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

Insurer: **Health Insurance Plan of Greater New York (HIPGNY)**
Lines of Business: **Healthy New York (HNY) HMO Plans**
Filing Type: Section 4308(c) Prior Approval Filing
Effective Date: January 1 – December 31, 2013 (annual rates)
SERFF Tracking #: HPHP-128551663
Rating Structure: Rolling Rates -- all plans renew on policy anniversaries
Affected Members: 2,621 members as of June 2012
Annual Premiums: $12.8 million

Summary

	Requested	**Approved**	**Change**
Year Over Year	9.3%	4.3%	-5.0%

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 of the various parts of the application:

		Requested	Approved
1.	Annual Claim Trend Rates	9.21%	9.00%
2.	Administrative Expense Ratios	14.00%	10.00%
3.	Profit Objective Ratios	4.00%	0.75%
4.	Medical Loss Ratios (MLR)	82.00%	89.25%

Membership and Average Monthly Premiums

Membership	HNY Plans
2009	4,967
2010	4,118
2011	3,191
June 2012	2,621

In calendar year 2011, monthly premiums per member for HNY Plans averaged $335.00.

Prior Application

For calendar year 2012, the requested rate action was 19.8% and the approved rate action was 19.8%.

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 objective 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 & Reinsurance Fees

HIPGNY 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 HIPGNY 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.)

HIPGNY estimated the prorated impact of these fees as +1.0%.

DFS finds this approach on ACA fees to be reasonable.

Annual Claim Trend Assumptions

HIPGNY requested a 2-tiered annual claim trend rate structure of 14.4%/12.0%. The 14.4% trend applies for the first 12 months of the projection and the 12.0% trend applies thereafter.

While these trend rates were applied to the incurred claims <u>net</u> of reimbursements from the Stop Loss Pool, HIPGNY indicates that the 2013 reimbursements PMPM 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 <u>effectively</u> 9.21%.

DFS finds this effective annual trend rate of 9.21% to be unreasonable. DFS approves a trend of 9.00%, which is more in line with all downstate Healthy NY carriers.

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 found HIPGNY's standardization process to be acceptable.

Administrative Expense Ratio

HIPGNY's administrative expense ratio assumption is 14.0%.

DFS finds HIPGNY's requested expense ratio to be unreasonable and approves an expense ratio of 10.0% of premiums, which is more consistent with average administrative expense ratios for downstate companies.

Profit Objective Ratio

HIPGNY is requesting a pre-tax profit objective ratio at 4.00% 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 0.27% 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 finds that a profit objective of 0.75% is reasonable. Policyholders, particularly individuals and small businesses that comprise the Healthy NY 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 10.00% and a profit ratio of 0.75%, DFS approves a projected medical loss ratio of 89.25%. 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.