Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

ACTUAL ENROLLMENT AND PROFITABILITY WAS LOWER THAN PROJECTIONS MADE BY THE CONSUMER OPERATED AND ORIENTED PLANS AND MIGHT AFFECT THEIR ABILITY TO REPAY LOANS PROVIDED UNDER THE AFFORDABLE CARE ACT

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EXECUTIVE SUMMARY

We determined that member enrollment and profitability for most Consumer Operated and Oriented Plan health insurance issuers were considerably lower than their initial loan application projections and might limit their ability to repay loans.

WHY WE DID THIS REVIEW

The Patient Protection and Affordable Care Act (ACA) established health insurance exchanges (commonly referred to as "marketplaces") to allow individuals and small businesses to shop for health insurance in all 50 States and the District of Columbia. To expand the number of health insurance plans available in the marketplaces, the ACA established the Consumer Operated and Oriented Plan (CO-OP) program. The ACA directed the Secretary of Health and Human Services to provide loans to help establish new consumer-governed, nonprofit health insurance issuers, referred to as CO-OPs, in every State. Beginning January 1, 2014, CO-OPs were able to offer health insurance through the new health insurance marketplaces for their States, as well as outside the marketplaces.

A prior Office of Inspector General (OIG) audit examined the selection process for CO-OP loans and identified factors that could adversely affect the CO-OP program, including some CO-OPs having limited private monetary support and having budgeted startup expenditures that exceeded available funding. OIG also issued a report on CO-OPs' progress during the startup phase and the Centers for Medicare and Medicaid Services' (CMS) strategy for overseeing the CO-OPs during the startup phase and after the launch of the exchanges. As described in our fiscal year 2015 Work Plan, we launched additional audits at 19 of the 23 CO-OPs to verify their eligibility for Federal funding and their use of startup and solvency loans. We selected 19 CO-OPs for on-site review on the basis of available audit resources and to provide broad geographical coverage. During those audits, we identified concerns related to low enrollment and financial losses. We also performed a more limited review of enrollment and profitability for the four remaining CO-OPs.

This report addresses the financial and operational status of the 23 CO-OPs as of December 31, 2014. Our objective was to determine whether enrollment and profitability met the CO-OPs' projections on their loan applications. This report provides an analysis for policymakers and others interested in the CO-OP program. We are continuing to review other aspects of the CO-OPs' operations for future reports.

BACKGROUND

The ACA authorized the Secretary of Health and Human Services to make startup and solvency loans to qualified applicants that intended to become nonprofit, consumer operated and oriented health insurance issuers. Startup loans were intended to assist CO-OP applicants with approved costs for beginning operations. Solvency loans were intended to assist applicants with meeting the capital reserve requirements of States in which the applicants sought to be licensed to issue qualified health insurance. State regulators have primary oversight of CO-OPs as health insurance issuers.

CMS awarded loans totaling $2.4 billion. As of January 1, 2014, 23 CO-OPs offered health coverage in 23 States. Three of the 23 CO-OPs are offering coverage to neighboring States beginning in 2015, and one CO-OP plans to offer coverage to a neighboring State beginning in 2016.

Pursuant to the statute, CMS solicited loan applications from private, nonprofit organizations that were not preexisting issuers of insurance. Loans were to be awarded only to entities that demonstrated a high probability of becoming financially viable. All CO-OP loans must be repaid with interest. Startup and solvency loans must be repaid no later than 5 years and 15 years, respectively, from the disbursement date of the loan.

CMS may place a CO-OP on an enhanced oversight plan if the CO-OP underperforms or has difficulty meeting program milestones identified in its loan agreement and these difficulties are chronic or significant. Under an enhanced oversight plan, CMS conducts more frequent and thorough reviews of the CO-OP's operations and financial status. CMS may also place a CO-OP on a corrective action plan developed by the CO-OP and approved by CMS to correct any failure to meet a CO-OP program requirement or term and condition of the agreement.

CMS may request that a CO-OP terminate its loan agreement if CMS no longer believes that the CO-OP can be viable and sustainable and serve the interests of its community and the goals of the CO-OP program. Additionally, CMS may terminate the loan agreement if the CO-OP fails to meet quality and performance standards, including implementation of milestones and enrollment targets as specified in the loan agreement or any other contractual obligation with CMS. If a CO-OP's loan agreement is terminated, the organization forfeits all unused loan funds received under the CO-OP program and the remaining loan funds, interest, and, if applicable, penalty, must be repaid in accordance with the terms of the loan agreement. A CO-OP must resolve any outstanding debts or other accommodation of outstanding claim obligations before repaying the loan funds to CMS.

