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

Insurer:	**Health Insurance Plan of Greater New York (HIPGNY)**
Lines of Business:	**Standardized Direct Pay Plans**
Filing Type:	Section 4308(c) Prior Approval Filing(s)
Effective Date:	January 1, 2013
SERFF Tracking #:	HPHP-128544265
Affected Members:	Approximately 3,100 members
Annual Premium Affected:	$33.9 million
Rating Structure:	Non-Rolling Rates – January 1 rate action

Summary

2013 Rates	**Requested**	**Approved**	**Change**
All Plans	+26.00%	+8.34%	-17.66%

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

	Requested	Approved
1. Annual Claim Trend Rates	8.65%	8.65%
2. Administrative Expense Ratios	11.68%	8.00%
3. Profit Objective Ratios	5.20%	0.00%
4. Medical Loss Ratios (MLR)	83.12%	92.00%

Membership and Average Monthly Premiums

	Average Membership			
	HMO Std	**HMO Prime**	**POS Std**	**Total**
2009	4,272	1,030	97	5,399
2010	3,547	786	69	4,402
2011	2,915	616	59	3,590
June 2012	3,018		51	3,069

In calendar year 2011, monthly premium per member for the combined HMO products averaged $763.75. For the POS products the average monthly premium was $1,115.28.

Prior Application

For calendar year 2012, HIPGNY's requested rate action was an increase of +12.55%. The approved rate action was an increase of +6.25%.

Analysis

DFS reviewed the material that HIPGNY 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

HIPGNY's Direct Pay plans use a non-rolling rate structure with premiums for all members changing on January 1. Therefore all of the premium covered by this rate application will be payable in 2013, and there is no 2013 ACA Insurer's Fee or Reinsurance Assessment Fee.

DFS finds this approach on ACA fees to be reasonable.

Annual Claim Trend Rate

HIPGNY assumed a "nominal" average annual claim trend rate of +10.18%. This assumption includes Regulation 146 risk adjustment pool payments and Stop Loss Pool payments. Before consideration of the Regulation 146 and Stop Loss Pool payments, the "effective" trend rate assumption is 8.65% on incurred claims.
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DFS finds HIPGNY's requested effective annual claim trend rate 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 HIPGNY's standardization process to be reasonable.

Administrative Expense Ratio

HIPGNY assumed an administrative expense ratio at 11.68% of premiums. This is high relative to other Direct Pay plans.

DFS finds HIPGNY's expense ratios to be excessive and approves an expense ratio of 8.00%, which is more consistent with the average for all downstate direct pay HMO companies.

Profit Objective Ratio

HIPGNY is requesting a pre-tax profit objective ratio at 5.20% of premiums.

HIPGNY's capital and surplus as of December 31, 2011 was $1.3 billion, or 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 (all products). In 2010, underwriting gains were $212.5 million, or 4.33% of net premium income (all products). The block of business covered in this rate application amounts to about 0.72% of the company's total business (by premium).

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 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. DFS's concerns extend to HIPGNY's management, which substantially overlaps with the management of Emblem and the other subsidiaries. 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 disapproves HIPGNY's profit objective as unreasonable. Policyholders, particularly individuals that comprise the individual market or other policyholders who are especially vulnerable to rate increases, should not be penalized by HIPGNY's adverse experience with these products, which may have been mispriced from the outset.

Medical Loss Ratio (MLR)

With the administrative expense ratio of 8.00% and a profit ratio of 0.00%, DFS approves a projected medical loss ratio of 92.00%. 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.