New York State Department of Financial Services
Premium Rate Approval -- Decision Summary

Insurer:	**Group Health Incorporated (GHI)**
Line of Business:	**Direct Pay PPO Plans (Core and Value Plans)**
Filing Type:	Section 4308(c) Prior Approval Filing
Effective Date:	January 1, 2013
SERFF Tracking Number:	GRPH-128536281
Affected Members:	Approximately 3,500
Annual Premium Affected:	$34.4 million
Rating Structure:	Non-Rolling Rates All Rates revised in January of each year

Summary:

2013 Rates	Requested	Approved	Change
All Plans	+12.00%	+1.59%	-10.41%

This rate application pertains to two Direct Pay PPO plans, the Core Plan and the Value Plan.

The analysis included the following "requested" versus "approved" assumptions of the various parts of the application:

	Requested	Approved
1. Annual Claim Trend Rates	13.58%	10.00%
2. Administrative Expense Ratios	14.74%	14.00%
3. Profit Objective Ratios	2.85%	1.00%
4. Medical Loss Ratios (MLR)	82.41%	85.00%

Membership by Plans:

	Average Membership		
	Core	Value	Total
2009	1,240	5,188	6,428
2010	876	4,493	5,569
2011	611	3,575	4,186
June 2012	N/A	N/A	3,487

In calendar year 2011, monthly premium per member averaged $685.00 for all plans.

Prior Application:

For calendar year 2012, GHI requested a +9.8% rate action and the Department approved a +6.7% rate action for both the Core and Value Plans.

Analysis:

DFS reviewed the material that GHI submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, projected premiums and claims, profit objectives, and the development of the needed rate change, as well as comparisons to similar historical data in each of these areas. DFS also considered the insurer's overall solvency and the ability of the insurer to meet its obligations after the DFS's decisions. In addition, DFS took into account comments on the rate application received from consumers, consumer groups and policyholders.

ACA Impact:

Premium rate actions are implemented on a non-rolling basis. GHI included in its rate application no adjustments for the impact of the Affordable Care Act (ACA) Insurer Fees and Reinsurance Assessment Fees which will be introduced in calendar year 2014. DFS finds this approach to be reasonable.

Annual Claim Trend Rate:

GHI assumed a "nominal" average annual claim trend rate of 14.3%. This assumption includes Regulation 146 risk adjustment pool payments. Before consideration of the Regulation 146 payments, the "effective" trend rate assumption is 13.58% on incurred claims.

GHI's average experienced claims trend from 2009-2011, however, range from 6.2% to 10.22%. Therefore, DFS finds that an average "effective" annual rate of 10.0% is reasonable.

Standardization of Premiums:

In order to accurately reflect past premium rate actions that have not yet gone into effect, DFS asks insurers to "standardize" the premiums. Earned premiums in calendar year 2011 are converted to include both the premium rate actions approved in 2011 and not fully implemented, and also the rate actions approved in 2012.

DFS finds GHI's standardization process to be reasonable.

Administrative Expense Ratio:

GHI's application reflected an administrative expense ratio to premiums of 14.74%.

DFS finds GHI's administrative expense ratio to be excessive compared to industry averages and GHI's administrative expense ratio for similar products, which are less. Therefore, DFS finds an expense ratio of 14.00% to be reasonable.

Profit Objective Ratio:

GHI is requesting a pre-tax profit objective of 2.85% of premiums.

GHI's capital and surplus as of December 31, 2011 was $145 million, or 4.15% of net premium income of $3,496 million in calendar year 2011. GHI's underwriting gains in 2011 were $-46.7 million, or -1.34% of net premium income. In 2010, underwriting gains were $-57.9 million, or -1.61% of net premium income of $3,594 million.

In the last three years, GHI has relied on Insurance Law Section 1307 loans from its sole corporate member, Health Insurance Plan of Greater New York (HIPGNY) totaling $165 million in order to maintain a net worth that is at least 50% of its statutory reserve requirements.

In contrast to its subsidiary, HIPGNY had capital and surplus as of December 31, 2011 of $1,348 million. This was 28.49% of net premium income of $4,730 million in calendar year 2011. HIPGNY's underwriting gains in 2011 were $158.7 million, or 3.35% of net premium income. In 2010, underwriting gains were $212.5 million, or 4.33% of net premium income of $4,905 million.

Also in contrast to GHI, EmblemHealth, Inc. (Emblem), HIPGNY's corporate parent, had net worth as of December 31, 2011 of $1.68 billion. This was 17.67% of net premium income of approximately $9.52 billion in calendar year 2011. Emblem's underwriting gains in 2011 were $155.7 million, or 1.63% of net premium income. In 2010, underwriting gains were $174.2 million, or 1.81% of net premium income of $9.61 billion.

Thus, while EmblemHealth, Inc. and HIPGNY have been profitable, their operating subsidiary, GHI, for some reason is not. In reviewing the reasons for this disparity, DFS has become increasingly concerned that Emblem's overall management and its executive compensation practices have been a significant cause of GHI's marginal financial condition. Moreover, DFS is concerned about the impact on the public of the rate increases proposed in the instant rate application. As a not-for-profit corporation, Emblem has a special duty to provide affordable health insurance to New Yorkers and to manage itself appropriately to make that possible. Poor management and compensation not related to both short and long-term performance can create improper incentives and have a deleterious impact on a company's operations.

More specifically, DFS has received restoration plans from one of Emblem's subsidiaries and rate applications for various Emblem companies, but to date Emblem has not made clear how the business of the different companies will be coordinated to achieve success for each of the business entities, nor explained how administrative expenses and profits included in the various rate increase applications are allocated between the different Emblem companies. It is also noteworthy that, even though Emblem is a not-for-profit and even though Emblem's subsidiaries' performance has suffered, DFS has substantial information showing that Emblem has for years compensated its top executives with very rich pay and bonus packages. DFS is conducting an in-depth examination of management conduct and corporate governance of the Emblem companies, in part to refine its already existing understanding of how Emblem's performance in these areas has affected GHI and Emblem's other subsidiaries.

Accordingly, based on DFS's financial and actuarial reviews, the financial condition of the company and the impact of Emblem's management and compensation practices on the financial condition of the company, DFS finds that a profit objective of 1.00 to be reasonable. Policyholders, particularly individuals that comprise the individual market or other policyholders who are especially vulnerable to rate increases, should not be penalized by GHI's adverse experience with these products, which may have been mispriced from the outset.

Medical Loss Ratio (MLR):

With the administrative expense ratio of 14.00% and a profit ratio of 1.00%, DFS approves a projected medical loss ratio of 85.00%. For the reasons explained above and, in addition, in consideration of the interests of the people of this State, DFS finds this modification to be reasonable.

Decision:

Based on the review and analysis described above, DFS finds that the requested increases are unreasonable and approves as reasonable the increases shown in the summary chart above.