Actuarial Review of the Proposed Medicaid Cost Savings through Rate Regulation of Health Insurance Premiums

from the Proposed New York State Fiscal Year 2010-2011 Budget

Commissioned by the Business Council of New York State, Inc.

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EXECUTIVE SUMMARY

New York State's Governor has included in his 2010-2011 budget the New York State Insurance Department's (NYSID's) proposal to further regulate health insurance premium rates. Specifically, the proposal requires that:

- Health insurers (HMOs, Article 43 non-profit organizations and commercial insurers) seek prior approval for individual, small and large group community rated premium increases

- Health insurers increase the minimum loss ratio to 85% for small group and individual plans from 75% for small group and 80% for individual plans

In its presentation to the New York legislature, the New York State Division of the Budget (NYSDB) estimated the proposed rate regulations will save the state $70 million in State Fiscal Year (SFY) 2010-2011 and $151 million in the following SFY thru reduced government-subsidized health plan costs. These savings are from "Avoided Enrollment" in government-subsidized health insurance programs, such as Medicaid.

This paper examines the State's estimates of the potential savings to State-subsidized health programs from prior approval (sometimes termed "reinstatement of prior approval" for historical reasons) and the increase in minimum loss ratio. The paper presents our estimates using a parallel methodology and alternative assumptions, which we believe are more appropriate.

We conclude that first year savings would be minimal and probably impossible to identify retrospectively. Savings in the second year would also be much smaller than projected by the NYSDB. We note that the savings estimates incorporating data to be reported later in 2010 may produce different results. For example, the most recent annual loss ratios available to us were from 2008, and 65% of our savings estimate from the higher minimum loss ratio comes from one insurer who increased its loss ratio in 2009. Consequently, we believe that estimates using data that becomes available later in 2010 could result in even smaller savings than we forecast based on currently available data. Furthermore, any delay in approval after July 1, 2010 for the minimum loss ratio rule or after October 1, 2010 for prior approval would also reduce these estimates.

The NYSDB's savings estimates as presented in the January 25, 2010 Legislative Briefing are shown in Table 1 along with our estimates.

TABLE 1 NYSDB AND AUTHORS' ESTIMATES OF NYS SAVINGS THROUGH AVOIDED MEDICAID ENROLLMENT			
	Avoided Enrollment over 2 SFY	Savings SFY 2010 – 2011	Savings SFY 2011 – 2012
NYSDB Estimate	45,000	$70.0 Million	$151.0 Million
Authors' Estimate assuming no lag before Medicaid enrollment	11,500	$3.3 Million	$13.7 Million
Authors' Estimate assuming one month lag before Medicaid enrollment	11,500	$2.4 Million	$13.7 Million

In this paper we also consider the governor's proposal to increase HCRA tax revenue by extending the HCRA surcharges to certain physician procedures. Using the NYSDB's approach to calculating the avoided enrollment and savings from rate regulation, we estimate the additional costs from coverage loss due to premium increase from the HCRA Tax expansion. We compare that cost to the anticipated revenues.

The authors were commissioned by the Business Council of New York State, Inc., whose membership is made up of large and small companies, as well as local chambers of commerce and professional and trade associations. Individuals affiliated with several New York health insurers sit

on the board of the Business Council. This report was produced for the exclusive benefit of the Business Council. The material in this paper reflects the findings of the authors and does not represent the endorsement of any policy or position by Milliman. Any economic forecast cannot capture all important factors, and some factors that will be important in the future are certainly unknown. Therefore, actual results will likely differ from the estimates provided here. If this report is distributed it must be distributed in its entirety, as material taken out of context could miss important information.

The authors are members of the American Academy of Actuaries and meet its qualifications to render this opinion.

SUMMARY OF NYSDB'S ESTIMATES OF MEDICAID SAVINGS

The January 25, 2010 Legislative Briefing summarizes the State's rationale and assumptions for its estimated Medicaid program savings from prior approval and from increasing the minimum loss ratio (MLR). Using this information, we reconstructed the State's calculations and derived the assumptions the State probably used.

NYSDB'S RATIONALE

Broadly, NYSDB's rationale for rate regulation (encompassing both prior approval and increasing the minimum loss ratio) as presented in the Briefing is:

1. Increases in health insurance premiums cause people to lose coverage because insurance becomes unaffordable to them or their employers.

2. People who lose health insurance coverage will enroll in government-subsidized programs such as Medicaid, Family Health Plus (FHP), Child Health Plus (CHP) and Healthy New York (HNY).

3. As people enroll in government programs, State spending on those programs increases.

4. Rate regulation will reduce rate increases from where they would have been - thus avoiding enrollment in State programs.

We believe the argument that high premium rates increase the number of uninsured and enrollment in government-subsidized programs has a sound basis. Whether or not rate regulation will reduce rate increases, and whether any rate reductions will be temporary or permanent, is less clear to us, but these are not the subject of our analysis. Rather, we are providing an independent review of the NYSDB's calculation of savings assuming rate increases can be reduced through prior approval and assuming increases in the minimum loss ratio.

NYSDB CALCULATION OVERVIEW

Our reconstruction of the NYSDB calculation is presented in Appendix A. The initial steps in the NYSDB calculations produce the number of insurance enrollees in the state who would avoid losing coverage and avoid enrolling in government programs (Steps A through F). Then, the average annual cost per enrollee for each State Fiscal Year (SFY) is presented by eligible category along with the State's share of that cost (Steps G, H). Finally, the annual savings are calculated by multiplying the number of avoided enrollees by the estimated average cost per enrollee (Steps I, J). Each of these steps has either stated or implicit assumptions, as discussed below.

