

Co-op Care: Using cooperative principals to add value to health care

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For more than a decade, studies and polls too numerous to mention have found that health care has been at the top of the list of concerns facing working families. This is especially true for Wisconsin farmers and other rural and urban small businesses that have suffered double-digit premium increases in each of the past several years.

Why are small businesses in particular struggling? One obvious reason is that small group and individual insurance policies are considerably more expensive than the group health plans that are available to larger companies with the power to negotiate lower rates and the ability to spread risk among a larger number of people. Sadly, the cost of giving price breaks to large businesses, as well as the cost of underfunded government programs, is borne disproportionately by small group and individual purchasers.

The high cost and availability of health insurance is a significant problem our state must resolve in order to sustain and grow the small business, agriculture, and manufacturing jobs that are the backbone

of our economy, especially in rural areas. The Wisconsin Federation of Cooperatives (WFC) is doing its part by applying cooperative principles to health care through our “Co-op Care” pilot project.

The Cooperative Model

Wisconsin is one of the leading cooperative states in the nation, second only to Minnesota in the number of cooperative businesses headquartered here. This is attributable to a simple fact: the bedrock of Wisconsin’s economy is agriculture and other rural small businesses. Years ago, rural Wisconsinites formed cooperatives to bring services, such as electric and telephone, to areas where for-profit companies would not venture. And, years before that, farmers recognized they could get a better deal in the marketplace by purchasing supplies, borrowing money, and selling farm products together through cooperatives.

Similar to other purchasing cooperatives, the Co-op Care project would allow small businesses to form a cooperative to purchase insurance as a large group, thereby increasing their buying power. And like other cooperatives, these health care cooperatives would be democratically governed, nonprofit businesses that invest future profits back into the cooperative and its members—principles that govern all cooperatives.

There are many ways the cooperative model works well for health

care. For years policymakers have touted the importance of consumer involvement in health care. Because cooperatives are businesses owned by their members, there is no better model for increasing consumer involvement. It is also the perfect tool to inform consumers about the importance of preventative care, disease management, and other money-saving initiatives.

In 2003, WFC put its plan into action by advocating for legislation that gives it the ability to organize regional health care cooperatives as well as a model to start with. The resulting law, 2003 Wisconsin Act 101, requires each newly formed cooperative to contract with health insurers to provide coverage for its members.

Potential Barriers

Starting a cooperative is never easy, but it becomes even more difficult in the complex arena of health care, where new ideas are often viewed skeptically. From the beginning, WFC identified two critical steps that will ultimately lead to the success or failure of this project. The first is finding strong and willing insurance partners in each of the areas where cooperatives are being formed. And the second, related to the first, is finding a way to avoid “adverse risk selection,” where you have too many high-risk individuals and not enough lower-risk individuals to sustain a reasonable premium.

Wisconsin Federation of Cooperatives is the statewide trade association representing the interests of more than 865 Wisconsin cooperatives owned by more than 2.9 million Wisconsin citizens. It was the primary advocate for a new law that allows for the creation of regional health care cooperatives in the state.

To date, several insurers are interested in Co-op Care and have contributed significant time and effort to help us structure the new cooperatives in a way that is mutually beneficial for cooperative members and insurers. Ultimately, our success will be defined by the contracts reached between Co-op Care cooperatives and insurers.

Insurers' interest and their ability to offer better rates is predicated on our ability to make the new cooperatives attractive to a balanced group of individuals on the risk side and our ability to keep membership in the cooperatives stable over the long term. It sounds simple, but failure to do these two things has led to the demise of every health care "pooling" effort attempted in the past several years.

Building a balanced pool from the outset is the first critical step. Insurers suggest one way to accomplish this goal is through minimum participation requirements, meaning that any existing cooperative or other business association that participates in "Co-op Care" must get a certain percentage of its members to join.

The second critical step is keeping members in the pool for at least three years, and hopefully longer. 2003 Wisconsin Act 101 allows the new cooperatives to establish a "penalty" for early withdrawal, similar to a security deposit that would be returned once the member fulfills his or her three-year participation requirement. There is also likely to be a restriction on rejoining the pool once the member leaves.

The Co-op Care Stop-Loss Fund

A key component of WFC's health care project—one that sets Co-op Care apart from other initiatives attempted in the past—is a \$2 million "Stop-loss Fund" created through a Congressional appropriation last year. US Senator Herb Kohl and US

Representative David Obey have successfully argued in their respective Houses for an additional \$2.25 million for stop-loss funding. We expect this appropriation will reach the President's desk and be signed into law by year-end.

The purpose of the Co-op Care "Stop-loss Fund" is to assume some of the risk from insurers and to stabilize rates. This funding will be contractually available to partnering insurers based on a negotiated claims formula. We will continue to add to this fund through additional premium contributions from Co-op Care members.

One Chance to Get it Right

We have a unique opportunity with Co-op Care to turn the tide of health care costs. We also recognize the special challenges we face. As with all cooperative development projects, we understand the need to build slowly so the new health cooperatives don't collapse under their own weight. We must ensure that the challenges outlined above are addressed appropriately. And we realize the critical importance of potential cooperative members being committed to the idea of buying health insurance through a cooperative. Without that commitment and the loyalty that comes with it, the new health care cooperatives will have a hard time reaching their full potential and buying power.

WFC is on its way to addressing these challenges. We have built a strong foundation over the past several months to get to the point where we can begin building cooperative membership in Northwest and North Central Wisconsin. We have learned from past mistakes and formulated a plan to avoid them. Most small businesses have had all they can take of the health insurance status quo and the rate increases that come with it. It's time to try a new way, through cooperatives.

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