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What Does the Failure of Some Co-ops and the Possible Pullout of United Healthcare Mean for the Affordable Care Act?

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Timely Analysis of Immediate Health Policy Issues

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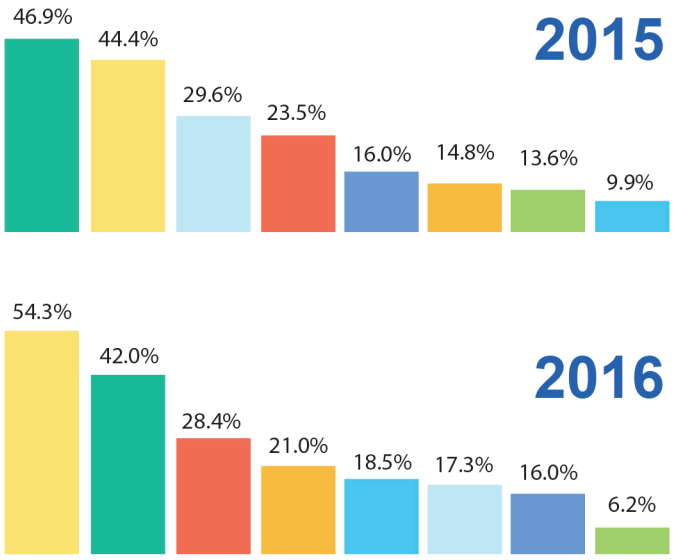
In-Brief

In recent months, the failure of several health insurance cooperatives (co-ops) in New York, Oregon, Michigan, Colorado, Iowa, and Nevada has received widespread media attention. Some have argued that co-ops have been a key part of the Affordable Care Act (ACA), that a considerable amount of federal money has been wasted around them, and that their failure is a major blow to the ACA's viability. Also recently, United Healthcare (United), the nation's largest insurer, announced in an investor call that it is losing money on marketplace plans, and it is considering withdrawing from many or all marketplaces in 2017.[1] In this brief we look at the experience of co-ops and United, and we argue that they have not been major players in many markets and their exits will not be overly disruptive. Further, we provide evidence that health insurance markets are increasingly dominated by competition among Blue Cross–affiliated insurers, managed-care insurers that previously served the Medicaid population but are entering private markets under the ACA (hereafter referred to as Medicaid insurers), and provider-sponsored insurers. We conclude that recent revelations regarding United and the co-ops are not significant threats to the marketplaces and the ACA in general; affordability, network adequacy, outreach and enrollment funding, sufficiency of risk adjustment, and possible adverse selection against the nongroup market as a whole during special enrollment periods are more serious concerns.

Which **Insurers Offer** the **Lowest-Cost Marketplace Options**?

Share of 81 U.S. rating regions where insurer is one of two lowest-cost insurers.



Even as **insurers enter** and **exit**, **enrollment continues** to **grow**.

Actual 2015 Enrollment*: 10.2 million

2016 Sign-Ups To-Date:** 11.3 million

*Enrollment figures released by CMS on 6/2/2015

Source: https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2015-Fact-sheets-items/2015-06-02.html

**as of 1/7/2016

Source: https://aspe.hhs.gov/pdf-report/health-insurance-marketplaces-2016-open-enrollment-period-january-enrollment-report

Co-ops
United
Aetna
Humana
Blue Cross plans
Medicaid
Local/regional insurers
Provider-sponsored plans

Introduction

In this brief we explore the implications of the recent failure of several health insurance co-ops and the announcement that United may cease participation in the marketplaces in coming years. Some are concerned that both developments have serious ramifications for the viability of the marketplaces and the ACA.

Our central analysis includes premium data for every insurer offering marketplace coverage in 81 rating regions in 26 states plus the District of Columbia (including the 12 largest states in the US). These data cover 3 to 5 of the largest rating regions in these states (Arkansas, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Maine, Maryland, Michigan, Minnesota, Nevada, New Hampshire, New Jersey,[2] New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island,[3] Texas, Virginia, and Washington, plus the District of Columbia) and include 2015 and 2016 premiums for each marketplace insurer. For this analysis, we focus on which types of insurers are offering the lowest priced silver plans in the various rating regions. We identify the lowest cost silver premium offered by each insurer in each of the rating regions studied; the insurers are then ordered by each one's lowest cost plan offering. These rating regions account for about half (46.9 percent) of the nation's population. Analyzing only silver plans allows us to control for the actuarial value of plans (i.e., average out-of-pocket burdens) across insurers; thus, we can focus on whether United and co-op insurers are price competitive in the rating regions where they participate.

