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Healthy New York: A Poor Fix to a Dysfunctional Insurance System

"[T]onight I propose a new endeavor called Healthy Wisconsin, to help lower health care costs and pass along the savings to middle class families."

-Wisconsin Governor Jim Doyle

With those words, Wisconsin Governor Jim Doyle (D) introduced his proposal to replicate New York's program for the uninsured. Known as Healthy New York, the program combines a private mandate-lite benefit plan with a state reinsurance subsidy, and is only available to lower-income workers. Advocates are touting the purported success of Healthy New York, and State Coverage Initiatives — a Robert Wood Johnson project — has published a profile of the program.

But is the program really addressing the problem of the uninsured? Or are New York policymakers merely tinkering with a dysfunctional health insurance system of their own making?

The High Cost of Health Insurance in New York. New Yorkers currently pay among the highest health insurance premiums in the country.

According to a 2004 eHealthInsurance report, only Boston tops New York City's individual health insurance rates.¹ In another eHealthInsurance report, the cost of New York State's individual health insurance policies is second only to New Jersey.

In the group market, New York doesn't fare any better. The Medical Expenditure Panel Survey (MEPS) found that New York is the second most expensive state for group family coverage.²

That's important because the more insurance costs, the more people choose to forgo it and join the ranks of the uninsured. The U.S. Census Bureau reports that 14.7 percent of New Yorkers are uninsured — higher than its neighboring states, including Pennsylvania (11.5 percent), New Hampshire (11 percent), Connecticut (11 percent) and Vermont (10.3 percent). New Jersey, where insurance usually costs a little more than New York, has about the same percentage of uninsured (14.6 percent).

A Self-Made Problem. New York's health insurance affordability problem is largely self-made.

In 1993, legislators responded to an Empire Blue Cross Blue Shield financial crisis by imposing guaranteed issue and community rating on the small group and individual markets. By requiring insurers to accept any applicant regardless of health status (guaranteed issue) and charging everyone the same premium (community rating), lawmakers hoped to make health insurance policies more affordable for people with pre-existing medical conditions.

They did, but younger and healthier people were forced to pay much more than they would have had insurers been able to underwrite the policies. As a result, younger and healthier people began to cancel their policies. Those dwindling numbers who remained in the pool saw their premiums rise significantly, making insurance unaffordable for most.

Thus the high cost of health insurance in New York and the inevitable growth in the number of uninsured — both products of previous government reform efforts — forced New York lawmakers to create yet another reform: the Health Care Reform Act of 2000, which established Healthy New York.

The Healthy New York Program. Healthy New York, which is heavily promoted through paid media (radio, television and newspaper ads) and other methods, limits enrollment to lower-income individuals (sliding scale up to \$25,125) who have been uninsured for 12 months and small employers (50 employees or fewer).

Is Healthy New York a Good Deal?

Albany County, NY (25-year-old male)

- \$500 co-pay for inpatient services
- \$200 (or 20%) co-pay for surgical services
- \$50 co-pay for emergency services
- \$20 co-pay for other services
- Limits drug coverage (\$100 deductible) to only \$3,000 per year
- Does not include coverage for many mandated benefits, including some important services
- Is only available to those individuals with annual incomes below \$25,125, or \$58,125 for family of five
- Is subsidized by the state of New York

Cost: \$158 to \$222 per month for an individual

Lacrosse, WI (25-year-old male)

- \$500 deductible
- \$25 co-pay for primary care physician visit
- No limit on drug coverage
- Includes full coverage for all mandated benefits in Wisconsin
- Needs no state subsidy
- Is not limited to low-income workers
- Is one of 37 options available to those in the individual market

Cost: \$160 per month for an individual

The program lowers premium costs in two ways. First, Healthy New York limits costs by allowing insurers to offer mandate-lite plans not available in the private market. Second, the program subsidizes the coverage by covering 90 percent of insurer claims costs between \$5,000 and \$75,000.

