companies. They will follow the customer."

So much money is at stake that insurers may soon be on a collision course with the Republican majority in the new Congress. Insurers, often aligned with Republicans in the past, have built their business plans around the 2010 law and will strenuously resist Republican efforts to dismantle it. Since Mr. Obama signed the law in March 2010, share prices for four of the major insurance companies — Aetna, Cigna, Humana and UnitedHealth — have more than doubled, while the Standard & Poor's 500-stock index has increased about 70 percent.

Whatever Republicans do, over the next three months — the enrollment period — consumers will hear the same messages from insurance companies and the government urging them to sign up for health plans sold on the exchanges. Federal law requires most Americans to have coverage, insurers provide it, and the government subsidizes it.

"We are in this together," Kevin J. Counihan, the chief executive of the federal insurance marketplace, told insurers at a recent conference in Washington. "You have been our partners," and for that, he said, "we are very grateful."

Despite Mr. Obama's denunciations of private insurers in 2009, it became inevitable that they would have a central role in expanding coverage under the Affordable Care Act later that year when Congress ruled out a government-run health plan — the "public option" that liberal Democrats had favored. But friction between insurers and the Obama administration continued into 2013 as the industry bristled at stringent rules imposed on carriers in the name of consumer protection.

A turning point in the relationship came last fall, after the chaotic debut of HealthCare.gov, when insurers waived enrollment deadlines and helped the White House fix the dysfunctional website.

Now insurers say government business is growing much faster than the market for commercial employer-sponsored coverage. The Congressional Budget Office estimates that 170 million people will have coverage through Medicare, Medicaid and the insurance exchanges by 2023, an increase of about 50 percent from 2013. By contrast, the number of people with employer-based coverage is expected to rise just 2 percent, to 159 million.

In addition, the Affordable Care Act has engendered growth in the role of private insurers in Medicaid. The law expanded eligibility for Medicaid, and most of the new beneficiaries receive care from private health plans under contracts awarded by state Medicaid agencies. As a result, Medicaid enrollment is up more than eight million, or 15 percent, in the last year.

In a survey of 10 insurance companies, Joshua R. Raskin, an analyst at Barclays, reported that their revenues from the Medicare Advantage program were up about 10 percent this year. UnitedHealth Group's Medicaid enrollment surged by nearly one million people, or 24 percent, in the last year, said Stephen J. Hemsley, the chief executive. At another large insurer, WellPoint, the expansion of Medicaid "is proving highly profitable," Christine Arnold, a managing director of Cowen and Company, wrote in a recent report.

WellPoint is a case study in how companies have adapted to the law.

In 2010, as Democrats attacked the insurance industry for what they said were its high prices and discriminatory practices, no company was more of a target than WellPoint, which had sought rate increases of up to 39 percent in California. But WellPoint, which operates Blue Cross and Blue Shield plans in a number of states, is now prospering.

WellPoint announced recently that it had gained 751,000 subscribers through the health insurance exchanges and 699,000 new members through Medicaid. Since the end of 2013, WellPoint's Medicaid enrollment has increased by 16 percent, to a total of five million.

"Our government business is growing along multiple fronts" and accounted for about 45 percent of the company's consolidated operating revenues, said Joseph R. Swedish, the chief executive of WellPoint.

Aetna, in reporting its third-quarter results, said many people thought 2014 would "spell the death of our industry." But, the company said, it is having "a very good year," thanks in part to "excellent performance in our government business, which now represents more than 40 percent of our health premiums." The company described Medicaid as a "bright spot in the Aetna portfolio."

Insurers and the administration still have many disagreements, but open conflicts are rare.

"With all the politics of the Affordable Care Act, people don't realize how much the industry has benefited, and will continue to benefit, from the law," said Jay Angoff, the Obama administration's top insurance regulator from 2010 through 2012.

One insurer, Humana, derives about 65 percent of its revenue from its Medicare Advantage plans. Enrollment in these plans climbed 17.5 percent, to 2.9 million, in the year that ended Sept. 30, the company said.

At UnitedHealth Group, Medicaid and Medicare Advantage together are expected to provide more than $60 billion in revenue, or slightly less than half of the company's total, this year. United expects to participate in insurance exchanges in 23 states next year, up from four this year.

"The government, as a benefit sponsor, has been increasingly relying on private sector programs," United said in a document filed with the Securities and Exchange Commission. "We expect this trend to continue."

In another sign of the close relationship, the administration has recruited experts from the insurance industry to provide operational expertise. Eight months after the unit of UnitedHealth Group, called Optum, helped repair HealthCare.gov last fall, the administration hired a top Optum executive, Andrew M. Slavitt, as the No. 2 official at the Centers for Medicare and Medicaid Services. The administration waived conflict-of-interest rules so that Mr. Slavitt could participate in decisions affecting UnitedHealth and Optum.

Now, as millions of Americans shop for insurance, federal officials are eager to collaborate with an industry they once demonized.

“The relationship between the marketplace and insurers is really critical to a successful program,” said Ben Walker, director of open enrollment for the federal exchange. “Without that, we don’t have any coverage.”