

The Not-So-Public Option

What the Heck's a Co-op Anyway?

When President Obama addressed health care reform before a special joint session of Congress on Sept. 9, he reaffirmed his support for a public option, but made a point to emphasize that the establishment of a government-run plan should only be seen as a means to an end.

“We should remain open to other ideas that accomplish our ultimate goal,” the President said.

Foremost among these “other ideas” to which the President referred is a system based on member-owned health care cooperatives currently favored by some Democrats who are wary of throwing their support behind a public plan.

In theory, the co-op model would be one part of a sweeping overhaul of the way consumers shop for and purchase health insurance. The dominant reform architecture emerging from Capitol Hill envisions a national exchange model similar to that of the Federal Employees Health Benefits Program -- a sort of national marketplace for insurance where beneficiaries can ostensibly pick and choose among a menu of plans, selecting one that best fits their price and coverage needs.

Under the current system, consumers enjoy very little choice; according to the Kaiser Family Foundation, just one percent of companies that offer health insurance benefits give their employees a choice of three or more plan types, while 85 percent offer just one health plan type. Beyond that offered by FEHBP, there is presently no national marketplace for health care.

As the reality of a public option slowly recedes from view and into the oblivion of noble dreams, it's becoming increasingly likely that one or more cooperative health care plans will be among the menu options consumers can choose from.

On Sept. 16, Senate Finance Committee Chair Max Baucus (D-MO) presented a framework for such a system, which he hopes will become the only health care reform package to emerge from a months-long congressional debate with bipartisan support.

Under the Senator's America's Healthy Future Act of 2009, new Web-based insurance exchanges would be established to allow consumers to shop for and compare insurance plans. To provide health insurance to those who can't afford it, the Finance Committee proposal would extend Medicaid to anyone that falls within 133 percent of the official poverty line. Currently only seniors, pregnant women, and disabled and blind people below a certain income threshold qualify; and required income levels vary from state to state. The bill would also provide

subsidies for consumers with incomes as high as 300 percent of the poverty line and caps on premiums.

In total the plan would cost roughly \$856 billion over a decade, including \$774 billion in government outlays. An additional \$215 billion will come from taxing high-premium health-insurance plans.

Within hours of its release, the Congressional Budget Office issued a preliminary analysis of the bill, which said the plan would cut the U.S. deficit by \$49 billion over the next 10 years. The CBO estimated that some 25 million individuals would purchase insurance through exchanges while Medicaid enrollment would grow by 11 million.

Republican Opposition

Baucus had been working for months with the so-called “Gang of Six” in the Finance Committee – three Democrats and three Republicans – to hammer out the bill; but as of press time not a single GOP member had publicly endorsed it.

“Unfortunately, there are fundamental issues that we were not able to resolve by the deadline that was set for us,” said Sen. Mike Enzi of Wyoming, one of the three leading Republicans on the committee. “The proposal...still spends too much, and it does too little to cut health care costs for those with health insurance.”

The other Senators involved in the negotiations were Republicans Olympia Snowe of Maine and Ranking Member Chuck Grassley of Iowa; and Democrats Kent Conrad of North Dakota and Jeff Bingaman of New Mexico.

Conrad, one of the original advocates for cooperatives, holds out hope that consensus may still be reached.

“We all know that, while this is a very good start, it is not a finished product,” he said. “That’s why it’s so important that we have an active amendment process both in committee and on the floor of the Senate. Colleagues from both sides of the aisle will have ample opportunity to further improve this already quality proposal.”

And so begins the arduous task of marking up the bill, or on other words, taking an already watered down version of the Obama administration’s vision for health care reform, and watering it down some more. In the end, the process will likely make it more appealing to conservatives, while leaving some of the President’s earliest supporters feeling shortchanged.

The Finance Committee is scheduled to meet next week for a vote; and Senate Majority Leader Harry Reid has signaled debate on the Senate floor could begin as early as late this month or early October.

What's all this talk about Co-ops?

In place of the public-run health care plan favored by the President, the Baucus bill calls for the establishment of health-care cooperatives, what the senator calls Consumer Owned and Oriented Plans (CO-OPs). Business cooperatives are not new, even if most people are unfamiliar with them. According to National Cooperative Business Association (NCBA), the very first business cooperative had its roots in Philadelphia. In 1752 Benjamin Franklin founded the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire; a dozen directors were elected to the first board to be “equal sharers in the losses as well as the gains.”

