



Mid America Cooperative Council

2003-2013

"A Decade of Cooperative Education"

# MACC INDUSTRY SECTOR UPDATE

June, 2013

## June Features the Insurance Sector of our Membership

### The History of Nationwide Agribusiness

MACC Member, **Nationwide Agribusiness**, has served agriculture for over 100 years. In 1909, Iowa grain elevator and farm leaders needed a way to stop the financial devastation caused by frequent and destructive wooden elevator fires that were occurring across the nation. Together, they created an alternative source of dependable, affordable insurance to protect against their losses.

Founded in Aurelia, Iowa, the Farmers Cooperative Elevator Mutual Insurance Association was the seed that became Farmland Insurance. The company built a solid reputation by focusing on the needs of American agriculture.

In 1982, Farmland Insurance joined the Nationwide family of companies and is now known as Nationwide Agribusiness. They serve farm, ranch and commercial customers across the country.

Nationwide Agribusiness has spread across the country and they now operate in 48 states. They have also grown their product offerings to keep pace with the evolving agribusiness industry. In addition to insuring grain elevators, feed mills and refined fuel distributors, they also serve food processors, meat processors, beverage bottlers and many other agriculture markets, including nurseries and greenhouses, fruit and vegetable growers, and more. (*excerpts from www.nationwide.com*)

### The History of Ag States Group

MACC member, Ag States Group, was formed from the 1995 merger of two similar Midwest-based agencies operated by former regional cooperatives, Cenex Inc. and Harvest States Cooperatives. The newly formed company was the first joint venture between the two organizations that would themselves merge to become CHS Inc.

The new Ag States Group continued a long tradition of specialized insurance services to the agricultural cooperatives in the Upper Midwest. Cenex's Ag Agency was formed in 1938 and the Terminal Agency, owned by Harvest States, was founded in 1941. Upon coming together, the new

company employed 35 people supporting \$28 million of property/casualty premium and \$17 million of group benefits premium.

Ag States Group is a full-service insurance organization with a broad complement of risk management programs, is licensed coast-to-coast and represents major carriers in the marketplace. They offer a full line of commercial insurance products including property/casualty, as well as group benefits for life, health, dental and disability plans. They also provide customized loss control and safety programs, along with employment services programs. Ag States Group is a subsidiary of Fortune 100 energy, grains and foods company CHS Inc.

### The Affordable Care Act

Starting in October 2013, people without access to coverage through an employer, Medicaid, or the Children's Health Insurance Program will be able to purchase health plans through health insurance exchanges for coverage taking effect in 2014. These new marketplaces are one of the **Affordable Care Act's** key mechanisms for expanding affordable coverage.

Recognizing that in some states only a small number of insurance companies offer coverage for individuals and small businesses, the health care law also established a **Consumer Operated and Oriented Plan (CO-OP)** program to increase competition among plans and improve consumer choice. The federal government has now awarded nearly \$2 billion in loans to help create 24 new CO-OPs in 24 states. The CO-OP sponsors--consumer-run groups, membership associations, and other nonprofit organizations--are now moving forward to offer health coverage in competition with established commercial and nonprofit insurance companies. Many analysts are enthusiastic about the potential for CO-OPs to bring competition and choice to the market.

**Health care cooperatives have a long history dating back to at least 1929, and the Depression era that followed.** During the New Deal, a federal Farm Security Administration was established to help address poverty in rural America. About half of all loan defaults by rural farmers were due to farmers' poor health, so the bureau made loans available for the purpose of creating health associations. These associations, run by community members, then paid local physicians for providing health care to local families. The families supported the associations with membership fees based on their ability to pay. More recently, health care cooperatives reemerged during the debate over the Affordable Care Act. Many lawmakers and policy makers wanted the health care law to include a so-called public health insurance option. Such a plan would have been similar to Medicare but open to all ages, and it could have competed to offer coverage through the exchanges along with private health insurance companies. Ultimately, the public option was not included in the health care reform law because of concerns among some lawmakers that its presence could undercut the private health insurance industry and lead to a "single payer" national health insurance system. (*excerpts from www.nationwide.com*)

Mid America Cooperative Council  
6302 Rucker Road, Suite H Indianapolis, IN 46220  
Phone: (317) 726-6910 Fax: (317) 726-2630  
Email: [knowledge@macc.coop](mailto:knowledge@macc.coop)  
Web: <http://www.macc.coop>  
Rod Kelsay, Executive Director  
Alice Pickler, Administrative Assistant

## The Affordable Care Act (cont'd.)

A compromise solution emerged, however, in the form of a proposal to create CO-OPs, first put forward by Sen. Kent Conrad (D-ND).

