

MEMORANDUM
IN CASE YOU MISSED IT



Date: January 26, 2016
To: Senate and Assembly Insurance and Health Committees
From: New York Health Plan Association
Re: ICYMI – Standard & Poor’s Report on Plan Losses

A new report released today from [Standard & Poor’s](#) (attached) on the effects of the Affordable Care Act in New York underscores the need for reform of the state’s prior approval rate setting process in order to ensure future viability of the exchange and New Yorkers’ access to coverage.

Although the report found New York, like many other states, has seen a substantial decrease in the number of uninsured, it raised significant concern over the continued losses suffered by plans and questioned whether insurance companies can remain on the exchange without appropriate premium pricing.

Seventy-five percent of the plans on the NY State of Health exchange reported operating losses in 2014, with losses for the individual market alone totaling more than \$160 million, according to figures in the report. Plans cannot be expected to continue losing money year after year and remain viable.

The report pinned some of New York’s losses on problems with federal risk stabilization programs meant to protect insurers from suffering huge losses, a problem impacting insurers across the nation. However, the report also pointed to the impact of New York’s rate regulation process, noting the Department of Financial Services (DFS) frequently using its authority to strike down requested rate increases.

As the New York Health Plan Association (HPA) has repeatedly said, DFS has been practicing systemic price suppression over the past several years, and the suppression is arbitrary, not actuarially based. Today’s report underscores the need for rate setting reforms to ensure adequate premiums moving forward to protect health plans’ financial solvency and, by extension, consumers’ access to care and choice. We call on the legislature to examine these issues and look forward to working with lawmakers to help ensure New Yorkers have access to quality, affordable health care.

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DRAFT: EMBARGOED DRAFT--Embargoed Until 10:00 a.m. ET, Jan. 26, 2016: In A New York State Of Mind: A Look At The New York State Insurance Exchange

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DRAFT

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The third open-enrollment period for the Affordable Care Act (ACA) health insurance exchanges is well underway, and with all premium prices locked in, insurers are hoping for a stronger year in 2016. After two years of strained profits in the individual line of business, many are wondering whether 2016 will usher in a turnaround for the insurers. And the rapid pace of enrollment under the exchanges during the past two years has raised other questions: Will the uninsured rate decline for a third year in a row? Or will it be more difficult to enroll the remaining uninsured? Most of the answers won't become clear until later in 2016, when enrollment and insurer performance data become available, but the past may offer some clues.

With this in mind, we took an in-depth look at one of the largest insurance markets in the country, New York State. With about 20 million residents, an insured rate of over 90%, and 16 insurance companies operating on the state's individual marketplace in 2015, New York ranks among the top states in the country in terms of population, insured rates, and competition. Our review of ACA enrollment information and statutory financial statements of health insurers operating in the New York marketplace revealed three broad themes, which are somewhat similar to what we have seen on the national stage:

- Steep declines in the number of uninsured;
- Weak operating performance for insurance companies in the individual market; and
- Lingering uncertainties about how much insurers can rely on the federal risk-mitigation program to buffer against volatility during the ACA's initial years.

