Health Insurance 101
Understanding Health Care Premiums

Health plans recently filed proposed premium rates and product offerings for the 2023 plan year. The filings will undergo a review by the Department of Financial Services and an opportunity for the public to comment, with 2023 final rates expected to be announced in early August. Health care premiums and medical costs are inextricably linked. The cost of health insurance is the direct result of the underlying cost of care. This issue brief looks at what goes into health insurance premiums, past rate decisions, and recent legislative proposals in New York that will further add to costs.

What's Driving Premium Rates?
In late-March, the Centers for Medicare & Medicaid Services (CMS) released its annual National Health Expenditure report, noting that health care utilization is expected to rebound starting in 2021, with COVID-19 remaining an ongoing factor influencing national health spending over the course of the next few years (2022–24).[1] Further, inflation in health care prices is expected to be passed on from providers as higher service prices.

In New York, while the pandemic has persisted, the use of health care services has bounced back. Care deferred in the first half of 2020 has largely resumed, resulting in more complex and more costly care. Treatment related to COVID-19, including individuals with long-COVID, testing, treatment and vaccination, is expected to persist. At the same time, the major factors driving premiums remain ongoing challenges including:

Prescription Drug Costs: According to the CMS report, drug prices are expected to rise in 2023 and 2024 "at a rate similar to economywide price inflation but above recent historical periods. Moreover, growth in the use and intensity of drugs is expected to accelerate, as well, in part because of a larger anticipated impact from new drugs approved over the course of 2021–22." State laws that passed in 2021, including prohibiting mid-year formulary changes and restrictions on mail order, and bills the Legislature adopted last month to prohibit copay accumulators and prohibit step therapy for some drugs will restrict the ability of health plans to contain out-of-control prices Big Pharma charges and do nothing to ensure consumers get the most appropriate drugs at the lowest cost.

Provider Costs: Hospital and physician costs continue to rise as well. As the CMS report notes, "Although COVID-19-related hospitalizations continued throughout 2021, demand for and availability of non-COVID-19 hospital care is expected to have partially rebounded from the lows of 2020" and is expected to have contributed to faster projected growth in hospital spending in private health insurance. CMS also noted that spending for physician and clinical services "is projected to accelerate, mostly reflecting consumers' expected return to more typical patterns of care use along with continued demand for testing and treatment for COVID-19-related symptoms."

Provider consolidations, in which hospitals and physicians merge and form alliances, has played a role in rising provider costs, due to providers increasing market share and leveraging higher reimbursements that lead to higher prices for consumers and employers. Recent bills the Legislature passed last month, including restricting clinicians that can serve as health plan peer reviewers, will do nothing to improve the quality of care for patients or restrain the growth in prices for provider services but will add to premium rates in New York.

Mandated Benefits: Every state-regulated health insurance policy sold in New York must include or "make available" coverage for more than three dozen specific treatments or services. Excluding services such as doctors' visits, maternity care and hospitalizations, many of these mandated benefits are for treatments or screenings that go beyond the evidence-based guidelines recommended by major national health organizations. While the cost of some mandated benefits in isolation may be relatively small, their collective impact drives up the cost of insurance coverage for New York employers and consumers. Several mandated benefits passed during the 2022 legislative session will exacerbate the challenge of rising health care costs for individuals and small businesses.

[1] Poisal J, Sisko A, Cuckler G, Smith S, Keehan S, Fiore J, Madison A, Rennie National K, Health Expenditure Projections, 2021–30: Growth To Moderate As COVID-19 Impacts Wane. Health Aff 2022;41(4): 474–486. https://doi.org/10.1377/hlthaff.2022.00113

