New York's Small-Group Health Insurance Cost Crisis and Paths to Affordability

Executive Summary

New York State faces one of the most severe health insurance affordability crises in the nation. While the state is often commended for its low uninsured rate and robust public health programs, commercial health insurance costs, especially in the small-group market have escalated dramatically. These increases are driven by a combination of structural market forces and state-specific policy decisions: excessive provider consolidation, inflated hospital prices, the proliferation of facility fees, costly state taxes and assessments, rising pharmaceutical expenses, and an expanding set of mandated benefits.

For New York's local businesses, this crisis poses a direct threat to their continued operation, growth and success. Premiums far outpace inflation and wage growth, forcing employers to scale back hiring, reduce benefits, or drop coverage entirely.

This whitepaper outlines the causes of New York's high small-group health insurance costs, details the resulting economic harm to small businesses and workers, and calls on lawmakers to make affordability and cost-driver reform a top statewide priority.

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1. Introduction

New York's commercial health insurance market, particularly the small-group market for businesses with up to 100 employees, are experiencing unsustainable premium growth. Data consistently places New York among the highest-cost states for employer-sponsored insurance, with average single-coverage premiums exceeding $9,500 in 2024.[1] Rate filings approved by the Department of Financial Services (DFS) show annual double-digit

[1] https://www.empirecenter.org/publications/why-new-yorks-health-premiums-keep-going-up/ -:~:text=According%20to%20a%20federal%20survey,New%20York%20was%20also%20No.

increases for small employers, significantly above the inflation rate and national average.[2][3][4] Employers are facing forecasts of an additional 9% rise in 2026.[5] These premium increases approved by DFS have still left a number of health plans with an operating loss in the small group market.

With premiums that continue to outpace wage growth, the consequences are immediate and severe: small employers are dropping coverage, shifting costs onto workers, or struggling to remain viable. Understanding and addressing the root causes is key to reversing this trajectory.

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2. Why New York's Healthcare Costs Are So High

New York's high premiums reflect the underlying cost of medical care. The state suffers from a convergence of factors that inflate healthcare spending more than almost any other state.[6]

2.1 Hospital Market Concentration and Pricing

The single largest contributor to New York's high healthcare costs is excessive hospital system consolidation.

- **Dominant regional systems** wield significant market power, allowing them to demand private-payer prices that can exceed 300% of Medicare rates.[7]

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[2] https://www.governor.ny.gov/news/governor-hochul-unveils-new-data-showing-massive-increases-new-yorkers-monthly-health -:~:text=This%20cycle%20will%20result%20in,away%20from%20working%20New%20Yorkers.

[3] https://www.nyhealthinsurer.com/2025/blog/why-health-insurance-premiums-increase-ny/ -:~:text=Each%20year%2C%20insurers%20in%20New,works%2C%20see%20our%20detailed%20breakdown%3A

[4] https://www.empirecenter.org/publications/why-new-yorks-health-premiums-keep-going-up/ -:~:text=DFS%20approved%20premium%20hikes%20averaging,not%20subject%20to%20state%20regulation.)

