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

Insurer: **Group Health Incorporated (GHI)**
Lines of Business: **Small Group Indemnity products for EPO/PPO plans, including High Deductible plans**
SERFF Tracking #: GRPH-128539080
Filing Type: Section 4308(c) Prior Approval Filing
Effective Date: January 1, 2013 through December 31, 2013
Affected Members: 113,770 members
Annual Premiums: $757 million
Rating Structure: Quarterly rolling rates;
All rate adjustments effective on policy anniversaries

Summary:

	Requested	**Approved**	**Change**
Average	**20.47%**	**9.80%**	**-10.67%**

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

		Requested	Approved
1.	Annual Claim Trend Rates	13.72%	11.80%
2.	Administrative Expense Ratios	15.02%	13.50%
3.	Profit Objective Ratios	3.05%	0.00%
4.	Projected Medical Loss Ratio (MLR)	81.93%	86.50%

Membership and Average Monthly Premiums [Distribution by Types]:

Average Membership	High Ded.	Others	Combined
2009	15,617 [13%]	102,003 [87%]	117,620
2010	49,693 [29%]	119,103 [71%]	168,796
2011	39,375 [29%]	98,464 [71%]	137,839
March 2012	24,241 [21%]	89,529 [79%]	113,770

The monthly premium per member averaged $350.00 for calendar year 2011.

Prior Rate Applications:

Effective Year:	Rate Actions
2010	+28.8%
2011	+22.6%
2012	+12.96%

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, underwriting margins, 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 DFS's decisions. In addition, DFS took into account comments on the rate application received from consumers, consumer groups and policyholders.

ACA Insurer and Reinsurance Fees

GHI included in the rate application the impact of the Affordable Care Act (ACA) Insurer Fees and Reinsurance Assessment Fees. These fees will be introduced in calendar year 2014, and GHI prorated the impact of the fees to reflect the portion of the plan year's premium that falls in 2014. (For example, if a policyholder's renewal anniversary is July 1, 2013, half the plan year falls in 2014, so 50% of the total fees are reflected in the July 2013 premium rates.)

The full impact of the fees would be +2.8%. Prorated, the impact of the fees is +0.3%, +1.0%, +1.7% and +2.4% to the 1st, 2nd, 3rd and 4th Quarter of 2013 respectively, for an average of +1.4%.

DFS finds this calculation to be reasonable.

Annual Claim Trend Rate Assumptions

GHI assumed about a 13.72% annual claim trend rate.

In its 2012 rate application, GHI used a "Prospective DCG Risk Score" (DCG is an acronym for Diagnostic Cost Group) in calculating its annual claim trend rate. In the current rate application, GHI refers to a "Relative Non-Rescaled Concurrent Risk Scores - New Medical/Rx Commercial DCG Model" with a base score in 2010 different from that in the prior application. GHI did not explain why or how it changed to a new model structure, or how the old and new risk scores are developed.

Under the new score structure for analysis of 2011-2012 experienced claims trend analysis, GHI increases its risk score trend 10 times in PPO plans, 2.81 times in EPO plans, 1.57 times in EPO CDHP and 1.88 in PPO CDHP. These plans are approximately 81.6% of total claims. GHI then takes two thirds of 2011-2012 trends for the following year.

Due to the lack of explanation of the risk score methodology and its inconsistent use, DFS finds GHI trend projections to lack credibility. DFS finds an annual claim trend assumption of 11.80% to be reasonable and more consistent with industry averages and GHI's past claims trends reflected in previous filings.

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 to the most current rate level. 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 the standardization process used by GHI to be reasonable.

Administrative Expense Ratio

The rate application reflects an average administrative expense ratio of 15.02%.

Average administrative expense ratios for the downstate small group market are approximately 12% to 13%. DFS therefore finds an administrative expense ratio of 13.50% to be reasonable.

Financial Condition of the Company and Profit Objective Ratio

GHI requested a pre-tax profit objective at 3.05% 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 disapproves GHI's profit objective as unreasonable. Policyholders, particularly small businesses that comprise the small group 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 approved administrative expense ratio of 13.50% and the approved pre-tax profit objective of 0.00%, the average projected medical loss ratio will be 86.50%. 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, the Department finds that the requested rate increases are unreasonable and approves as reasonable the rate increases shown in the summary chart above.