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Health Care Co-Operatives: Doing It the Right Way

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As the U.S. Senate begins final preparations to mark-up health care reform, some key Senators are considering cooperatives as an alternative to a public health plan. The aim is to provide a health plan in any local market that families can feel is part of the community and always a dependable option.

What Are Co-Ops? As Senator Kent Conrad (D–ND) and others have noted, cooperatives (or "co-ops") have a long and rich history. For example, farmers established co-ops to market and distribute their produce, workers in some industries organized financial co-ops called "credit unions," purchasing co-ops offer members access to a variety of goods and services at favorable terms, and when the term "co-op" is used in New York city, the speaker most likely means an apartment building collectively owned by its residents.

The co-op concept is also longstanding and widespread in the insurance sector, where it is known as a "mutual" insurance company. Thus, such large well-known companies as Mutual of Omaha and Northwestern Mutual Life are in fact cooperatives. There are also successful smaller, niche-market mutual insurers, such as Church Mutual (which offers lines of property, casualty, and liability coverage for member religious institutions) and Jeweler's Mutual (which offers similar coverage lines for members engaged in making or selling jewelry).

When it comes to health care, a group that "organizes" coverage provided by insurers could be structured as a co-op, and a company that provides insurance could also be structured as a co-op. Both could be present in the same market.

Lots of organizations, some of which are member-owned cooperatives, help their members get access to various goods and services on preferential terms. For example, AARP performs this "organizing" function for its members when it arranges to get them access to discounts on travel, entertainment, and insurance. Members of a farm bureau often have access to similar products, such as financial and insurance benefits.

When it comes to buying health insurance, there are employer-based groups, such as the Lubbock Chamber of Commerce and the Cleveland Council of Smaller Enterprises (COSE), that organize coverage for their members' workers. It is also not hard to envision applying the same model to other groups of individuals. Any of the sponsoring organizations could be member-owned cooperatives.

Why No Health Co-Ops Today? In the case of cooperative or mutual insurers, while they are a longstanding feature in most other insurance markets, they are not found in today's health insurance market. Instead, current health insurers are organized either as stockholder-owned companies or as

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non-profits operated (at least in part and at least in theory) for charitable purposes beyond simply selling health insurance. There is a reason for this, as discussed below.

Even the example Senator Conrad cites of Group Health Cooperative of Puget Sound is organized as a non-profit and is not, in fact, a mutual insurer. The key difference between Group Health Cooperative and other non-profit health insurers, such as Kaiser Permanente, is that Group Health includes in its bylaws provisions allowing policyholders to apply to be members, and it grants those members voting rights on certain governance issues, such as the election of directors. However, Group Health's policyholders do not have ownership rights in the company the way the policyholder owners of, say, Northwestern Mutual Life do.

Some argue that federal involvement is necessary to organize, regulate, and "jumpstart" co-ops financially in the health sector. However, what is actually needed to allow health co-ops to flourish is for the federal government to remove barriers in the marketplace—most importantly itself.

What to Do. If Congress wants to provide Americans access to health co-ops, it would need to make it possible for an institution to combine tax-exempt (non-profit) status with mutual insurance status, something health plans cannot do today. Congress should allow mutual health insurance companies to form based on the credit union model. Under this model, Congress would simply grant non-profit status to mutual insurance companies, justified by the "member benefit" they provide.

Very likely, with this form of health care arrangement possible, various non-profit memberships and other organizations might link with a health co-op to make coverage available. State farm bureaus or consortia of churches, for instance, could establish such co-op health insurance.

In addition to these steps, addressing the tax treatment of health plan benefits in the individual tax code would help spur co-ops. If families could receive the same tax relief for joining a co-op—or any other free-standing health plan—as for enrolling in an employer-sponsored plan, there would be new options for the uninsured or underinsured.

Health Care Models to Avoid. Senator Charles Schumer (D–NY), a supporter of a public plan, introduced his key principles on a co-op system that go in the wrong direction and would end up with a federally run public plan in all but name. He states that a co-op must be national in scope, it must secure significant federal start-up funding, and it must be run by federal officials appointed by the President.[1]

There are "co-op" models that are the wrong way to provide health care and should be unacceptable to lawmakers, such as Senator Schumer's thinly veiled public plan version. Simply calling some form of a government-sponsored enterprise (GSE) a "cooperative," for instance, would be only another type of public plan in disguise.

A health insurance GSE, with its close relationship to the government, would tilt the market playing field and open the door to political manipulations—both of which would ultimately harm consumers. It would also create unjustifiable and unaffordable taxpayer exposure to financial risk.

One need look no further than Fannie Mae and Freddie Mac to see how GSEs can distort the market and leave taxpayers with huge liabilities. Decades of market distortions generated by their implicit government backing, compounded by the effects of repeated political meddling by Congress, put those GSEs at the very epicenter of the mortgage market collapse that triggered the current financial crisis and recession. Furthermore, that GSE approach has now saddled American taxpayers with hundreds of billions of dollars in liabilities for just Fannie and Freddie alone—not counting the additional costs of the follow-on effects that their market-distorting practices produced in the rest of the financial system.

Furthermore, the rural electric cooperatives are yet another example of government involvement in the marketplace gone wrong. Close to 80 years after their creation, the federal government continues to subsidize these well-established cooperatives.

1. Anna Edney, "Baucus Expects CBO Score by Monday," *National Journal*, June 11, 2009.

Having government directly subsidize private cooperatives in health care would create similar unjustifiable distortions and taxpayer risks.

Principles for a Consumer Cooperative. Health care cooperatives can work as private entities in a private market and give another choice to families, but they have to be done right. Here are several principles that must be a part of any co-op model:

- Cooperatives must be voluntary, open to individuals who choose to freely join together without coercion or restraint, and controlled by its members, not the government;
- Cooperatives must be viable on their own and must not receive anti-competitive government support in any form including assumption of risk, "start-up" capital, or continuous subsidies to the organization—which would turn them into government-preferred public plans;
- Health plans must be selected only by a co-op's members, not the government;
- Competitiveness must be based on the member strength of the cooperatives and not on any favored status, including government subsidies, access to government pricing, coverage or coding decisions, or regulatory intervention;
- Any necessary regulation to keep a level playing field among health plans must be reserved for the states;
- State reforms should open doors to competition, including the competition that cooperatives would bring; and
- All individuals—including those who receive public subsidies and individuals eligible for Medicaid or SCHIP—should be free to join cooperatives of their choice.

Consumer Choice Is Paramount. The entire basis for lawmakers even pursuing further discussions of the cooperative insurer concept must be to give consumers more options and control within the context of a "level playing field"—with all insurers subject to the same market rules. Under a true consumer-based cooperative, members would have a trusted partner to help them obtain private health insurance coverage for them and their families.

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