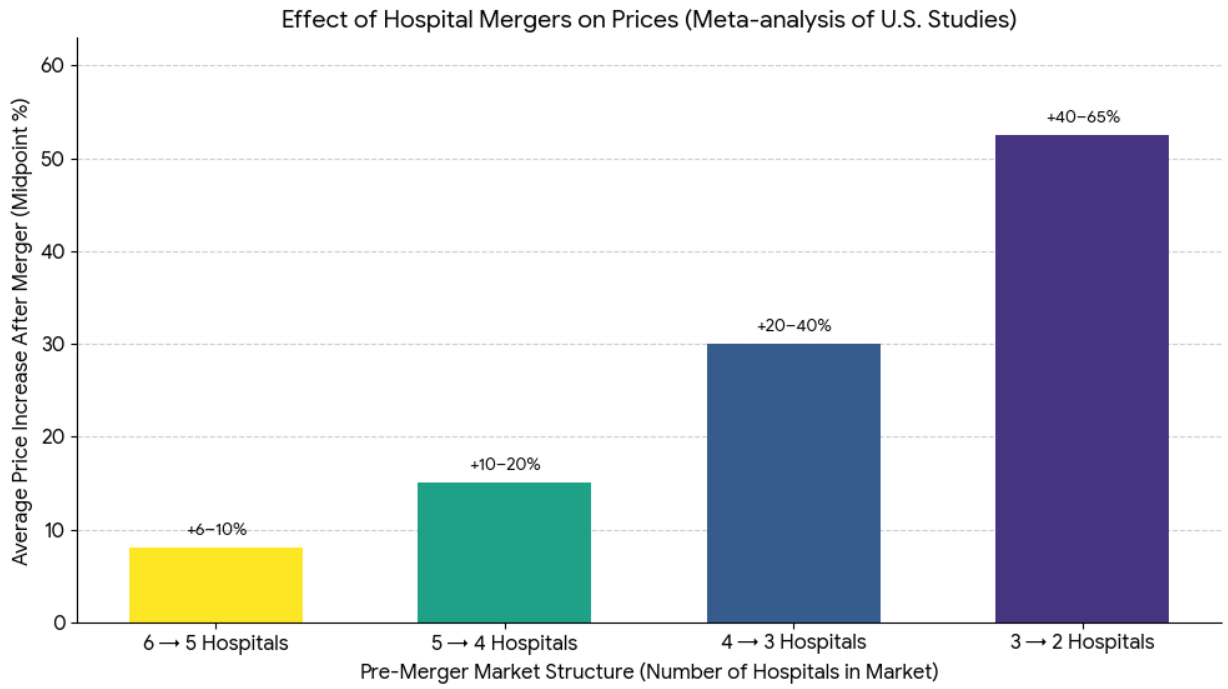
[5] https://finance.yahoo.com/news/quiet-alarm-bell-u-health-162733422.html

[6] https://nyhpa.org/time-for-affordability/health-care-costs/ -:~:text=New%20York's%20per%20capita%20spending,New%20Yorkers%20Bear%20The%20Cost

[7] P. W. Hussey, J. R. Mulcahy, R. K. Kellerman, J. M. Harris, C. G. H. Chen, & A. B. H. Shah. *(Year of Report). Prices Paid to Hospitals by Private Health Plans: Findings from Round X of an Employer-Led Transparency Initiative*. RAND Corporation.

- **Mergers and acquisitions** reduce competition and increase prices. Research shows that even a merger between two of five equally sized hospitals can raise prices by nearly 9%.[8]
- **Vertical consolidation** has accelerated sharply: nearly half of New York's physicians are now employed by hospital systems.[9]
- **Facility fees**, enabled by hospital acquisition of community physician practices, allow routine, non-hospital services to be billed at significantly higher hospital-based rates, increasing costs without improving quality.

These dynamics directly raise insurer claim costs—and therefore premiums.[10]



