

Testimony to
**NEW YORK STATE ASSEMBLY STANDING
COMMITTEE ON INSURANCE**

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Assemblyman Morelle and Committee Members:

Thank you for the opportunity to speak to you about the rising cost of health care and the consequences of these costs for our members and the state's economy.

As others have noted in these hearings and elsewhere, the rising cost of health care is a burden that touches us all as consumers, taxpayers, and employees. It also creates a challenge for employers. Our members sell products and services in a competitive global marketplace. The recession has increased the intensity of that competition, focusing attention on every single cost element. For many firms, health care tops the list of cost drivers. At Rochester Business Alliance, we survey our members each year about the issues that have the most significant impact on the success of their business. Rising health insurance costs has been the number one issue seven years running. In many sectors, health care cost growth has wiped out real gains in compensation: Employers struggle to pay rising labor costs while employees perceive that their take-home pay is stagnant or falling.

Today we are asked to discuss the Governor's proposal that NYS re-instate prior approval for health insurance cost increases and empower the Superintendent of Insurance to mandate an increase in medical loss ratios.

Price Controls Don't Work

We must work together to cut health care cost growth. But there is a difference between managing *prices* and managing *costs*. Insurance premiums are the prices we pay to cover the underlying cost of health care. While premiums include some costs imposed by the health insurance industry, we cannot control the fundamental cost of health care through price controls. Our nation's experience with price controls has generally been disappointing. Price controls don't ultimately change the trend in prices – at best they simply delay price increases that are inevitable when costs are rising.

You are also considering conferring authority on the Superintendent of Insurance to increase medical loss ratios. This would confer on him the authority to dictate administrative costs and profits to insurers.

We oppose both provisions. While we support the Committee's efforts to reduce health care costs, price controls do not work. The only result will be to change the timing of insurance premium increases which reduces predictability. Pre-approval of health insurance premium

increases will simply push one more decision into the political realm. Once under state control, premium increases will be subject to the electoral calendar.

Moreover, we do not think it appropriate for the NYS Legislature to dictate costs to the private sector in general and we see no reason for singling out the health insurance industry. The job of the public sector is to ensure that the business environment is fair and open. Normal competitive pressures should be relied upon to reduce exceptional profit.

We do believe, however, that the competitive marketplace will work more effectively if health insurers are required to announce proposed rate increases in advance. Advance notice will make it possible for employers to explore alternatives to incumbent providers, for competitors to explore new offerings, and, possibly, for firms not active in a region to explore entry.

Cutting Health Care Cost

Our real problem is rising health care costs. We need the state to work with us to address this.

Cut taxes & fees

For starters, **we need the state to stop adding to the problem.** One significant factor driving this year's unusual mid-year insurance premium increases is the decision by the Governor and the Legislature to increase taxation of the health care sector in order to help close the state's budget gap. The current budget includes an additional \$850 million in added taxes and fees in health care. This adds to the high level of taxation already imposed on health insurers and providers. The Empire Center on State Policy reported in 2007 that taxes and fees already totaled \$2.2 billion, adding \$222 per year to individual and nearly \$900 per year to family coverage.

With all due respect, **it seems a bit odd to us that the Governor and Legislature would *first* act to directly increase the cost of health care, *then* step in to regulate the price increases that result.** It would appear that you propose to “shoot the messenger.”

We also find it hard to believe that, in the middle of the deepest recession we've seen in generations, New York State government would increase total spending by nearly 9%, a portion of which is funded by higher taxes. Not only is the “bottom line” of many small businesses reduced by high health care costs, but by higher taxes, too.

Eliminate mandates

The state has also driven the cost of health care up by mandating specific kinds of coverage. Employer-sponsored health insurance coverage is part of the compensation package negotiated between employer and employee. **The Legislature should not dictate the nature of health coverage any more than it should dictate vacation policies or whether some employees should get reserved spots in the parking lot.** Yet NYS requires that employer-sponsored plans cover infertility, home healthcare, hormone replacement therapy, chiropractic care and many other types of care that are optional in competitive states. The Council for Affordable Health Insurance reports that 55 mandates applied to employer-sponsored healthcare in 2008.

