Lawmakers Question HHS Secretary on Healthcare Co-ops

Health and Human Services Secretary Kathleen Sebelius (shown) is once again being called upon to explain the use of taxpayer dollars related to the healthcare law, this time, for health insurance co-ops. Sebelius had already been asked to answer for the disastrous rollout of the costly Healthcare.gov website, but is now also being questioned on the $2 billion in loans lent to various not-for-profit health co-ops.

Reuters explains, "Created with $2 billion in government loans, some two dozen not-for-profit health co-ops are meant to provide consumers with more choice in the Obamacare exchanges against far larger players like Anthem Blue Cross Blue Shield and Aetna Inc."

The premise behind the creation of the co-ops was to create competition on the exchanges, according to the Obama administration. The administration asserts that the co-ops are a key to keeping prices affordable, but lawmakers are concerned about the repayment of the government loans.

Several Republicans presented Secretary Sebelius with a letter questioning the use of taxpayer dollars in launching health insurance co-ops and whether that money will be recovered. The letter came from Senators Orin Hatch (R-Utah), a ranking member of the Senate Finance Committee; Lamar Alexander (R-Tenn.), ranking member of the Health, Education, Labor and Pensions Committee; Michael Enzi (R-Wy.), ranking member of the Health, Education, Labor and Pensions Subcommittee on Children and Families; Tom Coburn (R-Okla.), ranking member of the Homeland Security and Government Affairs Committee; and Rep. Charles Boustany, Jr. (R-La.), chairman of the House Ways and Means Committee on Oversight.

As noted by World Net Daily, it is not the first time that members of Congress have requested information regarding the Health and Human Services' co-op program, which has loaned money to non-profit health insurance issuers that offer health plans in individual and small-group markets.

"Out of the $1.98 billion awarded to CO-OPs, what amount does HHS expect to be repaid? What is the period of time by which HHS expects these funds to be repaid?" were among the questions presented to Sebelius.

More than 20 of the non-profit health insurance issuers referenced in the letter received money from HHS for startup costs and solvency, "which help CO-OPs meet state insurance solvency and reserve requirements."

"When we wrote to you in May 2012, we noted that there was little evidence that the CO-OP program would promote greater competition and lower costs in most state insurance markets, and we questioned whether HHS had significantly underestimated the financial risk," the lawmakers wrote.

They said the "responses to our letter from CMS Administrator Marilyn Tavenner — which were delivered on your behalf more than nine months after we sent our letter — did little to assure us that HHS or CMS was prepared to address these issue."

An inspector general's report, for instance, said "11 of 16 CO-OPs reported estimated startup expenditures … that exceeded the total startup funding ultimately provided," producing a "risk that CO-OPs could exhaust all startup loan funding before they are fully operational or before they earn sufficient operating income to be self-supporting."

The lawmakers pointed to at least one co-op plan that had been denied a license by Vermont to operate, prompting them to ask whether the government carefully monitored licensing procedures and how many have actually been granted licenses.

The congressmen also asked when the plans would be operational and if they were within budget.

They also posed questions regarding the healthcare website's failure and whether that will impact the operations of the co-ops.

"Please provide all documents related to (1) the Vermont CO-OP's failure to obtain an insurance license and (2) HHS's decision to terminate the Vermont CO-OP loan," they asked.

Meanwhile, the co-ops themselves are beginning to feel significant pressure as they believe they are being boxed out of important conversations regarding ObamaCare exchanges.

Reports indicate, in fact, that those co-ops were left out of a key meeting between President Obama and top insurance executives, where a discussion took place on how to extend existing health policies that are now being cancelled because they are not complying with the law's new requirements.

Likewise, the co-ops have voiced concerns that efforts to overcome the technical problems related to the healthcare website may negatively impact them. Efforts to fix the problems involve allowing insurers to directly sign up consumers, a method that could place the co-ops at a disadvantage, as many consumers may automatically look for well-known names without bothering to do price comparisons.

"The co-ops are all feeling some pressure. We have to have enough enrollment to have good cash flow early in the year," said Meritus Health Partners Chief Executive Officer Kathleen Oestreich, of a co-op in Arizona.

Additionally, President Obama is beginning to see reactions from the American people because their health insurance policies are being cancelled, something that the president promised would not happen during his campaign for the healthcare law. In response, Obama said last week that insurers would be permitted an extension of the noncompliant policies for one year, until 2015, and claims to reserve the right to offer further extensions.

But this extension could pose a problem for the co-ops.

Reuters indicates that big insurance companies are at an advantage because they "siphon off" healthy individuals that may have otherwise headed to the exchanges. The government has also pledged to pay the insurers if new members they receive through the exchanges prove to be sicker than expected.

"Incumbent carriers are going to be able to keep in their other back pocket this good business that they've already signed up for these noncompliant plans," said John Morrison, president of the National Alliance of State Health CO-OPs (NASHCO). "Co-ops on the other hand do not have any preexisting business or a good book of business in their back pocket, and their entire underwriting results are going to be based on new business," he explained.

The co-ops serve as further evidence that the federal government should let the free market handle competition, and not use taxpayer dollars to create false competition. In this instance the government chooses winners and losers, even as it funds both sides, and the taxpayer dollars that are used to fund the losers are essentially wasted.

Photo of Health and Human Services Secretary Kathleen Sebelius: AP Images