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Troubling trends in New York's small group market

Key Findings

- New York's small group health insurance market is in serious trouble. The market – which serves small businesses with up to 100 employees – has shrunk 24 percent since 2020, losing 227,000 covered lives in that time.

- Membership has dropped especially fast in New York City and nearby counties, which shrank 28 percent, as well as Long Island, which shrank 31 percent.

- The statewide average monthly premium for a gold tier plan has also increased over the same period, rising to $3,039 for family coverage – over $36,000 a year – in 2024.

- The average premium for a gold tier plan in the Rochester area rose by 45 percent (20 percent after adjusting for inflation) from 2020 to 2024. NYC and Long Island have also seen large increases, pushing up already high average premiums.

- Premiums vary dramatically by region. The average monthly premium for a gold tier plan in the New York City area ($1,274) is 2.0 times the price of the average monthly premium for the Buffalo area ($647).

- Regional differences in premiums are likely driven by differences in the prices charged by providers, particularly hospitals.

Introduction

In 2023, 59 percent of New Yorkers under age 65 received health insurance through an employer.[1] Employer-sponsored insurance premiums have risen rapidly in recent years, even as coverage quality has declined. Yet state policymakers have done little to address problems in the employer-sponsored insurance market, instead focusing on rising costs in public programs like Medicaid.

New York's "small group" health insurance market is an area of particular concern. This market, which serves small businesses with up to 100 employees, is highly regulated to ensure that employers can purchase health coverage at a reasonable price regardless of the health status of their employees. But our analysis shows that serious problems are emerging in this market, potentially impacting the market's stability and employees' access to care. Examining data collected by New York's Department of Financial Services during the annual rate review process, we find that the small group market is shrinking rapidly while premiums rise dramatically, particularly in New York City and Long Island.

Background: what is the small group market?

While most Americans under 65 access health insurance through an employer-sponsored insurance plan, these plans can take very different forms depending on the size of the business. Relatively small businesses (those with fewer than 500 employees) typically purchase policies from insurers, paying a monthly premium per employee. Larger businesses tend to offer "self-insured" coverage, paying employee healthcare claims directly and hiring an administrator to process claims.

Before the enactment of the Affordable Care Act (ACA) in 2010, small businesses often struggled to purchase reliable, affordable health insurance, particularly if their employees were older or sicker than average. Insurers would set premiums based on the health status of specific employee groups: a small business with an older workforce would pay higher premiums, and a business in which one or two employees became seriously ill might see its health insurance costs spike or even be shut out of the market entirely. For businesses with hundreds of employees, such health events could be averaged out over a larger risk pool, but for a business with only 8 or 10 employees, the effect could be disastrous.

The ACA changed that by requiring insurers to offer all small businesses in a region the same premium regardless of employee health status, a practice known as "community rating." The risk of employee illness is thus pooled across all small businesses in an area rather than being borne by individual employers. The ACA mandates this protection for employee groups of up to 50 employees and offers states the option to expand it to groups of up to 100 employees; New York is one of only four states to have done so.[2]

While ACA regulations were designed to apply to all small businesses offering health insurance, loopholes have allowed some small businesses to purchase insurance outside the regulated market. One

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[1] U.S. Census Bureau, U.S. Department of Commerce. "Private Health Insurance Coverage by Type and Selected Characteristics." American Community Survey, ACS 1-Year Estimates Subject Tables, Table S2703, https://data.census.gov/table/ACSST1Y2023.S2703?t=Health+Insurance&g=040XX00US36. Accessed on 23 Jun 2025.

[2] Corlette, Sabrina, et al. "Repeal of Small-Business Provision of the ACA Creates Natural Experiment in States." *The Commonwealth Fund*, 22 Mar. 2016, https://www.commonwealthfund.org/blog/2016/repeal-small-business-provision-aca-creates-natural-experiment-states.

way to do this is through "level-funded plans," which allow small businesses to create unregulated self-insured plans; another is through Professional Employer Organizations (PEOs), companies which purchase large group insurance and allow small businesses to cover their employees through these plans. Level-funded plans and PEOs can be a good deal for employers with younger, healthier employees. Rather than paying the regional average community-rated premium, these employers can pay the lower cost of their own employees' healthcare. But these loopholes pose a serious threat to the overall market. As healthier employees leave the regulated market, premiums rise, causing more employers to leave in a potential vicious cycle.

