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New York City objects to health plan **merger**; Files suit to block HIP-GHI deal, citing monopoly

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NEW YORK-The city of New York will continue to fight the union of not-for-profit health plans Group Health Inc. and HIP Health Plan of New York despite a federal judge's refusal last week to issue a temporary restraining order blocking the deal.

Officials for the city, which would be the combined entity's largest customer, filed an antitrust suit last week in the U.S. District Court for the Southern District of New York alleging that, with control of 93% of the city's municipal health care market, the deal would create a monopoly, resulting in substantially higher premiums for the city.

Each percentage point increase in the insurance premiums charged by HIP and GHI would cost the city an additional $27.5 million a year, according to the city's estimates. New York currently spends about $3.1 billion a year on basic medical premiums for its health care plans, which cover more than 1.3 million employees, retirees and dependents, according to the suit.

The city ``intends to continue pursuing its court case aggressively," said Michael Cardozo, the city's corporation counsel, in a statement. Meanwhile, the city plans to issue a request for proposal for new health care providers that can offer ``comparable, but less expensive health care benefits," he said.

**``GHI and HIP** are always glad to respond to RFPs," a spokeswoman for the companies said when asked about the city's plan to issue an RFP. ``They believe they have products that are very competitive."

The insurers now say that the joining of the two companies is technically not a **merger,** but an affiliation under a common parent company. According to the companies, by joining forces they will create a strong, local company that can compete with large national plans, and the structure will enable them to do things such as share information on different business issues. The companies will operate separately for the time being, the spokeswoman said.

The city's decision to file the suit two days before the closing of the agreement demonstrates the difficulty for health insurers operating in the highly politicized New York City market, in which politicians are influencing the business decisions of health care companies.

``HIP has been handicapped by the politics of New York," said Stephen Zaharuk, vp and senior analyst for Moody's Investors Service Inc. in New York.

Joseph Marinucci, credit analyst with New York-based Standard & Poor's Corp., said that, while he understood the city's argument, a partnership between HIP and GHI would be beneficial because of the large number of players in the general New York market. Insurers need to be sustainable over time, and the ability to consolidate and improve the efficiency of their operations is a good thing, he said.

Citing a need to compete with large national managed care companies in their core Northeast market, the insurers decided to join forces last year (BI, Oct. 3, 2005). The combined entity will have a membership of more than 4 million people and combined revenues of more than $7 billion. GHI operates mainly in New York, while HIP also has operations in Connecticut, Massachusetts and New Jersey.

Possible solutions to the stalemate include the companies making concessions during rate negotiations, giving up a certain percentage of the city's business or making certain divestitures, analysts say. These types of actions, though, could be viewed as not being market oriented and raise the concern that cost increases could be passed on to other customers of the insurers if the government gets pricing concessions, S&P's Mr. Marinucci said.

Since the city is their largest client, **``GHI and HIP** would not want to do anything to jeopardize the relationship'' and will continue to work with the city to reach a solution, the spokeswoman said.

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