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

Insurer: **GHI HMO Select, Inc. (GHI HMO)**
Lines of Business: **Healthy New York (HNY) HMO Plans**
Filing Type: Section 4308(c) Prior Approval Filing
Effective Date: January 1, 2013
SERFF Tracking #: GRPH-128551906
Rating Structure: Rolling Rates – all plans renew on policy anniversaries
Affected Members: 904 members as of June 2012
Annual Premiums: $3.5 million

<u>Summary</u>

	Requested	**Approved**	**Change**
Year Over Year	10.70%	3.84%	6.86%

HNY Plans consist of two plans, HNY Small Group Plans and HNY Individual Plans. Rates are the same for both types of plans.

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

		Requested	Approved
1.	Annual Claim Trend Rates	10.36%	10.00%
2.	Administrative Expense Ratios	18.00%	12.50%
3.	Profit Objective Ratios	0.00%	1.00%
4.	Medical Loss Ratios (MLR)	82.41%	86.50%

<u>Membership by Plans</u>

Membership	HNY Plans
2009	1,515
2010	1,198
2011	972
June 2012	904

In calendar year 2011, monthly premium per member averaged $301.00.

<u>Prior Application</u>

For calendar year 2012, GHI HMO's requested rate action was 19.8% and the approved rate action was 15.0%.

Analysis

DFS reviewed the material that GHI HMO 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 DFS's decisions. In addition, DFS took into account comments on the rate application received from consumers, consumer groups and policyholders.

ACA Impact

GHI HMO included in its 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 HMO has prorated the impact of the fees to reflect the portion of policy years that fall 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.) GHI HMO estimated the prorated impact of these fees at +0.8%.

DFS finds this approach to be reasonable.

Annual Claim Trend Assumptions

GHI HMO requested a 2-tiered annual claim trend rate structure of 15.9%/13.9%. The 15.9% trend applies for the first 12 months of the projection and the 13.9% trend applies thereafter.

While these trend rates were applied to the incurred claims net of reimbursements from the Stop Loss Pool, GHI HMO indicates that the 2013 reimbursements per member per month from the Stop Loss Pool are at the same level as the 2011 reimbursements PMPM. The annual trend rate applied to the incurred claims prior to reimbursements is effectively 10.36%.

The average annual experienced claims trend for all downstate region companies was approximately 9.0%. Therefore DFS finds an effective annual trend rate of 10.0% to be 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 to the most current levels. 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 HMO's standardization process to be reasonable.

Administrative Expense Ratio

GHI HMO is requesting an administrative expense ratio of 18.0% for calendar years 2012 and 2013.

For calendar year 2011, administrative expense ratio for all downstate companies combined was 12.6% and has been decreasing in recent years. The average administrative expense ratio for all Emblem HNY plans is 10.68%. DFS therefore finds an expense ratio of 12.5% of premiums to be reasonable.

Profit Objective Ratio

GHI HMO assumed a pre-tax profit objective of 0.00% of premiums presumably because GHI HMO requested an administrative expense ratio of 18.00%, which left no room for profit with a minimum allowable loss ratio of 82.00%.

GHI HMO's capital and surplus as of December 31, 2011 was $36 million, or 160.9% of net premium income of $22 million in calendar year 2011. GHI HMO's underwriting gains in 2011 were $0.41 million, or 1.84% of net premium income. In 2010, underwriting gains were $-4.67 million, or -10.35% of net premium income of $45 million.

GHI HMO's parent corporation, Health Insurance Plan of Greater New York (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.

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.

While Emblem and HIPGNY have been profitable, their subsidiaries HIP Insurance Company of New York (HIPIC) and Group Health Incorporated (GHI) are not. In reviewing the reasons for the disparity, DFS has become increasingly concerned that Emblem's overall management and its executive compensation practices have been a significant cause of HIPIC's and GHI's marginal financial conditions. 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 Emblem's 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% is reasonable. (DFS presumes that GHI HMO would requested a profit objective consistent with its other applications but for its 18.00% administrative expense ratio, which DFS reduced to 12.50%). Policyholders, particularly individuals and small businesses that comprise the HNY market or other policyholders who are especially vulnerable to rate increases, should not be penalized by GHI HMO'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 12.50% and the approved pre-tax profit objective of 1.00%, 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, DFS finds that the requested increases are unreasonable and approves as reasonable the increases shown in the summary chart above.