Below, we present data relating to the regulated, community-rated small group market in New York. Data on small business health insurance offered outside this framework is hard to come by, so we can't know for certain how many small businesses may offer insurance through level-funded plans or PEOs. But the small group market is the only source of reliable, regulated coverage available to all small businesses regardless of employee health, and recent trends in this market are very troubling.

The Small Group Market is Shrinking in New York and Nationwide

The small group market has been shrinking for decades nationwide. A recent *Health Affairs* article using federal survey data showed that only 30 percent of small employers offered health insurance in 2023, down from 47 percent in 2002.[3] A 2018 Commonwealth Fund report recorded a 22 percent decrease in national small group enrollment between 2012 and 2016 alone.[4]

The small group market in New York has been shrinking too: Peter Newell at the United Hospital Fund reported in 2017 that New York's small group market had shrunk from 1.7 million covered lives in 2007 to 1.1 million in 2016, a decline of over 35 percent spread out over a decade.[5]

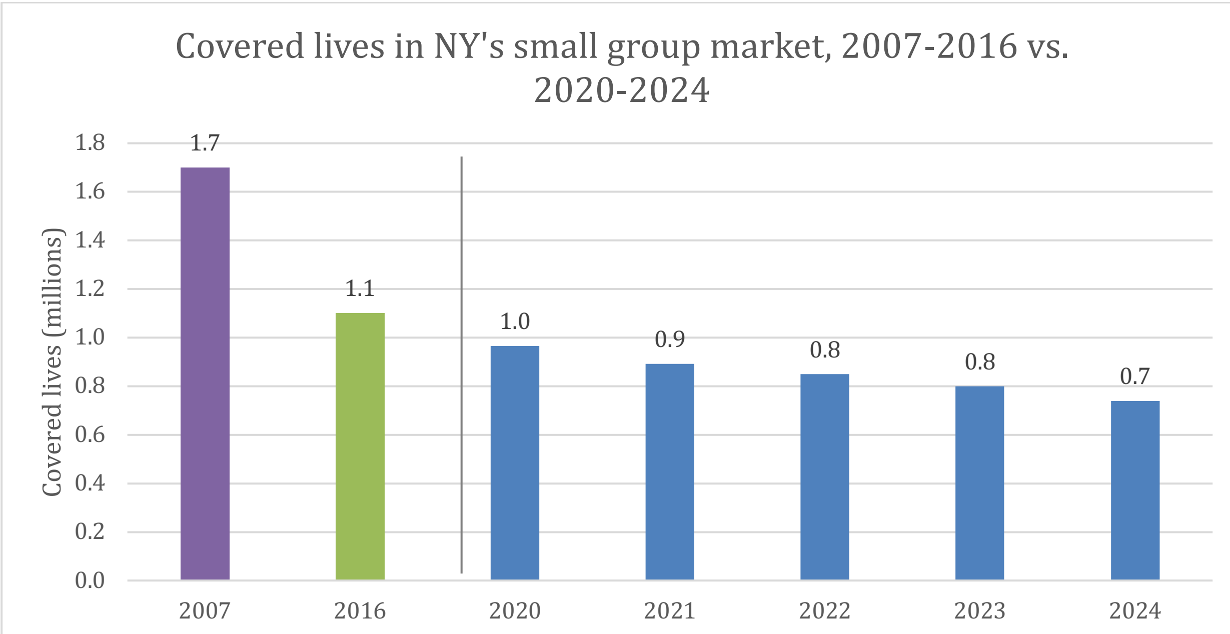
Our analysis of more recent data shows that the trend has accelerated in recent years. Enrollment was fairly stable between 2016 and 2020, declining by around 10 percent to under 1.0 million in the latter year. However, between 2020 and 2024 the number of covered lives dropped rapidly to 737,000, a loss of 24 percent of enrollment in just five years. If the small group market continued to shrink at this rate for another five years, enrollment would reach 528,000 lives in 2029, or a 45 percent loss from 2020.