Overview

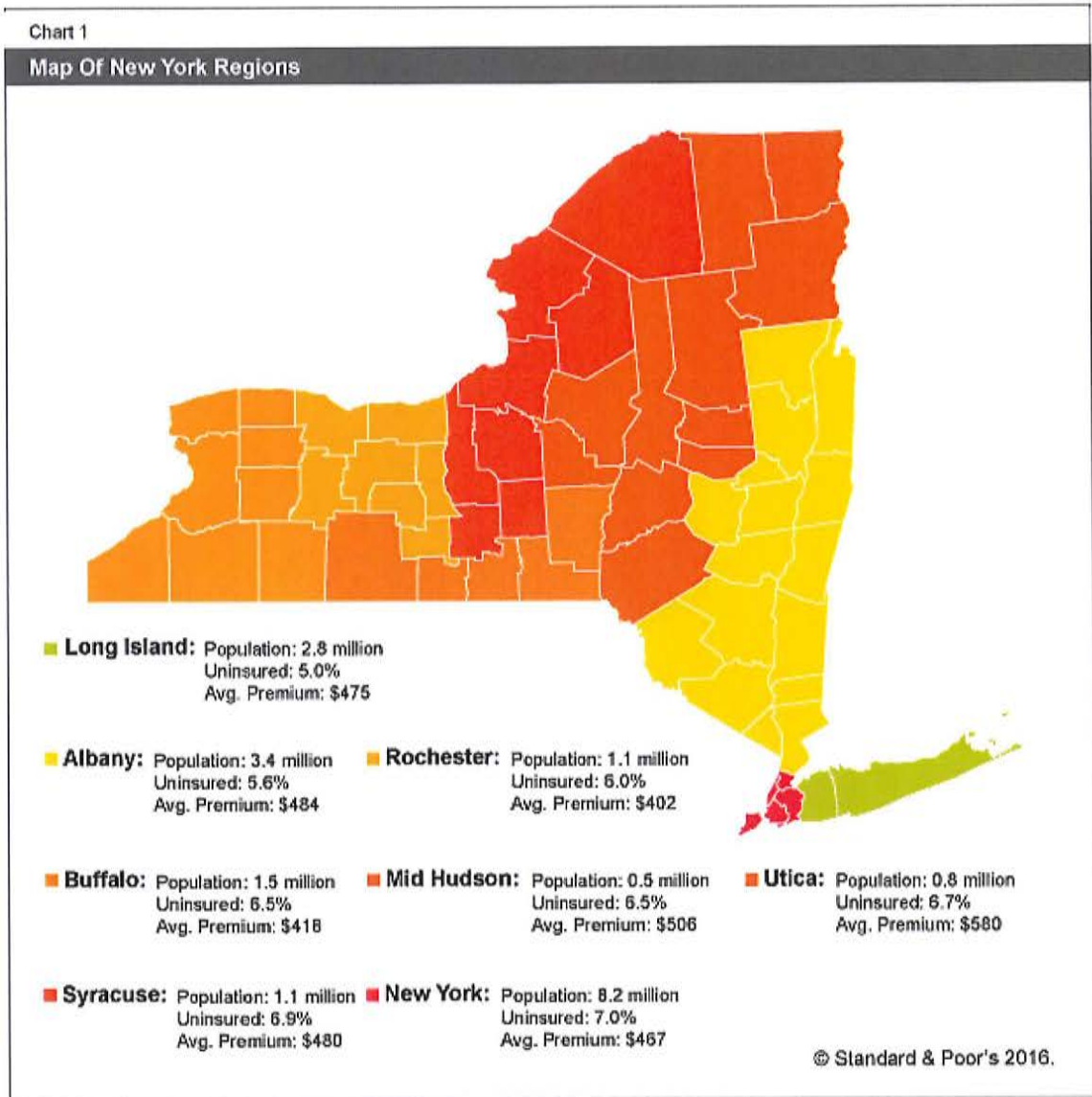
- New York State is one of the largest insurance markets in the country and ranks near the top in terms of population, insured rates, and competition. The state boasts roughly 20 million residents, an insured rate of more than 90%, and 16 companies operating on the state health insurance exchange in 2015.
- Uninsured rates have fallen since the rollout of the ACA, both in New York State and nationally.
- The drop in uninsured rate has come at a cost of weak operating performance for insurers in this line of business.
- Uncertainties remain about how much insurers can rely on the federal and state risk-mitigation programs to buffer against volatility related to the ACA rollout.

A Snapshot Of The New York State Exchange

New York is one of 13 states with a state-run public health insurance exchange, as opposed to a federally run health exchange. The state exchange covers eight separate regions, each made up of at least two (and as many as 16) counties. Our study found quite a bit of variance in the premium rates, number of insurers, overall populations, and uninsured rates across the eight regions (see chart 1). All of these factors play a role in the competitive environment across the state and within each region and county. The smallest region geographically, New York City, is also the most populous and has the highest percentage of uninsured individuals, whereas the Utica region is the most expensive (if we look at average premiums across the counties and regions). The number of insurers in each of these eight regions ranges from as few as five to as many as 14. Generally the more populated regions also have more insurance companies offering plans.