Today the association estimates there are some 30,000 cooperatives operating in the United States, representing \$3 trillion in assets.

As the name suggests, cooperatives work on a principle of collaboration whereby individual consumers, known as members, retain an ownership stake in a particular venture and share both responsibilities and benefits. In theory, cooperatives enable scattered individual entities to organize into a centrally managed unit to pursue common interests. In practice, cooperation allows small market players or individuals to enjoy benefits normally reserved for large entities – namely, increased buying power, market share, and the power of influence. Besides member ownership, all cooperatives are also nonprofits, meaning any excess revenue taken in (in the case of health care, in the form of premiums) is invested back into the operation of the co-op.

Under the Baucus plan, \$6 billion in federal seed money would be provided to assist with co-op start-up costs, and federal grants would be provided to meet state solvency requirements. The plan prohibits a co-op from being government sponsored, or any government or insurance company employee from sitting on a purchasing council.

Cooperatives are widely represented in several sectors of the economy, including food, agriculture and utilities. But where health care is concerned, the model remains untested on a mass scale. There are currently about 300 health care cooperatives in the country (the majority are actually incorporated as mutual insurance companies). The biggest, Minneapolis-based HMO HealthPartners, insures roughly 660,000 people.

In theory, health care cooperatives would provide competition for private, for-profit insurers and offer consumers a health care option other than employer-based plans or purchasing insurance as an individual. Currently, only businesses, unions and trade groups can bond together to buy group insurance.

But some lawmakers and health care wonks on both sides of the issue remain skeptical; conservatives say co-ops are little more than a public option in disguise, while progressives say only a government-run plan can succeed in bringing down costs and expanding coverage.

Sen. Jay Rockefeller (D-WV), a member of the Finance Committee and a strong proponent of a public option, said he will not be voting for Baucus's bill. Last Sunday, on ABC's *This Week*, Rockefeller said he has little confidence a co-op plan will work.

"I called the head of the national association really early, and he said, 'it's great on water, it's great on farm, it's great on electricity... but it really doesn't work on health care'...I don't think you can take the chance. You have to start a national thing all the way up," Rockefeller said.

Former Democratic National Committee Chair Howard Dean called the bill "the worst piece of health-care legislation I've seen in 30 years."

Some experts say it's a mistake to look at the few success stories -- like HealthPartners, or the Seattle-based Group Health Cooperative -- and imagine health-care co-ops will somehow be competitive overnight.

"They've taken many, many years to develop into a significant size and weight to make a difference in terms of quality and value of health care," said Dr. William Peck, director of the Center for Health Policy at Washington University.

Still others point to the significant challenge of launching an insurance company from scratch.

"It's very difficult to start up a new insurance company and break into markets where insurers are very established," said Paul B. Ginsburg, president of the Center for Studying Health System Change, in the *Washington Post*. "I don't see how they're going to obtain a large enough market share ... to make a difference."

And, unlike a true public option, in which the government would set reimbursement rates, co-ops would have to go out and negotiate with drug makers and doctors. Hence, critics say, they would lack the clout to have any serious impact on premiums.

Those on the right, meanwhile, point out that the new companies will initially rely on government oversight and funding until generating the membership numbers necessary to go independent. Some current proposals say that could take up to five years.

Michael Tanner, of The Cato Institute -- a free market think tank -- says important questions remain unanswered, like who will administer the plans until they attract enough members to run themselves. In a presentation on co-ops on the same day as Obama's congressional appearance, Tanner said that while surveys suggest the satisfaction level among cooperative members is higher than with traditional insurance, there is little or no evidence of cost savings.

"One of the things you often hear about when you hear about health care cooperatives is that they'll be nonprofit, and that if you can just take the profit out that will somehow allow them to be much cheaper or reduce the cost of health care," he said. "The reality is -- the profit margin within the health insurance industry is [so] low you can take the profit completely out and you won't make a significant dent in terms of health care costs."

The NCBA -- which represents the nation's co-ops and has been a strong advocate for health care cooperatives -- says the litmus test will ultimately be how closely the new plans adhere to the true principles of cooperation.

"We are concerned about who would own and control these cooperatives. In its current proposal, the Senate Finance Committee does not answer these concerns," said association president Paul Hazen. "In order for these proposed health insurance businesses to be cooperatives and be successful, the owners must be the members."

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