[3] Meiselbach, Mark, and Jean M. Abraham. "Understanding The Long-Term Decline Of The Small-Group Health Insurance Market." *Health Affairs*, 17 Jan. 2025, https://www.healthaffairs.org/do/10.1377/forefront.20250116.457557/full/.

[4] Hall, Mark A., and Michael J. McCue. "The Health of the Small-Group Insurance Market." *The Commonwealth Fund*, 26 Oct. 2018, https://doi.org/10.26099/t0k3-f906.

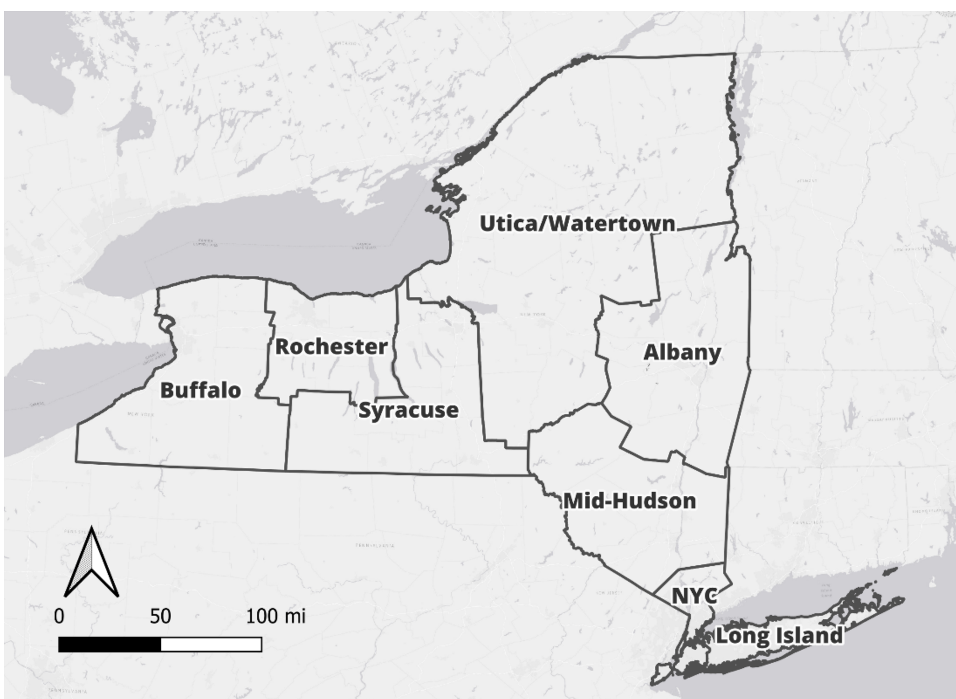
[5] Newell, Peter. "New York's Small Group Market Isn't Feeling Well." *United Hospital Fund*, 7 Dec. 2017, https://uhfnyc.org/publications/publication/new-yorks-small-group-market-isnt-feeling-well-and-a-trump-administration-proposal-may-make-things-worse/;

Figure 1. Dropping enrollment in New York's small group market



Source: UHF, DFS small group rate application filings (Exhibit 13C)