Our secondary analysis focuses on additional rating regions to further analyze United's role in the marketplaces. For this analysis we use data on 346 additional rating regions.[4] These regions account for another 37.3 percent of the U.S. population. This analysis provides further information on United's role in marketplace price competition, identifying regions where United is either the lowest or second lowest cost insurer. We report these findings separately from the more in-depth analysis of the 81 rating regions in the largest states.

Results

Table 1 shows that co-ops participated in 36 of the 81 studied rating regions in 2015. In that year, a co-op was the lowest-cost silver plan insurer in 13 of these regions and the second-lowest-cost in 11 others. Co-ops exited the market in 14 of these 36 rating regions in 2016, and no new co-ops entered these regions. Consequently, co-ops offer coverage in only 22 of the 81 rating regions studied in 2016. For 2016, a co-op is the lowest-cost silver plan insurer in five of these 22 rating regions and is the second-lowest-cost silver plan insurer in nine others.

In several rating regions, co-ops appear to have underpriced early on, and several of them consequently incurred considerable losses. Further, federal law has limited their marketing efforts, and in some regions they have experienced trouble developing provider networks at payment rates that allow them to be competitive with larger insurers that had a foothold in these regions before the ACA.[5] Some co-ops have also been hurt by post-ACA enactment legislation that requires risk corridor payments to be budget neutral.[6] Whether those co-ops remaining in the 2016 marketplaces, including Maine Community Health Options in Maine, Evergreen in Maryland, Land of Lincoln in Illinois, Minuteman Health Inc. in New Hampshire and New Mexico, and Health Connections in New Mexico, continue into future years is currently unknowable. The key point for our purposes is that as of 2016, co-ops are only active in 22 of the 81 rating regions we studied (covering a large swath of the U.S. population), and co-ops are the first or second lowest-cost insurer in only 14 of the 81 rating regions.

United offered marketplace based coverage in 36 of the 81 study regions in 2015, but, it offered the lowest-cost silver plan in only four and was the second-lowest-cost silver insurer in only another four. Despite its claims of losses, United expanded its marketplace presence in 2016, entering 12 additional markets in our 81 study regions, an increase of one-third. In the 48 regions in which it participates in 2016, United offers the lowest-cost silver plan in only four and is the second-lowest-cost insurer in 11 others. Although United has entered over half of the 81 rating regions we analyze, their premiums are generally high relative to other competitors, presumably to mitigate risk and to compensate for what may be a broader-than-average provider network. Data on market share by insurer are difficult to obtain, but with very high premiums it is likely that United had a relatively small share of enrollees. Accordingly, claims of large losses are difficult to understand and can only be true if United had extremely bad risks not compensated by the ACA's risk mitigation provisions. For example, it is possible that United has been particularly affected by adverse selection during special enrollment periods, but there are no data available to answer that question.[7]

We also examine United's participation in the remaining regions in all of the healthcare.gov states and California. In 2015, United participated in 158 of the 346 rating regions in these states, none of which are included in our most populous region analysis (Table 1). United offered the lowest-cost silver plan in 48 regions and was the second-lowest-cost insurer in 40. In 2016, United participates in 182 of these 346 rating regions and offers the lowest-cost silver plan in 42 regions and is the second-lowest–cost insurer in 48 others. By design, the additional rating regions used in this second analysis are smaller in population than the 81 we examined in more depth. United participates at roughly the same rate in these smaller markets but is one of the lowest-cost insurers in a greater share of them. United seems to be more aggressively participating in less-populous and less-competitive markets.

As shown in Table 1, among the 81 rating regions studied in the most populous states, the lowest-cost insurers in the ACA's 2016 marketplaces are most frequently Blue Cross–affiliated insurers (including Anthem), Medicaid insurers, and provider-sponsored insurers. Blue

Table 1. Insurer Participation and Frequency of Being One of the Low-Cost Silver Insurers in 81 U.S. Rating Regions

