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

Insurer:	**Health Insurance Plan of Greater New York (HIPGNY)**
Lines of Business:	**Small Group HMO & POS**
Filing Type:	Section 4308(c) Rate Adjustment Filing
Effective Date:	January 1, 2013
SERFF Tracking Number:	HPHP-128544627
Rating Structure:	Quarterly rolling rates
Affected Members:	27,328 members
Earned Premiums:	$115 million

Summary (year over year rate changes)

This rate application pertains to the following HIPGNY products: HMO CompreHealth, HMO Prime, HMO Classic, HMO Access 1, POS Prime, and POS Access 2.

HMO CompreHealth Product (year over year averages)

Requested	Approved	Change
22.3%	5.6%	-16.7%

All Other SG HMO/POS Products (year over year averages)

Requested	Approved	Change
9.7%	2.4%	-7.3%

Overall Average - All products

Requested	Approved	Change
19.7%	**4.9%**	**-14.8%**

* The range for the requested second quarter 2013 rates is 19.5% to 33.7% for CompreHealth, and 7.5% to 20.3% for the other products. This change reflects a tier reshaping; all the other quarters have already been reshaped pursuant to previous filings.

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

	CompreHealth Product	Requested	Approved
1.	Annual Claim Trend Rates	9.4%	8.8%
2.	Administrative Expense (% of premium)	11.5%	11.3%
3.	Profit Objective (% of premium, pre-tax)	3.8%	0.0%
4.	Medical Loss Ratio (MLR, % of premium)	84.7%	88.7%

	All Other Small Group Products	Requested	Approved
1.	Annual Claim Trend Rates	8.8%	8.8%
2.	Administrative Expense (% of premium)	11.5%	11.3%
3.	Profit Objective (% of premium, pre-tax)	3.8%	0.0%
4.	Medical Loss Ratio (MLR, % of premium)	84.7%	88.7%

Average Number of Members by Product

Average # Members for Year	CompreHealth	HMO Prime	HMO Classic	All Other	Total
2009	1,480	16,589	2,464	4,004	24,537
2010	6,847	10,540	1,726	2,349	21,461
2011	15,934	6,201	1,339	1,347	24,821

In calendar year 2011, average monthly premium per member was about $286 for the CompreHealth product, $398 for the HMO Classic product, and $588 for the HMO Prime product. In addition other products were also available. 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. The tables below summarize the requested and approved rate actions.

HMO CompreHealth Product

Renewal Quarter	Requested	Approved	Reduction
1Q12	20.4%	16.1%	-4.3%
2Q12	21.9% (avg)*	14.8%	-7.1%
3Q12	19.1%	14.8%	-4.3%
4Q12	19.1%	14.8%	-4.3%
Overall	20.3%	15.3%	-5.0%

All Other SG HMO/POS Products

Renewal Quarter	Requested	Approved	Reduction
1Q12	20.4%	10.5%	-9.9%
2Q12	21.9% (avg)*	9.3%	-12.6%
3Q12	19.1%	9.3%	-9.8%
4Q12	19.1%	9.3%	-9.8%
Overall	20.3%	9.9%	-10.4%
Overall Average - All products	20.3%	13.4%	-6.9%

*The range for the requested second quarter 2012 rates is 19.1% to 33.3%, which reflects a tier reshaping. All the other quarters have already been reshaped pursuant to previous filings.

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 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

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:

CompreHealth:	1Q13 = 0.2%	2Q13 = 0.7%	3Q13 = 1.2%	4Q13 = 1.7%
All Other:	0.1%	0.4%	0.7%	1.0%

DFS finds these adjustments to be reasonable.

Annual Claim Trend Rate Assumptions

HIPGNY assumed average effective annual claim trend factors of about 9.4% for the CompreHealth product and approximately 8.8% for all the other products combined. DFS finds that the CompreHealth trend is unreasonable because the risk score adjustment was not supported by the data included in the rate application. DFS finds that the 8.8% annual trend is reasonable for all of the products.

Furthermore, 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 small group commercial HMO products there will be a further claim cost savings of 1.0%, and this savings was reflected in DFS's analysis of the non-CompreHealth products.

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 11.3% (before the adjustment for the new ACA fees). Based on information submitted in the rate application and administrative expenses of similar companies, DFS finds an administrative expense ratio of 11.1% (before the adjustment for the new ACA fees) to be reasonable.

Tier Reshaping for Second Quarter Renewals

HIPGNY proposes to modify the 2 tier family factor for CompreHealth from 2.70 to 2.84, and revise the 4 tier husband+wife factor for all products from 2.10 to 2.35.

The information the company provided to support these changes was inadequate. Therefore, DFS rejects these changes.

Profit Objective Ratio:

HIPGNY requested an average underwriting margin of 3.8%.

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 2.4% 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 small businesses that comprise the small group 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 an administrative expense ratio of 11.3% (including the new ACA fees) and an underwriting margin of 0%, the average projected loss ratio will be 88.7%. 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.

CompreHealth Product

This product was introduced in 2009. The average morbidity level for the members with this product is significantly lower than the average morbidity level for the members with the company's other small group products. The subsequent rate increases for this product were 12.9% for 2011, 15.3% approved (20.3% requested) for 2012, and 22.3% requested for 2013. HIPGNY states that the underpricing of this product is due in part to certain pricing assumptions related to provider reimbursements that were not realized.

Given the magnitude of the rate increases requested each year, and likely to be requested in future years, HIPGNY should first make all attempts to implement the original pricing assumptions and take other cost containment and expense control measures before passing on these higher than anticipated costs to consumers.

Since the impact of these cost and expense control measures are not known at this time, DFS finds that only a trend increase to the current 2012 rates is appropriate at this time. In addition, the 2012 rates need to be adjusted to replace the target loss ratio incorporated into the approved 2012 rates with the target loss ratio approved for the 2013 rates. Making these two adjustments produces a 5.6% aggregate average annual increase.

Decision

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