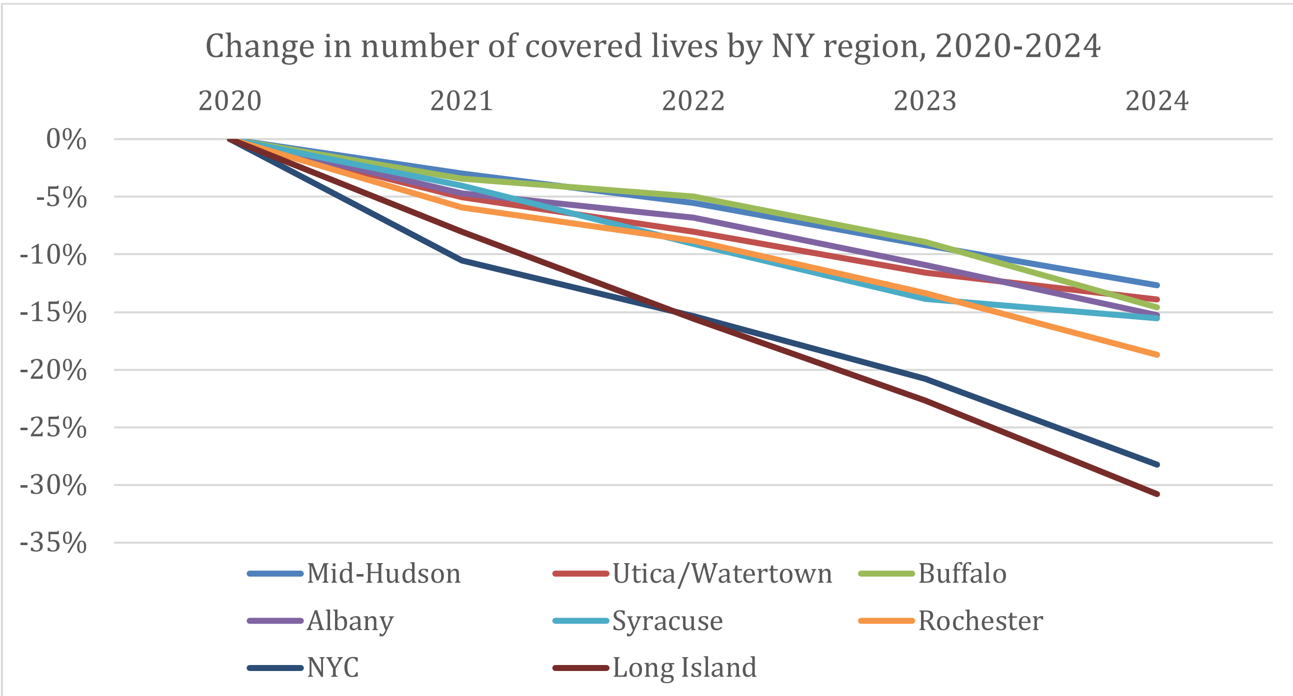
Figure 2. Eight insurance rating regions of New York



Source: CMS, NYS GIS Clearinghouse, ESRI

While shrinkage was substantial statewide, it was especially dramatic downstate, in the New York City metro region (the five boroughs plus Westchester and Rockland Counties) and on Long Island.[6] In NYC, enrollment declined by 28 percent from 2020-2024, while Long Island lost 31 percent of covered lives over the same time period. These two regions alone accounted for nearly three quarters of the 227,000 members lost from New York's small group market over the five-year period. Most other regions saw slower rates of decline, although Rochester also lost 19 percent of enrollees from 2020-2024.

Figure 3. Enrollment decline by New York insurance rating region



Source: DFS small group rate application filings, Exhibit 13C

To state the obvious, these trends are not sustainable. If the downstate small group market continues to lose enrollees at this rate, the market will become increasingly imbalanced, leaving small businesses unable to offer healthcare.

