

Merging the Markets: Combining New York’s Individual and Small Group Markets into Common Risk Pools



**United
Hospital Fund**

*Shaping New York’s Health Care:
Information, Philanthropy, Policy*

Notes on the Report

- Prepared for the United Hospital Fund by **Gorman Actuarial, LLC**
- Support from NYS Health Foundation, New York Community Trust
- NYS Insurance Department
- Sources: Health Plan Annual Statements, Reg 146 and Stop Loss Data, Benefit Survey, other filings
- Assumptions

New York Regulatory Framework

- **1992 Community Rating/Open Enrollment Law**
 - Extends underwriting limitations (age, sex, medical status occupation) to entire direct pay and small group markets
 - allows separate pools for individuals and groups
- **1995 “Point of Service” Law**
 - creates standardized HMO/POS products
 - limits sale of other products to individuals
 - deregulates rate setting, reduces direct pay loss ratios
- **HCRA 2000**
 - authorizes Healthy New York program and Stop-Loss Funds for Direct Pay and HNY

Direct Pay benefits and stop-loss funding static; HNY subsidies increased and benefits adjusted

New York's Troubled Direct Pay Market

- Hello Roost, Could I Speak to the Chickens Please?
- Rating and product limitations, rate deregulation, inadequate subsidies =
 - ✓ Declining enrollment
 - ✓ High claims costs
 - ✓ Skyrocketing premium increases
 - ✓ Community Pools and Community Puddles
 - ✓ Wide variations in rates within regions