ASSUMPTIONS USED IN EACH STEP OF NYSDB'S CALCULATION

Step A. Reduction in Rate Increases from Rate Regulation

The briefing states that rate regulation is estimated to reduce health insurance premium rate increases by 3%. We understand that the NYSDB has assumed that, in the first year, 2% of the 3% is related to the proposed increase in the minimum loss ratio for individual and small group policies and that 1% of the 3% is attributed to reductions in rate requests which wouldn't be granted under prior approval.

We tested the State's assumption that the proposed change in loss ratio will reduce overall premiums by 2% using premium and loss ratio data from carrier Loss Ratio Reports and Annual Statutory Statements filed for 2008 experience. Our results corresponded closely with the State's 2% premium reduction estimate. However, we noted that roughly 65% of the potential premium reduction is associated with a single carrier – as the vast majority of carriers in 2008 had loss ratios

in excess of 85%. If this carrier has already implemented a rate action to increase its loss ratio for 2009, then the 2010 average rate reduction estimate could be significantly less than 2% - and could approach zero. This would effectively eliminate two-thirds of the state's savings estimate. This illustrates well the somewhat speculative nature of the methodology and the potential variance around the results.

Step B. Number Losing Coverage per 1% increase in Premium

The percentage change in people purchasing coverage given a 1% change in price is called *price elasticity of demand*. The NYSDB briefing states "Based on a 2003 national study, a one percent increase in premiums in New York State would result in approximately 30,000 individuals losing coverage." [1]   Assuming roughly 10.6 million people would be covered by private health insurance in New York in 2010, we backed into the State's implied demand elasticity factor, -0.28. That is, for every 1% increase in premium just under 0.28% of commercially insured enrollees would lose coverage.

Step C. Avoided Coverage Loss due to Rate Regulation

The State assumes that premiums will be 3% lower than otherwise with rate regulation, thus avoiding coverage loss for 90,000 people. This was determined as:

$$\frac{30,000 \text{ people}}{1\% \text{ premium increase}} \quad x \quad 3\% \text{ premium decrease} \quad = \quad 90,000 \text{ people}$$

Step D. % "covered by larger insurers not impacted by proposal"

The NYSDB explanation of Step D is somewhat unclear to us. The text of the briefing states that 45,000 people are eliminated (50%) from the savings calculation because these people are *"covered by larger insurers not impacted by [the] proposal".* As all insurers filing premiums in New York State are affected by the proposal, we suspect the explanation was misstated. We believe this step relates to the portion of insureds not affected by the legislation either because they are enrolled in large experience-rated groups or self-funded groups of any size. This figure may also exclude those who are affected by the legislation but not eligible for government programs. No citation was provided for the 50% assumption.

Step E. Total Avoided Enrollment Achieved by Rate Regulation

In this step, NYSDB multiplies the avoided coverage loss in Step C by the percentage of enrollees impacted by the proposal. This is calculated as:

$$\text{Step C } x \text{ (1 – Step D)}$$

Step F. Distribution of Avoided Enrollment

As shown in the legislative brief, the state allocates 45,000 people into eligible categories assuming roughly 60% would have enrolled in Medicaid/FHP (and then 60% of this group is Medicaid and 40% FHP), 30% in CHP and 10% in Healthy New York, all of which are government-subsidized programs. The state assumes that 100% of those impacted by the proposal would qualify for participation in a government-subsidized program (although perhaps the 50% assumption in Step D accounted for non-enrollment of some people). No citation was provided for these assumptions.

The total Avoided Enrollment for SFY 2010-2011 is one-half of the 45,000 estimate. We assume this assumption was employed because the SFY begins April 1, 2010 and prior approval would not be effective until October 1, 2010, thus impacting only one-half of the SFY.

Step G. Average Annual Cost per Enrollee SFY - 2010-2011

The briefing refers to an average annual cost to New York of $7,703 per person for non-elderly people enrolled in Medicaid, FHP and CHP. The briefing attributes this figure to The Urban Institute[2], and we also found data from The Kaiser Family Foundation which supports this figure[3]. Although costs for the non-elderly are excluded, this figure includes the costs of the Disabled, which we do not expect would be significant among eligibles moving from fully insured health plans.

Using the brief's aggregate savings estimates and enrollment, we backed into NYSDB's per person assumptions as shown in Table 2 below.

TABLE 2 DERIVATION OF STATE'S PER ELIGIBLE COST ASSUMPTIONS SFY 2010-2011					
	A Avoided Enrollment	B Annual Savings	C NY Annual $ / Person	D Assumed State Share	E Tot Annual $ / Person
Medicaid/FHP	13,000	$45.5 Million	$3,500	50%	$7,000
CHP	7,000	$24.5 Million	$3,500	50%	$7,000
Healthy NY	2,500	$0	$0	100%	$0
Total	22,500	$70.0 Million			

C. Annual Cost / Person NY = Annual Savings ÷ Avoided Enrollment

E. Annual Cost / Person Total = Annual Cost / Person NY ÷ Assumed State Share

"Avoided Enrollment" is NYSDB's term for people who would have enrolled in government-subsidized health insurance, but do not because of the proposed rate regulation.

The total annual per person cost of $7,000 is lower than the $7,703 cited, and we are uncertain as to its derivation. Our estimate for this amount is lower, as described below in the section labeled "Authors' Estimate of Medicaid Savings".

Step H. Average Annual Cost per Enrollee SFY - 2011-2012

Similar to our calculation for SFY 2010-2011 shown in Table 2, we backed into the State's cost assumptions using the brief's aggregate savings estimates and enrollment, as shown in Table 3 below. We note that the implied annual cost trend assumed between State Fiscal Years is roughly 7%, which seems reasonable for a uniform mix of age and eligibility cohorts of Medicaid eligibles.

