# Consumer Operated And Oriented Plans (CO-OPs): An Early Assessment Of Their Prospects

**Timely Analysis of Immediate Health Policy Issues** 

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#### **In Summary**

- The Affordable Care Act (ACA) allocates \$3.8 billion for loans to create Consumer Operated and Oriented Plans (CO-OPs) – nonprofit, member-governed health insurance plans designed to compete in the individual and small group health insurance markets in each state.
- The Department of Health and Human Services (HHS) has issued proposed rules for the CO-OP program and a separate funding opportunity announcement (FOA). The first applications for funding will be accepted by October 17, 2011 and first awards made in January 2012.
- 3. Whether CO-OPs will survive and grow will depend on market factors, as well as their ability to move beyond the individual and small group markets, work collaboratively with each other and evolve beyond reliance on existing administrative organizations and provider networks.

#### **Background**

Provisions in the ACA allocate \$3.8 billion for a loan program to finance the creation of CO-OPs. The legislation provides for the loans to be awarded competitively to applicants proposing to set up these nonprofit, member-governed health plans to compete in the individual and small group health insurance market in each state and the District of Columbia. CO-OPs face challenges both in the application process and in creating the programs. The detailed and costly application process and strict governance rules may deter many potential sponsors. Once created, CO-OPs will need to build provider networks and enrollment systems, overcome a prohibition on using loan funds for marketing, and build an effective management team.

### **Issues Facing Applicants for Funding**

The government reports strong interest among potential sponsors of CO-OPs, but various provisions of the ACA and the proposed rules will limit and shape the pool of applications for funding. Existing insurers cannot sponsor CO-OPs, which must be nonprofit. Two significant impediments pertain to start-up funding and governance.

- Covering start-up costs. Starting a new insurance company is expensive, and nonprofits do not have access to equity capital. The FOA specifies that applications must include a feasibility study, a detailed business plan, a detailed budget and a timeline for meeting various milestones, representing a substantial effort by individuals with high levels of expertise. The FOA will provide successful applicants with \$100,000 for expenses incurred in preparing the feasibility study and business plan for the application, but this may not cover all costs. Applicants will still likely need additional support, and the funding is contingent on a successful application.
- Working through governance issues. The legislation
  and proposed rules require that CO-OP members represent a majority
  of the governing board, which would be elected by the members. This
  provision is central to why CO-OPs are expected to be different from
  most existing insurers, but may deter potential applicants who may
  be uncomfortable with a structure in which enrollees make decisions
  affecting plans' costs.

## Challenges for Long-Term CO-OP Success

Whether CO-OPs will actually survive and grow will depend on market factors, responses of established competitors, and the strength of their management teams. Among these challenges include:

- Covering start-uprovider network and sustainable
   administrative structures. Whether a CO-OP succeeds and
   grows will depend upon having a network of providers who can
   offer high-quality services at a competitive price, without losing
   money. This can be particularly challenging for small plans. The
   simplest path to building a network and corresponding structure is
   through relationships with existing organizations. Some sponsoring
   organizations may already have such relationships, but many CO-OPs
   will likely need to obtain administrative services from, and use a
   provider network established by, existing organizations. This will
   initially limit their ability to adopt innovative payment and service
   delivery methods.
- Building enrollment. The number of potential enrollees who might
  be attracted to CO-OPs is unknown. The most promising path to
  getting critical numbers of enrollees quickly involves gaining access to
  existing groups connected with sponsoring organizations. Being ready
  to accept enrollment when the insurance exchanges open in 2014 is
  an important challenge.
- Overcoming the marketing restriction. The ACA's prohibition on CO-OPs using loan funds for marketing could make it more difficult to reach potential enrollees. The FOA recognizes the importance of a plan's "enrollment strategy" and related matters, but how the restriction on marketing is implemented will affect how CO-OPs can build enrollment.
- The danger of adverse selection. CO-OPs will need to set
  premiums low enough to attract enrollees, but high enough to cover
  costs, which may be high and unpredictable among previously
  uninsured enrollees who may come with unmet needs and
  preexisting conditions. The reinsurance and risk adjustments in the
  ACA insurance market reforms are designed to protect plans against
  very high cost cases, and will be important to the success of CO-OPs.
- Making member governance work. Plans will need board expertise
  on finance, strategic planning, product development and medical
  management. Although the rules require that the board be elected by
  members, boards can include experts who are not plan members.

#### Will CO-OPs Transform the Market?

CO-OPs are intended to create alternatives to the existing health insurance industry, but restrictions in the legislation will make it difficult for CO-OPs to achieve the negotiating power with providers and economies of scale needed to compete on price and be able to grow. The legislative sponsors of the CO-OP provisions envisioned them as transforming the insurance market. Whether they are able to do so will depend on their ability to move beyond the individual and small group markets, work collaboratively with each other, and evolve beyond reliance on existing administrative organizations and provider networks.