Chart 1

Map Of New York Regions



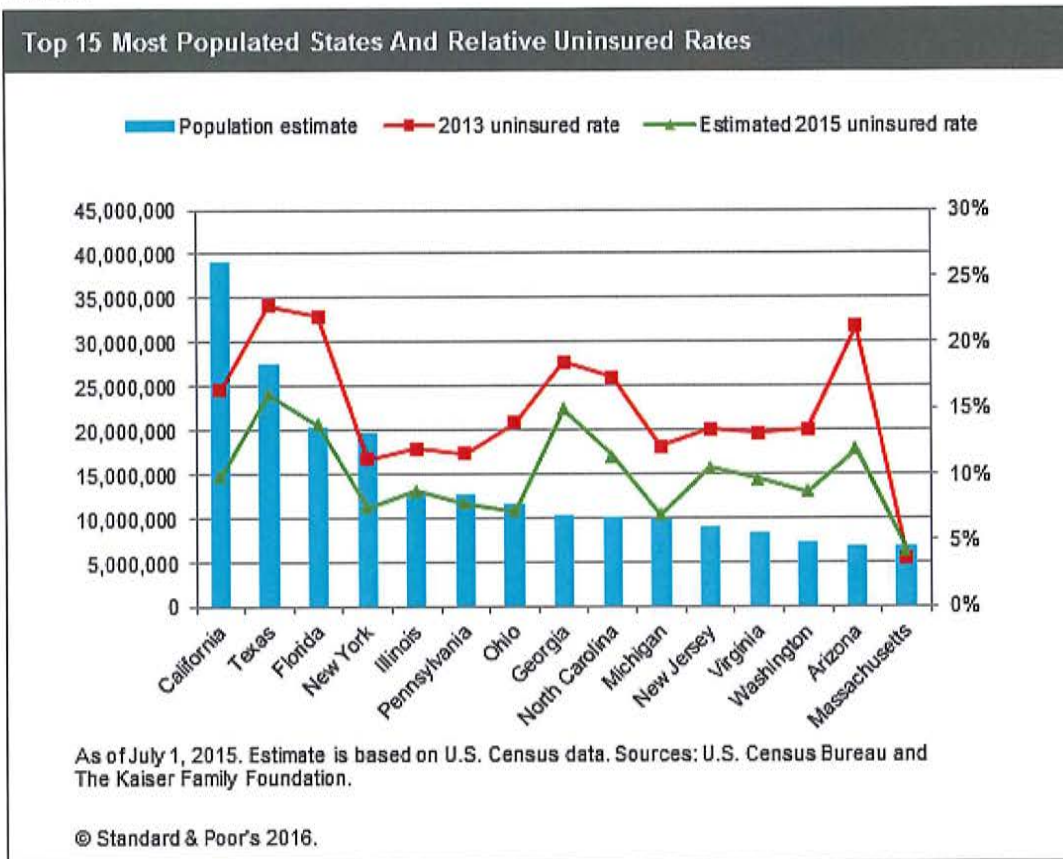
New York Uninsured Rates Have Fallen

Improved access to health insurance has been a clear benefit from the ACA. According to the Centers for Disease Control (CDC), the U.S. has seen a decline in the uninsured rate to 16% in 2014 from about 20% at end of 2013, and preliminary data suggest a further drop to 12.7% in the first six months of 2015.

According to the NY State of Health, more than 2 million people (about 415,000 in non-Medicaid qualified health plans) enrolled during the second open-enrollment period ended February 2015. This accounts for about 10% of the state's population. The uninsured rate across the state declined to about 7% in 2015 from 9% in 2014 and 11% in 2013. For the third open-enrollment period, initial HHS data (as of December 2015) indicates more than 265,000 have enrolled in qualified health plans in the New York state exchange.

Some of the most populous states in the country started with high uninsured rates of more than 10% before the ACA and have seen steep declines since the first enrollment period in 2014 (see chart 2). But although these figures indicate that ACA has been successful in meeting its key initiative of expanding access to health insurance, it's hard to tell whether this trend will continue. In New York, despite the state's strong competitive environment and increasing enrollment on the state exchange, premium rates are rising. As medical costs continue to rise and health insurers realize they can't rely on the ACA risk-mitigation programs to offset the volatility in the initial years of the ACA, many have raised premium prices for 2016.

