

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

<b>Insurer:</b>	<b>HIP Insurance Company of New York (HIPIC)</b>
<b>Lines of Business:</b>	<b>Small Group EPO &amp; PPO</b>
<b>Filing Type:</b>	Section 3231(e)(1) Rate Adjustment Filing
<b>Effective Date:</b>	January 1, 2013
<b>SERFF Tracking Number:</b>	HPHP-128544439
<b>Rating Structure:</b>	Quarterly rolling rates
<b>Affected Members:</b>	20,577 members
<b>Earned Premiums:</b>	\$91 million

### Summary

This rate application pertains to HIPIC's EPO Select, EPO Prime, PPO Select and PPO Prime products.

### EPO Products (year over year averages)

<u>Requested</u>	<u>Approved</u>	<u>Change</u>
38.6%	11.0%	-27.6%

### PPO Products (year over year averages)

<u>Requested</u>	<u>Approved</u>	<u>Change</u>
30.1%	6.6%	-23.5%

### Overall Average - All products

<u>Requested</u>	<u>Approved</u>	<u>Change</u>
<b>36.3%</b>	<b>9.8%</b>	<b>-26.5%</b>

\* The range for the requested second quarter 2013 rates is 29.9% to 48.5% for EPO, and 22.6% to 40.1% for PPO. 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:

<u>EPO</u>		<u>Requested</u>	<u>Approved</u>
1.	Annual Claim Trend Rates	14.0%	11.0%
2.	Administrative Expense (% of premium)	13.3%	11.2%
3.	Profit Objective (% of premium, pre-tax)	2.2%	0.0%
4.	Medical Loss Ratio (MLR, % of premium)	84.5%	88.8%

  

<u>PPO</u>		<u>Requested</u>	<u>Approved</u>
1.	Annual Claim Trend Rates	15.0%	11.0%
2.	Administrative Expense (% of premium)	13.3%	10.2%
3.	Profit Objective (% of premium, pre-tax)	2.8%	0.0%
4.	Medical Loss Ratio (MLR, % of premium)	83.9%	89.8%

### **Average Number of Members by Product**

<u>Average #</u> <u>Members for Year</u>	<u>EPO</u>	<u>PPO</u>	<u>Total</u>
2009	10,453	6,941	17,394
2010	12,019	4,960	16,979
2011	14,157	5,883	20,040

In calendar year 2011, average monthly premiums per member were approximately \$337 for EPO plans and \$472 for PPO 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. The following table summarizes the requested and approved rate changes (weighted average in parentheses):

<u>Renewal Quarter</u>	<u>Requested</u>	<u>Approved</u>	<u>Change</u>
1Q12	17.2%-27.2% (25.3%)	17.4%	-7.9%
2Q12	19.1%-36.1% (24.3%)	17.4%	-6.9%
3Q12	19.1%	17.4%	-1.7%
4Q12	19.1%	17.4%	-1.7%
Overall	23.0%	17.4%	-5.6%

\*The range shown for the second quarter 2012 reflects a tier reshaping; all the other quarters have already been reshaped pursuant to previous filings. DFS rejected the requested second quarter tier reshaping due to lack of support.

## **Analysis**

DFS reviewed the material that HIPIC 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**

HIPIC 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 HIPIC 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 = 0.8%    3Q13 = 1.4%    4Q13 = 2.0%.

DFS finds these adjustments to be reasonable.

## **Annual Claim Trend Rate Assumptions**

HIPIC assumed an annual claim trend factor of approximately 14% on EPO and 15% on PPO. In developing its claim trend assumptions, HIPIC used a Diagnostic Cost Group (DCG) risk scoring model to show the change in risk scores over time. HIPIC, however, did not provide sufficient support for these changes. Specifically, DFS found that the risk score adjustments were not credible because, among other reasons, the large increase for the PPO was not consistent with HIPIC's modest claims experience over the same period. Also, increases in risk score for HIPIC's small group policies are not consistent with GHI's similar small group policies, and HIPIC has not provided an explanation for the differences.