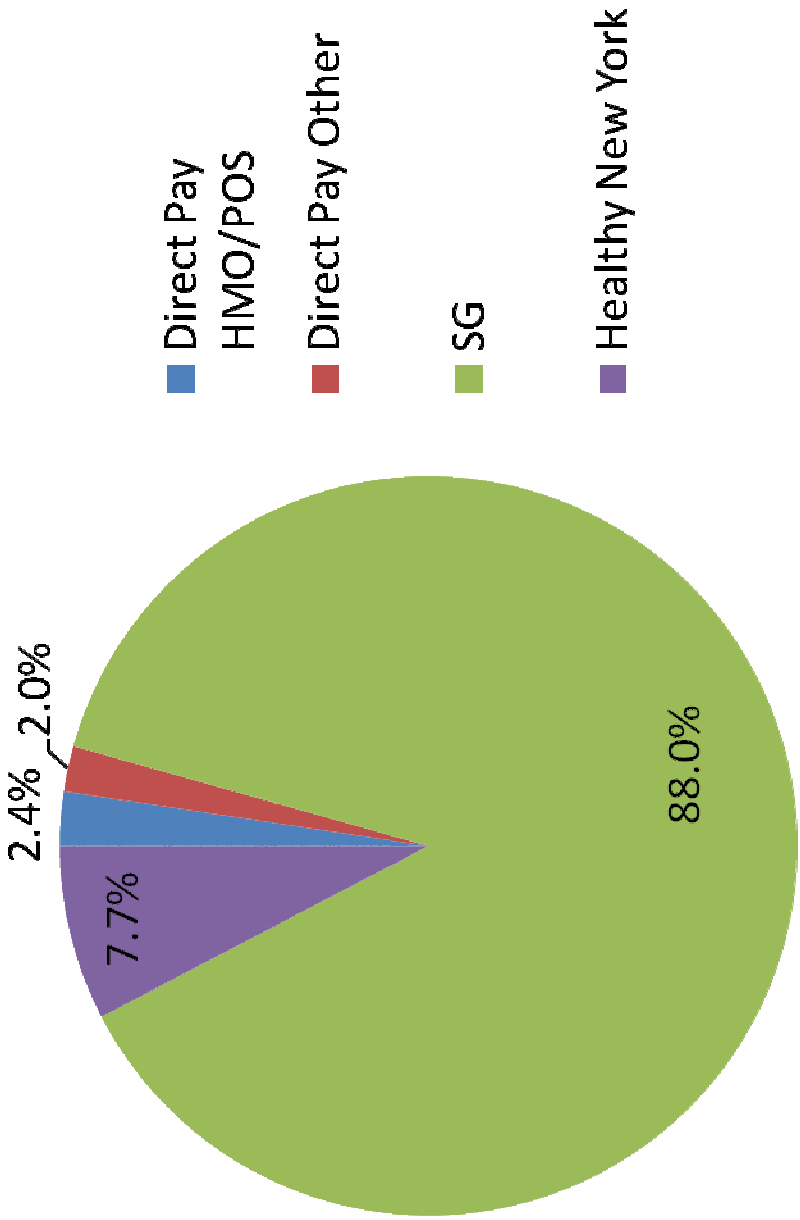
Pooling Individuals with Groups

- Blue Cross model in New York
- Rochester BCBS's "Blue Million" in the 1990s
- Merger proposed in post-CR/OE legislation in New York
- MA Reform Includes Individual/Small Group Merger
- Excellus/Empire Proposal

Modeling a Merger – The “Equation”

- Market Shares
- Benefit Design
- Regional Variations
