

Cooperative Health Insurance Purchasing: Article 47 Impediments

According to the Office of the NY State Comptroller's 2007 Annual Report on Local Government, local government spending continues to increase at over double the rate of inflation. One component driving this increase is employee benefits, which grew by 92 percent between 1995 and 2005, an average annual rate of 6.2 percent.

Health insurance represents approximately 50 percent of spending on employee benefits. Between 1995 and 2005, employee health insurance costs grew from \$2.1 billion to \$4.4 billion, an increase of 107 percent, or 7.5 percent on an average annual basis.

As financial pressures continue to mount, municipalities are increasingly finding that one of the most effective ways to contain this particular cost is by leveraging economies of scale and developing shared insurance plans with neighboring municipalities. In line with these cost saving ventures municipalities are exploring the benefits of creating;

- Self-funded Municipal Cooperative Health Benefit Plans which are regulated by Article 47 of NYS Insurance Law; and
- Multi Employer Trusts, to jointly purchase health insurance plans.

Municipal Cooperative Health Benefit Plans – Article 47

Article 47 of the New York Insurance Law authorizes certain municipal corporations to form municipal cooperative health benefit plans (MCHBP) in order to share, in whole or in part, the costs of self funding employee health plans.

These intermunicipal health risk-sharing agreements provide municipal corporations with an alternative approach to: stabilizing health claim costs, lowering administrative costs and enhancing negotiating power with health care providers. Such benefits are achievable by spreading costs among a larger pool of risks, beyond territorial boundaries of individual municipal corporations.

There are 10 Municipal Cooperative Health Benefit Plans currently active across New York. Two defining characteristics of all active MCHBPs are; (a) Active participants are entirely represented by either school districts or BOCES and (b) all MCHBPs were established between the years 1979-1986, well before Article 47 was enacted into State law (1994). There have been no new Municipal Cooperative Health benefit plans established since 1986.

Article 47—Restrictions and Safeguards

Municipal Cooperative Health Benefit Plans (MCHBPs)

Size Requirements: NYS Insurance Law Article 47 §4704

- Minimum of at least 5 municipalities participating in the cooperative

- Minimum of at least 2000 total employees (current and retirees) participating in the cooperative

Reserve Requirements: NYS Insurance Law Article 47 §4706

- Must maintain a reserve for payment of claims and expenses which equals at least 25% of total expected claims and expenses, unless a qualified actuary deems a lesser amount appropriate
- Must maintain a reserve for unearned premium equivalents, a claim stabilization reserve, and a reserve for other obligations
- Must maintain a surplus account of at least:
 - 5 percent of annualized earned premium equivalents for smaller self-insured consortiums (5 or more municipalities, and more than 2000 employees)
 - 7 percent of annualized earned premium equivalents for smaller self-insured consortiums (fewer than 5 municipalities or 2000 employees)

Background—Community Rating in New York State

Health insurance premiums, for both individual and group plans, are largely determined by the rating methodology applied to each applicant. There are two ways to rate a group health insurance plan; experience rating and community rating. Under an **experience rated** methodology, the premium is determined primarily by the group’s specific claims experience. Under the **community rated** methodology, the premium is determined by the collective claims experience of all insureds in a particular community pool, without regard to age, sex, health status or occupation. Unlike an experience rate, a community rate is not specific to a particular group.

Chapter 501 of the Laws of 1992 established the requirement in New York that individual and small group health insurance policies be community rated. The New York State Insurance Department reported that in the first year of community rating, almost 30 percent of the insured experienced premium increases ranging from 20 percent to 59 percent.

Community Rating Impact on Municipalities

Small Group Health Insurance Rating

- Municipalities with fewer than 50 employees must have a community rated health plan: *NYS Insurance Law Article 32 §3231 and Article 43, Section 4317.*
 - By extension a Multiple Employer Trust of several municipalities (not a MCHBP) attempting to jointly, purchase insurance, must have a community rated health plan if **any** of its constituent employers has 50 or fewer employees, even if the aggregate number within the potential “trust” is greater than 50.

Recommended Policy Changes

Ease provisions relating to municipal cooperative health benefit plans to base reserve requirements upon actuarial assessments and to allow for a transition period to build up reserves; to reduce the required number of participating municipal corporations from five to three; and to require insurers to provide specific claims experience to municipalities analyzing the feasibility of forming a cooperative.