



Consumer Oriented and Operated Plans (CO-OPs)

Introduction:

In order to explore Consumer Oriented and Operated Plans (CO-OPs) from different angles, one needs to understand how the US healthcare market operates. It constitutes of both private players and government sponsored but the majority of healthcare spending comes from Medicare, Medicaid, TRICARE, CHAP and the Veterans Health Administration. According to most, the US healthcare system is considered to be too fragmented and siloed.

However, with several healthcare reforms taking place, the future expectations are huge. One such reform by Patient Protection and Affordable Care Act (PPACA) lays emphasis on the formation of CO-OPs. It is expected that CO-OPs will come into operation from January 1, 2014, providing health plans through the competitive health exchange, supposedly required to be formed in all US states. CO-OPs can also offer health plans outside of any state health exchange.

The concept of CO-OPs is not something new. In fact, it was there in the 1930s and 1940s but this is the first time in recent times that this concept is gaining importance. Now, with the formation of CO-OPs, hospitals and physicians will also have the ability to create health plans according to their understanding and compete in common market with other market players. But, it remains to be seen how a CO-OP will gain acceptability into the market which is heavily dominated by traditional commercial health insurers.

Due to the federal government support which has sanctioned \$3.8 billion as a loan, the future looks extremely challenging for CO-OPs to survive in this competitive environment. But surviving depends a lot on establishing a brand identity, figuring out how to handle claims, developing actuarial expertise, establishing reserves and above all meeting state licensing requirements and solvency requirements.

What are CO-OPs?

In layman's term, CO-OPs are health insurance plans that aim to provide quality, affordable, consumer-friendly health insurance plans in every state. They are private and nonprofit in nature. It is considered to be as one of the most innovative cost-containment solutions in the history of US healthcare reforms. The operation of CO-OPs depends wholly on the founding fathers of that particular CO-OP. It may operate locally, State-wide or in multiple

States. But they have to acquire the necessary licenses before operating in any particular geographic area and abide State laws and regulations that apply in that particular state.

CO-OPs will be made available to all including independent workers, Americans making 400% less than the defined poverty level income, etc. In fact, insured that wishes to go out-of-network can also avail CO-OP, but out-of-network rules would work exactly like any other non-profit health insurers.

CO-OP Vs Commercial Insurance:

As defined above, a CO-OP is a private, non-profit, member-driven entity. Apart from this, other main distinguishing factors from a commercial insurance are-

- CO-OPs are mostly owned by its members, who constitute the majority of its board members.
- The basic aim of a CO-OP is to provide customer satisfaction and this is possible if transparency route is followed.
- It is also perceived that any profits/ surplus made via operation has to be used for the betterment of its members in the form of lower premiums, improved benefit design, funding quality improvement initiatives or other enhancements in the quality of care delivered.

Benefits of CO-OPs:

It is anticipated that CO-OPs will provide a number of benefits to the society. Some of the possible benefits are highlighted below:

- The members have a say in the strategy decision making process. In fact, they elect the board of directors, whom they can bank upon.
- The surplus generated by way of operation is used for the betterment of its members in the form of lower premiums, improve health benefits, improve the quality of health care, expand enrollment or otherwise contribute to the stability of coverage for members.
- Creates awareness about the plan to members by educating them about plan features, etc.

- CO-OPs can create competitive environment in the society if both hospitals and physicians understand its benefits. Also, physicians will have the liberty of designing its own insurance product.
- Hospitals may also collaborate with other hospitals (of same harmonious group) as it will prove to be profitable to assist their physicians in achieving the highest-quality, most cost-efficient clinical and financial outcomes for all patients.
- There is a great chance that competition between hospitals and insurance companies and HMOs is likely to increase.
- Due to less number of health insurer middlemen, all profits would be used for the well being of its members.
- It can also control the high cost of prescription drugs.
- There is likely to be seen improvement in the quality of home-based healthcare and assisted living.
- CO-OPs have the capability of helping small independent pharmacists compete with big stores, thereby leading them to offer locally available prescription drugs.

Challenges of CO-OPs:

The setting up of CO-OPs is not that easy. It may face several hurdles in the process. The likely challenges at hand at this present juncture are as follows:

- If the CO-OPs are set up by inexperienced providers, the chance of success is unlikely because they may not have the desired skill set manage risk.
- They must focus on long term vision because initially, the route of success is far off as they have to pay the loan to CMS.
- They do not have the assets to back up in times of periods where there are severe crises, especially if a long term crisis is felt in the economy.
- The most serious problem at hand is lack of clarity with regards to bundled payments. The main question that comes to mind is- How will hospitals and physicians that create a CO-OP divide the profit? How the

bundled payment would be calculated, its duration? Etc... In that case, objective metrics has to be transparent and defined correctly to have clarity of payment terms and conditions.