We would all support access to more comprehensive health care coverage—if it were free. Yet it is not.

A 2003 study by NovaRest Consulting reports that mandates added 12% to premiums in 2003. The rising cost of health insurance has forced many employers to stop offering coverage altogether. **The Legislature is expressing concern about the rising number of employers who choose to stop offering health insurance while, at the same time, increasing the cost of coverage for those who do.**

As self-insured firms are free of these costly mandates, the share of firms choosing to self insure has been rising, driving up costs for the small firms remaining in the insured pool, again providing an incentive to these firms to drop coverage altogether.

Moreover, mandated coverage eliminates the option of health insurance plans that cover only “catastrophic” healthcare cost events, an appealing alternative for young, healthy people who might otherwise choose no insurance at all. As evidence of the impact of mandates on premium cost, the Empire Center quotes 2007 premiums from the youth-focused, limited benefit Tonik Health Plans: **The monthly cost for singles in Connecticut varied from \$105 to \$202 per month while the cheapest NYS plan cost \$415.** While Tonik still operates in Connecticut, it no longer offers coverage in New York. I wonder why they stopped operating in our state?

Encourage provider efficiency

In Rochester, the business and health communities are working together to do what we can at a local level to hold down costs. Let me share with you some of our most promising endeavors and suggest that the state join us in supporting these initiatives statewide.

To improve efficiency at area hospitals, a Lean Six Sigma program is underway that has already cut more than \$1 million out of local hospital costs. RBA has also been a leader in the formation of the Rochester Regional Health Information Organization (Rochester RHIO), an initiative that we expect to reduce cost through reduced medical errors and improved efficiency.

Cut excess capacity through effective facility planning

Rochester also has a proven track record of effective health facility planning. The state’s Commission on Health Care Facilities in the 21st Century (known as the Berger Commission) urged a substantial restructuring of health care facilities across New York State. By mid 2008, the Commission recommendations and NYS Department of Health implementation was expected to eliminate 2,800 hospital beds and 2,300 nursing home beds statewide. This should be only a beginning. The political process derailed a number of Commission recommendations and delayed many more.

As a result of our deeply-entrenched health planning culture in Rochester, none of these recommendations applied to Rochester facilities. We continue to work collaboratively to identify the health facility needs of Rochester through the 2020 Commission, led by the Finger Lakes Health Systems Agency. We appreciate the Legislature’s support of the Rochester effort and encourage the state to adopt a similar approach statewide.

Improve management of chronic disease

We are also working to make health care itself more effective and efficient. Chronic disease management and a focus on healthy behaviors promise to cut the cost of managing conditions like hypertension, diabetes, asthma, chronic lung disease, and kidney disease, many of which are triggered by obesity and smoking. The Rochester Business Alliance is leading an effort to promote healthy lifestyles that has already involved 44,000 employees and over 300 organizations. Rochester has also been at the forefront of efforts to develop community practice guidelines, focusing on disease management that has a proven track record.

Cutting cost is more effective than regulating prices

In summary, let me reiterate our position: Despite our interest in health care cost control, we do not support the Governor's proposal to re-instate pre-approval of health care insurance rate increases. While we also oppose mandatory increases in medical loss ratios, we support a prior notification provision as we believe that this will improve the efficiency of health insurance markets.

We strongly support efforts that address the underlying cost factors driving up health care insurance premiums, particularly:

- Reducing taxes and fees imposed on the industry and passed along to consumers in premiums;
- Reducing health care coverage mandates that drive up the cost of policies;
- Developing programs that encourage improved provider efficiency, including the universal application of healthcare information systems;
- Implementing coordinated capacity management for health care facilities; and
- State leadership promoting effective management of chronic disease.

Thank you for your efforts on behalf of health care consumers and for the opportunity to express the views of the Rochester Business Alliance.