WHAT WE FOUND

Most of the 23 CO-OPs we reviewed had not met their initial program enrollment and profitability projections as of December 31, 2014. Each CO-OP submitted a loan application that included details on its annual projected number of enrolled members and projected net income. Specifically, member enrollment for 13 of the 23 CO-OPs that provided health insurance in 2014 was considerably lower than the CO-OPs' initial annual projections, and 21 of the 23 CO-OPs had incurred net losses as of December 31, 2014. Year-end net income data were not available for the Iowa/Nebraska CO-OP as the Iowa Insurance Commissioner took control of the CO-OP in December 2014 because of financial concerns. The Iowa/Nebraska CO-OP was liquidated in March 2015.

The low enrollments and net losses might limit the ability of some CO-OPs to repay startup and solvency loans and to remain viable and sustainable. Although CMS recently placed four CO-OPs on enhanced oversight or corrective action plans and two CO-OPs on low-enrollment-warning notifications, CMS had not established guidance or criteria to assess whether a CO-OP was viable or sustainable.

WHAT WE RECOMMEND

We recommend CMS:

- continue to place underperforming CO-OPs on enhanced oversight or corrective action plans, in accordance with Federal requirements;

- work with State insurance regulators to identify and correct underperforming CO-OPs;

- provide guidance or establish criteria to determine when a CO-OP is no longer viable or sustainable; and

- pursue available remedies for recovery of funds from terminated CO-OPs, in accordance with the loan agreements.

CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS

In written comments on our draft report, CMS concurred with our recommendations. CMS stated it has taken a number of steps to further oversee CO-OP compliance by requiring external audits, site visits, and additional financial reporting.

Table 1: Consumer Operated and Oriented Plans' 2014 Enrollment

CO-OP[18]	Actual Enrollment as of 6/30/2014[19]	Actual Enrollment as of 12/31/2014[20]	Projected Enrollment at 12/31/2014[21]	Percentage of Projected Enrollment
AZ	353	869	23,998	4%
IL	3,221	3,461	94,249	4%
MA	1,907	1,700	38,853	4%
OR (OHC)[22]	1,055	1,582	34,466	5%
TN[23]	1,588	2,287	25,082	9%
OH	3,816	6,677	60,352	11%
CT	3,197	7,966	40,589	20%
NJ	3,111	4,254	17,984	24%
MI	1,510	11,122	37,874	29%
LA	13,022	9,980	28,106	36%
MD	1,589	11,694	32,556	36%
NV	15,551	16,523	33,748	49%
OR (HRI)[24]	5,230	8,813	14,579	60%
NM	9,412	14,297	14,185	101%
UT	18,865	22,397	20,524	109%
MT	12,052	13,160	11,250	117%
CO	13,466	14,657	12,067	121%
KY	55,852	56,680	30,929	183%
SC	49,554	45,668	19,204	238%
ME	38,226	39,742	15,486	257%
WI	27,475	26,034	10,000	260%
NY	126,738	155,402	30,864	504%
IA/NE[25]	79,762	N/A	11,142	N/A

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18 The CO-OPs are reported in order of actual enrollment as a percentage of projected enrollment.

19 Per quarterly statement data submitted by the CO-OPs to the National Association of Insurance Commissioners (NAIC) as of June 30, 2014 (unaudited).

20 Per annual statement data submitted by the CO-OPs to the NAIC as of December 31, 2014 (unaudited).

21 Per CO-OP loan award applications.

22 Oregon's Health CO-OP (OHC) is one of two CO-OPs that offered health insurance in Oregon.

23 In a January 8, 2015, letter to the Secretary of Health and Human Services, the Tennessee Department of Commerce and Insurance requested an immediate enrollment freeze for Community Health Alliance because of its tenuous financial condition.

24 Health Republic Insurance of Oregon (HRI) is one of two CO-OPs that offered health insurance in Oregon.

25 On December 23, 2014, the Iowa Insurance Commissioner took control of CoOportunity Health because of financial concerns.

Table 2: Consumer Operated and Oriented Plans' Net Income for January 1 through December 31, 2014[28]