Chart 2



New York's Competitive Insurance Market

New York has always had a healthy number of insurers and a strong presence of public for-profit and private not-for-profit insurers competing for members. New York is also one of the few states in which multiple BlueCross BlueShield plans are available. Three Blue plans--Empire (part of the Anthem Inc. group), HealthNow New York, and Excellus Inc.--compete in mostly separate territories in the state. (Empire is a for-profit Blue Plan, whereas HealthNow and Excellus are not-for-profit insurers.)

During the 2016 open enrollment period, 16 individual insurers are offering products on the New York exchange. This is among the highest number of insurers in any state in the country. Last year, (according to a July 2015 New York state report), Fidelis Care, Health Republic, and HealthFirst had the largest share of the exchange enrollment in the state (see table 1). Health Republic has since exited the market due to solvency concerns.

Table 1

Top Three Insurers In New York State Based On Enrollment	
Company	Share of statewide total enrollment (%)
Fidelis Care	20
Health Republic Insurance of New York	19

Table 1

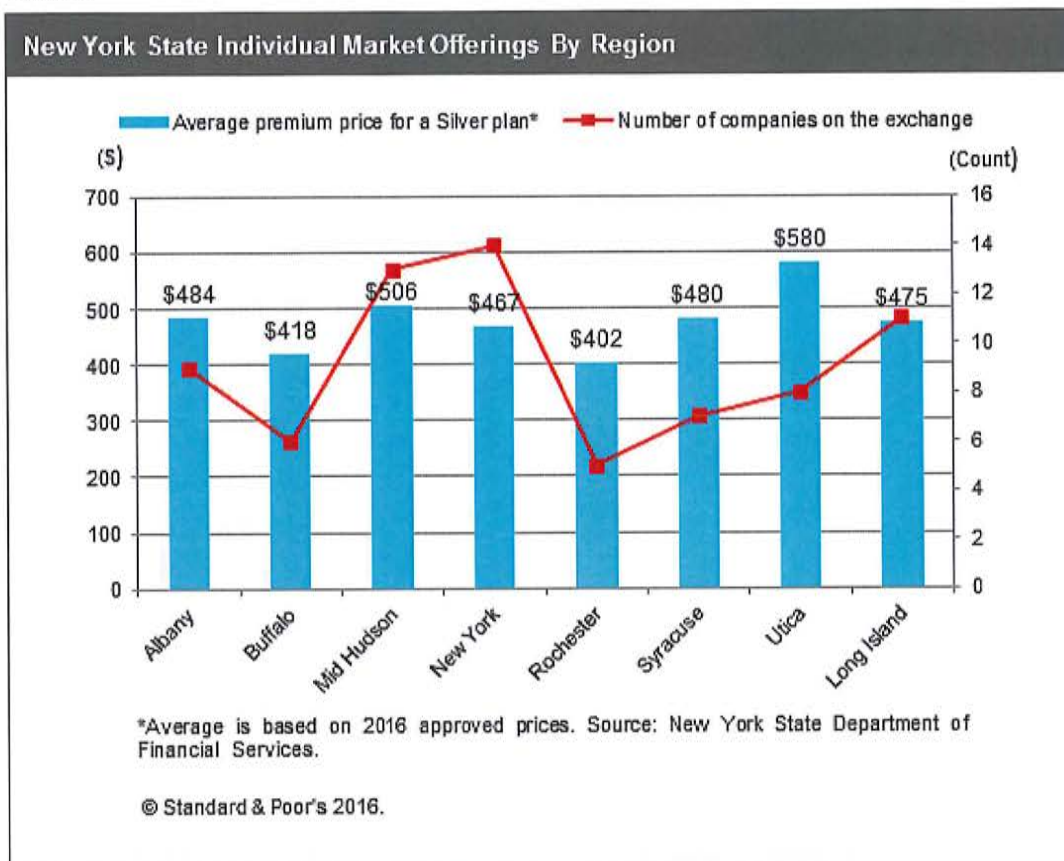
Top Three Insurers In New York State Based On Enrollment (cont.)