The provision created what was originally a \$6 billion federal fund reduced by law in 2011 to \$3.4 billion, and reduced again in January 2013 as described below, that would enable sponsoring organizations to apply for loans to create new health insurance cooperatives. These nonprofit, consumer-driven organizations would offer health coverage, and possibly care networks, through the exchanges under the same regulatory requirements imposed on private insurance companies at the state and federal level. The provision was incorporated into health reform legislation in the Senate, and became law when the Affordable Care Act was signed by President Barack Obama in March of 2010.

**What's in the Law?** - Under Section 1322 of the Affordable Care Act, CO-OPs will offer coverage through the exchanges primarily in the small-group market, which generally serves companies or organizations with fewer than 100 full-time employees, and in the individual market. Like other plans offered through the exchanges, CO-OPs must be ready for open enrollment beginning October 1, 2013. The law required the Department of Health and Human Services (HHS) to distribute funds to at least one CO-OP in each state. But because of the most recent funding cuts, no more new CO-OPs will be established beyond the 24 that have already been created, at least for now.

**Organization and Governance** - To qualify as a CO-OP, an organization must be governed by its members and operate with a strong consumer focus. A CO-OP must be organized under state law as a nonprofit corporation, offering at least two-thirds of its policies in the individual and small-group markets through the exchanges. All surplus revenues must be used to reduce premiums, improve benefits, or improve the quality of care for its members. The CO-OP must also comply with state insurance laws and regulations relating to such issues as solvency and licensure, provider payments, network adequacy, rate and form filing, and state premium assessments.

The secretary of HHS was directed to give priority to CO-OP applicants that would offer health plans that would operate statewide, use integrated care delivery models, and have significant private support. A CO-OP cannot have on its board of directors any representative of a government agency, insurance company, or insurance industry organization.

**What's next?** - The first true test of the CO-OP program will occur in October 2013 when the exchanges' open-enrollment period begins. At that time, it will be evident how many of the organizations that received start-up loans have gone on to earn approval from state and federal regulators and to offer plans through the exchanges.

**Those CO-OPs that do succeed may offer lessons for other health systems and insurers striving to provide higher-quality care at lower cost.**

*(excerpts from Health Policy Briefs, The CO-OP Health Insurance Program - February 28, 2013)*

## Rod's Comments

**The insurance sector is rich with cooperative heritage**, with the first mutual insurance company formed in England in 1696 offering fire insurance. Fifty six years later Benjamin Franklin and his fellow fire fighters started the first mutual property insurance business called, The Philadelphia Contributionship. In this classic cooperative model, policyholders would come together to share the risks of losses to their property. This mutual insurance cooperative began in 1752 and is viewed as the first cooperative in North America.

Once again, the first cooperative was formed around a common need of insurance offering a safety net to citizens of Philadelphia that suffered a loss of property due to fire. Policy owners elected a board of directors and the mutual insurance company created a seven year renewable term policy to meet their member/owners needs.

Today's insurance industry has grown to \$4.3 Trillion in total assets in 2007. Some 30% of those assets securing Property and Casualty insurance businesses and 70% of these assets are in Life and Health insurance businesses. There are over 3,900 insurance companies operating in the U.S., with many being owned by a financial institution. Mutual or cooperatives represent approximate one-fifth of the total industry.

Insurance regulations have created opportunities for a great deal of change over the past 20 years, and the **Affordable Care Act of 2010 will create a new type of non-profit health insurer called a Consumer Operated and Oriented Plan (CO-OP)**. These insurers are run by their customers and will be available on state health care exchanges beginning in January 2014. These new CO-OPs are meant to offer consumer-friendly, affordable health insurance options to individuals and small businesses. Twenty-four CO-OPs have been approved by the federal government to offer coverage in 24 states, including Illinois, Michigan, and Ohio.

### CO-OP Links:

ACA CO-OP Program: [www.healthcare.gov/law/features/choices/co-op](http://www.healthcare.gov/law/features/choices/co-op)

National Alliance on State Health Cooperatives: [www.nashco.coop](http://www.nashco.coop)

Illinois CO-OP, Land of Lincoln Health: [www.landoflincolnhealth.org](http://www.landoflincolnhealth.org)

Michigan CO-OP, Consumers Mutual Insurance of Michigan: [www.consumersmutual.org](http://www.consumersmutual.org)

Ohio CO-OP, InHealth Mutual: [Website to be established](#)

### MAC-Ed Program Registration

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**Nonmembers** do not register on the website, but may register for educational programs

Call (317) 726-6910 or email [knowledge@macc.coop](mailto:knowledge@macc.coop) for more information!