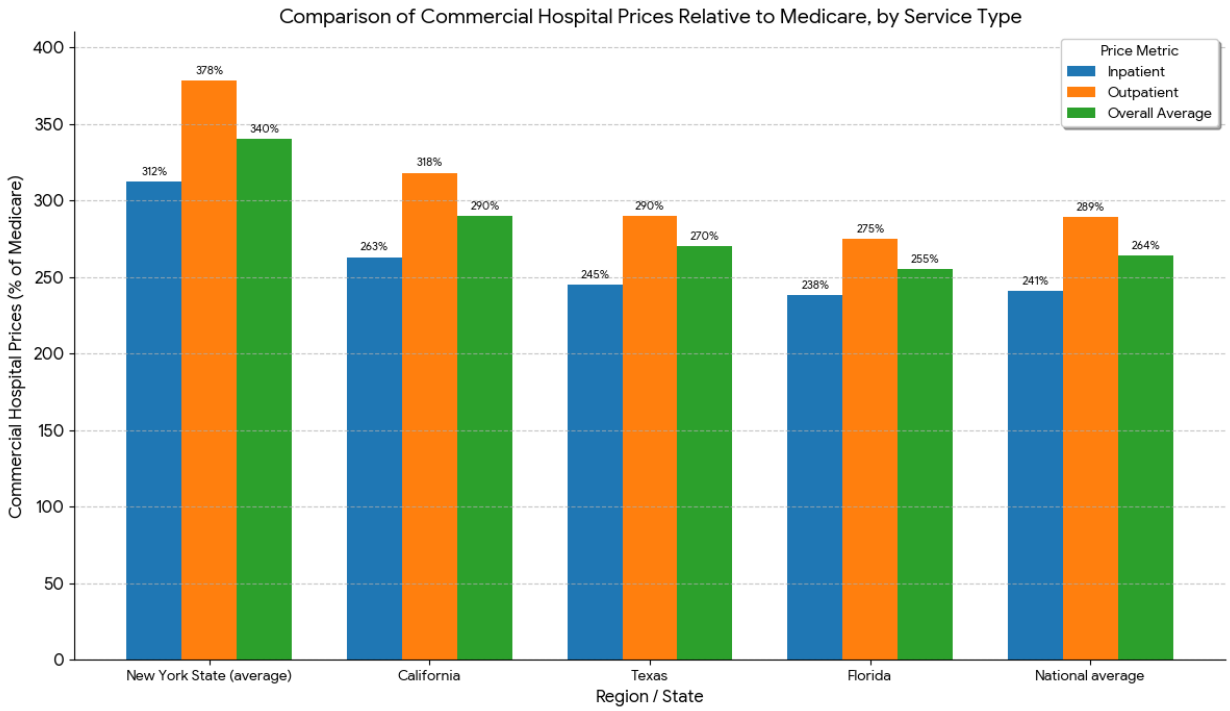
Sources: Cooper et al. (Health Affairs 2019), Gaynor & Town (2011), Vogt & Town (2006), updated meta-analysis by Haas-Wilson & Garmon (2023)

[8] https://news.emory.edu/stories/2025/07/er_health_care_costs_economic_research_matthew_grennan_21-07-2025/story.html#:~:text=Past%20research%20has%20shown%20that,for%20rising%20health%20care%20prices.

[9] https://www.beckershospitalreview.com/quality/hospital-physician-relationships/nearly-80-physicians-now-employed-by-hospitals-corporations-report-finds/#:~:text=More%20than%2077%25%20of%20U.S.,Thursday%2C%20April%2011th%2C%202024

[10] https://www.empirecenter.org/publications/why-new-yorks-health-premiums-keep-going-up/ -:~:text=The%20cost%20drivers%20cited%20in,higher%20prices%20for%20their%20services.

New York hospital prices vs. rest of U.S. (private insurance as % of Medicare rates, 2022–2024)



Sources: RAND Hospital Price Transparency Study (2024 update), HCCI 2023 data
Key takeaway: New York's dominant systems routinely negotiate prices >300% of Medicare—far above most large states.

