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Written by Michael Tennant on July 13, 2016

The ObamaCare Co-op Flop

More than two-thirds of the ObamaCare co-ops have failed, with even more likely to go under in the near future, leaving tens of thousands of Americans scrambling to find new health insurance and taxpayers holding the bag for billions in startup loans.

On Tuesday, the Illinois Department of Insurance announced that it is "seeking a court order allowing the state to take over Land of Lincoln Health and prepare the company for liquidation," the Associated Press reported. Land of Lincoln Health is the state's ObamaCare co-op.

Land of Lincoln thus became the 16th co-op to fail, and the third in just the past week. Twenty-three co-ops, or consumer owned and oriented plans, were initially created and seeded with $2.4 billion in federal loans for the purpose of providing a nonprofit alternative to private-sector insurance plans.

Many of the co-ops foundered because they simply weren't able to make ends meet. Although they were already unlikely to succeed by virtue of the fact that they are government enterprises, ObamaCare's mandates didn't help. The co-ops are not allowed to have experts from other health insurers on their boards; to raise capital outside of government loans, which they cannot use to market their products; and to retain enough of their profits, if they have any, to fund future growth. As the Heritage Foundation's Ed Haislmaier remarked, that the co-ops are failing so quickly "is less surprising then [sic] the fact that 23 of them actually got to market in the first place." (There was supposed to be a 24th co-op, in Vermont, but it never got off the ground because the state's insurance commissioner, not having imbibed the ObamaCare Kool-Aid, refused to issue a license for it owing to concerns over its future solvency.)

While the co-ops that are being shuttered now are hardly rolling in dough — Land of Lincoln, for instance, lost $90 million in 2015 and $17 million in the first five months of 2016 — the proximate cause of their hasty closures seems to be hefty bills from Washington, explained *Investor's Business Daily*:

> Because insurers operating in Obamacare exchanges are banned from pricing policies based on a person's health status, the government had to create an elaborate "risk adjustment" program to protect insurers who get stuck with too many sick people, by taking money from insurers that signed up mostly healthy ones.
>
> The problem is that many of the remaining — and already financially vulnerable — co-ops just found out that they owe millions to this program.

Land of Lincoln was assessed about $32 million for the program, an amount it clearly couldn't pay. Last month, Anne Melissa Dowling, acting director of the state insurance department, ordered the co-op to withhold the payment. Having failed to convince the Obama administration to revisit the assessment, Dowling is closing down the co-op.

Oregon, which had already shut down its unprofitable Health Republic co-op last year, placed its

Oregon's Health co-op in receivership on July 8. The co-op lost $18.4 million last year and was handed a bill for $900,000 in risk-adjustment fees.

"We understand changing plans in the middle of the year will be difficult for Oregonians, but this action was necessary given the sudden deterioration of the company's financial position," Patrick Allen, director of the Oregon Department of Consumer and Business Services, said in a statement. "Unfortunately, as a startup, Oregon's Health CO-OP is not in a position to sustain these losses while meeting its obligations to policyholders."

Just three days earlier, Connecticut's Insurance Department had placed the state's HealthyCT co-op under an order of supervision, meaning it will continue to pay claims through the end of the year but will otherwise be considered defunct.

"Unfortunately HealthyCT's financial health is unstable, having been seriously jeopardized by a federal requirement issued June 30, 2016 that it pay $13.4 million to the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services as part of the Affordable Care Act's Risk Adjustment Program," insurance commissioner Katharine Wade said in a press release. "As a result, it became evident that this risk adjustment mandate would put the company under significant financial strain."

Other co-ops also face large payments. Health Republic of New Jersey got a bill for $46.3 million; it had expected to pay $17.1 million. Minuteman Health, the co-op for Massachusetts and New Hampshire, was assessed $16.6 million; the co-op has warned that New Hampshire premiums could increase by 40 percent as a result. Maryland's Evergreen Health owes $24 million.

Evergreen Health and Land of Lincoln are both suing the Obama administration over the risk-adjustment payments. According to the Daily Signal, "Top officials with both Evergreen Health and Land of Lincoln said the formula used by the federal government to calculate risk adjustment payment is flawed and required their respective co-ops to pay insurers that didn't need the money." Evergreen's lawsuit called the administration's implementation of the program "arbitrary, capricious, and unlawful" and stated that the co-op's "financial future may be in jeopardy" if it has to make the $24 million payment, the website reported.

"Contrary to everything [the administration] keeps saying, it looks like the risk adjustment program is not working and is harming smaller insurers, including the co-ops, and not just the co-ops," Haislmaier told the Daily Signal. "So in some cases, the need to make risk adjustments payments may push them over the edge."

Observed *Investor's Business Daily*:

> Keep in mind that all 23 of the original co-ops were hand selected by Obama administration officials because they were said to have "a high probability of financial viability."
>
> So much for that promise.
>
> The failure of these co-ops is about more than a handful of startup nonprofits failing in a complex and challenging market.
>
> It's emblematic of the failings of ObamaCare across the board. Even large, well-established insurance companies, like Blue Cross Blue Shield, are losing mountains of money on ObamaCare.
>
> The Democrats who put this law together arrogantly believed that the federal government could run the health insurance industry better than the private sector.

Day after day, ObamaCare is proving them wrong.

By the same token, it is proving its critics right — and if their diagnosis is correct, then their recommended treatment just might be, too. Why not repeal ObamaCare and find out?

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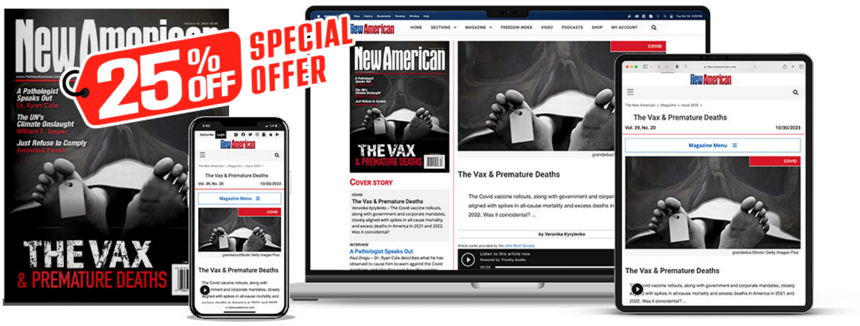

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