HealthFirst	10
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Source: New York State of Health.

On average, each of the 16 health insurers operates in about four regions of the state health exchange. Fidelis is currently the only insurer participating on the exchange in all eight regions. The Utica region has the highest average price per plan on the 2016 state exchange (for all "metal" levels--bronze, silver, gold, and platinum--with bronze plans typically having the lowest premiums but the highest deductibles and other out-of-pocket costs; see chart 3). Utica also had the largest premium increase from 2015 to 2016, where silver plan prices increased an average 19%. The New York City region has the greatest number of insurance companies, with 14 offering products for 2016 enrollment. This compares to the Rochester region, in which only five insurance companies are offering plans on the exchange.

Chart 3



The Impact Of Premium Rate Regulation

Competition and premium rate regulation make New York a relatively difficult operating market for health insurers. New York is a file-and-approve state, which means that insurers file a premium rate request each year for the following year's enrollment period and have to receive regulatory approval of the request. The New York state regulator has the ability to decline or reduce the premium rates requested.

Insurers requested an average rate increase across all "metallic" levels on the exchange of about 10% for 2016, according to New York's Department of Financial Services (DFS; see table 2). However, the DFS approved only an average 7% rate increase, and just five plans received the green light for their requested rates.

Specifically for the silver plan, on average, premium rates across New York declined about 8% between 2014 and 2015 and then increased about 3% from 2015 to 2016 (see chart 4). The increase in 2016 likely reflected a multitude of factors, but chief among them may have been the more reliable and relevant data available to insurers when making their premium requests, and correcting pricing to match members' higher-than-expected morbidity.

