

MEMO IN OPPOSITION

FOR IMMEDIATE RELEASE: January 23, 2006

Re: A.2518-a (Grannis)/S.2712 (Balboni)

An act to amend the insurance law, in relation to a review of health plan rate applications.

This legislation requires the Department of Insurance (DOI) to hold rate hearings for every proposed rate change for small group and individual health policies in excess of 5%. The New York Health Plan Association (HPA) opposes A.2518-a for several reasons:

- It will impose unfair administrative burdens leading to higher premiums
- Unilaterally reverses a long-standing negotiated agreement
- It will result in artificial rate setting that jeopardizes New York's financial plan.

Unfair Administrative Burdens Yielding Higher Premiums

The requirement that DOI hold formal hearings for every rate filing greater than 5% will demand significant health plan and state resources in the form of staff time and document presentation. In the past, these hearings delayed final rate determinations, creating a fiscal lag for the plans that undermined the actuarial basis for the rate request. This puts greater pressure on premiums as plans were left to conservatively predict the commencement of the approved rate. The administration of this process is an unnecessary and expensive burden whose inefficiencies ultimately get passed on to premium payers.

New York's health care costs continue to rise and have mirrored national trends over the past several years. Contributing factors include well-documented increases in hospital and pharmaceutical expenses/costs as well as rising physician fees. While it is widely known that outpatient costs and prescription drugs have been the fastest growing components of health care costs, there are no requirements that drug manufacturers or hospitals hold public hearings when they raise their prices. Likewise, no hearings are required for physicians who want to increase fees.

File and Use: A Negotiated Agreement

Today's streamlined rate filing system is the result of comprehensive negotiations and reforms in 1995 that sought to expand access to the individual market. Under that legislation, health plans agreed to provide individual market subscribers with two standardized benefit packages. In exchange, plans received the flexibility to file and establish rates that ensured premiums would cover the cost of the product offering. This provision created a level playing field between other health insurers who were allowed to utilize "file and use" rate filings and HMOs and non-profit insurers who lacked this authority. The proposed legislation seeks to undo a single portion (rate filing) of this balanced agreement, while leaving untouched the standardized product requirements. If the Legislature wants to revisit the 1995 law, it should also reconsider the mandated benefit package that health plans are required to offer — including an unlimited prescription benefit — as well as the various co-payment and co-insurance levels that have not changed in a decade.

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Undermining New York's 2006-07 Budget

New York would risk losing significant revenue in this and future budgets with such an unnecessary and unbalanced bill. Legislators need to be mindful that the state is now the largest recipient of stock from the proceeds of the Empire Blue Cross conversion (now known as Wellpoint). For the 2006-07 budget the state's financial plan is counting on **\$2.7 billion** of revenue from the conversion and has already encumbered more than \$3 billion in the "out-years." Any legislation that confers to the state the ability to artificially depress or set rates will be seized upon by stock analysts as ample reason to avoid the stock, diminishing its value and creating a hole in the state's financial plan. Similarly, this legislation will undermine the value of prospective health plan conversions, complicating future budgets.

Conversions are providing a significant and unexpected revenue stream allowing New York to use these proceeds to address a wide variety of health and other needs. A.2518-a will undermine this windfall while bringing an unwelcome and burdensome regulation to insurers.

For all these reason we urge your opposition to this legislation.

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The New York Health Plan Association represents 30 managed care health plans that provide comprehensive health care service to more than 6 million New Yorkers