Restore the Government's Power to Regulate Insurance

Health Insurance Prices are Out of Control

Between 2000 and 2009, New Yorkers with job-based health insurance saw their premiums increase by 92%, while their earnings only increased by 14% during the same period.[1]

Health insurance premiums now consume a huge part the family budgets for low– and moderate–income families. For example, a family of four earning $44,000 per year (200% of the Federal Poverty Level) can expect to pay 8% of its family income on job-based coverage, 65% if it seeks insurance on the individual direct-pay market, and 22% if it tries the only public health insurance option available to it at that income level—Healthy NY.

The Price of Deregulation is Too High

Since 1999, NY has allowed health insurers to "file and use" premium increases with the Insurance Department. Since then, unregulated health insurance premiums increases have doubled.[2]

Before 1996, insurers had to get permission to raise their rates—under a system called "prior approval." Under prior approval, the Insurance Department reviewed premium rate increases prior to going into effect to determine if they are justified.

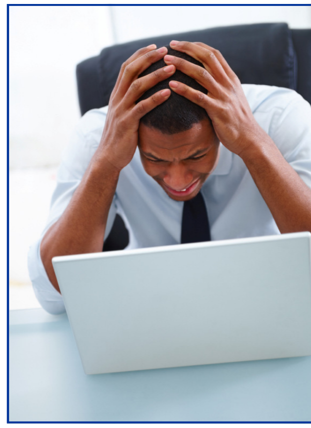
Governor Paterson's Budget Bill seeks to reinstate the prior approval system. The Superintendent of Insurance would review rate increases before they take effect—protecting employers and consumers alike. The bill also ensures that more of our premium dollars are spent on medical costs—not profits and administration.

NY Needs Prior Approval.

A recent Statewide poll by the Community Service Society found that two in three New Yorkers support restoring this power to State insurance regulators.[3] New Yorkers do so for two reasons.

First, New Yorkers know that the industry's decade-long experiment with self-regulation has resulted in skyrocketing insurance rates, unfettered profits and a decline in coverage. The old system of self-policing is a failure. Investigations by the Insurance Department have found that between 2000-2007 insurance companies have overcharged policyholders by at least $105 million more than they have self-reported.[4]

Second, requiring insurers to spend more on care—rather than profits—will help stabilize the individual and small group markets. These markets insure employers and people who are very sensitive to insurance rate increases. The unprecedented rise in insurance costs under the file and use system has priced tens of thousands of New Yorkers out of the private market—resulting in more people on public coverage; more uninsured New Yorkers; and a higher burden of costs on us all for uncompensated care.



Without regulation of the insurance market, more and more New Yorkers will be priced out of their health insurance.

Table I: Percent of Pre-Tax Family Income Consumed by Health Insurance Options

Federal Poverty Level	Annual Income	Family of Four (2 Adults 2 Children)		
		Employer Sponsored Insurance	Individual Direct Pay	Healthy New York
100%	$22,050	17%	131%	45%
200%	$44,100	8%	65%	22%
300%	$66,150	6%	44%	NA
400%	$88,200	4%	33%	NA
500%	$110,250	3%	26%	NA
600%	$132,300	3%	22%	NA

Sources: Employer-sponsored insurance data is from the Medical Expenditure Panel Survey/IC (2006); Direct-pay data calculated based on NYSDOI Premium Rates Index (April 2008); Healthy NY data derived from NYSDOI—2007 Annual Report on Healthy NY. All costs adjusted to 2009 dollars based on observed premium cost growth in each program (ESI, Direct Pay, and Healthy NY).

HCFANY strongly supports restoring Prior Approval of insurance rate increases.

De-bunking Insurance Industry Myths Against Prior Approval

The insurance industry has made several arguments against prior approval, which HCFANY wishes to address.

- **Myth #1: Rate regulation will hurt plan solvency or drive insurers out of the market.** The health insurance industry has become quite profitable in the last decade—industry-wide dividends exceeded $5 billion between 2000-2008.[5] Insurers' claim that regulation will result in plan insolvencies is a myth. Prior approval neither resulted in insurer insolvencies in New York before 1996, nor has it resulted so in the 24 other States that have this system. On the contrary, prior approval has kept premium increases at a reasonable rate in those states.[6]

  In fact, a stronger regulatory role for the State Insurance Department is likely to curb insurer insolvencies by focusing on underlying structural problems. Insurers may also contest any decision made by the SID in court if they believe it will hurt plan solvency— a luxury not extended to consumers who have lost coverage due to excessive rate increases under the current file and use system.

The insurance industry profits unfairly under the current system of "file and use" insurance rate hikes.

- **Myth #2: Prior approval will result in arbitrary decisions or "artificial" suppression of rates.** Insurers have argued that rate regulation will result in a "politicized" process that will prevent legitimate rate increases. But insurers would have the right to contest decisions made by the SDOI in court. EmblemHealth has gone so far as to claim that Empire Blue Cross and Blue Shield's financial difficulties in the 1990s were due to artificial rate suppression caused by prior approval. Yet, Empire itself does not share in this belief and has instead attributed its problems to the ability of commercial carries to "cherry pick" the insurance market. Empire's competitors have attributed its problems in the mid-90s to mismanagement (even the jailing of an Empire manager) and a failure to enter into the managed care market.

Myth #3: Rate regulation will hurt efforts to expand coverage and improve quality of care. There is no evidence to support the claim that price controls will damage the State's ability to address the problem of the uninsured. In fact, one study has documented that every 1% increase in premiums results in roughly 30,000 New Yorkers losing their insurance coverage.[7] Thus, the ability of the State to bend the rate curve will prevent more people from becoming uninsured.

Others argue that prior approval weakens the ability of health insurers to innovate or invest in quality initiatives. But the people of New York have yet to realize any innovative benefit from the past decade of deregulation. Instead, we've received higher prices for less coverage.

Insurance companies have booted too many New Yorkers out of their health insurance plans by way of excessive rate increases.

- **Myth #4: Prior approval will place administrative burdens on the State.** The SID itself disputes the claim that prior approval will produce unreasonable administrative burdens on the State. Further, SID estimates that reinstating prior approval will prevent roughly 45,000 New Yorkers from losing their health insurance, and save the state $70 million in the first year and $151 million in the second year.[8]

HCFANY urges the Legislature to realize that the industry's arguments are myths—not reality. The Legislature should support hard-working employers and people over industry profits and adopt the Governor's Bill to restore Prior Approval.

1 Families USA, *Costly Coverage: Premiums Outpace Paychecks in NY,* September 2009.
2 NYS Insurance Department, *The Price of Deregulation: How "File and Use" has Undermined New York State's Ability to Protect Consumers from Excessive Health Insurance Premiums,* June 2009.
3 CSS, *Findings From a NY Statewide Poll on Health Reform,* September 2009.
4 NYS Insurance Department, *supra* n.1.
5 Ibid.
6 Families USA, *The Facts About Prior Approval of Health Insurance Premium Rates*, June 2008.
7 NYS Insurance Department, Prior Approval of Health Insurance Premiums, Legislative Briefing—January 25, 2010.
8 Ibid.

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