

Health Care Co-ops – “Destined to Fail”

A Gift to Insurance Companies

- A Wall Street health industry analyst sums it up: “As the co-ops are currently described, we think they would be a **big positive for the managed care groups** [publicly traded insurance companies], but it seems to us that they would be **destined to fail** from the moment of creation.” -- Carl McDonald, Oppenheimer and Co., June 13, 2009.
- A co-op model is a handout to the industry. First, a co-op will not be able to compete with the insurance industry the way a true public option will. Second, most of the co-op’s core operations would be outsourced in lucrative contracts to insurance companies to operate the plan.

Can’t Lower Costs

- State-based or regional co-ops, run by their members, would be too weak to stand up against the insurance industry conglomerates, unlike a national public health insurance plan.
- Co-ops would be too small to attract provider participation or to strike bargains with providers, unlike insurers that already have established networks strengthened by backroom deals with providers.¹ In fact, according to one Wall Street analyst, “providers would have very little reason to deal with them, since the co-ops have no volume or leverage.”²
- Democrats and Republicans have agreed that delivery system reform is key to the success of health care reform and the sustainability of our American health care system. A weak co-op structure won’t have the weight or the know-how to accomplish these goals.

Impractical

- Co-ops have been tried and failed before. Rural health cooperatives started after the Great Depression were killed by physician boycotts, the lack of financial wherewithal of the cooperatives themselves, and the eventual withdrawal of government support.
- Forming 50 state co-ops would take an enormous investment of time and federal capital. The design under consideration requires prospective beneficiaries to invest in a plan years before it actually exists.

“Non-Profit” Doesn’t Mean Public

- Non-profit status doesn’t guarantee good behavior. According to Senator Barbara Mikulski, Maryland’s Blue Cross Blue Shield plan went from “non-profit to profiteering.”³ According to a report in Health Affairs, “Blue Cross Blue Shield of Maryland and its sister plan in the District of Columbia were poster children of nonprofit corruption and incompetence, squandering their assets on ego-building but money-losing diversification initiatives and on lavish executive lifestyles that devoted more days per year to jetting around the globe than to paying insurance claims back home.”⁴
- Co-ops would be indistinguishable from today’s non-profit plans which generally are compelled to act in ways that do not serve the public’s interest in order to “compete” with for-profit plans. Today, nearly half of privately insured people are enrolled in non-profit health plans and yet costs have sky-rocketed.
- Held to the same level of scrutiny, non-profit insurers would exhibit the same greed and lack of public accountability Senator Charles Grassley has found in repeated investigations of non-profit hospitals.

1 http://www.boston.com/news/health/articles/2008/12/28/a_handshake_that_made_healthcare_history/

2 Oppenheimer Equity Research Industry Update, Managed Care Weekend Update, 6/13/09.

3 Statement of Senator Mikulski, HELP Mark-Up, June 17, 2009.

4 James C. Robinson, *Health Affairs*, “For-Profit Non-Conversion And Regulatory Firestorm At CareFirst BlueCross BlueShield,” 2004 (<http://content.healthaffairs.org/cgi/content/abstract/23/4/68>)