How CO-OPs will work?

The basic guidelines under which a CO-OP is expected to work are as follows

- CO-OPs are formed under the backing of federal government who provide loans for the initial setting up of CO-OP. They will offer health insurance plans in different states and compete with other major private insurers. This market form where the CO-OP will function is known as Health Insurance Exchange, which is expected to be operative from January 1, 2014.
- CO-OPs will lay equal emphasis on individuals and small groups which is not the case currently with private insurers who are mostly focused towards large companies.
- It is expected that most CO-OPs will start enrollment from the fall 2013 session and begin operation from January 1, 2014.
- CO-OP will not have any impact on Freelancers Insurance Company health plans and members would continue to enjoy the coverage as they currently are.

How is a CO-OP funded?

The major hurdle witnessed by non-profit organizations is start up cost and licensing requirements. To overcome these barriers, PPACA has allotted \$3.8 billion for CO-Ops in the form of federal loans. These loans has two main components-one is the Start-up loans which is meant for starting a CO-OP program, which is payable in 5 years time and the other is Solvency loans which is meant to meet the state solvency/reserve requirements, applicable to all health insurers and are set by each state's insurance regulators. Solvency Loans has to be paid back within 15 years, with interest to the CMS.

CO-Ops has to follow several rules laid down by CMS i.e. it gives the CMS privilege to track every minute details from time to time to assess the operation of CO-Ops. CMS has emphasized that the loan recipient are subject to strict monitoring, audits, and reporting requirements for the length of the loan repayment period plus 10 years.

CO-Ops also needs to submit semi-annual program reports and quarterly financial statements to CMS. CMS can conduct audits at their own will including site visits. The CO-Ops must also meet a series of milestones as laid out in their loan agreements before drawing down any money from the program.

Current CMS sponsored CO-OPs:

As of October 12, CMS has awarded loans to 23 different CO-OPs throughout the country. The following details will enable you to understand about the award amount sponsored to each CO-OPs:

CO-OPs	Service Area	Award Amount	Date of Award
Common Ground Healthcare Cooperative	Wisconsin	56,416,600	21-Feb-12
Freelancers CO-OP of New Jersey	New Jersey	107,213,300	21-Feb-12
Freelancers CO-OP of Oregon	Oregon	59,487,500	21-Feb-12
Freelancers Health Service Corp. of New York	New York	174,445,000	21-Feb-12
Midwest Members Health	Iowa and Nebraska	112,612,100	21-Feb-12
Montana Health Cooperative	Montana	58,138,300	21-Feb-12
New Mexico Health Connections	New Mexico	70,364,500	21-Feb-12
Maine Community Health Options	Maine	62,100,000	23-Mar-12
Oregon's Health CO-OP	Oregon	56,656,900	23-Mar-12
Consumers' Choice Health Insurance Company	South Carolina	87,578,208	27-Mar-12
Hospitality Health CO-OP	Nevada	65,925,396	18-May-12
Michigan Consumer's Healthcare CO-OP	Michigan	71,534,300	18-May-12
Compass Cooperative Health Network	Arizona	93,313,233	8-Jun-12
HealthyCT	Connecticut	75,801,000	8-Jun-12
Kentucky Health Cooperative	Kentucky	58,831,500	22-Jun-12
The Vermont Health CO-OP	Vermont	33,837,800	22-Jun-12
Aarches Community Health Care	Utah	85,400,303	13-Jul-12
Colorado Health Insurance Cooperative	Colorado	69,396,000	27-Jul-12

Community Health Alliance Mutual Insurance Company	Tennessee	73,306,700	31-Aug-12
Minuteman Health, Inc.	Massachusetts	88,498,080	31-Aug-12
Evergreen Health Cooperative Inc.	Maryland	65,450,900	28-Sep-12
Louisiana Health Cooperative, Inc.	Louisiana	65,040,660	28-Sep-12
Coordinated Health Plans of Ohio, Inc.	Ohio	129,225,604	12-Oct-12

Future of CO-OPs:

CO-OPs is something which the US healthcare system needs to thrive. It is definitely the future of healthcare in America and if properly executed it will only benefit the overall economy of the country. A cautious effort is the need of the hour. For example, CO-OPs must make intensive use of clinical data to assess which hospitals or physicians are providing the best affordable care to patients. Also, focused approach is required on reinvesting the surplus.

It wouldn't be surprising that in times to come, CO-Ops could turn out be a viable alternative to other form of health insurance in the insurance exchanges.

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