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Why Health Care Is So Expensive in New York

Mario Cuomo and Blue Cross destroyed the individual insurance market in the state. Now Congress wants to impose the same rules on 50 states.

By STEPHEN T. PARENTE AND TARREN BRAGDON

Back in the early 1990s, New York Gov. Mario Cuomo pushed reforms aimed at fixing the state's health-care system. Those reforms were supposed to reduce the ranks of the uninsured as well as prevent insurance companies from unfairly charging people with health problems more than others or dropping sick people from the insurance rolls. They were also supposed to spark greater insurance competition.

If that sounds like reforms being proposed in Washington today, it's not a coincidence. One of the biggest things Mr. Cuomo did was to impose government mandates called community rating (CR) and guaranteed issue (GI). The former prevents insurers from charging people more based on their health or age, and the latter forbids denying coverage to anyone who wants to buy it. These two mandates are now a central part of reforms advancing in Congress. In New York, enacting them has been a mistake.

One of the biggest proponents of community rating and guaranteed issue in the early 1990s was Empire Blue Cross and Blue Shield. With more than eight million customers, Empire was the state's largest insurer. It was also the state's "insurer of last resort" because, as a nonprofit organization, it already had to comply with both mandates. It lobbied to extend CR and GI to every insurer in the name of fair competition.

But New Yorkers didn't get a more competitive insurance market. Within months of the law going into effect in April 1993, Manhattan District Attorney Robert Morgenthau opened a criminal investigation into Empire. It had admitted to misleading regulators about losses it had suffered in 1989, 1990 and 1991. The company also went through two shake-ups of its top leadership—the executives who had led the company when accounting mistakes were made were ousted, and then executives brought in to clean up the mess stepped down under pressure from State Insurance Commissioner Salvatore R. Curiale. Within a few years, Empire and others stopped selling insurance in the individual market in the state.

A 2007 report by the respected Seattle-based actuarial consulting firm Milliman surveyed the damage. It noted that "by 1996 GI and CR requirements effectively eliminated the commercial individual indemnity market in New York." While the reforms were supposed to help keep insurance affordable, "premiums for the two [remaining] standard plans increased rapidly," with one researcher noting "insurers increased premium rates 35%-40% in this period."

Today, New York's private individual insurance market is among the nation's most expensive and highly regulated. New York City residents buying private, unsubsidized individual insurance coverage pay at least $9,036 a year for individual coverage and $26,460 for family coverage. New York's average premiums in the individual market are more than twice the national average, according to a 2007 eHealth Insurance survey.

Today, 14% of New York's population lacks coverage, essentially the same as the national average of 15%. Partly because of the high costs of private coverage, nearly one in four New Yorkers is enrolled in Medicaid. New York's Medicaid program is the nation's most expensive, requiring high local and state taxes to support it.

Policy makers rarely mention that state mandates such as CR and GI can drive up prices and drive millions of people away from private insurance. New York has 51 mandates dictating coverage for a wide range of things including hormone replacement therapy (one of four states with this mandate) and drug abuse counseling (one of seven states). Each adds to the cost of insurance. William Congdon at the Brookings Institution and Michael New from the Heritage Foundation have separately done studies that suggest that 40 of the costliest state mandates in the country add as much as 20% to the cost of basic insurance coverage.

In 1994, about 4.5% (10.45 million) of the U.S. nonelderly population was covered by individual insurance. Today, that number has grown to 5.5% (14.35 million), a 20% increase. In California, 8% of the nonelderly population has individual insurance. But New York's individual insurance market represents a paltry 0.2% of its nonelderly population. Before Mr. Cuomo's reforms it was 4.7%.

In a recent study conducted for the Manhattan Institute, we estimate that market-based reforms could make insurance much more affordable, especially if the CR and GI mandates were repealed. Doing that would reduce the number of uninsured by 18% and 19%, respectively (37% combined), and would lower premiums by 42%. We also found that if the state allowed New Yorkers to buy health insurance sold in Connecticut and Pennsylvania, as much as 26% of the uninsured would purchase private policies costing 25% less than similar policies in New York. Offering mandate-lite plans to those younger than 45 could reduce the uninsured by nearly 10%, with an 18% decline in premiums.

Market reforms won't provide affordable coverage to everyone, so we suggest creating guaranteed-access risk pools for those with chronic diseases. Currently, 35 states have such pools. They could be financed in New York with a modest assessment on policyholders in the individual insurance market of as little as $6 per member, per month.

President Obama has called for insurance market reforms. We agree they're needed. Based on New York's experience, Congress should concentrate on changes that make the individual insurance market as competitive and affordable as possible. The right reforms would reserve scarce tax dollars for those who really need help and encourage more healthy people to buy insurance.

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