TABLE 3 DERIVATION OF STATE'S PER ELIGIBLE COST ASSUMPTIONS SFY 2011-2012					
	A Avoided Enrollment	B Annual Savings	C NY Annual $ / Person	D Assumed State Share	E Total Annual $ / Person
Medicaid/FHP	26,000	$97.5 Million	$3,750	50%	$7,500
CHP	14,000	$52.5 Million	$3,750	50%	$7,500
Healthy NY	5,000	$1.0 Million	$200	100%	$200
Total	45,000	$151.0 Million			

C. Annual Cost / Person NY = Annual Savings ÷ Avoided Enrollment

E. Annual Cost / Person Total = Annual Cost / Person NY ÷ Assumed State Share

The state did not cite a source for its Healthy New York cost assumption of $200 per person per year. We believe the state cost should be the value of the state-funded reinsurance corridor, which is 90% of an individual's annual claims between $5,000 and $75,000. However, this cost typically is between 4 and 5 times higher than the $200 shown. The 2008 Annual Report on Healthy New York has data that shows this cost was $839 per person per year in 2007[4]. We are not aware of any matching received from the federal government for Healthy New York. Therefore, it appears that the State's Healthy New York estimate is low.

Steps I, J. Annual Savings to NYS for Enrollment Avoidance

The final steps are to multiply the enrollment assumptions by the State's share of the annual cost per person to determine total savings by SFY and by government program.

AUTHORS' ESTIMATES OF MEDICAID SAVINGS

As described in this section, we performed an independent recalculation of the NYSDB's estimates for Medicaid savings due to the reinstatement of prior approval and the increase in minimum loss ratio. Our results are summarized in Table 4 below.

TABLE 4 SUMMARY OF AUTHORS' ESTIMATE OF MEDICAID SAVINGS THROUGH AVOIDED ENROLLMENT FROM REINSTATEMENT OF PRIOR APPROVAL			
	Avoided Enrollment (Annualized)	SFY 2010 – 2011	SFY 2011 – 2012
Medicaid / FHP	5,000	$1.9 Million	$7.9 Million
CHP	4,300	$0.6 Million	$2.5 Million
Healthy New York	2,200	$0.8 Million	$3.4 Million
Total assuming no lag before Medicaid enrollment*	11,500	$3.3 Million	$13.7 Million
Total assuming one month lag before Medicaid enrollment	11,500	$2.4 Million	$13.7 Million

*Totals may not add due to rounding

Our savings estimates are significantly lower than those presented by the State. The differences are primarily due to our applying income level requirements for Medicaid enrollment, our interpretation of the statutory reach of the MLR rule, and restricting the loss of enrollment to no earlier than the time of rate hikes. We believe the differences are due primarily to five differences:

1. We interpreted the proposed MLR as not applying to large group community rated programs, which reduced the number of people who could be impacted.
2. Our application of Medicaid income requirements reduced the number of people who are eligible for enrollment in government sponsored programs.
3. Our estimated cost per person excludes the costs of disabled individuals, as we believe there will be an insignificant number of Medicaid-qualifying disabled enrollees coming from the private health insurance sector.
4. Our assumptions for the State's share of government-sponsored programs, based on current information, are lower than the NYSDB's.
5. Our assumptions for the average duration of the fiscal impact during the first SFY are lower than the NYSDB's, because we assumed there would be no rake hike before the annual renewal, and people would not lose enrollment before the annual renewal.

Our interpretation of the proposal led us to assume that the prior approval process will begin on October 1, 2010 and the higher minimum loss ratio will begin on July 1, 2010. Each would be effective for individuals and groups on the next annual policy renewal. Delays in either of these will reduce the savings for, at least, the first year.

OUR APPROACH TO CRITIQUING NYSDB'S ESTIMATE

Summary

We started with the number of non-elderly enrollees that have either direct-pay (individual) or employer provided health insurance in New York. We next determined the portion that is directly affected by the increase in MLR and the reinstatement of prior approval – those enrolled in individual and small group products for the former, and individual, small, and large group community rated products for the latter. We next allocated these enrollees into Federal Poverty Level (FPL)[5] cohorts and income categories, which let us assign individuals who lose insurance to government program eligibility categories. We also applied factors that reflect the fact that lower-income members are more likely to lose insurance as a result of rate hikes. We then applied our estimates of the State's share of the annual cost per person to each category to determine total avoided costs, assuming that those eligible will not lapse after their enroll in Medicaid. We discuss our approach and assumptions in more detail below. Our calculations are summarized in Appendix B. So that our assumptions can be compared directly to the NYSDB's, we have placed the NYSDB's calculation into our calculation format, shown in Appendix C.

Determining the Number of Enrollees Affected by Reinstatement of Prior Approval

We started with the number of enrollees in New York with private health insurance (excluding Healthy New York), which is roughly 10.6 million as of 2008[6,7,8]. This figure could be lower for 2010 as a result of the economic recession, but we used the 2008 figure. Of the 10.6 million, we estimate that 36% - or roughly 3.8 million – are enrolled in fully insured individual, small and large group community rated products (including all large groups enrolled in HMOs), which would be directly affected by prior approval. We estimate that 23% or 2.4 million are enrolled in individual and small groups and are affected by the increase in the MLR. The remaining 6.7 million are enrolled in self-insured or experience rated large group products, which are beyond the reach of the proposed legislation.