DFS therefore finds that the 14% (EPO) and 15% (PPO) trend factors are unreasonable, and that an 11.0% trend factor is reasonable based on DFS's revisions to the risk score component of the trend development, considering the factors outlined above.

## **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 rate actions approved in 2012.

DFS disagrees with the standardization process that HIPIC used on the PPO Select product because HIPIC used incorrect quarterly step up factors in completing the standardization analysis, and DFS has revised the standard premium accordingly.

DFS accepts the standardization process used on the other products, as revised by HIPIC.

### **Calendar Year 2011 Incurred Claims**

The 2011 incurred claims amounts that HIPIC used in developing its proposed rate increases included amounts for payments to the Regulation 146 risk adjustment pool that exceeded the actual amounts paid to the pool for calendar year 2011.

Accordingly, DFS revised the Regulation 146 payment amounts included in the 2011 incurred claims amounts that HIPIC used in the development of its requested rate increases.

### **Tier Reshaping for Second Quarter Renewals**

HIPIC proposes to modify the two-tier family factor from 2.67 to 2.90 and the four-tier husband+wife factor from 2.10 to 2.40.

HIPIC did not provide adequate information to support these changes. Therefore, DFS rejects these changes.

### **Administrative Expense Ratio**

The rate application reflects an average administrative expense ratio to premiums of 13.1% (before the adjustment for the new ACA fees). The company acknowledged that the commission factor included in this value was overstated.

DFS therefore finds that a factor of 11.0% for EPO and 10.0% for PPO is reasonable (excluding the adjustment for the new ACA fees) considering the corrected commission factor and the administrative expense ratios reflected in previous HIPIC filings.

### **Profit Objective Ratio**

HIPIC requested an average underwriting margin of 2.2% for EPO and 2.8% for PPO.

HIPIC's capital and surplus as of December 31, 2011 was \$12.2 million, or 7.7% of net premium income of \$156 million in calendar year 2011. HIPIC's underwriting gains in 2011 were \$-11.7 million or -7.55% of net premium income (all products). In 2010, underwriting gains were \$-14.5 million or -7.26% of net premium income (all products).

The block of business covered in this rate application amounts to about 58% of the company's total business (by premium).

HIPIC's ability to meet minimum risk based capital and regulatory requirements has been dependent on capital support from its parent corporation, Health Insurance Plan of Greater New York (HIPGNY). On June 28, 2012, HIPGNY made a \$30 million capital infusion into HIPIC.

In contrast to its subsidiary, HIPGNY had capital and surplus as of December 31, 2011 of \$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).

Also in contrast to HIPIC, 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.

Thus, while EmblemHealth, Inc. and HIPGNY have been profitable, their operating subsidiary, HIPIC, for some reason is not. In reviewing the reasons for this disparity, DFS has become increasingly concerned that Emblem's overall management and its executive compensation practices have been a significant cause of HIPIC's marginal financial condition. 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 HIPIC and Emblem's other 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 HIPIC'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 HIPIC's adverse experience with these products, which may have been mispriced from the outset.

### **Medical Loss Ratio (MLR)**

With the administrative expense ratios of 11.2% for EPO and 10.2% for PPO (including the new ACA fees), and an underwriting margin of 0.0%, the average projected medical loss ratio will be 88.8% for EPO and 89.8% for PPO. 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.

### **Discontinuation of EPO Plan Designs**

Subsequent to the rate submission, HIPIC has notified DFS of its intention to discontinue most of the EPO Select plan designs and migrate affected policyholders to the remaining EPO Select plan designs. This will affect the vast majority of EPO members.

This has the potential to significantly impact future claim costs on the EPO product and raises questions about the appropriateness of using the existing experience to determine the needed rate increase at this time.

Since using the current experience is questionable, 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 adjustments produces an 11.0% aggregate average annual increase.

### **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.