

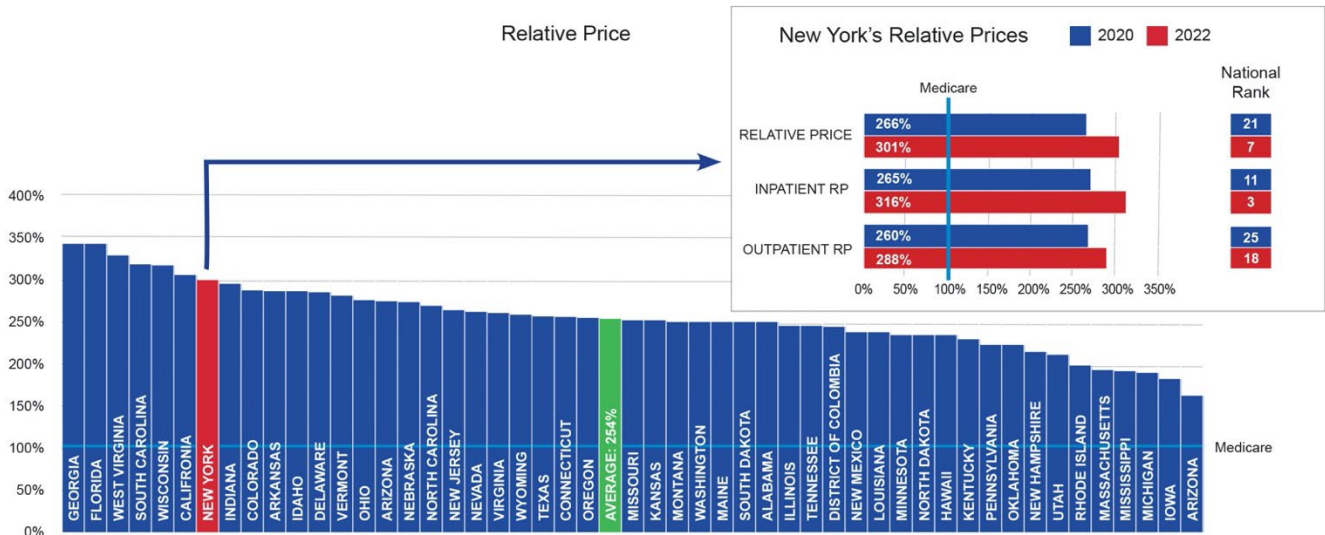
Health plans recently filed proposed premium rates and product offerings for the 2025 plan year, which will undergo a review by the Department of Financial Services, with 2025 final rates expected to be announced in early August. This issue brief examines the factors contributing to health insurance premium increases.

High Hospital Prices: The Major Factor Driving Premium Rate Increases

Health care premiums and medical costs are inextricably linked. The cost of health insurance is the direct result of the underlying cost of care. Health insurance premiums in New York are among the nation's highest due in large part to the prices charged for health care services, particularly hospital prices that exceed the national average.



According to the recent RAND analysis of prices paid to hospitals by private health plans, **New York had the nation's seventh highest hospital costs**, charging commercial health plans in excess of 300% of Medicare. The overall growth in hospital prices in New York increased by more than 13% from 2020-2022. Inpatient prices grew even faster with hospitals charging 316% of Medicare in 2022 up more than 19% compared to 2020 and outpatient prices grew over 10% during that time period, rising from 260% of Medicare in 2020 to 288% in 2022. Consolidation among hospitals and physician groups has been a major contributor to New York's high health care costs, as provider systems continue to seek significant price increases in contract negotiations, exacerbating inflationary pressures on insurance premiums. In April, the U.S. Department of Labor reported that hospital prices increased 7.7% between Q12023 and Q12024, with economists expecting higher hospital inflation to persist and continue to ripple through health insurance premiums.



Source: RAND, Prices Paid to Hospitals by Private Health Plans, 2024.



Prescription Drug Costs: This past January, Big Pharma raised the price on 775 brand named medications – in some instances by double digits after raising prices on more than 800 brand name drugs in 2023. According to the Health Care Cost Institute's recent *2022 Health Care Cost & Utilization Report*, drug prices grew by 21% from 2018 – 2022 and prescription drug spending grew by 35% before factoring in manufacturer rebates. **As part of its National Health Expenditure report, the Centers for Medicare & Medicaid Services projects private insurance spending on prescription drugs to grow by 7.9% in 2025, up from 6.8% in 2024.**



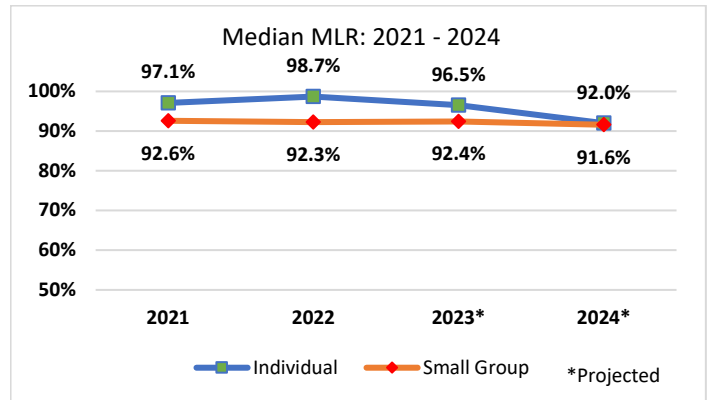
Mandated Benefits: New York mandates in statute that state regulated health insurance policies include or "make available" coverage for over 40 specific treatments or services, many of which are for treatments or screenings that go beyond the evidence-based guidelines recommended by major national health organizations. Recently, the Legislature passed several additional mandated benefit bills along with restrictions on cost-sharing levels for specific services. While the cost of some of these benefits in isolation may be relatively small, the collective impact of mandated benefits adds to the cost of coverage and falls disproportionately on small and medium-sized employers. Further, limiting cost-sharing levels does nothing to lower the underlying price of medical care, leading to higher premiums.