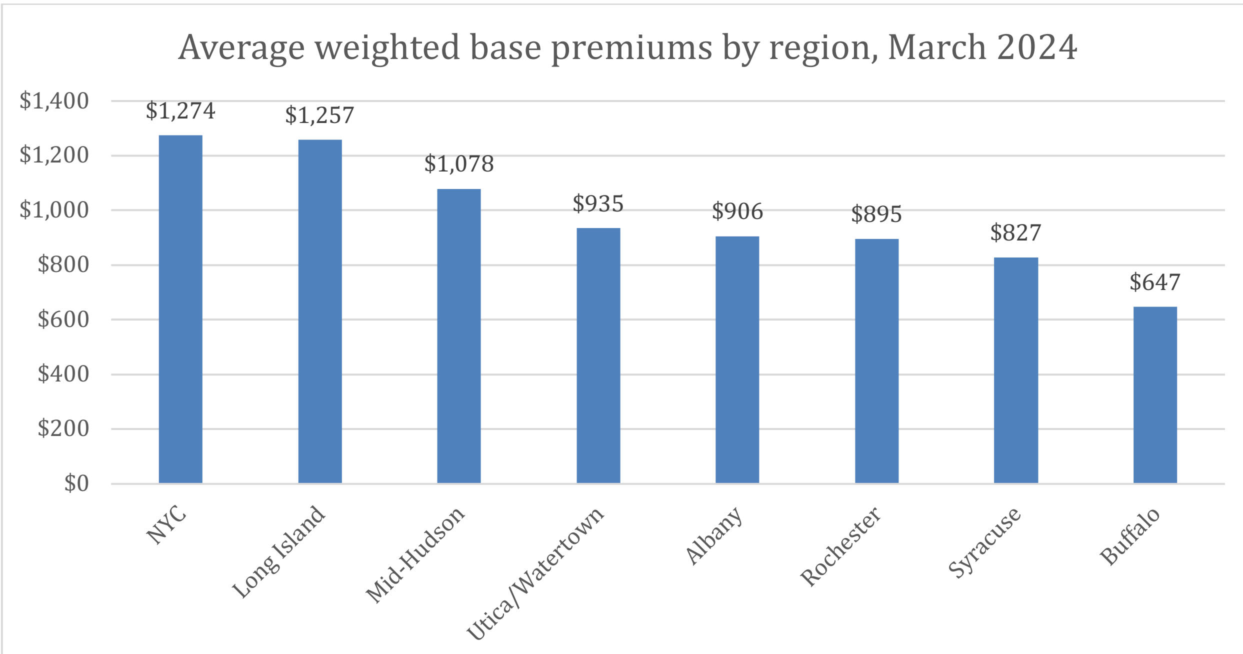
Premiums have soared in NYC and Long Island

The recent and dramatic drop in New York's small group membership may result from premiums rising statewide, especially in expensive regions like NYC metro and Long Island. Studies have shown that small businesses are especially sensitive to high health insurance prices.[7] As premium prices increase, employers look for alternatives outside the small group market.

[6] See CMS for a full list of the counties in each insurance rating region of New York.
[7] Wheat, Chris, and Chi Mac. "The Burden of Health Insurance Premiums on Small Business." *JPMorganChase Institute*, 26 June 2024, https://www.jpmorganchase.com/institute/all-topics/business-growth-and-entrepreneurship/small-business-health-insurance-burdens; Kolb, Kristen, et al. *Trends in Employer Health*

The same trend is likely happening on a regional basis, especially since downstate regions have exorbitantly high prices compared to upstate areas. In 2024, for the base premium of a gold tier plan – the most common type among small group enrollees – small businesses in New York City on average paid $1,274 per enrollee, 2.0 times the rate of their peers in Buffalo.[8] Given a similar average premium of $1,257 in Long Island, it is no wonder these two regions have seen many enrollees exit in the last five years.

Figure 4. 2024 average regional gold-tier premiums in New York



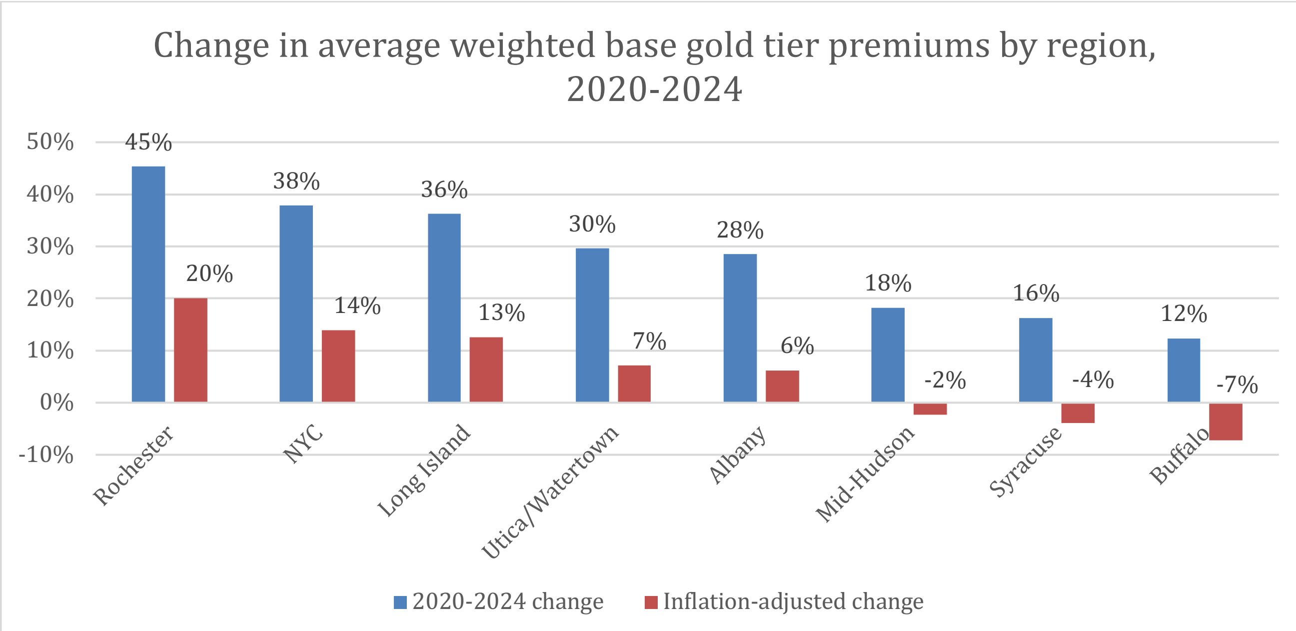
Note: Simple regional averages were calculated using weighted average base premiums reported by insurers, excluding insurers which covered fewer than 100 gold tier members in a region. Rochester had just two insurers with adequate data, and Syracuse had one. Source: DFS small group rate application filings, Exhibit 13C

