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Another Obamacare Failure: $1.23 Billion Taxpayer Funds Sunk in Failed Co-Ops

Ali Meyer

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A total of $1.23 billion in federal taxpayer dollars has now been sunk in 12 of 23 co-ops created under Obamacare that have gone out of business, representing another Obamacare failure, lawmakers say.

Co-ops in Arizona and Michigan went out of business last week, adding themselves to the 10 that have already failed in Utah, Kentucky, New York, Nevada, Louisiana, Oregon, Colorado, Tennessee, South Carolina, and a co-op that served both Iowa and Nebraska.

Experts and congressmen say the co-ops failed because of artificially low premiums, strict regulations, and too many people requiring payouts.

“This was set up for failure from day one,” said Rep. Chris Collins (R., N.Y) at a House Energy and Commerce committee hearing evaluating the failed-co-ops on Thursday. “Insurance companies knew it was going to fail, they released a product that was underpriced, they could not make money.”

“We’re here because Obamacare was set up for failure, it was set up to encourage low premiums, to deceive the American public,” Collins said. “Everyone knew these products were underpriced and they were going to make it up on the backs of taxpayers and that’s why we’re here today.”

According to experts at the Galen Institute and the American Enterprise Institute, the co-ops were established because it was believed that community members could come together to create health insurance companies. These companies would not have to answer to shareholders or be profitable.

But because the co-ops had large start-up costs, few people on their boards with insurance experience and no previous data to help them set prices for premiums, “the idealism has quickly faded,” the experts say.

While the co-ops began with artificially low premiums, which attracted many customers, data from the Centers for Medicare and Medicaid Services are projecting that premiums will rise next year.

Premiums are expected to rise by 7.5 percent from last year in the 37 states that used the HealthCare.gov site. But for some states, those rates are expected to increase even higher. South Dakota is seeing premiums skyrocket from an average of 13 percent to as much as 63 percent. In Tennessee, premiums are expected to rise by 36 percent and in Iowa by 29 percent. Oklahoma's Blue Cross Blue Shield health care exchange says it will see premiums rise by 35 percent.

In addition to premium hikes, consumers are expected to see higher deductibles, which have outpaced workers' wages, according to a report from Kaiser Family Foundation.

"Those worker's deductibles have climbed from a yearly average of $900 in 2010 for an individual plan to above $1,300 this year, while employees working for small businesses have an even higher average of $1,800 a year," the *New York Times* said. "One in five workers has a deductible of $2,000 or more."

While the Department of Health and Human Services touts the number of individuals who have gained coverage under the Affordable Care Act, research finds that much of the gain, about 71 percent, in enrollment is due to the expansion of Medicaid.

"Analysis of enrollment data for private health insurance plans and public programs finds that 9.25 million more Americans had health insurance coverage at the end of 2014 than at the end of 2013,"explains the Heritage Foundation. "However, the data also show that the [Affordable Care Act]'s Medicaid expansion was responsible for almost all of the net increase in coverage." Additionally, the Obama administration is projecting a modest number of individuals to enroll this year compared to what the Congressional Budget Office has predicted.

"The White House says it expects just 10 million people to be enrolled in Obamacare by the end of 2016," said Michael Tanner, a senior fellow at the Cato Institute. "That's up slightly from the 9.1 million who will have signed up by the end of this year, but it's just half the most recent Congressional Budget Office projection that as many as 20 million Americans would be enrolled."

Proponents of the Affordable Care Act say that it has increased quality coverage for more Americans while providing more choices and increasing competition.

"The co-op program was designed to give consumers more choices, promote competition, and improve quality in the health insurance market," said Mandy Cohen, chief operating officer at the Centers for Medicare and Medicaid Services. "Though not all co-ops have proven to be successful, thanks to the Affordable Care Act, consumers have a variety of affordable health insurance coverage choices that meet the health care needs of their families."

But experts say that consumers will have fewer choices and may have to resort to plans that are more costly.

"The closure of the co-ops will most certainly lead to higher costs for people," says Nathan Nascimento, a senior policy adviser at Freedom Partners. "People kicked off the co-ops will now be mandated to choose a new health care plan and potentially one they turned down previously due to higher costs."

"People may also be forced to lose their current doctor because they are out-of-network, or they will have to pay even more out of their pockets to stay with their current doctor," he said.

For those without health insurance, the penalties imposed by the IRS are expected to climb in 2016.

Currently, an individual without health care coverage for one year is expected to pay a fine to the IRS of $325 or 2 percent of their taxable income, whichever is greater. In 2016, those fines will increase to $695 or 2.5% of their taxable income, whichever is greater.

In last year's 2015 filing season, 7.5 million taxpayers paid the penalty for not having health insurance, which came to $1.5 billion in total, according to data from the IRS.