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

Insurer:	**Health Insurance Plan of Greater New York (HIPGNY)**
Lines of Business:	**Large Group HMO & POS**
Filing Type:	Section 4308(c) Prior Approval Filing
Effective Date:	January 1, 2013
SERFF Tracking Number:	HPHP-128544756
Rating Structure:	Quarterly rolling rates for all of calendar year 2013
Affected Members:	332,229
Earned Premiums:	$1.8 Billion

Summary (year over year average)

Requested	Recommended	Change
9.0%	4.8%	-4.2%

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

		Requested	Approved
1.	Annual Claim Trend Rates	9.0%	9.0%
2.	Administrative Expense (% of premium)	10.2%	10.0%
3.	Profit Objective (% of premium, pre-tax)	1.1%	0.0%
4.	Medical Loss Ratio (MLR, % of premium)	88.7%	90.0%

Membership by Product

Average # Members for Year	LG HMO/POS	% Change
2009	402,775	
2010	379,013	-5.9%
2011	334,018	-11.9%

In calendar year 2011, average monthly premium per member was about $440 for HMO plans and $571 for POS plans. Within each product there are numerous cost sharing options with different premium rates.

Prior Rate Application

The prior rate application was effective January 1, 2012. For calendar year 2012, the average requested and approved rate actions were 8.5% for the HIP HMO products and 6.4% for the Vytra products.

The next prior rate application was effective July 1, 2011, which affected third and fourth quarter 2011 renewals. The average requested and approved rate actions were 8-9%.

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, underwriting margin, 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

HIPGNY 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 HIPGNY 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 amounts included in the quarterly renewal rates for these additional fees are as follows: 1Q13 = 0.2% 2Q13 = 0.6% 3Q13 = 1.0% 4Q13 = 1.4%.

DFS finds these adjustments to be reasonable.

Annual Claim Trend Rate Assumption

HIPGNY's overall average annual claim trend assumption is about 9.0% for all the large group products combined. DFS finds the proposed trend assumption to be reasonable.

The 2011 EmblemHealth annual report discusses several initiatives to lower claim costs such as the Patient Centered Medical Home project, the Point of Care Management program, an innovative health improvement program for its own employees, and Neighborhood Care Sites. The report further states that the investments in coordinated care delivery are improving cost trends. Since some of these initiatives were only pilot programs during 2011 and did not have a chance to fully affect 2011 claim costs, DFS has assumed that as these initiatives are rolled out to the large group commercial HMO products there will be a further claim cost savings of 2.5%, and this savings was reflected in DFS's analysis.

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 to be reasonable.

Administrative Expense Ratio

The rate application reflects an average administrative expense ratio to premiums of 10.0%, excluding the new ACA assessments.

The New York Data Requirements shows that for the large group market segment the administrative expenses per member per month increased about 13.6% from calendar year 2010 to calendar year 2011. This increase is higher than average and raises questions about the administrative expense amount incorporated into this rate filing.

DFS finds that a factor of 9.8%, excluding the new ACA assessments, is reasonable based on data contained in the rate application, the size of this block of business and the administrative expenses for HIPGNY's other products.

Profit Objective Ratio

The rate application requests an average underwriting margin of 1.1%.

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 37.5% 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 should not be penalized by HIPGNY's adverse experience with these products.

Medical Loss Ratio (MLR)

With the revised administrative expense ratio of 9.8%, plus 0.2% for the ACA fees, plus 0.0% for an underwriting margin, the average projected medical loss ratio will be 90.0% for first quarter 2013, and declining slightly with each renewal quarter as the adjustment for the ACA fees increase. 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 decribed above, DFS finds that the requested rate increases are unreasonable and approves as reasonable the rate increases shown in the summary chart above.