Our allocation assumptions were developed form data from the Medical Expenditure Panel Survey (MEPS)[9] for 2008, which shows estimates of employee eligibility and enrollment in health insurance programs by group size, state and funding mechanism for the private sector. MEPS also provides enrollment statistics for public sector plans by region[10]. We also relied upon the NY Department of Health's 2009 Annual Enrollment Report to determine the HMO enrollment in New York[11]. Applying these percentages and figures to US Census Bureau enrollment figures[12], which show employer and individual insurance separately, we determined the enrollment allocation. Our results are summarized in Table 5 below.

TABLE 5 ESTIMATED ENROLLMENT BY GROUP SIZE AND HEALTH INSURANCE CATEGORY NEW YORK STATE, 2008					
	Individual & Small Groups	Large Group Community rated	Non-Community Rated	Self Insured	Total*
Lives	2.4 Million	1.4 Million	1.9 Million	4.8 Million	10.6 Million
Percent	23%	13%	18%	46%	100%

*Totals may not add due to rounding

Allocating Avoided Enrollment to Potential Government Health Plans

We estimated the distribution of individual, small group, and large group community enrollees by Federal Poverty Level categories, for children and adults separately, using Employee Benefit

Research Institute (EBRI) data[13]. This data provides enrollment by state, age, gender, funding mechanism, group size and FPL. We then assigned enrollees in each income category to a potential government-subsidized program. This latter allocation of potential enrollees was based on the eligibility criteria assumptions set out in Table 6 below[14,15]:

TABLE 6
FEDERAL POVERTY LEVEL CRITERIA ASSUMPTIONS FOR POTENTIAL GOVERNMENT PROGRAM ENROLLMENT

Characteristics	Government Health Plan
Infants Ages 0-1: Up to 200% FPL Children Ages 1-5: Up to 133% FPL Children Ages 6-19: Up to 100% FPL Childless Adults: Up to 100% FPL Parent Adults: Up to 150% FPL Pregnant Woman: Up to 200% FPL	Medicaid/FHP
Non-Medicaid Children: Up to 400% FPL	Child Health Plus
Non-Medicaid Adults: Up to 250% FPL	Healthy New York

The EBRI data we relied on does not provide details on family status. For simplicity, we assumed that all adults with incomes up to 150% are parents or pregnant woman, which overstates the number of adults eligible for Medicaid. Our eligibility distribution is shown in Table 7 below:

TABLE 7
INITITIAL ALLOCATION OF COMMERCIAL PLAN ENROLLEES BY POTENTIAL GOVERNMENT HEALTH PLAN BASED ON INCOME LEVEL

Medicaid/Family Health Plus	13%
Child Health Plus	16%
Healthy New York	7%
Not Eligible	65%
Total*	**100%**

*Totals may not add due to rounding

Estimation of Coverage Loss by Income Level

Recognizing that lower income enrollees are more vulnerable to premium increases than average, we varied the demand elasticity with income category, relying on demand elasticity factors published in 2009 by the Lewin Group[16]. These factors range from -0.55 for an annual income of $10,000 to -0.09 for an income $100,000. We assigned these factors to our eligibility categories by first converting FPL levels into income cohorts, assuming the average household size is 1.95 people. Our average elasticity factors and resulting coverage loss distribution are shown in Table 8 below.

Eligible Category	Enrollees	Elasticity	Relative Elasticity	Final Allocation
TABLE 8 **FINAL ALLOCATION OF ENROLLMENT FOR THOSE NOT LOSING COVERAGE DUE TO RATE REGULATION**				
Medicaid/FHP	13%	0.53%	1.98	25%
CHP	16%	0.37%	1.38	22%
Healthy NY	7%	0.44%	1.63	11%
Not Eligible	65%	0.17%	0.65	42%
Total*	**100%**	**0.27%**	**1.00**	**100%**

*Totals may not add due to rounding

Our allocation of coverage loss weights more heavily the Medicaid/FHP and CHP categories and reduces the portion of those not eligible for government program coverage.

The final step in determining added Medicaid enrollment is to recognize that not all of those who are eligible actually enroll in a government program. An Urban Institute report shows that about 74% of those eligible for Medicaid/FHP and CHP actually enrolled in 2007[17]. To reach New Yorkers who are currently eligible but not enrolled, New York has recently adopted reforms to simplify eligibility and renewal, including permitting income self-attestation and repealing the face-to-face interview at initial application. We believe it unlikely that 100% enrollment would be achieved even if mandated, as many people may obtain coverage through a spouse or would not seek coverage unless a serious medical issue presents itself. We have assumed that enrollment will increase to 85% of eligibility, which is higher than historical levels.

Estimation of NY State's Share of Medical Expenses per Avoided Enrollee / Year

Using data reported by Kaiser Family Foundation[18], we projected average annual claims costs to SFY 2010-2011 for Medicaid/FHP and Child Health Plus. We used data reflecting the average annual costs for adult and child enrollees excluding costs for the Disabled and Elderly, as we do not expect many of those currently in the working population to be eligible for such coverage. We assume that the State's share (the complement of the federal share) of these costs is 38.4% for Medicaid/FHP and 35% for CHP[19,20]. We trended our figures to SFY 2011-2012 using an annualized rate of 6.5%, which is the annualized cost per person trend between 2006 and 2009 for non-elderly Medicaid enrollees.

For Healthy New York, we relied on figures presented in the annual Healthy New York reports[21]. We assumed that the State's share is 100% of the reinsurance component, which is the value of 90% of annual claims in the corridor between $5,000 and $75,000 per enrollee. For SFY 2007, this amount was reported to be approximately $839 per enrollee per year. We trended this amount to SFY 2010-2011 assuming an annualized 18% trend rate, which is the reported annualized rate for the reinsurance component over the period from 2004 to 2007. We noted that this rate is also consistent with the underlying overall HNY claims cost trend rate of 16% from this period. The corridor cost trend rate is expected to be higher because of the fixed reinsurance corridor limits and trend leveraging.

