



## HEALTH INSURANCE 101

### UNDERSTANDING HEALTH CARE PREMIUMS

Health plans recently filed proposed premium rates and product offerings for the 2026 plan year, which will undergo a review by the Department of Financial Services (DFS), with final rates expected to be announced in August. This issue brief examines the factors contributing to health insurance premium increases.

Health insurance premiums in New York are among the highest in the nation. As health care premiums and medical costs are inextricably linked, the cost of health insurance is the direct result of the underlying cost of care. In announcing the approved rates in 2023 and 2024, DFS has cited the rising cost of medical care, including in-patient hospital stays and rapid increases in drug prices, as the main drivers of health insurance premium increases. The 2025 Milliman Medical Index (MMI) identified hospital outpatient care and pharmacy as the primary drivers of health care cost increases, with inpatient facility care and professional services as other factors contributing to rising premium costs for employers and consumers.

## The Major Factors Driving Premium Rate Increases



**Hospital Prices:** According to a 2024 RAND analysis, **New York had the 7<sup>th</sup> highest hospital prices in the country**, 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, including a 19% increase in inpatient prices during that time, with hospitals charging 316% of Medicare in 2022. Data from the Centers for Medicare and Medicaid Services (CMS) National Health Expenditure showed hospital spending grew 10.4% in 2023, and was projected to increase 4.6% in 2024 and 4.7% during 2025-2026. 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.



**Prescription Drug Costs:** Skyrocketing prescription drug costs continue to be another significant factor contributing to rising health insurance costs. In what has become an annual tradition, this past January, Big Pharma raised the prices on nearly 600 drugs, most above the rate of inflation, for a broad range of diseases including treatments for cancer, multiple sclerosis, hypertension, and arthritis. This follows increases on 775 brand named drugs last January, but the increases don't stop at the start of the year. Since 2016, roughly a third of all brand drug list price increases occur on January 1 with subsequent increases occurring in July. **As part of its National Health Expenditure report, CMS projects private insurance spending on prescription drugs to grow by 4.6% in 2025 and 6.5% in 2026**, and the increased utilization of expensive treatments such as GLP-1s for weight loss and gene therapies will add further pressures on premiums.



**Mandated Benefits:** New York currently mandates insurance policies include or "make available" more than 45 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. **This legislative session lawmakers introduced 91 bills that would impose new benefit requirements or place limits on cost-sharing, with 9 passing both houses.** 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.



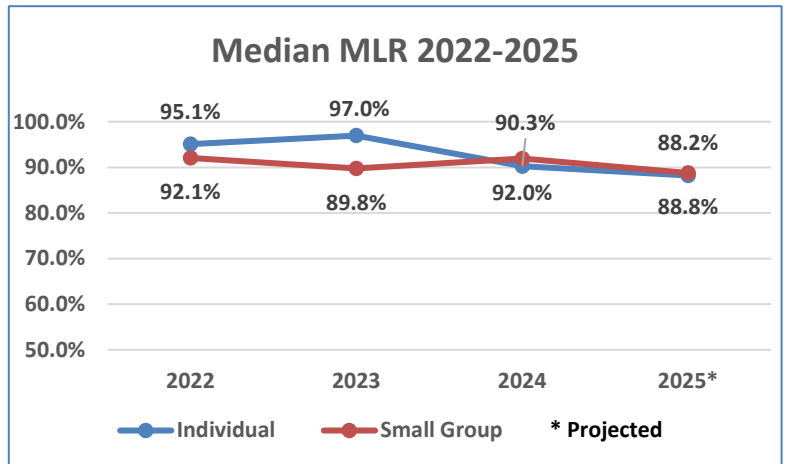
**Health Insurance Taxes:** New York currently collects nearly \$6.6 billion annually in taxes, assessments and surcharges on health plans. These include the Health Care Reform Act patient services assessment and covered lives assessment, as well as a 1.75% premium tax on commercial health insurance 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, and add more than \$1,000 to the premium annually for the average family policy.