CO-OP	Premium Income	Claims' Expense	General Administrative Expenses	Other Revenues and Adjustments	Net Income
AZ	$5,027,197	($7,085,568)	($6,743,275)	$1,582,760	($7,218,887)
IL	$14,024,000	($21,825,002)	($14,067,937)	$4,199,604	($17,669,335)
MA	$2,870,576	($2,802,595)	($18,508,445)	($1,797,865)	($20,238,329)
OR (OHC)	$3,795,760	($6,661,590)	($6,386,825)	$2,471,380	($6,781,274)
TN	$6,558,715	($8,605,080)	($8,598,359)	($11,486,013)	($22,130,737)
OH	$14,953,597	($18,130,677)	($7,193,918)	$4,454,144	($5,916,854)
CT	$22,637,954	($30,734,751)	($13,435,425)	($6,474,633)	($28,006,855)
NJ	$19,624,329	($27,351,881)	($12,379,714)	$3,655,037	($16,452,229)
MI	$15,265,539	($16,539,869)	($9,502,316)	($5,560,000)	($16,336,646)
LA	$46,288,143	($48,536,416)	($13,999,634)	($4,407,113)	($20,655,020)
MD	$12,108,334	($14,285,628)	($12,875,536)	$519,533	($14,533,296)
NV	$51,526,023	($57,010,544)	($19,041,284)	$9,230,349	($15,295,456)
OR (HRI)	$25,817,580	($31,501,659)	($9,128,025)	$727,171	($14,084,933)
NM	$31,699,642	($27,531,504)	($14,576,009)	$6,116,597	($4,291,274)
UT	$53,498,760	($61,194,928)	($20,126,770)	$7,915,578	($19,907,360)
MT	$41,822,476	($53,213,809)	($10,198,352)	$18,060,283	($3,529,402)
CO	$54,662,981	($73,788,606)	($18,729,213)	$14,853,877	($23,000,961)
KY	$243,649,581	($307,454,476)	($24,344,936)	$37,703,908	($50,445,923)
SC	$164,809,889	($172,793,604)	($25,126,353)	$29,301,891	($3,808,177)
ME	$167,910,503	($165,815,674)	($26,954,510)	$30,725,138	$5,865,457
WI	$123,519,935	($167,293,023)	($11,698,239)	$18,926,661	($36,544,666)
NY	$528,972,985	($556,280,776)	($76,760,152)	$68,878,564	($35,189,379)
IA/NE[29]	N/A	N/A	N/A	N/A	N/A

Although CMS stated that the CO-OPs, as new companies, were expected to have significant losses during the startup period, as of December 31, 2014, we found that 19 of the 23 CO-OPs had exceeded their 2014 calendar year projected losses as reported in the loan award application feasibility studies. (See Table 3.)

[28] Per annual statement data submitted by the CO-OPs to the NAIC as of December 31, 2014 (unaudited).

[29] On December 23, 2014, the Iowa Insurance Commissioner took control of CoOportunity Health because of financial concerns. On March 2, 2015, the Iowa District Court for Polk County found that CoOportunity Health was insolvent and issued a Final Order of Liquidation. The Final Order of Liquidation for CoOportunity Health reported an operating loss of $163 million for calendar year 2014. CoOportunity Health did not file a December 31, 2014, NAIC annual statement.

The Maine and South Carolina CO-OPs each exceeded their enrollment and profitability projections as of December 31, 2014. In Maine, only two insurance companies, including the CO-OP, offered health plans on the marketplace. The Maine CO-OP had the lowest priced health insurance plans in nearly every category and had attracted approximately 80 percent of marketplace consumers in Maine.

Table 3: Consumer Operated and Oriented Plans' Net Income Reported for January 1 through December 31, 2014,[30] and Projected Net Income for 2014 through 2016[31]

CO-OP	Net Income Reported as of 12/31/2014	Projected Net Income at 12/31/2014	2015 Projected Net Income	2016 Projected Net Income
AZ	($7,218,887)	($7,213,000)	$352,000	$3,066,000
IL	($17,669,335)	$28,223,000	$62,588,000	$68,126,000
MA	($20,238,329)	($504,000)	$5,134,000	$11,770,000
OR (OHC)	($6,781,274)	$4,989,000	$12,132,000	$16,473,000
TN	($22,130,737)	($8,636,957)	($3,676,302)	$79,043
OH	($5,916,854)	($7,148,000)	($2,824,000)	$4,254,000
CT	($28,006,855)	$7,076,000	$14,939,000	$19,399,000
NJ	($16,452,229)	($3,298,000)	($1,812,000)	($5,000)
MI	($16,336,646)	($2,629,000)	$4,291,000	$9,279,000
LA	($20,655,020)	($1,892,000)	$1,662,000	$4,468,000
MD	($14,533,296)	$1,861,000	$5,789,000	$8,924,000
NV	($15,295,456)	$371,000	$3,775,000	$6,601,000
OR (HRI)	($14,084,933)	($2,305,000)	($1,189,000)	($5,000)
NM	($4,291,274)	$1,043,000	$2,603,000	$4,577,000
UT	($19,907,360)	($5,729,000)	($6,274,000)	($5,600,000)
MT	($3,529,402)	($2,742,000)	($1,139,000)	$9,000
CO	($23,000,961)	($5,659,000)	($2,854,000)	$1,890,000
KY	($50,445,923)	($2,952,000)	($1,327,000)	$516,000
SC	($3,808,177)	($8,135,435)	($3,852,901)	$1,050,934
ME	$5,865,457	($1,530,000)	$2,313,000	$6,606,000
WI	($36,544,666)	($1,055,000)	$872,000	$3,353,000
NY	($35,189,379)	($5,352,000)	($3,043,000)	($6,000)
IA/NE	N/A[32]	($1,249,000)	($807,000)	$333,000

[30] Per annual statement data submitted by the CO-OPs to the NAIC as of December 31, 2014 (unaudited).

[31] Per CO-OP loan award applications.

[32] CoOportunity Health did not file a December 31, 2014, NAIC annual statement.