Chart 4

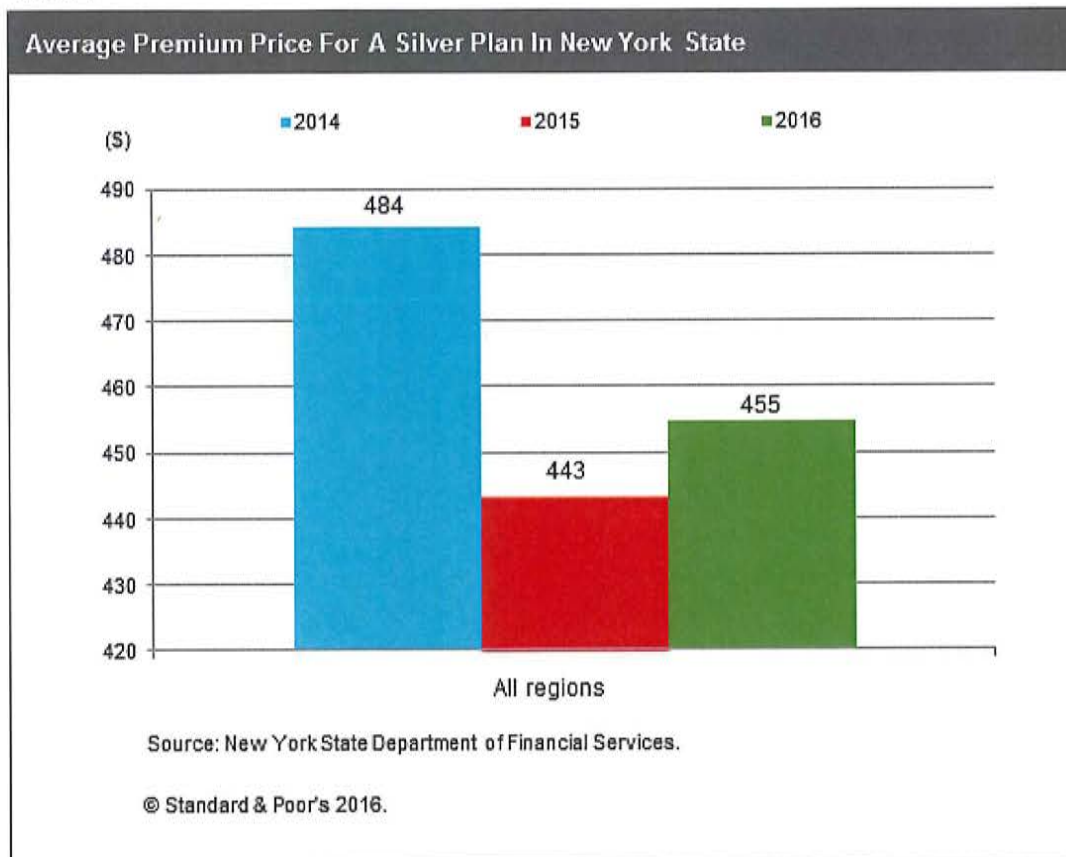


Table 2

Requested And Approved 2016 Rates By Company

(%)	Rate action requested	Rate action approved	Reduction
Affinity Health Plan, Inc.	6.63	(6.63)	0.00
Capital District Physicians' Health Plan, Inc. (HMO) (CDPHP Inc.)	5.69	(2.52)	(3.17)
Emblem Health Insurance Plan	13.2	(10.51)	(2.69)
Empire HealthChoice HMO, Inc. (NY Operations - Part of Anthem Inc.)	14.50	(13.20)	(1.30)
Excellus Health Plan, Inc.	12.80	(5.72)	(7.08)
Fidelis Care	4.66	(4.66)	0.00
Health Republic Insurance of New York Corp	14.36	(14.03)	(0.33)
HealthFirst Inc.	12.89	(9.60)	(3.29)
HealthNow New York Inc.	6.68	(1.32)	(8.00)
Independent Health Benefits Corporation (IHBC)	(10.36)	(10.36)	0.00
MetroPlus Health Plan	(7.00)	(7.00)	0.00
MVP Health Plan, Inc.	(13.48)	(10.24)	(3.24)
North Shore LIJ CareConnect Insurance Company Inc.	(4.93)	(4.43)	(0.05)
Oscar Insurance Corporation	(4.54)	(4.54)	0.00
Oxford Health Plans Inc. (Part of UnitedHealthCare)	(5.32)	(12.25)	(17.57)
United HealthCare (NY Operations)	(22.00)	(1.65)	(20.35)
Wellcare Health Plans (NY Operations)	(4.71)	(3.30)	(8.01)

Source: New York State Department of Financial Services.

Operating Losses Burden New York's Individual Market

As we expected, the changes in the individual market following the ACA rollout arising from the unknown morbidity profile of the newly insured and uncertainties about support from the government risk-mitigation programs have created volatility both for insurers' financial performance and for overall market pricing. This has proven true nationally in both 2014 and 2015.

Our research indicates that despite the larger market scale in New York, many insurers operating there have felt the same pains as in the rest of the country in terms of operating performance. An analysis of available public statutory financial information indicates that for the 12 insurers that were on the NY state health exchange, underwriting losses for the individual line of business totaled about \$160 million for 2014. (Statutory financial statements were publically available for only 12 of the 16 insurers that are on the exchange.)

Three-quarters of the insurers that participated on the New York exchange reported an operating loss for their individual line of business in 2014 (see table 3). The credit impact of this operating loss varied depending on the insurers' relative product diversification and capital cushion. For example, Health Republic Insurance of New York, a co-op insurer that was grappling with start-up pains, suffered significant losses in 2014 and the first half of 2015 and lacked a sufficient capital buffer to manage the impact. The business was not sustainable, and the company will no longer sell insurance in 2016. On the other hand, Oscar Health--another start-up insurer--is surviving despite incurring its share of losses because it has been able to raise external capital to cushion the blow. In general, insurers that are

diversified by line of business and have bigger capital cushions will feel a pinch from these losses, but will remain operational and financially solvent.