Estimation of the Average Duration of Fiscal Impact in the First State Fiscal Year

The impact of the proposed legislation occurs incrementally during the fiscal year when premium rates change at policy renewal. In our experience, a majority of policies renew as of January 1, with the next largest number of renewals occurring July 1. Other renewals tend to occur relatively

uniformly across the remaining months. Thus, we expect that most of the impact of the proposed legislation will not be felt until January 1, 2011, late in the fiscal year.

To estimate the incremental impact on enrollment during the first fiscal year, we assumed that 67% of enrollees have a January 1 renewal, 8% have a July 1 renewal, and 25% of enrollees renew uniformly across the remaining 10 months of the year.

Assuming that the increase in the minimum loss ratio affects policies renewing July 1, 2010 and later, and assuming that individuals who will enroll in Medicaid do so immediately without any lag, we estimate that 30% of the full year avoided enrollment associated with ML would occur during the first fiscal year. A 1 month lag between losing commercial coverage and enrolling in Medicaid would reduce that figure to 22% of the full year avoided enrollment.

Assuming that prior approval impacts rate increases renewing October 1, 2010 and later, we estimate that 21% of full year avoided enrollment associated with prior approval occurs in the first fiscal year. A 1 month lag between losing commercial coverage and enrolling in Medicaid would reduce that figure to 14% of the full year avoided enrollment.

ESTIMATE OF COVERAGE LOSSES DUE TO HCRA-TAX EXPANSION

The governor has proposed extending the 9.63% HCRA surcharge to certain physician surgical and radiological procedures provided in private ambulatory surgery centers, physician offices, and urgent care settings. For the 2009-2010 SFY, New York expects to collect $3.5 billion in HCRA taxes[22] ($2.3 billion in surcharges and $1.2 billion from the covered lives assessment), which are effectively passed to consumers through health insurance premiums. HCRA taxes have doubled since SFY 2005, contributing significantly to premium rate increases in New York. With HCRA expansion, the state expects to collect $25 million additional in SFY 2010-2011 and $99 million additional in SFY 2010-2011. The proposed HCRA surcharge increase will be passed to consumers through higher health insurance premiums. Consequently, this premium increase may result in further coverage losses in the commercially insured population and increased enrollment in government-subsidized health programs.

Using the NYSDB's and the authors' approach to calculating cost avoidance from rate regulation, we calculate the State's costs incurred from loss of coverage due to the proposed HCRA Tax expansion and compare the cost to the anticipated revenues. Our calculations of the estimated "net HCRA revenue" to the State are summarized in Tables 9 and 10 below.

TABLE 9 HCRA SURCHARGE EXPANSION – ADDITIONAL "NET STATE REVENUE" ESTIMATES BASED ON NYSDB'S COST AVOIDANCE METHODOLOGY FROM RATE REGULATION		
	SFY 2010 – 2011	SFY 2011 – 2012
Surcharge Expansion	$24.6 Million	$98.5 Million
Additional Enrollment in Government Programs	1,800	5,200
Increase in Government Sponsored Health Costs	$5.6 Million	$17.4 Million
Net Surcharge Revenue	$19.0 Million	$81.1 Million

TABLE 10 HCRA SURCHARGE EXPANSION – ADDITIONAL "NET STATE REVENUE" ESTIMATES BASED ON AUTHORS' COST AVOIDANCE METHODOLOGY FROM RATE REGULATION		
	SFY 2010 – 2011	SFY 2011 – 2012
Surcharge Expansion	$24.6 Million	$98.5 Million
Additional Enrollment in Government Programs	800	2,600
Increase in Government Sponsored Health Costs	$0.9 Million	$3.1 Million
Net Surcharge Revenue	$23.7 Million	$95.4 Million

Applying both the NYSDB's and authors' methodology and assumptions for rate regulation, we estimated the number of enrollees that would lose coverage and enroll in government programs and the additional cost to the State. The "net HCRA revenue" to the State is the difference between the projected additional revenue and the estimated additional cost due to coverage loss. The assumptions we used are:

- As HCRA applies to all commercial health insurance including direct pay, large and small groups, fully insured and self funded, we assumed that 10.6 million people are directly affected.

- HCRA surcharges currently are worth about 6% of total premium, which is the midpoint of our estimated range of 5% to 7% of premium. The HCRA surcharge increase of $25 million in SFY 2010-2011 and $99 million in SFY 2011-2012 would result in 1% and 3% premium increase in each SFY, respectively.

- We used the State's demand elasticity assumption of 30,000 people losing coverage for every 1% increase in premium for Table 9, and the authors' demand elasticity assumption of 0.27% for Table 10.

- We used the State's assumption for the average annual cost per person in government programs for Table 9, and the authors' estimate of the State's share of medical expenses per new enrollee per year for Table 10.

Our calculations are shown in Appendices D and E, attached.