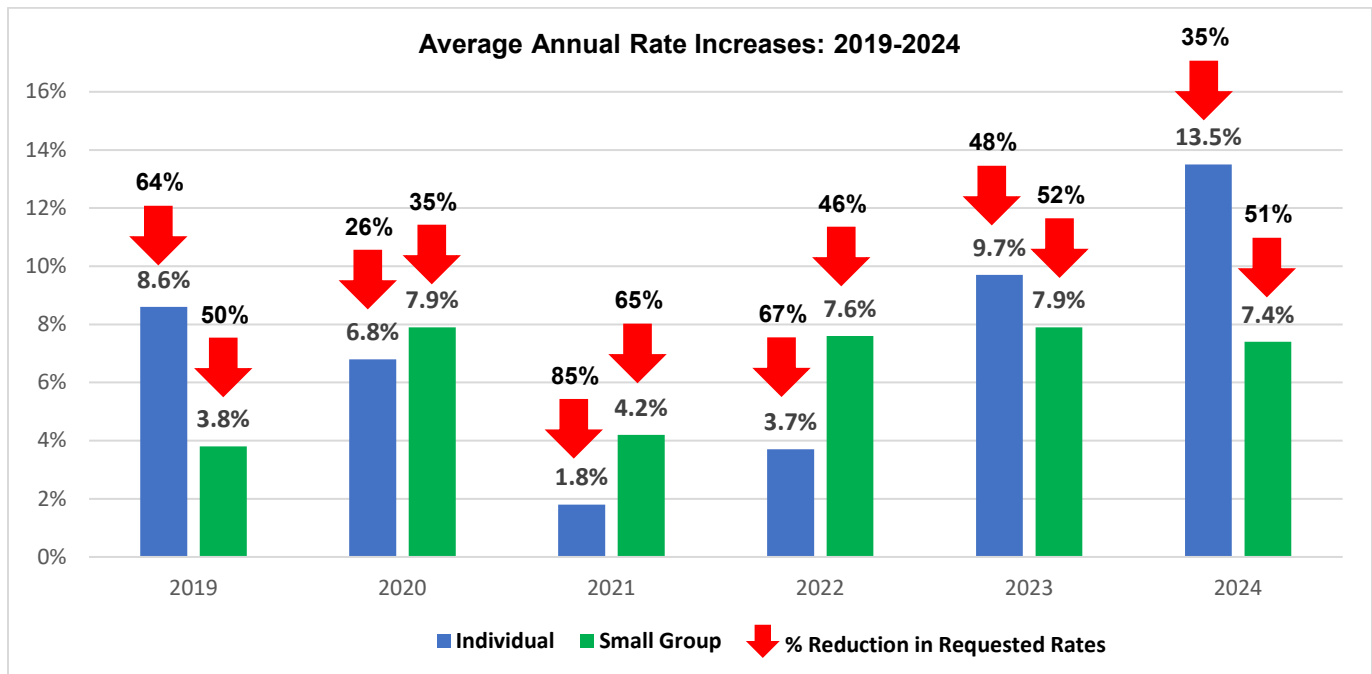
Health Insurance Taxes: New York currently collects more than \$6.5 billion annually in taxes from health plans. These include the Health Care Reform Act patient services assessment and covered lives assessment, as well as a 1.75% premium tax on commercial health insurance policies and the Department of Financial Services' Section 206 "assessments" to fund the Department's operations. Taxes on health insurance rank third highest in the state, behind personal income and sales taxes.

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. In the individual and small group markets, health plans must spend at least 82 cents of every premium dollar on health care services, including doctor visits, diagnostic tests, prescription drugs and hospital stays. The state requires health plans to issue rebates to employers and individuals if they fail to meet these standards, 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. From 2020-2024, median premium spent on medical care exceeds 90% in both the individual and small group markets, creating losses for some plans.



The rates health plans submitted in May reflect the factors driving higher health care costs: the significant growth in the prices hospitals, providers and drug companies charge; increased use of care; and government taxes and assessments on insurance. 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.¹



New York's health care costs are among the highest in the country. The 2025 rates health plans submitted are driven by the high prices that hospitals charge along with increases in the cost of care by other providers, growth in prescription drug prices, the impact of mandated benefits and high taxes on insurance. In the absence of state policy measures to rein in escalating hospital and pharmaceutical prices, the final approved premiums should fully recognize these factors as they reflect the true cost of care in New York.

¹ Department of Financial Services press releases announcing approved premium rates, 2018-2023.