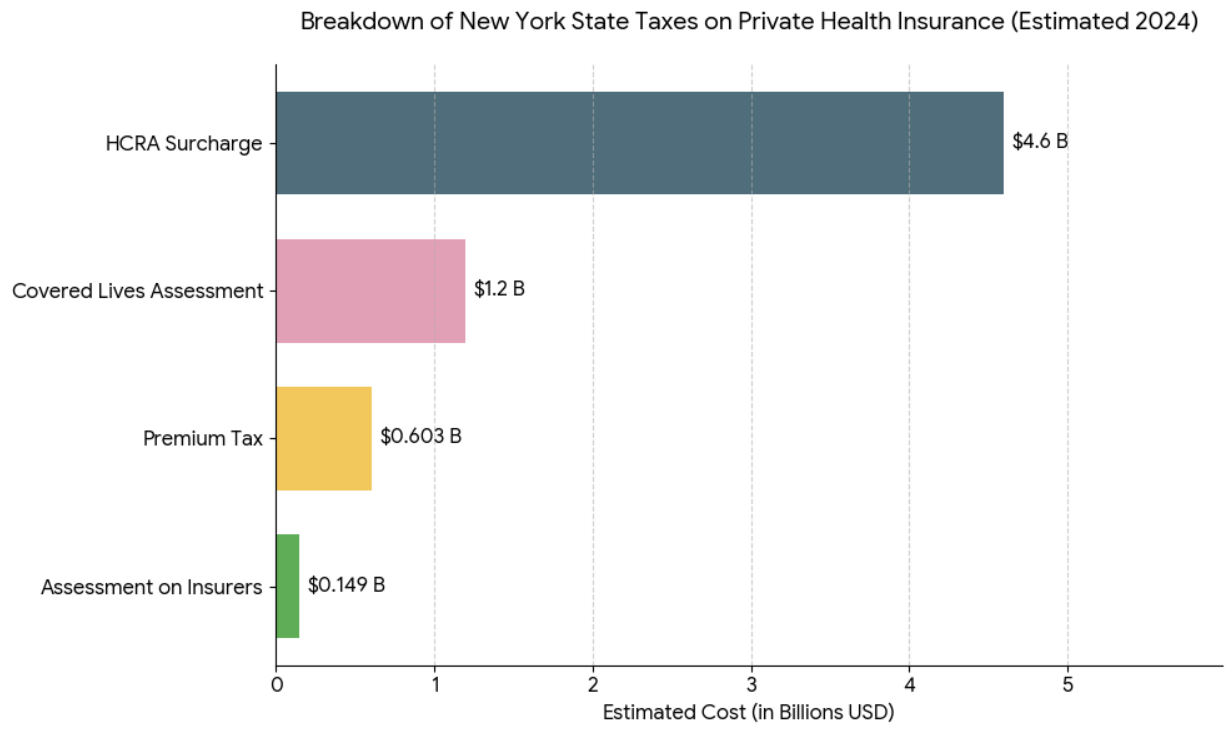
2.2 State Taxes and Assessments

New York imposes several state-specific taxes and assessments that directly inflate premiums, including:

- The premium tax on commercial health insurance.
- The HCRA surcharge on hospital services.
- The Covered Lives Assessment, which helps fund statewide programs and—within the MTA region—transit operations.
- Other state surcharges and administrative fees.

The New York State Health Care Reform Act (HCRA) imposes various surcharges and assessments to fund "public goods" healthcare initiatives, which today is predominantly used to pay for Medicaid. They are a combination of two main levies, the Covered Lives

Assessment (CLA), which is an annual, per-person charge on health insurance plans based on the number of covered members residing in New York, with the rate varying significantly by region. The second is a surcharge on certain hospital and clinic service payments. These taxes directly increase the total cost of private health coverage by more than 7%, approximately $440 per person or about $1,760 for a family of four per year.[11]



Sources: NYS Enacted Budget Financial Plans and NYS Department of Financial Services.

2.3 Mandated Benefits

New York requires insurers to cover more than 70 specific benefits and services. The cumulative financial and administrative burden is substantial and acts to increase health insurance premiums.

[11] https://www.health.ny.gov/regulations/hcra/gme/2025_surcharges_and_assessments.htm

Studies of earlier mandates estimated double-digit premium impacts, a figure that has only grown as the list of required services expands.[12]

2.4 Pharmaceutical Costs and Utilization

Prescription drug spending continues to be one of the most volatile and significant drivers of rising healthcare premiums for New Yorkers, with recent years seeing accelerating trends due to both high unit cost and increasing utilization rates of new specialty therapies. High-cost specialty medications, particularly in immunology, oncology, and the rapidly growing class of GLP-1 agonists can consume up to 50% of a health plan's total pharmacy spend. In 2025 new drug launches and high utilization of drugs like the GLP-1s have led to increases in spending on drugs by over 20% in some cases. These factors have directly contributed to average premium increases of 8.4% to 12.7% or more for small group and individual market plans in 2025.[13][14][15]