Appendix A: Reproduction of NYSDB's Estimate

Reproduction of NYSDB's Government Savings Estimates
Due to Reinstatement of Prior Approval and Change in MLR

A1 Reduction in Rate Increases from Change in MLR	2.0%	A1
A2 Reduction in Rate Increases from Prior Approval	1.0%	A2
A3 Total Reduction in Rate Increases	3.0%	A3
B Number Losing Coverage per 1% increase in Premium	30,000	B
C Number Avoided in Lost Coverage due to Prior Approval/Change in MLR	90,000	C = A3 x B
D % "covered by larger insurers not impacted by proposal"	50.0%	D
E Total Avoided Enrollment Achieved by Prior Approval	45,000	E = C x (1-D)

Distribution of Avoided Enrollment

	Dist %	E	Enrollment	F
Medicaid	34.7%	45,000	15,600	
FHP	23.1%	45,000	10,400	
CHP	31.1%	45,000	14,000	
Healthy NY	11.1%	45,000	5,000	
Total	100.0%		45,000	

Average Annual Cost per Enrollee SFY - 2010-2011

	Total	NYS Share %	NYS Share	G
Medicaid	$7,000	50.0%	$3,500	
FHP	$7,000	50.0%	$3,500	
CHP	$7,000	50.0%	$3,500	
Healthy NY	$0	100.0%	$200	

Average Annual Cost per Enrollee SFY - 2011-2012

	Total	NYS Share %	NYS Share	H
Medicaid	$7,500	50.0%	$3,750	
FHP	$7,500	50.0%	$3,750	
CHP	$7,500	50.0%	$3,750	
Healthy NY	$200	100.0%	$200	

Annual Savings to NYS for Enrollment Avoidance

	SFY 2010-2011			SFY 2011-2012		
	F ÷ 2	G	I = F ÷ 2 x G	F	H	J = F x H
	Avoided Enrollment	Cost Per Person	Annual Savings	Avoided Enrollment	Cost Per Person	Annual Savings
Medicaid	7,800	$3,500	$27,300,000	15,600	$3,750	$58,500,000
FHP	5,200	$3,500	$18,200,000	10,400	$3,750	$39,000,000
CHP	7,000	$3,500	$24,500,000	14,000	$3,750	$52,500,000
Health NY	2,500	$200	$500,000	5,000	$200	$1,000,000
Total	22,500		$70,500,000	45,000	$3,356	$151,000,000

Authors' Estimates of Government Savings
Due to Reinstatement of Prior Approval and Change in MLR

	Prior Approval	Change in MLR	
A Enrollees w/ Private Health Insurance NY	10,550,000	10,550,000	
B Percent Enrollees Impacted by Rate Regulation	36%	23%	
C Number of Enrollees Affected by Rate Regulation	3,798,000	2,426,500	C = A x B
D Reduction in Rate Increases from Prior Approval / Change MLR	1.00%	2.00%	
E % Losing Coverage Per 1% Increase in Premium	0.27%	0.27%	
F Number Losing Coverage (Rounded)	10,300	13,100	F = C x D x E x 100

Avoided Enrollment in Government Programs Due to Prior Approval

	F Number Losing Coverage	G Distr % Gov Progs	H Enrollment Rate in Gov Progr	I = F x G x H Avoided Enrollment	I Avoided Enrollment Rounded
Medicaid	10,300	15.0%	85%	1,313	1,300
FHP	10,300	10.0%	85%	876	900
CHP	10,300	22.0%	85%	1,926	1,900
Healthy NY	10,300	11.0%	85%	963	1,000
Subtotal Gov	**10,300**	**58.0%**		**5,078**	**5,100**
No Gov Prog	10,300	42.0%		-	-
Total	**10,300**	**100.0%**		**5,078**	**5,100**

Avoided Enrollment in Government Programs Due to Change in MLR

	F Number Losing Coverage	G Distr % Gov Progs	H Enrollment Rate in Gov Progr	J = F x G x H Avoided Enrollment	J Avoided Enrollment Rounded
Medicaid	13,100	15.0%	85%	1,670	1,700
FHP	13,100	10.0%	85%	1,114	1,100
CHP	13,100	22.0%	85%	2,450	2,400
Healthy NY	13,100	11.0%	85%	1,225	1,200
Subtotal Gov	**13,100**	**58.0%**		**6,458**	**6,400**
No Gov Prog	13,100	42.0%		-	-
Total	**13,100**	**100.0%**		**6,458**	**6,400**

Average Annual Cost per Enrollee

	K Total Cost	L NYS Share %	M = K x L SFY 10-11	N Trend	O = K x L x N SFY 11-12
Medicaid	$3,855	38.4%	$1,475	1.071	$1,575
FHP	$3,855	38.4%	$1,475	1.071	$1,575
CHP	$1,530	35.0%	$525	1.071	$575
Healthy NY	$1,433	100.0%	$1,425	1.071	$1,525

Fiscal Year Savings to NYS for Enrollment Avoidance = SFY 2010-2011 and SFY 2011-2012

	SFY 2010-2011 - Prior Approval				SFY 2010-2011 - Change in MLR				Total
	P = I Avoided Enrollment	Q = M Cost Per Person	R % of SFY	S = P x Q x R SFY Savings	T = J Avoided Enrollment	U = M Cost Per Person	V % of SFY	W = T x U x V SFY Savings	X = S + W SFY Savings
Medicaid	1,300	$1,475	21.0%	$403,000	1,700	$1,475	30.0%	$752,000	$1,155,000
FHP	900	$1,475	21.0%	$279,000	1,100	$1,475	30.0%	$487,000	$766,000
CHP	1,900	$525	21.0%	$209,000	2,400	$525	30.0%	$378,000	$587,000
Health NY	1,000	$1,425	21.0%	$299,000	1,200	$1,425	30.0%	$513,000	$812,000
Total	5,100	$1,111		$1,190,000	6,400	$1,109		$2,130,000	$3,320,000