- Health Plan Financial Results
- Claims Distribution and Morbidity
- Risk Mitigation

Market Share Distribution – December 31, 2007



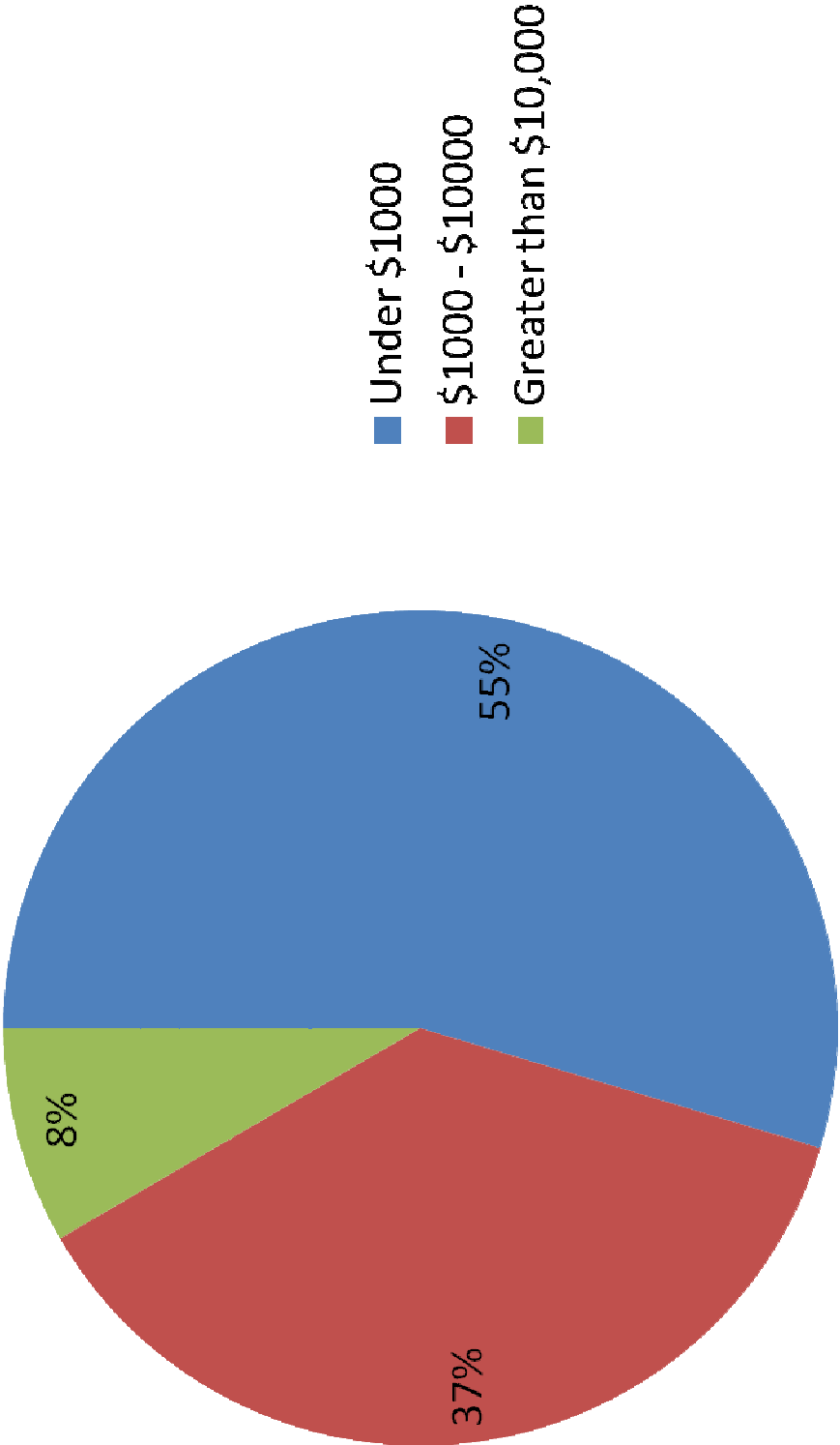
Source: Gorman Actuarial estimates based on HMO Annual Statements, the Regulation 146 database, the Healthy New York annual report, and discussions with the state Insurance Department