Not only do regions show stark differences in regional prices, but these differences have also widened in the last half decade. New York City and Long Island had increases of over 35 percent in average base premiums for gold tier plans from 2020-2024, or 13-14 percent after adjusting for inflation. These steep increases are especially worrying for small business employers and employees given how expensive these regions already were.

Insurance Costs, 2014–2023: Coverage Gets Even More Expensive for Workers in Small Businesses. 2024. *DOI.org (Datacite)*, https://doi.org/10.26099/1WX1-EW61.

[8] Base premiums reflect what an enrollee with single coverage would pay, not someone in a family or other type of plan. Insurers report average base premiums by region, weighted by the total number of enrollees (regardless of plan type).

Figure 5. Change in average regional premiums from 2020-2024



Note: Simple region-wide averages were calculated using weighted average base premiums reported by insurers, excluding insurers which covered fewer than 100 members in a region. Inflation adjustment is based on the change in the CPI-U index from March 2019 to March 2024. Source: DFS small group rate application filings, Exhibit 13C

The relatively low-priced regions of Buffalo and Syracuse, however, saw small decreases in gold tier premium prices from 2020-2024 after adjusting for inflation. While this doesn't necessarily mean premiums are affordable, small businesses in these regions are at least seeing relatively slower price growth.

The same is not true for all "low-priced" areas. In the last five years, the Rochester region saw average premiums for gold tier plans skyrocket by 45 percent (20 percent after adjusting for inflation). This region, which had the second lowest average premium in 2020, now has premium prices close to that of Albany.

Despite rapid growth of some regions' premiums over the last five years, the statewide average premium in the small group market has not budged much after adjusting for inflation. From 2020 to 2024, the statewide average monthly premium for a gold tier, single-coverage plan rose from $827 to $1,022, an increase of 23 percent. After adjusting for the high rate of inflation in recent years, however, this drops to two percent. Similarly, the gold-tier premium for a family plan rose by only 3 percent from 2020-2024 after accounting for inflation.

The change in premium prices still impacts small businesses, especially those that offer more expensive family coverage. In 2020, New York's small group market employers faced an already high average annual premium of $29,000 for a gold tier family plan; by 2024, the price for an average plan of the same type had risen to over $36,000.

Table 1. Weighted average monthly premium for a gold-tier plan, 2020-2024

	2020 avg premium	2024 avg premium	Inflation-adjusted change
Single	$827	$1,022	2%
Family	$2,446	$3,039	3%

Note: Weighted average premiums were taken directly from insurer-reported data, then averaged across insurers based on the number of policyholders (i.e. plan subscribers) in each category.
Source: DFS small group rate application filings, Exhibit 13C supplement

The inflation-adjusted increase in statewide average premiums disguises different trends at the regional level, however. Statewide premium increases were also held down because the areas with the highest premiums also saw the most rapid enrollment decline. Examining premium changes within each region, we see large premium increases in most areas of the state.