	2015									
		National Insurers								
	Co-ops	United	Aetna[a]	Assurant	Humana	Cigna	Blue Cross plans[b]	Medicaid[c]	Local/ regional insurers	Provider-sponsored plans[d]
Lowest-cost insurer	13	4	11	0	8	0	12	18	7	9
Second-lowest-cost insurer	11	4	2	0	3	0	26	18	5	10
Not low-cost insurer	12	28	16	26	5	12	40	8	27	26
Total	36	36	29	26	16	12	78	44	39	45
Share of regions where insurer participates	44.4%	44.4%	35.8%	32.1%	19.8%	14.8%	96.3%	54.3%	48.1%	55.6%
Share of regions where insurer is one of two lowest-cost insurers	29.6%	9.9%	16.0%	0.0%	13.6%	0.0%	46.9%	44.4%	14.8%	23.5%
	2016									
Lowest-cost insurer	5	4	9	0	5	0	16	23	8	13
Second-lowest-cost insurer	9	11	4	0	0	0	18	21	9	10
Not low-cost insurer	8	33	18	0	12	7	41	4	26	28
Total	22	48	31	0	17	7	75	48	43	51
Share of regions where insurer participates	27.2%	59.3%	38.3%	0.0%	21.0%	8.6%	92.6%	59.3%	53.1%	63.0%
Share of regions where insurer is one of two lowest-cost insurers	17.3%	18.5%	16.0%	0.0%	6.2%	0.0%	42.0%	54.3%	21.0%	28.4%

Notes: Rating regions studied include 3 to 5 rating regions in 26 states plus the District of Columbia. These rating regions account for approximately 50 percent of the U.S. population. Insurers in each region are ranked by the premium of the lowest-cost silver plan they offer in that rating region.

[a] *Includes Coventry.*

[b] *Includes Anthem.*

[c] *Includes insurers participating in Medicaid but not in private insurance markets before 2014.*

[d] *Includes Kaiser Permanente.*

Cross–affiliated insurers participated in 78 of the 81 markets in 2015 and offered the lowest-cost silver plan in 12 regions and was the second-lowest-cost insurer in 26. Blue Cross of New Mexico exited the state's marketplace in 2016. Consequently, Blue Cross–affiliated insurers now participate in 75 of the 81 regions. They offer the lowest-cost silver plan in 16 regions and are the second-lowest–cost insurer in 18. Blue Cross–affiliated insurers have been among the lowest-cost insurers in the District of Columbia, Illinois, Indiana, Nevada, New Jersey, Pennsylvania, Rhode Island, Virginia, and Florida. They frequently offer more-limited networks with lower premiums than their commercial products outside the marketplaces. But the Blue Cross–affiliated insurers' offerings are not always low cost. They no longer offer the lowest-cost silver plans in Arkansas, Maryland, and Minnesota, and starting in 2014, their premiums were relatively high in Washington, New York, North Carolina, Colorado, and Oregon.

Medicaid insurers participate in fewer marketplace regions than Blue Cross–affiliated insurers, but they are highly competitive where they do compete. In 2015, Medicaid insurers participated in 44 markets of the 81 regions we studied;

Table 2. United Healthcare Participation in 346 Healthcare.gov Regions

	2015	2016
Lowest-cost insurer	48	42
Second-lowest-cost insurer	40	48
Not low-cost insurer	70	92
Share of regions where United participates	45.7%	52.6%
Share of regions where United is one of two lowest-cost insurers	25.4%	26.0%

Notes: Excludes the 81 rating regions from Table 1. Includes insurers with United Healthcare, Allsavers, Oxford Healthplans, or Nevada Health Plan in their name. Excludes Hawaii because 2015 data are unavailable. Beyond rating regions in states using Healthcare.gov, this table also includes the 14 rating regions in California not in Table 1.

they offered the lowest-cost silver plan in 18 of those regions and were the second-lowest-cost insurer in 18 others. In 2016, Medicaid insurers participate in 48 of the 81 study regions; they offer the lowest-cost plan in 23 regions and are the second-lowest-cost insurer in an additional 21 regions. Medicaid insurers include both national chains and local or regional insurers. Molina, a national Medicaid chain, has been a low-cost insurer in parts of California, Michigan, Washington, Texas, and Florida. Coordinated Care, a product of Centene Corporation, offers the lowest-cost silver plan in Washington. Ambetter, also a product of Centene, is a strong competitor in Indiana, Florida, Georgia, Illinois, and Ohio. Several local Medicaid insurers, including Affinity and Fidelis, are the lowest-cost silver insurers in New York City. Fidelis is highly competitive throughout New York state. Care Source was one of the lowest-cost insurers in Ohio and Indiana. Local Medicaid plans are the lowest-cost insurers in Minnesota. The Neighborhood Health Plan is one of the two lowest-cost insurers in Rhode Island.