Actuarial Value of HMO/POS Plan Designs

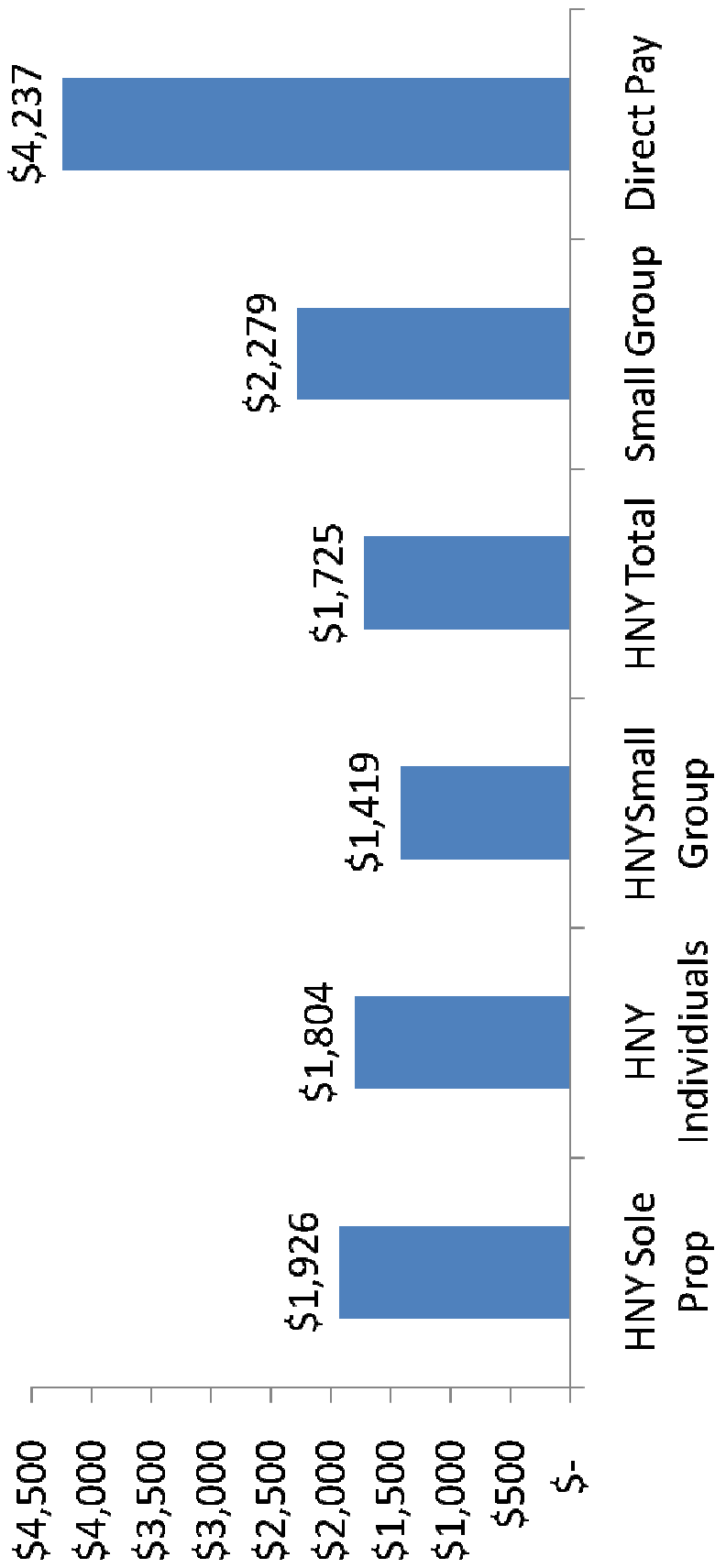
Average Plan Design					
Small					
	Group	Direct Pay	Healthy NY		
	HMO/POS	HMO/POS	HMO		
Inpatient Copay	\$ 275	\$ 500	\$ 500		
PCP Office Visit Copay	\$ 20	\$ 15	\$ 20		
Specialist Copay	\$ 28	\$ 15	\$ 20		
ER Copay	\$ 72	\$ 50	\$ 50		
Outpatient Surgery Copay	\$ 63	\$ 75	\$ 75		
Surgical Procedure: 20% up to \$200	N	Y	Y		Y
Mental Health/Substance Abuse	Y	Y	N		N
Chiro, Ambulance, DME	Y	Y	N		N
Pharmacy					
Generic	\$ 10	\$ 5	\$ 10		10
Brand	\$ 25	\$ 10	\$ 20		20
Non Formulary	\$ 50	\$ 10	\$ 20		20
Deductibles		\$ 100	\$ 100		100
Benefit Maximum	None	None	\$ 3,000		3,000
Estimated Actuarial Value	87%	92%	77%		

Source: Small Group Plan Design Survey administered by the state Insurance Department, Direct Pay laws and regulations, 2007 Healthy New York annual report, and Gorman Actuarial estimates