Explaining Small Group Market Shrinkage

Given these dramatic premium increases, it is not surprising that small businesses are leaving the market, especially in New York City and Long Island. While we don't know for sure where the small group market's 200,000 former enrollees have gone, it seems unlikely that they lost their insurance entirely: over the past several years, New York's uninsurance rate has been low and stable.

One common response to high premiums is for businesses to stop offering insurance, leaving employees to find coverage on the individual market. New York offers free, high-quality insurance through the Essential Plan for people making below 250 percent of the federal poverty line (around $39,000 for a single individual in 2025). Those above this income level can purchase subsidized insurance on the ACA exchange.

Businesses may also be finding other ways to offer coverage outside the regulated small group market. As discussed above, employers may do this through level-funded plans or through Professional Employer Organizations (PEOs). In New York, where regulation makes level-funding difficult, PEOs are the most likely option – and indeed, there is evidence that PEOs are a popular option in New York. A 2021 industry analysis showed that New York had the third-highest PEO market penetration of any state, insuring 16 percent of all businesses with between 10 and 99 employees.[9]

Businesses leaving the small group market for PEOs is concerning because it may contribute to rising premiums. As mentioned above, PEOs are an attractive option primarily for employers with healthier-

[9] Bassie, Laurie, and Dan McMurrer. *PEO Clients: An Analysis*. The National Association of Professional Employer Organizations, Sept. 2022, https://napeo.org/wp-content/uploads/2025/03/analysisofpeo_whitepaper-fin.pdf.

than-average employee groups, who can get lower premiums in an unregulated market. But as these healthy employee groups exit the small group market, the remaining small group population becomes sicker and more expensive to insure. This drives premiums higher, which in turn increases the incentive for employee groups to exit the market, which drives premiums higher still. In an extreme case, an insurance market "death spiral" could ensue, in which insurers leave the market and small businesses can't get insurance at any price.

The premium and enrollment data cited above are warning signs this death spiral may have already begun in some regions of New York, threatening the health of the statewide small group market.

Provider prices drive premium increases

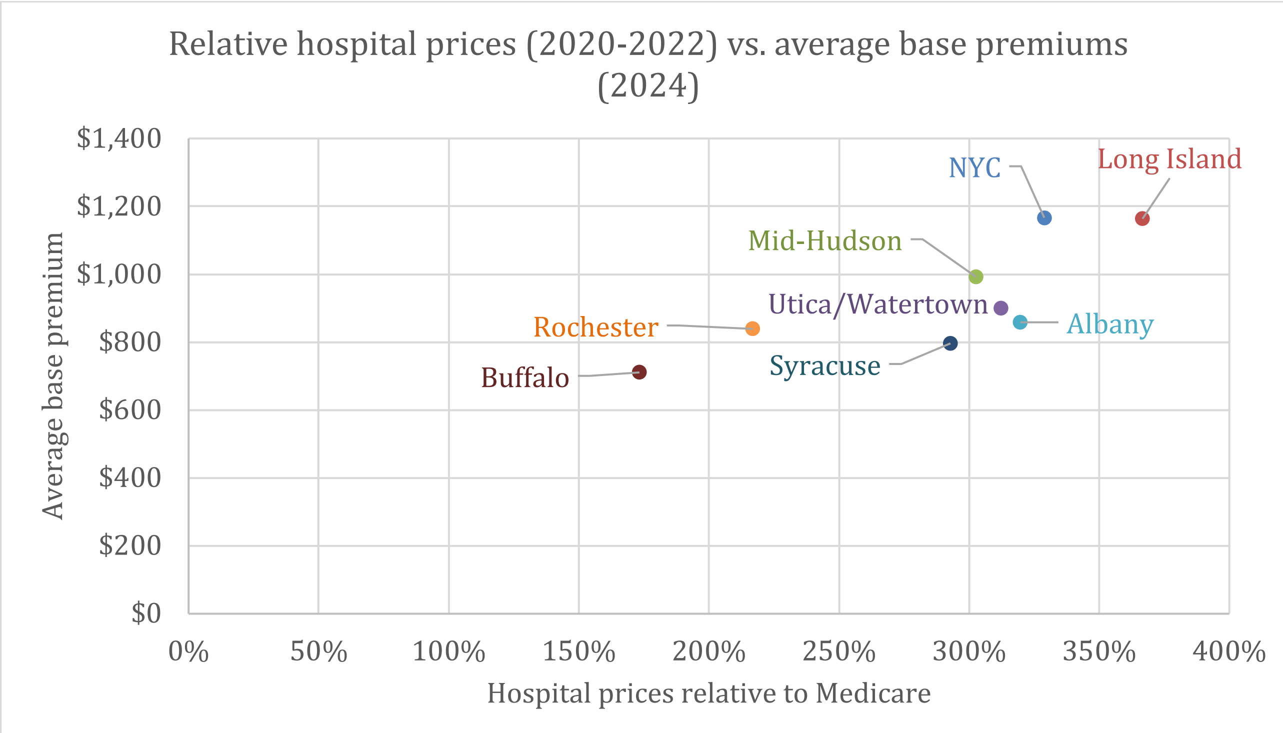
High premiums are closely connected with the rising cost of care: when doctor's offices and hospitals charge more, insurers pass on these costs to consumers. Since health care is much more expensive in some regions of New York than others, premiums also range widely.