Table 3

New York State Insurer Underwriting Gain/Loss On Individual Business In 2014

Company	Underwriting gain/loss in individual segment (\$)	Gain/loss per member (\$)	Total enrollment in individual segment
Emblem Health Insurance Plan (NY operations only)	(35,344,881)	(1,271)	27,804
United HealthCare (NY operations only)¶	(35,322,521)	(644)	54,890
Health Republic Insurance of New York Corp.	(35,187,831)	(407)	86,414
Oscar Insurance Corp.	(27,561,270)	(1,628)	16,933
North Shore LIJ CareConnect Insurance Co. Inc.	(22,958,104)	(2,395)	9,587
MVP Health Plan Inc.	(10,052,648)	(266)	37,863
Capital District Physicians' Health Plan Inc.	(4,090,006)	(1,014)	4,035
Excellus Health Plan Inc.	(4,045,067)	(74)	54,984
Freelancers Insurance Co. Inc.	(382,219)	(432)	885
HealthNow New York Inc.	1,650,394	360	4,588
Independent Health Benefits Corp.	4,123,645	1,222	3,375
Empire HealthChoice HMO Inc. (NY operations only; part of Anthem Inc.)§	5,494,946	76	71,868

*Group Health Inc., Health Insurance Plan Of Greater New York, HIP Insurance Co. Of New York. ¶Oxford Health Insurance Inc., Oxford Health Plans (NY) Inc., United HealthCare Insurance Co. of New York, UnitedHealthcare of New York Inc. §Empire HealthChoice Assurance Inc., Empire HealthChoice HMO Inc. Based on statutory data. Missing data for Affinity, Fidelis, HealthFirst, and MetroPlus Health Plan.

Diversification is critical when insurers are faced with rising losses in one line of business. The majority of the insurers listed in table 3 are diversified across other business lines. The losses in the individual market will be more of a credit negative for insures that are heavily concentrated in this market.

Risk-Corridor Programs Not Providing Stability

ACA introduced three risk-stabilization programs (referred to as the 3Rs) to the marketplace: a permanent risk-adjustment program, a temporary reinsurance program, and a temporary risk-corridor program. The purpose of the 3Rs was to provide stability to the insurers in a new and somewhat volatile exchange environment. (Tables 4, 5, and 6 highlight the impact of these programs on the NY state insurers.)

The most controversial of the 3Rs has been the risk-corridor program. Due to insufficient funding, the corridor only paid out 12.6% of what was expected by the insurers. For New York, in dollar terms, insurers who were owed a risk-corridor receivable only got \$14 million out of a potential \$112 million (see table 4). Due to the uncertainty of full payment of the risk-corridor program, the National Association of Insurance Commissioners (NAIC) has advised companies not to admit risk-corridor receivables as assets on their statutory balance sheets. As we had stated in 2014, we expect the 2015 risk corridor also to be underfunded (see The ACA Risk Corridor Will Not Stabilize The U.S. Health Insurance Marketplace In 2015, published Nov. 5, 2015, on RatingsDirect).

Moreover, although the risk-adjustment program will remain in place going forward, 2016 is the last year in which the reinsurance and risk corridor programs will be in effect. So next year, insurers will need to operate in the exchange environment even more independently, without relying on two of the 3Rs to offset market uncertainties.

Table 4

Affordable Care Act Reinsurance Program Summary For New York State

(\$)	Reinsurance receivable amount
Health Republic Insurance of New York Corp.	58,217,807
United HealthCare (NY operations only)	47,715,651
Anthem Inc. Group (NY operations only)	38,100,184
Excellus Health Plan Inc.	25,521,166
Emblem Health Insurance Plan (NY operations only)	24,804,534
MVP GRP	20,053,743
Oscar Insurance Corp.	17,524,069
Aetna Life Insurance Co.	14,885,554
Fidelis Care	13,745,381
North Shore LIJ Hlth Care Group	5,663,264
CDPHP Inc.	5,393,821
MetroPlus Health Plan	4,200,475
HealthFirst Inc.	4,031,461
HealthNow New York Inc.	3,350,324
Independent Health Benefits Corp.	2,847,602
Freelancers Insurance Co. Inc.	683,732
American Progressive Life & Health Insurance Co. of New York	547,364
Affinity Health Plan Inc.	464,861

Source: Centers for Medicare and Medicaid Services.

