Maine sought to put struggling health insurance co-op into receivership

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The Bureau of Insurance hoped to stem Community Health Options' losses, partly by ending as many as 17,000 policies, but a federal agency rejected the temporary plan.

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A bid by Maine's insurance superintendent to put Community Health Options, the state's only nonprofit cooperative insurer, into receivership and trim its losses by terminating thousands of individual policies was rebuffed by the federal agency that oversees implementation of the Affordable Care Act.

Eric Cioppa, the state's insurance regulator, said his plan to pursue a court order to take over temporary control of the troubled Lewiston-based insurer was approved this year by the board and management of the cooperative. The organization lost $31 million in 2015 and already has put $43 million into reserves for anticipated losses this year.

COMMUNITY HEALTH OPTIONS LETTER

Community Health Options has more than 84,000 policyholders in Maine and New Hampshire. Cioppa said federal officials turned down the takeover plan in February, before he and Community Health Options officials had been able to agree on the number of policies they would have terminated. He estimated that 15 percent to 20 percent need to be dropped to make a significant dent in the co-op's losses.

Cioppa, in a March 14 letter to the Center for Medicare and Medicaid Services, which oversees the Affordable Care Act, complained that federal officials rejected the plan because it would have violated a provision that guarantees that ACA health care policies will be renewed.

A federal rule "shouldn't trump solvency and leverage issues," Cioppa said in an interview with the Portland Press Herald. "This issue isn't going away. We have to figure out a way. The company can't be in this position and I don't think CMS or we want to be in this position again."

If the proposal had been granted, Cioppa said the bureau would have worked with the other two insurers in Maine's health care insurance exchange – Anthem and Harvard Pilgrim – to accommodate the dropped policyholders. The plan was to make sure those policyholders could get comparable coverage and wouldn't have to pay new deductibles or meet out-of-pocket expense limits twice, he said.

SUCCESS, THEN LOSSES, CUTBACKS

Community Health Options was one of 24 co-ops created in the U.S. under the health care act to inject competition into the insurance market, but half of them have failed. The Maine co-op was the only one to make money during its first year of operation, in 2014, when it took in $7 million more than needed to cover the cost of health care for its policyholders.

But the organization's finances took a turn for the worse in 2015. Even though the co-op doubled its membership, its policyholders, many of whom had been uninsured before, accessed health care at a high rate, running up huge bills.

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The co-op imposed only a 0.25 percent rate increase on premiums last year, and gained so many new enrollees that the total value of premiums collected increased nearly 90 percent over 2014. But its benefits payments grew by 131 percent, leading to the $31 million shortfall. Also, last year senior management received significant pay raises based on the nonprofit's 2014 performance.

The co-op has since initiated $11 million in administrative cuts, which include voluntary pay cuts, to help it return to stability. Co-op managers have declined to disclose the specifics of those cuts aside from identifying broad categories of reduced salaries, scaled-back marketing and subletting some unused office space.

Under his proposal, Cioppa wrote in the letter to CMS, his bureau "would have acted to reduce membership, increase capital and thereby better protect the remaining (co-op) members and their health care providers from the risk presented by the type of losses experienced in 2015. Because CMS's decision has precluded my ability to act as proposed, CMS now must share responsibility for the risk of an outcome we all very much hope to avoid."

In a written statement, a CMS spokesman said the agency often works in concert with state regulators to make sure co-ops are financially stable, but it didn't condone Cioppa's proposal because of the guaranteed renewal provision in the ACA.

"With respect to Maine, we proposed and supported several approaches to solving the state's concerns, but do not believe it wise for the state to take actions that would have led to 20,000 people unnecessarily losing coverage," Aaron Albright said.

VOLATILE HEALTH INSURANCE MARKET

Kevin Lewis, the CEO of Community Health Options, didn't respond to a message left Tuesday.

Cioppa, who in December ordered the co-op to stop enrolling customers for individual insurance coverage, said he doesn't want to suggest that the co-op is teetering on collapse, although its losses have placed it under "enhanced oversight" by his office. He said the insurance market is volatile, as the flip from profits to big losses for Community Health Options from 2014 to 2015 reflects. The state has to be vigilant to make sure the co-op doesn't collapse like others around the country, he said.

Cioppa said he would have gone to court, with the co-op's consent, to get the receivership authority he would have needed to terminate the individual policies.

He said the terminated policies would have been chosen randomly. Individual policies are producing the biggest losses in the marketplace, so shedding as many as 17,000 of them should have allowed the co-op to improve its balance sheet, Cioppa said.

The bureau would likely have been able to end the receivership by midsummer, he said.

Cioppa said he and Kevin J. Counihan, CEO of the Health Insurance Marketplace at CMS, have talked since he sent the letter, and CMS and his bureau will continue to work together to help the co-op continue to operate.