	SFY 2011-2012 - Prior Approval				SFY 2011-2012 - Change in MLR				Total
	Y = I Avoided Enrollment	Z = O Cost Per Person	AA % of SFY	AB = Y x Z x AA SFY Savings	AC = J Avoided Enrollment	AD = O Cost Per Person	AE % of SFY	AF = AC x AD x AE SFY Savings	AG = AB + AF SFY Savings
Medicaid	1,300	$1,575	100%	$2,048,000	1,700	$1,575	100%	$2,678,000	$4,726,000
FHP	900	$1,575	100%	$1,418,000	1,100	$1,575	100%	$1,733,000	$3,151,000
CHP	1,900	$575	100%	$1,093,000	2,400	$575	100%	$1,380,000	$2,473,000
Health NY	1,000	$1,525	100%	$1,525,000	1,200	$1,525	100%	$1,830,000	$3,355,000
Total	5,100	$1,193	100%	$6,084,000	6,400	$1,191	100%	$7,621,000	$13,705,000

Appendix C: Reproduction of NYSDB's Estimate in Authors' Format

Reproduction of NYSDB's Government Savings Estimates
Due to Reinstatement of Prior Approval and Change in MLR

		Prior Approval	Change in MLR	
A	Enrollees w/ Private Health Insurance NY	10,550,000	10,550,000	
B	Percent Enrollees Impacted by Rate Regulation	50.0%	50.0%	
C	Number of Enrollees Affected by Rate Regulation	5,275,000	5,275,000	C = A x B
D	Reduction in Rate Increases from Prior Approval / Change MLR	1.00%	2.00%	
E	% Losing Coverage Per 1% Increase in Premium	0.28%	0.28%	
F	Number Losing Coverage	14,800	29,500	F = C x D x E x 100
F	Number Losing Coverage (Rounded)	15,000	30,000	

Avoided Enrollment in Government Programs Due to Prior Approval

	F Number Losing Coverage	G Distr % Gov Progs	H Enrollment Rate in Gov Progr	I = F x G x H Avoided Enrollment
Medicaid	15,000	34.7%	100%	5,200
FHP	15,000	23.1%	100%	3,467
CHP	15,000	31.1%	100%	4,667
Healthy NY	15,000	11.1%	100%	1,667
Subtotal Gov	**15,000**	**100.0%**		**15,000**
No Gov Prog	15,000	0.0%		-
Total	**15,000**	**100.0%**		**15,000**

Avoided Enrollment in Government Programs Due to Change in MLR

	F Number Losing Coverage	G Distr % Gov Progs	H Enrollment Rate in Gov Progr	J = F x G x H Avoided Enrollment
Medicaid	30,000	34.7%	100%	10,400
FHP	30,000	23.1%	100%	6,933
CHP	30,000	31.1%	100%	9,333
Healthy NY	30,000	11.1%	100%	3,333
Subtotal Gov	**30,000**	**100.0%**		**30,000**
No Gov Prog	30,000	0.0%		-
Total	**30,000**	**100.0%**		**30,000**

Average Annual Cost per Enrollee

	K Total	L NYS Share %	M = K x L SFY 10-11	N Trend	O = K x L x N SFY 11-12
Medicaid	$7,000	50.0%	$3,500	1.071	$3,750
FHP	$7,000	50.0%	$3,500	1.071	$3,750
CHP	$7,000	50.0%	$3,500	1.071	$3,750
Healthy NY	$0	100.0%	$0	1.071	$200

Fiscal Year Savings to NYS for Enrollment Avoidance = SFY 2010-2011 and SFY 2011-2012

	SFY 2010 - 2011 - Prior Approval				SFY 2010 - 2011 - Change in MLR				Total
	P = I Avoided Enrollment	Q = M Cost Per Person	R % of SFY	S = P x Q x R SFY Savings	T = J Avoided Enrollment	U = M Cost Per Person	V % of SFY	W = T x U x V SFY Savings	X = S + W **SFY Savings**
Medicaid	5,200	$3,500	50.0%	$9,100,000	10,400	$3,500	50.0%	$18,200,000	**$27,300,000**
FHP	3,467	$3,500	50.0%	$6,066,667	6,933	$3,500	50.0%	$12,133,333	**$18,200,000**
CHP	4,667	$3,500	50.0%	$8,166,667	9,333	$3,500	50.0%	$16,333,333	**$24,500,000**
Health NY	1,667	$0	50.0%	$0	3,333	$0	50.0%	$0	**$0**
Total	15,000	$3,111		$23,333,333	30,000	$3,111		$46,666,667	**$70,000,000**

	SFY 2011 - 2012 - Prior Approval				SFY 2011 - 2012 - Change in MLR				Total
	Y = I Avoided Enrollment	Z = O Cost Per Person	AA % of SFY	AB = Y x Z x AA SFY Savings	AC = J Avoided Enrollment	AD = O Cost Per Person	AE % of SFY	AF = AC x AD x AE SFY Savings	AG = AB + AF **SFY Savings**
Medicaid	5,200	$3,750	100%	$19,500,000	10,400	$3,750	100%	$39,000,000	**$58,500,000**
FHP	3,467	$3,750	100%	$13,000,000	6,933	$3,750	100%	$26,000,000	**$39,000,000**
CHP	4,667	$3,750	100%	$17,500,000	9,333	$3,750	100%	$35,000,000	**$52,500,000**
Health NY	1,667	$200	100%	$333,333	3,333	$200	100%	$666,667	**$1,000,000**
Total	15,000	$3,356	100%	$50,333,333	30,000	$3,356	100%	$100,666,667	**$151,000,000**