Hospital care, including both inpatient and outpatient services, makes up about a third of health care spending in the US. By comparing the prices hospitals charge commercial insurers to Medicare prices – which vary based on patient health and intensity of services – we can get a sense of which hospitals charge relatively higher prices in New York.

When we average relative hospital prices across insurance rating regions, giving more weight to hospitals that deliver more outpatient services, the results look familiar. Long Island (367 percent of Medicare) and the New York City area (329 percent) had the highest relative prices from 2020-2022, while Buffalo (173 percent) had the lowest.

There are some differences between trends in hospital prices and premiums, however. Hospital prices in the Mid-Hudson area (303 percent of Medicare) rank behind four other regions, yet it had the third highest average premium ($992) in the state in 2024. Conversely, Albany has high hospital prices (320 percent of Medicare) but a middling premium ($859) compared to other regions.

Figure 5. Comparison of hospital prices with average premiums by region



Note: Simple region-wide averages were calculated using weighted average base premiums reported by insurers, excluding insurers which covered fewer than 100 members in a region. Relative hospital prices are private allowed amounts for inpatient and outpatient services divided by simulated Medicare prices. Regional relative prices were weighted based on the volume of outpatient services at each hospital. Source: RAND 5.0 Transparency study, CMS HCRIS data via RAND, DFS rate application filings

Conclusion

Insurer-reported data from the last five years paints a worrying picture of New York's small group market: not only is the pool rapidly shrinking, but regions like Rochester, New York City, and Long Island have also seen dramatic increases in premium prices. Average monthly premiums were over $900 in five regions in 2024, potentially causing businesses to leave the regulated small group market. As the small group market gets smaller, the likelihood of it becoming imbalanced – in terms of members' health status – increases, which could push premiums even higher.

To preserve a viable small group market, policymakers must act soon. The state should step in to regulate or ban Professional Employer Organizations, which are undermining the ACA's regulatory framework by allowing some businesses to skirt the community rating and risk pooling required for a stable small group market. The state may also want to take a harder look at the Department of Financial Services' rate review framework, ensuring that small businesses are getting the best deal possible from insurers. (Since insurance markets are extremely concentrated, it is unlikely that inter-insurer competition can hold prices down.)

Ultimately, though, to tackle high premiums in employer-sponsored insurance, policymakers must address high underlying healthcare costs which affect small and large businesses alike. In the short term, policymakers should enact money-saving reforms like the Fair Pricing Act, which would limit hospitals' ability to charge excessive prices for routine outpatient procedures. More ambitiously, state policymakers could explore comprehensive price and budget controls, such as reinstating New York's former hospital price regulation system (known as NYPHRM), which helped contain hospital costs in the 1980s and 1990s. The New York Health Act, which would bring about a single-payer system in New York, would also directly address the issue of dysfunctional health care markets.