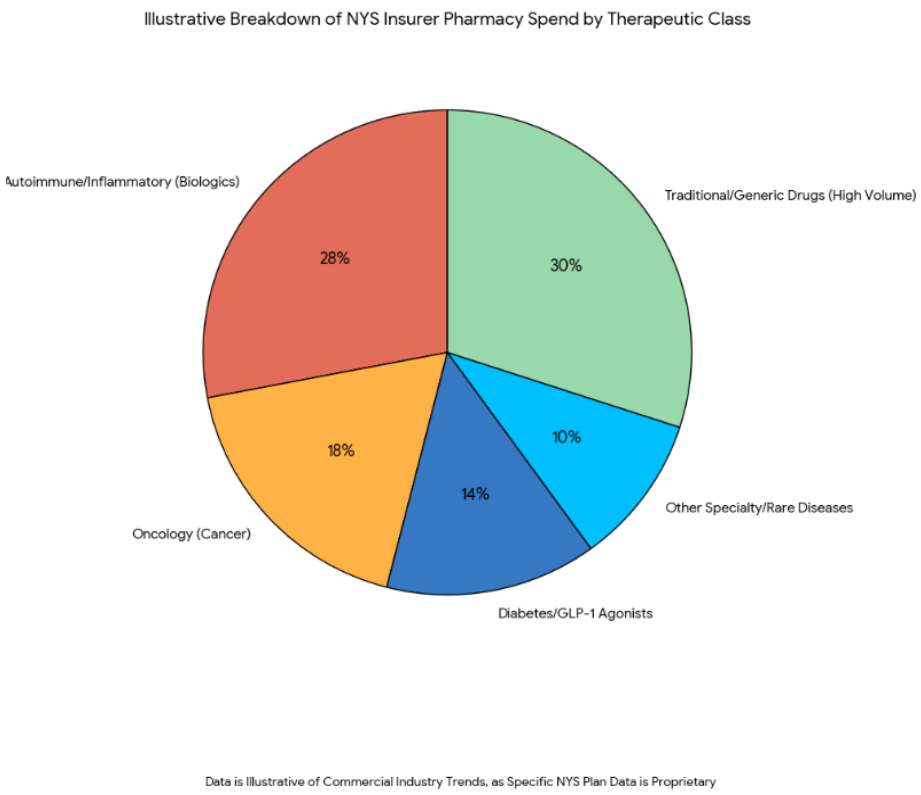
[12] https://www.nyhealthinsurer.com/2025/blog/why-health-insurance-premiums-increase-ny/ -:~:text=Expanded%20mental%20health%20and%20substance,into%20higher%20premiums%20for%20everyone.

[13] https://www.healthsystemtracker.org/brief/how-much-and-why-aca-marketplace-premiums-are-going-up-in-2026/ -:~:text=Beyond%20GLP%2D1s%2C%20other%20high,healthcare%20costs%20or%20pharmacy%20trends.

https://www.empirecenter.org/publications/why-new-yorks-health-premiums-keep-going-up/ -:~:text=The%20cost%20drivers%20cited%20in,higher%20prices%20for%20their%20services.

[14] https://intercept.health/insights/blog/understanding-specialty-drugs-and-their-impact-on-health-plans/#:~:text=Rising%20pharmacy%20costs%3A%20Why%20specialty,for%20employers%20offering%20health%20plans.

[15] https://gtm.com/business/new-york-health-insurance-rates-2025/#:~:text=Sep%205%2C%202024,percent%20for%20small%20group%20plans.