Annual Claims Distribution by Cost, Direct Pay Market

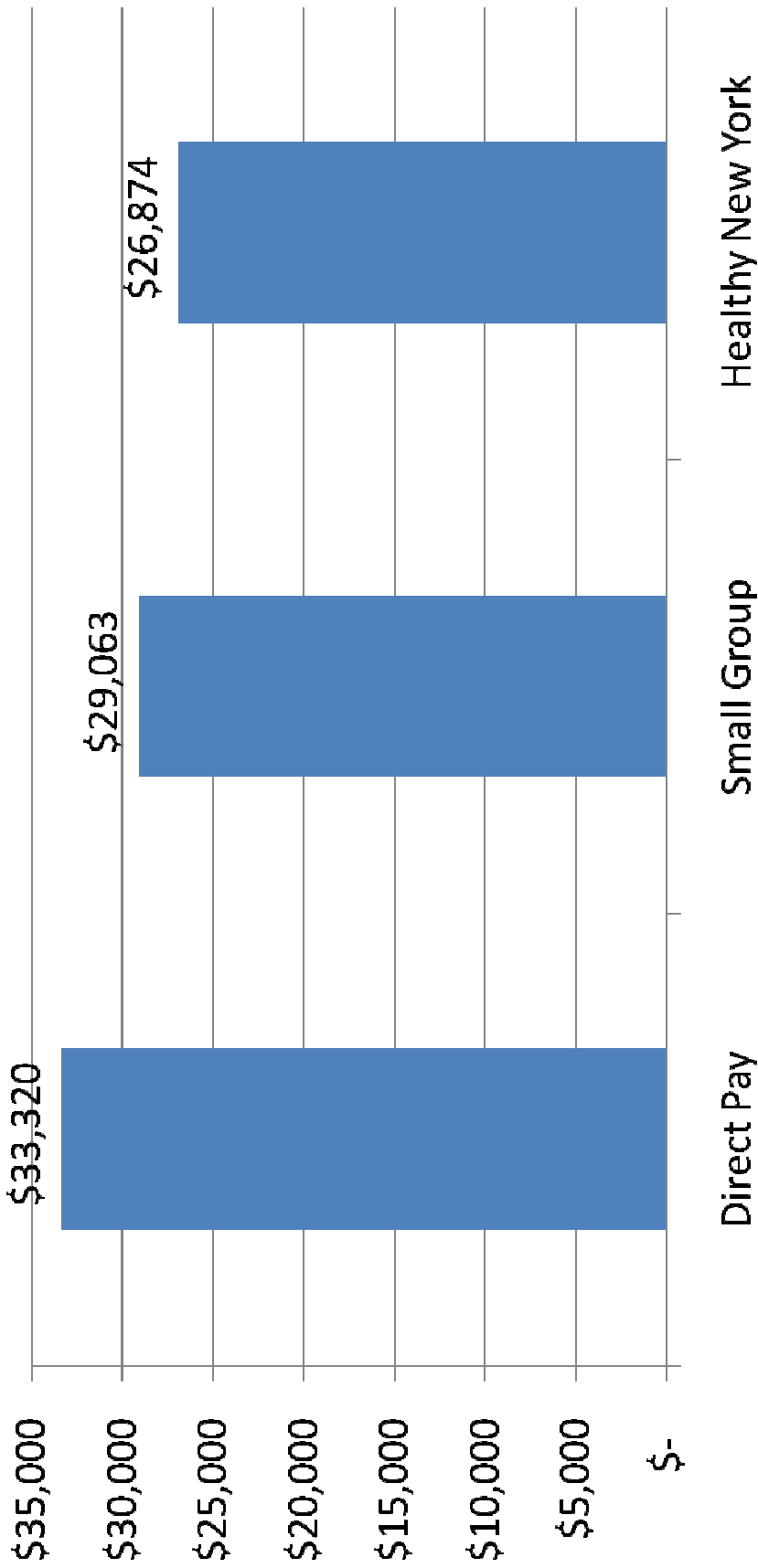


Average Claims Costs per Member per Year