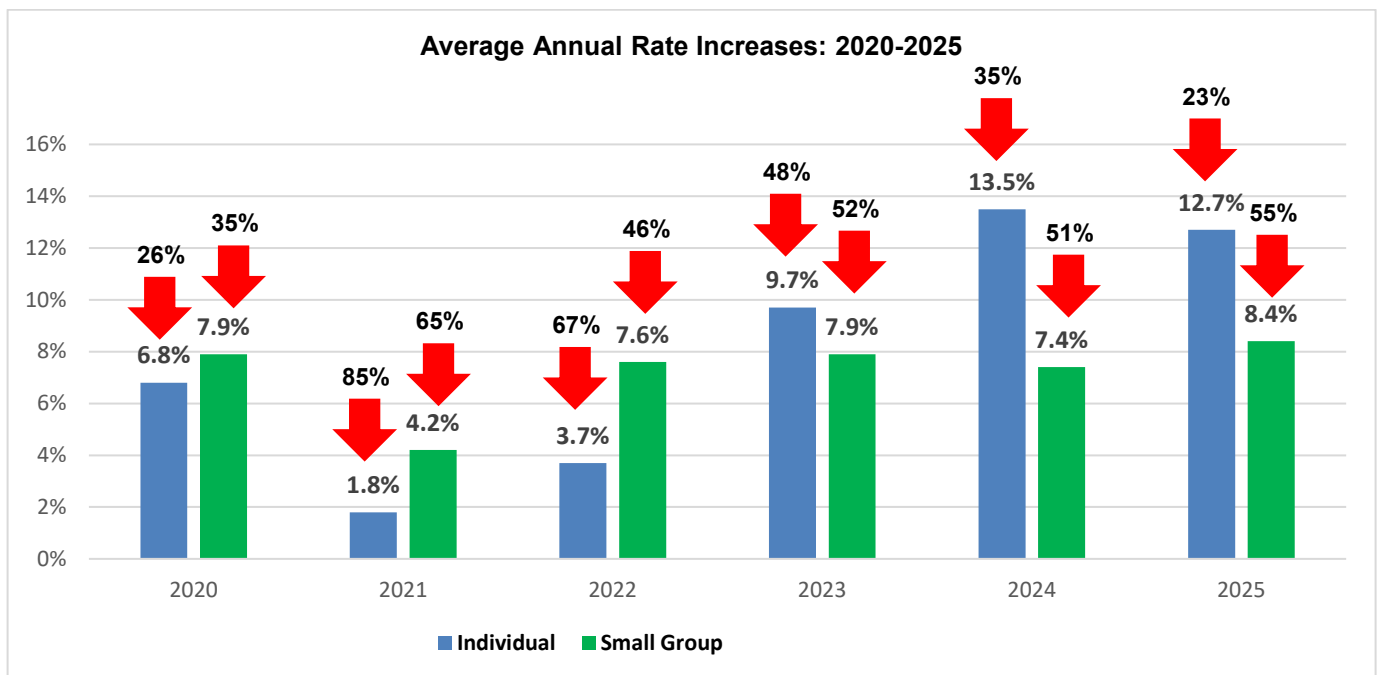
**Federal Budget Cuts:** According to the NY State of Health, the loss of the American Rescue Plan's enhanced premium tax credits is projected to increase premiums on average 38% for 140,000 New Yorkers who receive the tax credits and will increase rates by at least 5% for 100,000 individuals who purchase coverage in the individual market but do not qualify for tax credits. State estimates project average monthly costs to rise \$114 per month for an individual and \$228 per month for a couple.

## 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 **2022-2025, median premium spent on medical care exceeded 88%**, 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.<sup>1</sup>



New York's health care costs are among the highest in the country. The 2026 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. The potential loss of enhanced premium tax credits will increase costs further for individuals who rely on these subsidies. In the absence of state policy measures to rein in the major factors driving costs – specifically escalating hospital and pharmaceutical prices – the final approved premiums should fully recognize these elements as they reflect the true cost of care in New York.

<sup>1</sup> Department of Financial Services press releases announcing approved premium rates, 2019-2024.