2.5 Litigation and Malpractice Costs

New York consistently ranks among the highest states for medical malpractice payouts. This raises the cost of malpractice insurance for providers, which in turn contributes to higher prices for medical services.[16]

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3. How These Costs Translate into Higher Premiums

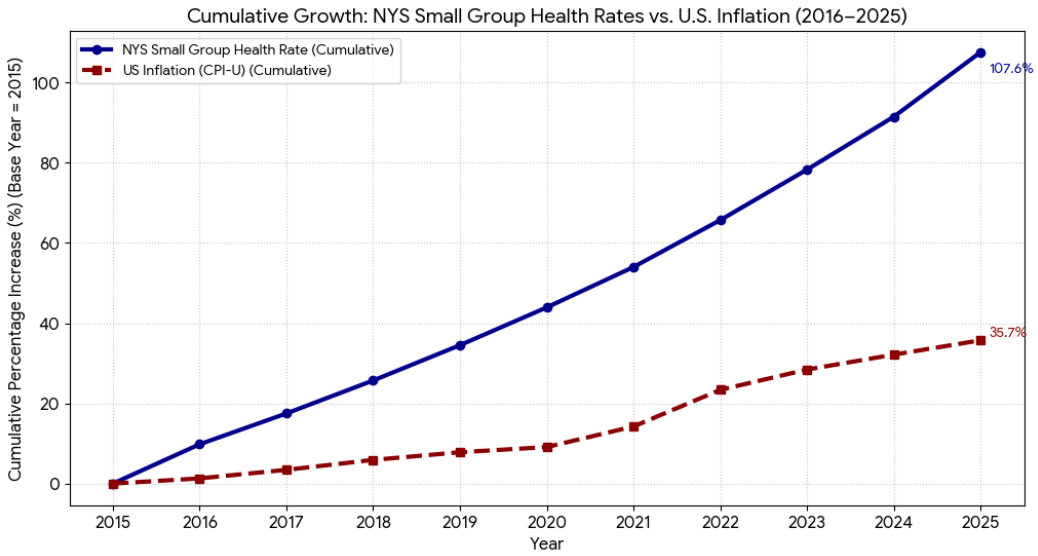
Each year, insurers submit rate filings to DFS detailing projected claim costs. For 2025:

- DFS approved average 13% increases for the small-group market.

[16] https://pfnyc.org/news/new-report-finds-high-cost-of-litigation-and-legal-claims-are-driving-affordability-crisis-for-new-york-city-residents-businesses-government-and-nonprofits -:~:text=Medical%20malpractice%20payouts%20are%20significantly,of%20medical%20malpractice%20insurance%20premiums.

- These increases were multiple times higher than inflation.
- Even after DFS reduces requests, medical trend is so high that significant increases are unavoidable.

Employer-sponsored plans mirror these trends. New York businesses and workers pay some of the highest premiums in the nation.[17]



Sources: New York State Department of Financial Services (DFS) annual reports for the approved small group health insurance rates, and the U.S. Department of Labor, Bureau of Labor Statistics (BLS) for the annual Consumer Price Index (CPI-U) inflation rates.

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4. The Small-Group Market in Crisis

The consequences of rising premiums are particularly acute for small and local businesses.

