Illinois health insurer announces liquidation as Obamacare co-ops collapse

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Last week Illinois' Land of Lincoln Health insurance co-op announced plans to liquidate, affecting health insurance for more than 49,000 people in the state. This is the sixteenth liquidation of an insurance co-op established in 2013 as part of the Affordable Care Act (ACA), Obama's counter-reform aimed at restructuring the US health care system.

The insurer will remain open on a temporary basis as it winds down its operations. The company stopped accepting enrollments earlier this year. Its exit leaves the state with significantly fewer health care options, as it was one of the last remaining insurers to offer broad access to physicians and prominent medical centers on the "preferred provider" model. Its enrollees must now scramble to purchase insurance from a shrinking range of costlier policies, or face paying the $695 penalty levied this year on the uninsured.

The announcement to liquidate came after the federal agency overseeing the ACA insurance exchanges, the Centers for Medicare & Medicaid Services (CMS), rejected a plan that would have let Land of Lincoln avoid making a $31.8 million payment to the federal "risk adjustment" program. Risk adjustment requires that insurers with fewer sick insured help offset the costs incurred by other insurers whose insured are sicker and more costly.

Land of Lincoln Health is one of 23 health co-ops, non-profit "consumer operator and oriented" health insurance providers, promising lower health costs to individuals, families and small businesses. Now only seven remain in the US. The sixteen co-ops that have failed insured people across 18 states. More than half a million people have lost coverage as a result.

Land of Lincoln Health is one of four US insurance co-ops to announce plans to liquidate just this month, with others in Connecticut, Ohio and Oregon. These liquidations represent billions of dollars lost in the form of government loans and other public funding.

When the co-ops were set up nearly three years ago, the Obama administration claimed they would compete with larger insurers and help drive down health care costs. As with many other aspects of the ACA, these claims were utterly fraudulent. Founded on government start-up loans and lacking the deep reserves of the mega-insurers, the co-ops were unable to compete amid high health care costs and patients who were sicker than anticipated. The proportions of the failure are staggering. Land of Lincoln Health reportedly lost $90.8 million in 2015, and another $17 million in the first six months of 2016.

In addition to the great need and high cost of care that contributed to the losses felling co-ops, there was also a political intervention on the part of the Republicans in Congress to stop the payments insurers were counting on, as many sick and previously uninsured people were enrolling in health plans. In a push led by Florida Republican Marco Rubio, the congress voted to stop those payments in late 2015 and prevent CMS from using certain surpluses to cover those losses.

The plan for "risk corridor" payments was set up as part of the ACA to stabilize anticipated losses. In this program, all insurers participating in the ACA exchanges were promised government reimbursements for their shortfalls related to expensive care. In 2015, these requests totaled more than $2.4 billion.

In 2015, insurers only received 12.5 percent of the risk reimbursements they requested. With just one-eighth the risk-related reimbursements requested, the weakest insurers, the co-ops, began to fail rapidly.

In a last-ditch effort to recoup some losses, Land of Lincoln recently sued the federal government for $73 million it claims it was owed last year. The loss of this “risk corridor” payment caused an Iowa co-op to fold last year when it did not receive an anticipated $60 million.

In response to the co-op’s massive shortfalls, the federal oversight agency, Centers for Medicare and Medicaid Services, relaxed funding restrictions on May 11, allowing co-ops to chase dollars from private sources. Two of the seven remaining co-ops are now working to raise funds from private investors, including Raymond James.