Table 5

Affordable Care Act Risk Adjuster Program Summary For New York State

(\$)	Risk adjustment transfer amount for individual market*	Risk adjustment transfer amount for small group market
Affinity Health Plan Inc.	(2,141,766)	0
CDPHP Inc.	8,365,330	4,274,063
Emblem Health Insurance Plan (NY Operations)	(3,860,227)	(29,364,784)
Anthem Inc. Group	(4,215,357)	(10,479,497)
Excellus Health Plan Inc.	33,519,366	26,430,399
Fidelis Care	(37,511,467)	0
Health Republic Insurance of New York Corp.	(28,222,333)	(52,013,211)
Freelancers Insurance Co. Inc.	(426,177)	0
HealthFirst Inc.	(2,649,558)	0
HealthNow New York Inc.	8,832,941	13,095,628
Independent Health Benefits Corp.	6,203,465	4,498,767
MetroPlus Health Plan	(54,033,594)	(1,169,658)
MVP Health Plan Inc.	11,938,998	(3,053,793)

Table 5

Affordable Care Act Risk Adjuster Program Summary For New York State (cont.)

North Shore LIJ CareConnect Insurance Co. Inc.	434,622	(735,699)
Oscar Insurance Corp.	(8,073,822)	0
United HealthCare (NY Operations)	56,203,257	111,327,797
Aetna Life Insurance Co.	14,975,559	(62,647,397)
American Progressive Life & Health Insurance Co. of New York	660,761	0
Managed Health Inc.	0	(162,615)

*Includes catastrophic. Source: Centers for Medicare and Medicaid Services.

Table 6

Affordable Care Act Risk Corridor Program Summary For New York State

Company	Risk corridor amount for individual market (\$)	Risk corridor amount for small group market (\$)	Prorated amount for individual market*	Prorated amount for small group market*
Affinity Health Plan Inc.	1,179,369	0	148,811	0
CDPHP Inc.	(1,382,552)	14,607,069	(1,382,552)	1,843,100
Emblem Health Insurance Plan (NY Operations)	0	0	0	0
Anthem Inc. Group	0	0	0	0
Excelsus Health Plan Inc.	(5,505,909)	7,526,489	(5,505,909)	949,682
Fidelis Care	(3,499,761)	0	(3,499,761)	0
Health Republic Insurance of New York Corp.	89,568,961	59,765,899	11,301,692	7,541,181
Freelancers Insurance Co. Inc.	0	0	0	0
HealthFirst Inc.	75,524	0	9,530	0
HealthNow New York Inc.	(4,020,217)	(1,216,594)	(4,020,217)	(1,216,594)
Independent Health Benefits Corp.	(2,870,470)	(530,639)	(2,870,470)	(530,639)
MetroPlus Health Plan	8,754,733	0	1,104,661	0
MVP Group	(3,547,343)	1,550,702	(3,547,344)	195,666
North Shore LIJ Health Care Group	3,109,089	407,827	392,301	51,459
Oscar Insurance Corp.	9,342,724	0	1,178,852	0
United HealthCare (NY Operations)	(626,658)	0	(626,659)	0
American Progressive Life & Health Insurance Co. of New York	(344,586)	0	(344,586)	0

*Prorated amounts equal 12.6% of the risk corridor amount unless the risk corridor amount is negative. Negative amounts are not prorated and are shown as 100% of the risk corridor amount. Source: Centers for Medicare and Medicaid Services.

Will New York Point The Way For Other States?

If the experience in New York is any indication of how the rest of the country is managing through the initial years of the ACA, we can expect it to be a bumpy ride. It will take time not only for the market to rationalize in terms of pricing

and long-term stability, but also for insurers to dig themselves out of the financial holes that the ACA's first two years may have opened up for them.

If insurers continue to lose money, it's only a matter of time before many drain their capital cushions and are forced to either significantly raise prices or drop out of the New York exchange. Nevertheless, many established insurance companies have enough capital to sustain losses for some time. However, small insurers concentrated in the individual market do not have that advantage. For consumers, failing insurance companies could mean fewer health plan options to choose from and the continued market volatility could lead to rising premium rates. We'll be watching as the 2016 enrollment period unfolds to see where the winds of change are blowing.

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