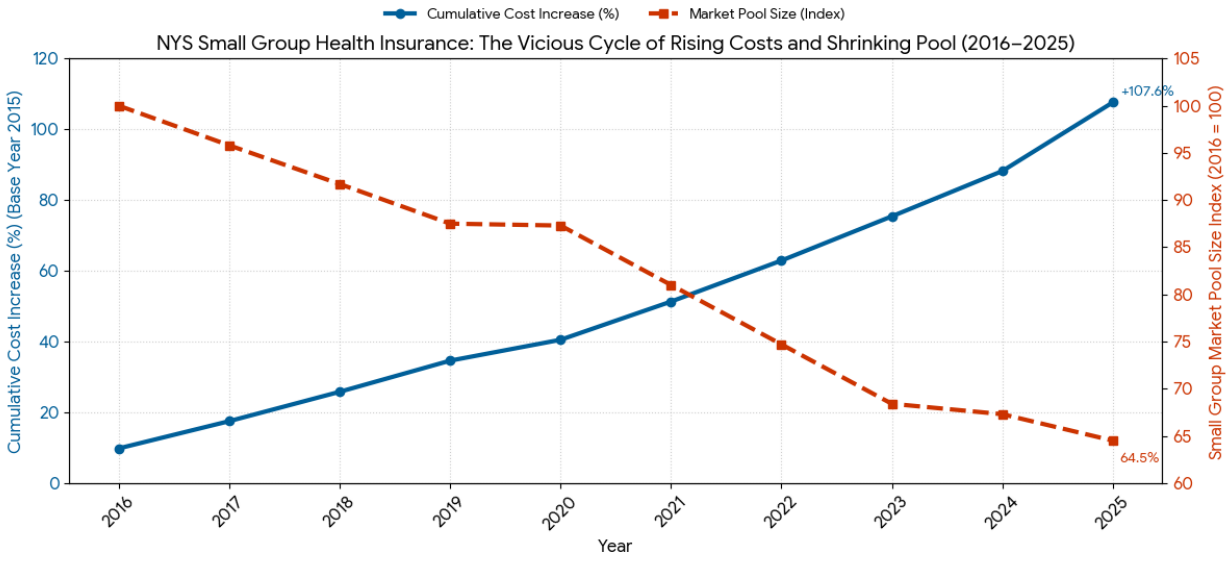
4.1 Shrinking Enrollment

[17] https://www.nyhealthinsurer.com/2025/blog/why-health-insurance-premiums-increase-ny/ -:~:text=Each%20year%2C%20insurers%20in%20New,works%2C%20see%20our%20detailed%20breakdown%3A

From 2020 to 2024, small-group enrollment dropped 24% statewide.[18] The consequences of such a profound drop in enrollment are:

1. Premiums rise.
2. Healthier groups and younger employees leave.
3. The remaining risk pool becomes older and sicker.
4. Premiums rise even more.
5. The cycle repeats.

Without intervention, the small-group market will continue to weaken, and prices will continue to rise until a breaking point is reached.[19]



Sources: New York State Department of Financial Services (DFS) for the approved health insurance rate increases and the U.S. Department of Labor, Bureau of Labor Statistics (BLS), and reports from policy organizations like the Fiscal Policy Institute (FPI) and United Hospital Fund (UHF) for the market pool size data.

4.2 Impact on Small and Local Businesses

Rising premiums force businesses to make impossible choices:

[18] https://fiscalpolicy.org/troubling-trends-in-new-yorks-small-group-market
[19] https://www.nyhealthinsurer.com/2025/blog/why-health-insurance-premiums-increase-ny/ -:~:text=While%20this%20promotes%20fairness%2C%20it,when%20healthier%20people%20opt%20out.

- Reduced hiring or delayed expansion due to benefit cost pressures.
- Shifting costs to workers through higher contributions, deductibles, and copays.
- Dropping coverage entirely, leaving employees to navigate the individual market.

For many small employers, health insurance is now their second-largest expense after payroll.

4.3 Impact on Workers

When employers can't absorb premium increases, the burden shifts to employees:

- Higher paycheck deductions
- Higher deductibles and out-of-pocket costs
- Reduced access to care

Health insurance affordability has become a defining household financial issue for New Yorkers.[20]

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5. Why Lawmakers Must Prioritize Affordability and Cost Drivers

Policymakers have long focused on coverage expansion—but coverage without affordability is meaningless.

If lawmakers fail to address the root cost drivers, the consequences will be profound:

- Continued small-group market erosion
- Loss of employer-sponsored coverage options
- Increased financial pressure on household budgets
- Greater migration of businesses and workers out of New York

New York cannot sustain its economy without a functioning, affordable commercial insurance market.

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[20] https://fiscalpolicy.org/new-bill-could-address-nys-spiraling-healthcare-costs-:~:text=As%20costs%20have%20increased%2C%20employers,before%20their%20insurance%20kicks%20in.