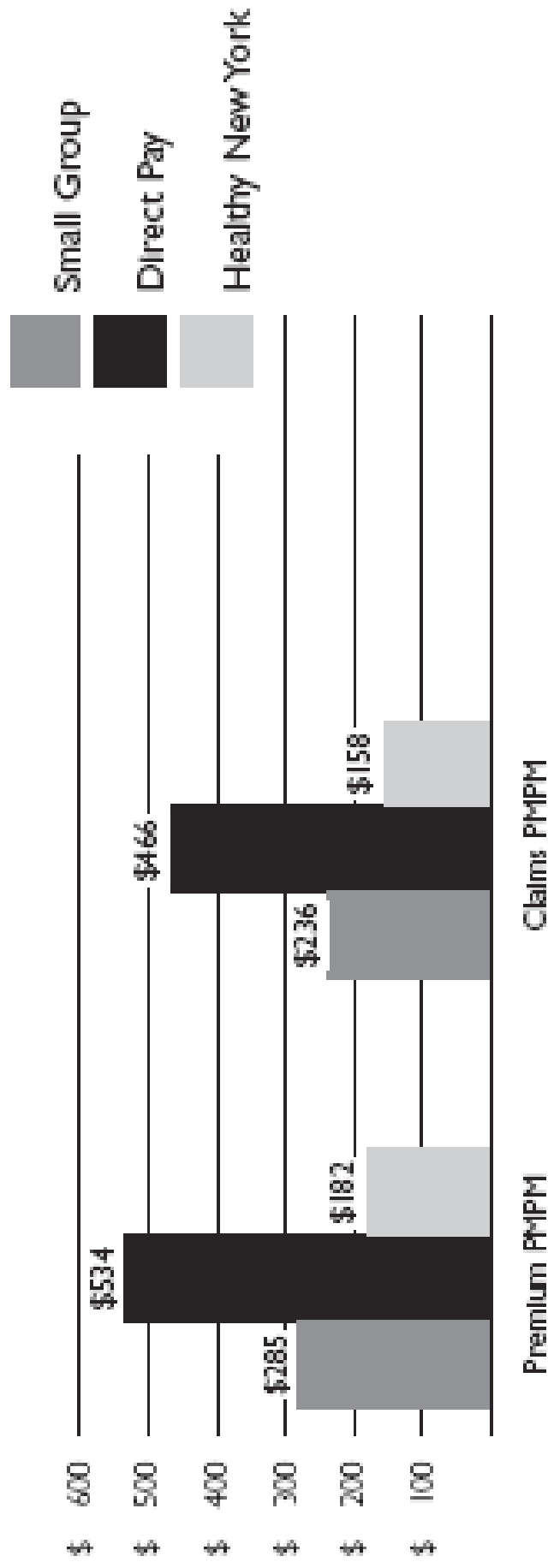
Source: Regulation 146 database and Healthy New York 2006 stop-loss report provided by the state Insurance Department