The Fight for Mandate-Lite. Mandated benefits, which require insurers to cover specified providers and treatments, can significantly increase the cost of health insurance. According to CAHI's "2006 Health Insurance Mandates in the States," New York has 49 benefit mandates.³

Unlike the private market, Healthy New York is able to offer mandate-lite benefit plans, which exclude mandated coverage for mental health service, alcohol and substance abuse, chiropractic coverage, hospice care and more.

CAHI and many other organizations and health policy experts have supported reducing or eliminating state mandates for years, and more than 10 other states offer some form of mandate-lite programs. What makes Healthy New York unique is that it limits access to mandate-lite policies to uninsured individuals and small businesses who meet the income criteria.

State Reinsurance Efforts. As a presidential candidate, Sen. John Kerry proposed a national reinsurance pool to reimburse 75 percent of health insurance claims losses over \$50,000. While the proposal was relatively new, the concept was not. A healthy private reinsurance industry provides similar coverage to carriers across the country, and several states operate voluntary reinsurance pools funded by the insurance industry.

New York's program began by reimbursing carrier claims for individual-market losses between \$30,000 and \$100,000. However, covering catastrophic losses provides limited savings because very few people incur claims that exceed \$30,000. New York's results were no different, and eventually the state changed the funding arrangement to cover 90 percent of claims losses between \$5,000 and \$75,000. According to the 2004 program report, this change resulted in a 17 percent decrease in premiums.

Does Healthy New York Really Save Money? Despite the lower premium costs and heavy promotion, Healthy New York attracted just under 107,000 people by December 2005. The program's 2005 budget of \$58 million is expected to grow to about \$125 million by 2007.⁴

However, the more important question is, does the program make health insurance premiums affordable?

In Albany County, the monthly rates for the Healthy New York plan vary between a low of \$158 (Empire HealthChoice, Inc.) to a high of \$222 (Capital District Physicians' Health Plan). The only plan available through eHealthInsurance's website for a 25-year-old male would cost more than \$335 a month. Clearly, Healthy New York provides some savings, but the higher prices in the individual market are primarily because New York's 1993 health insurance reforms destroyed its individual market.

The same person applying for coverage in Lacrosse, Wisconsin — recently named the most costly health care region in the country by the U.S. Government Accountability Office —

would receive quotes as low as \$41 a month for a policy with a \$5,000 deductible. A policy comparable to Healthy New York's would cost \$160 a month. [See the table.]

Thus residents of this Wisconsin town:

- Will pay about the same as a Healthy New York participant in Albany County, but without access to mandate-lite plans, and the state doesn't subsidize their premiums.
- Have the choice of 37 benefit plans, according to eHealthInsurance, versus one choice in Albany County
- And those 37 options aren't restricted to just lower-income families.

Assessing Healthy New York. Allowing people to have access to less-expensive mandate-lite policies is a good idea. But why restrict them to low-income uninsured people? Remember, many New Yorkers who currently have coverage also have lower or moderate incomes. If mandate-lite policies increase access to affordable coverage, why not let every New Yorker have that opportunity?

The attempt to subsidize coverage for lower-income, uninsured workers could be helpful. But why do it through a reinsurance mechanism, in essence, making the state an insurer? A direct subsidy, perhaps with a tax credit applied towards one's state income tax, would be more efficient and transparent. Besides, becoming a reinsurer is a sure way to get the state micro-managing health insurance. And as New York's 1993 reforms clearly demonstrated, New York *does not* know how to regulate insurance.

Conclusion. Healthy New York is a poor way to fix the state's dysfunctional health insurance market. What the state should do is repeal its guaranteed issue and community rating laws, relax some of its mandates and regulations, and allow more choice and innovation in the health insurance market. If it did, insurers would return to the state, premiums would drop, and the state wouldn't need Healthy New York. Plus, New York would finally have a health care reform model worth imitating.

Note: Endnotes can be found at http://www.cahi.org/cahi_contents/resources/pdf/n134NY.pdf

CAHI's 2006 "Health Insurance Mandates in the States" http://www.cahi.org/cahi_contents/resources/pdf/MandatePub2006.pdf

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Endnotes

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2. <http://www.meps.ahrq.gov/>
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