6. Policy Solutions

Stabilizing the small group health insurance market in New York requires addressing structural market failures, state-level policy burdens, and the underlying drivers of high healthcare costs. A range of proposals, supported by policymakers, business groups, and concerned stakeholders, aim to improve affordability, transparency, and competition.

6.1 Strengthen Antitrust and Merger Enforcement

The Attorney General's office and state agencies should increase oversight of hospital and private-equity-backed consolidation. Key measures include:

- Blocking mergers that raise prices without improving quality.
- Monitoring the use of facility fees and billing practices.
- Reforming the "quiet period" and Certificate of Need (CON) processes to prevent anti-competitive consolidation and encourage competition.

6.2 Implement Site Neutral Payment Reform

Require site neutral payments for outpatient services, so routine care is reimbursed the same regardless of facility ownership. Additional actions include:

- Limiting or prohibiting facility fees for non-hospital services.
- Increasing transparency on where services are delivered and how they are priced, particularly hospital-owned outpatient vs independent clinics.

6.3 Increase Price Transparency

New York should mandate full disclosure of key financial and pricing information from providers, including:

- Hospital operating margins and cash reserves.
- Patient care revenue.
- Prices charged to commercial payers.

This information should be used to limit unjustified hospital system price increases.

6.4 Review and Reduce State Mandates and Assessments

The Legislature should:

- Conduct comprehensive cost-benefit analyses of all mandated benefits.

- Streamline or eliminate duplicative or low-value mandates.
- Reduce or reform insurer taxes and surcharges (including Health Care Reform Act [HCRA] surcharges) that directly increase premiums.
- Review prescription drug policies, including co-pay assistance programs, specialty drug sourcing (e.g., "white-bagging"), and other high-cost drug drivers.
- Allow for Co-Pay Assistance Programs, which create more flexibility in cost sharing for prescription drugs, leading to more choices and less out-of-pocket costs for patients.

6.5 Targeted Reforms to Stabilize the Small Group Risk Pool

Strategies to make the small group market more sustainable include:

- Reevaluate the State's risk adjustment methodology.
- Reinsurance programs to protect against catastrophic claims.
- Tax credits targeted at small businesses to reduce the cost of offering health insurance.

6.6 Promote Administrative Efficiency and Coordination

Improvements in operational efficiency can reduce unnecessary costs:

- Mandate electronic medical record (EMR) sharing across providers to reduce duplicate testing and improve care coordination.
- Reform the Independent Dispute Resolution (IDR) process by eliminating the use of "usual and customary rates" that inflates out-of-network payments.

6.7 Eliminate or Reduce Regressive HCRA Taxes

- Reduce or eliminate the Covered Lives Assessment (CLA) - flat, per-person annual tax on all privately insured New Yorkers that varies by region.
- Reduce or eliminate the Patient Services Surcharges - this includes the Indigent Care Surcharge and the GME percentage surcharges applied to certain hospital and clinic payments.

Why These Proposals Matter

- These reforms are structural, not just band-aids: the focus is on reducing underlying cost drivers (like hospital consolidation and drug pricing), not just shifting costs.
- They aim to safeguard small businesses by reducing their premium burden, which is especially acute for local and independently owned companies.
- Many proposals emphasize transparency and accountability, from hospital finances to drug distribution, so that cost inflators can be identified and controlled.

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7. Conclusion

New York's small-group health insurance crisis is not the result of a single factor; it is the product of a perfect economic storm created by provider consolidation, rising hospital and drug costs, a heavy state regulatory environment, and a shrinking insurance risk pool. Without decisive action from lawmakers, the problem will worsen, jeopardizing the financial stability of local businesses and working families.

Affordability must be treated as a top statewide priority. By addressing the true cost drivers of healthcare—and not merely shifting costs—the state can rebuild a functioning small-group market, support local employers, and ensure that all New Yorkers have access to affordable coverage.