High-Cost Claims Averages by Market



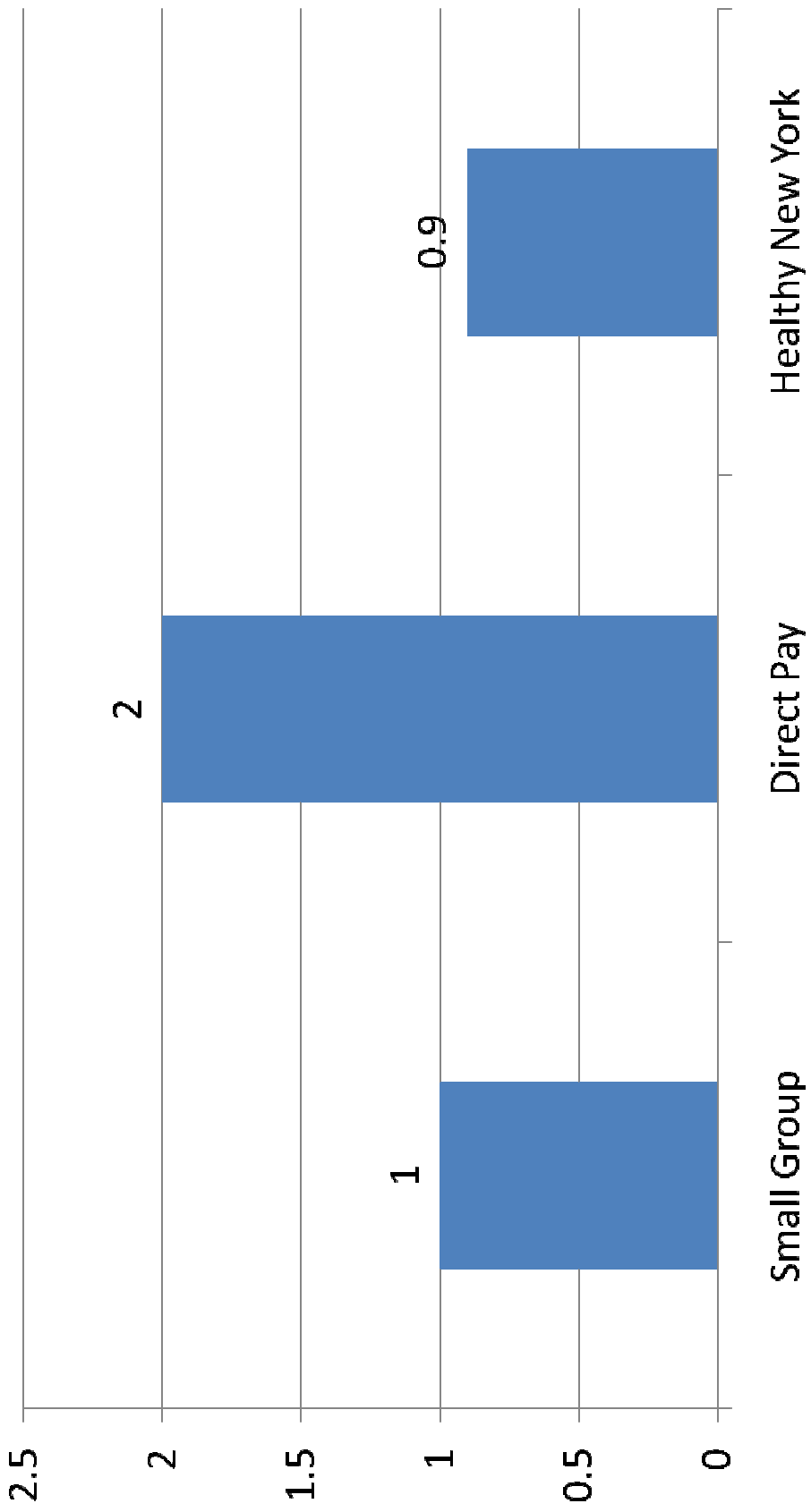
Note: Average cost of claims for members with more than \$10,000 in claims, calendar year 2006. Source: Regulation 146 database and the Healthy New York 2006 stop-loss report provided by the state Insurance Department

HMO/POS Reported Claims and Premiums



Note: PMPM = per member per month
 Source: Annual HMO financial statements

Morbidity Assumptions



HMO/POS Key Financial Statistics

Market Segment	MLR	Expense Ratio	Profit Margin
Small Group	82.9%	12.5%	4.6%
Direct Pay	87.2%	7.4%	5.4%
Healthy NY	86.9%	13.2%	-0.2%

Premium Impact of Current Risk Mitigation Programs

CY 06 Premium Impact		
	Small Group	Healthy New York
Regulation 146	1.0%	-8.5%
Direct Pay Stop Loss		-7.3%
Healthy New York		-28.5%
Total Premium Impact	1.0%	-14.6%
		-28.5%

Easy As 1, 2, 3 – Modeling Results

Scenario 1		
Direct Pay		Small Group
-37.2%		3.1%

Scenario 2		
Direct Pay	Healthy New York	Small Group
-38.4%	43.7%	0.6%

Scenario 3		
Direct Pay	Healthy New York	Small Group
-37.6%	16.1%	2.2%

Scenario 1: Conclusions

- Direct Pay/Small Group Merger would:
 - Stabilize Direct Pay market
 - Have no impact on Small Group market enrollment overall
 - Increase Direct Pay product choices
 - Result in 11,700 + new members

Policy Choices

- To merge or not merge?
- Building Block or Building Blocks?
 - ✓ Individual mandate
 - ✓ Benefit redesign
 - ✓ How HNY and FHP fit in
- “Mitigating” circumstances
 - ✓ Group Size Adjustment
 - ✓ Reinsurance
 - ✓ Other
 - ✓ None of the above