Appendix D: Authors' Estimates of HCRA Impact Using NYSDB's Assumptions

**Authors' Estimates of Government Spending
Due to HCRA Expansion
NYSDB's Assumptions**

		SFY 10- 11	SFY 11- 12	
A	Enrollees w/ Private Health Insurance NY	10,550,000	10,550,000	
B	Percent Enrollees Impacted by HCRA	100.0%	100.0%	
C	Number of Enrollees Affected by HCRA	10,550,000	10,550,000	C = A x B
D1	% Increase in HCRA Surcharges due to Expansion	1.0%	3.0%	
D2	Current HCRA Surcharges as % Premium	6.0%	6.0%	
D3	Premium Increase due to HCRA Expansion	0.1%	0.2%	D3 = D1 x D2
E	% Losing Coverage Per 1% Increase in Premium	0.28%	0.28%	
F	Number Losing Coverage (Rounded)	1,800	5,300	F = C x D3 x E x 100

Additional Enrollment in Government Programs Due to HCRA

	F Number Losing Coverage	F Number Losing Coverage	G Distr % Gov Progs	H Enrollment Rate in Gov Progr	I = F x G x H Additional Enrollment SFY 10-11	J = F x G x H Additional Enrollment SFY 11-12
Medicaid	1,800	5,300	34.7%	100%	600	1,800
FHP	1,800	5,300	23.1%	100%	400	1,200
CHP	1,800	5,300	31.1%	100%	600	1,600
Healthy NY	1,800	5,300	11.1%	100%	200	600
Subtotal Gov	**1,800**	**5,300**	**100.0%**		**1,800**	**5,200**
No Gov Prog	1,800	5,300	0.0%		-	-
Total	**1,800**	**5,300**	**100.0%**		**1,800**	**5,200**

Average Annual Cost per Enrollee

	K Total	L NYS Share %	M = K x L SFY 10-11	N Trend	O = K x L x N SFY 11-12
Medicaid	$7,000	50.0%	$3,500	1.071	$3,750
FHP	$7,000	50.0%	$3,500	1.071	$3,750
CHP	$7,000	50.0%	$3,500	1.071	$3,750
Healthy NY	$0	100.0%	$0	1.071	$200

Fiscal Year Expenses to NYS for HCRA Expansion = SFY 2010-2011 and SFY 2011-2012

	SFY 2010 - 2011			SFY 2011 - 2012				
	P = I Avoided Enrollment	Q = M Cost Per Person	R = P x Q **SFY Savings**	S = J Avoided Enrollment	T = O Cost Per Person	U = S x T **SFY Savings**		
Medicaid	600	$3,500	**$2,100,000**	1,800	$3,750	**$6,750,000**		
FHP	400	$3,500	**$1,400,000**	1,200	$3,750	**$4,500,000**		
CHP	600	$3,500	**$2,100,000**	1,600	$3,750	**$6,000,000**		
Health NY	200	$0	**$0**	600	$200	**$120,000**		
Total	1,800	$3,111	**$5,600,000**	5,200	$3,340	**$17,370,000**		

Appendix E: Authors' Estimates of HCRA Impact

Authors' Estimates of Government Spending
Due to HCRA Expansion
Authors' Assumptions

	SFY 10-11	SFY 11-12	
A Enrollees w/ Private Health Insurance NY	10,550,000	10,550,000	
B Percent Enrollees Impacted by HCRA	100.0%	100.0%	
C Number of Enrollees Affected by HCRA	10,550,000	10,550,000	C = A x B
D1 % Increase in HCRA Surcharges due to Expansion	1.0%	3.0%	
D2 Current HCRA Surcharges as % Premium	6.0%	6.0%	
D3 Premium Increase due to HCRA Expansion	0.1%	0.2%	D3 = D1 x D2
E % Losing Coverage Per 1% Increase in Premium	0.27%	0.27%	
F Number Losing Coverage (Rounded)	1,700	5,100	F = C x D3 x E x 100

Additional Enrollment in Government Programs Due to HCRA

	F Number Losing Coverage	F Number Losing Coverage	G Distr % Gov Progs	H Enrollment Rate in Gov Progr	I = F x G x H Additional Enrollment SFY 10-11	J = F x G x H Additional Enrollment SFY 11-12
Medicaid	1,700	5,100	15.0%	85%	200	700
FHP	1,700	5,100	10.0%	85%	100	400
CHP	1,700	5,100	22.0%	85%	300	1,000
Healthy NY	1,700	5,100	11.0%	85%	200	500
Subtotal Gov	**1,700**	**5,100**	**58.0%**		800	2,600
No Gov Prog	1,700	5,100	42.0%		-	-
Total	**1,700**	**5,100**	**100.0%**		**800**	**2,600**

Average Annual Cost per Enrollee

	K Total	L NYS Share %	M = K x L SFY 10-11	N Trend	O = K x L x N SFY 11-12
Medicaid	$3,855	38.4%	$1,475	1.071	$1,575
FHP	$3,855	38.4%	$1,475	1.071	$1,575
CHP	$1,530	35.0%	$525	1.071	$575
Healthy NY	$1,433	100.0%	$1,425	1.071	$1,525

Fiscal Year Expenses to NYS for HCRA Expansion = SFY 2010-2011 and SFY 2011-2012

	SFY 2010 - 2011			SFY 2011 - 2012		
	P = I Avoided Enrollment	Q = M Cost Per Person	R = P x Q SFY Savings	S = J Avoided Enrollment	T = O Cost Per Person	U = S x T SFY Savings
Medicaid	200	$1,475	$295,000	700	$1,575	$1,103,000
FHP	100	$1,475	$148,000	400	$1,575	$630,000
CHP	300	$525	$158,000	1,000	$575	$575,000
Health NY	200	$1,425	$285,000	500	$1,525	$763,000
Total	800	$1,106	$886,000	2,600	$1,181	$3,071,000

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