Weekly Checkup

Over Half of the ACA's Co-Ops Have Failed in Just Two Years, and More Failures are Likely

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The consumer operated and oriented plans (co-ops) created by the Affordable Care Act (ACA) were intended to provide consumers purchasing coverage in the non-large group marketplace an alternative from the traditional insurance companies. The co-ops set low premiums in order to attract customers, but in the first year of operation, all but four co-ops lost more than $1,000 per enrollee, with only one co-op (Maine Community Health Options) having a positive net income in 2014. Accordingly, 12 of 23 co-ops have collapsed so far, resulting in a loss of $1.23 billion of taxpayer funds, as these co-ops were initially seeded with federal loans. The financial losses thus far represent 63 percent of the total loans disbursed to the co-ops, and up to another $1.1 billion in tax dollars may be lost if the other co-ops experience the same fate. Given that the remaining co-ops had claims, on average, 26 percent greater than the income received in premiums in 2014, compared with a ratio of -19 percent for the co-ops that have failed to date, it should come as no surprise if more co-ops collapse in the future.[1]

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Further, when comparing the co-ops' projected net income for 2014 (provided in their application for establishment to the Centers for Medicare and Medicaid Services (CMS)) with their actual net income for 2014, one finds the projections were off by an average of -252 percent meaning the co-ops grossly underestimated their possibility of failure. This gross underestimation and financial losses of $2.9 billion among all Exchange plan sponsors in 2014, combined with a legislative change to prohibit CMS from disbursing more risk corridor payments than it brought in, resulted in Exchange plans (including the co-ops) receiving only 12.6 percent of their requested reimbursements. Thus, the plans now enter 2016 carrying net losses totaling nearly $492 million, not including the $2.4 billion in start-up and solvency loans originally provided to the co-ops. Of the co-ops that have not yet closed, the total loss for 2014 after risk corridor payments are made is $129.4 million. The total projected net income for these remaining co-ops in 2015 was -$28.8 million, at the time of their application. The chart below estimates the potential loss these co-ops will experience in 2015 given the risk corridor payments they received for 2014 combined with an adjustment to their 2015 projected net income based on the percent such projections were off for 2014. If the 2015 projections are as inaccurate as the 2014 projections, the remaining co-ops could end 2015 with net operating losses totaling $1.6 billion in addition to the $1.1 billion in tax dollars which may be lost, as mentioned above.

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[1] This does not include CoOppurtunity Health (IA/NE), which had operating losses of more than $163 million.