Finally, provider-sponsored insurers, a category in which we include Kaiser Permanente, participated in 45 regions of the studied 81 in 2015 and 51 in 2016. They offered the lowest-cost plan in 2015 in nine regions and were the second-lowest-cost insurer in another 10 regions. In 2016, they are one of the two lowest-cost insurers in 23 regions. Kaiser Permanente is one of the lowest-cost insurers in California, Maryland, Oregon, Colorado, the District of Columbia, and some markets in Virginia. The Innovation Health Insurance Plan, a product of the Inova Hospital System, offers the lowest-cost silver plan in northern Virginia. Optima Health Plan, a product of the Sentara Hospital System, offers the lowest-cost silver plan in the Norfolk region. The Providence Health System in Oregon is among the lowest-cost insurers throughout Oregon. North Shore-LIJ is among the lowest-cost insurers in 2016 in New York City and Long Island.

Other national plans, such as Aetna, Humana, and Cigna, participate in a limited number of regions but are rarely among the lowest-cost insurers. Regional insurers, such as Healthnet in California, the Rocky Mountain Health Plan in Colorado, Harvard Pilgrim in New Hampshire, and Connecticare in Connecticut, are strong competitors in local markets.

Discussion

Co-ops are not playing a major role in driving price competition in many ACA marketplaces, and their exit will not cause significant disruptions outside of very limited numbers of areas. The same is true of United, though United's marketplace participation continues to increase in 2016 while co-op participation is falling. Although United participates in many more rating regions in 2016 than do co-ops, United is rarely one of the lowest-cost insurers in the larger regions. However, United has a more important presence in smaller and less-competitive rating regions. Because evidence suggests that most individuals are selecting insurers based on price, there is every reason to believe that United has limited enrollment where they are not one of the lower-cost insurers. However, if United was to leave rating regions where they are a low-cost insurer, it could have a significant effect on the marketplaces there.

It is possible that the loss of co-ops and United would mean that more rating regions would lose access to broader network options, but there is no evidence on how network size or adequacy varies across insurers. Plus, even with higher premiums, the presence of co-ops and a large insurer like United may have encouraged lower premium setting by their competitors in these markets. However, United's premiums in particular have generally been substantially higher than their competitors, and therefore it is unlikely that they were playing a critical role in inducing the competitive behavior witnessed among the other insurers.

Our basic conclusion is that marketplaces are increasingly driven by competition among Blue Cross–affiliated insurers, Medicaid insurers, provider-sponsored insurers, and in fewer rating regions, local or regional insurers. In addition, given that (1) United is expanding into more marketplaces in 2016 and (2) their participation is growing significantly this year after even larger relative growth in 2015, their discussion to pull out of the marketplaces is surprising. United's plans may include broader provider networks and different cost-sharing structures than their lower-cost competitors; they could modify plan designs in the future to be more price competitive in more rating regions. In addition, United and other publicly traded insurers may have a higher threshold for

acceptable profit margins than some other types of insurers. If the competition under the ACA is driving insurer profit margins down, however, that could well be a positive for marketplace viability, consumers, and overall health care costs.

Although the failure of multiple co-ops and a potential exit by United would not pose major problems for the marketplaces or the ACA, other issues are extremely important and have implications for the marketplaces' effectiveness and the ACA's success. These include affordability concerns for many enrollees,[8] plan network adequacy, future funding for outreach and enrollment assistance, and the sufficiency of risk adjustment across insurers. For example, with respect to the last issue mentioned, there is increasing concern that there has been adverse selection against the nongroup insurance market as a result of special enrollment periods, and that plans are not being sufficiently compensated for these risks, at least in the early years of reform. All of these issues deserve increased attention.

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Notes

1 United Health Group. UnitedHealth Group Provides 2015 Earnings Update, Initial 2016 View. Press release. November 19, 2015. http://www.unitedhealthgroup.com/~/media/UHG/PDF/2015/UNH-Q4-Release-EarningsUpdate.ashx?la=en.

2 New Jersey has only one state-wide rating region.

3 Rhode Island has only one state-wide rating region.

4 These rating regions include all of the regions in the states using the healthcare.gov IT system plus the California regions not included in the 81regions in the primary analysis.

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