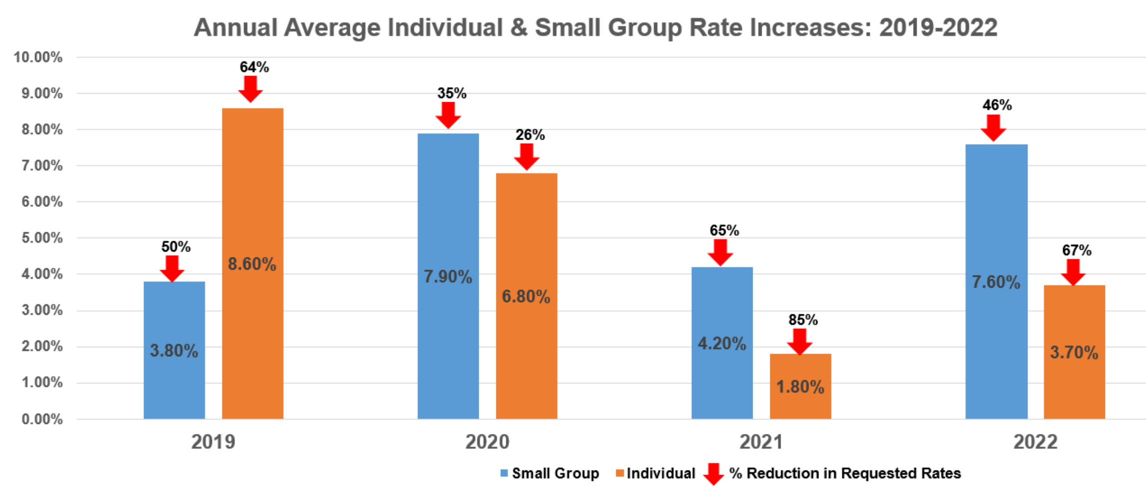
Health Insurance Taxes: New York currently collects more than $6.5 billion annually in taxes on health plans. These include the Health Care Reform Act (HCRA) patient services assessment and covered lives assessment. There is also a 1.75% premium tax on commercial health insurance policies and the Department of Financial Services' Section 206 assessments that fund the operations of the Department. Collectively, taxes on private health insurance rank third highest in the state, with only personal income taxes and sales taxes higher.

Loss of ARPA Funding: Among the key provisions of the American Rescue Plan Act (ARPA) was a temporary increase in exchange premium tax credits for individuals already eligible for assistance under the Affordable Care Act. ARPA also extended eligibility to individuals with incomes over 400% of the federal poverty level for 2021 and 2022. However, the enhanced tax credits will expire in 2022 if Congress doesn't extend them, resulting in much higher premiums. Over 138,000 New York residents have benefited from the enhanced APRA tax credits and will experience an increase in their premiums if these subsidies are not extended. The annual amount that New Yorkers could lose when the ARPA subsidies expire is estimated at $1,453 and premiums are projected to increase for tax credit eligible consumers by 58%.[2] Congress should permanently adopt the ARPA subsidies to protect their coverage.

Understanding the New York Individual and Small Group Markets

New York has one of the nation's most stringent standards for how the premium dollar is spent, requiring in the individual and small group markets that at least 82 cents of every premium dollar is spent on health care services for patients, including doctor visits, diagnostic tests, prescription drugs and hospital stays. If health plans fail to meet these standards, state law also requires that they issue rebates to employers and individuals, ensuring that the bulk of the premium dollar is spent on medical care. When spending on medical care exceeds the minimum standard, it can result in plan losses. In 2021, the premium spent on medical care exceeded 90% in the individual market for many health plans, with some exceeding 100%.

The rates health plans submitted in May reflect the factors driving higher health care costs: rising prices for medical services and prescription drugs; greater utilization due to care that was deferred early in the pandemic; and government taxes and assessments on insurance. Under the Cuomo Administration, the State significantly reduced average rate requests. The chart below represents the final average rate increases that have been approved each year and the percentage reduction in health plans' requested rates that the State imposed.[3]



Continued reduction of premium rates will make it difficult for health plans to make ongoing investments in efforts to improve the quality of care, continue the progress in moving towards value-based payment arrangements, programs to reduce health inequities, and other measures that improve the health and wellness of New York residents. As the State reviews the proposed 2023 rates, it is vital that the final approved rates fully account for the factors contributing to the growth in health care spending so that health plans can continue these investments while maintaining the long-term stability of the marketplace for individuals and employers.

[2] Estimates based on data from the NY State of Health. https://info.nystateofhealth.ny.gov/sites/default/files/Health%20Insurance%20Coverage%20Update%20by%20Congressional%20District%20-%20March%202022.pdf

[3] Department of Financial Services press releases announcing premium rates, 2018-2021.