

New York State Department of Financial Services

Premium Rate Approval - Decision Summary

Insurer: Aetna Health Inc. (Aetna HMO)
Filing Type: Section 4308(c)
Effective Date: January 1, 2012 through December 31, 2012
SERFF Number: AETN-127321037
Lines of Business: Direct Pay HMO (DP HMO)
Affected Members: 1,775 (as of 3/31/11)
Earned Premiums: \$25.1 million (calendar year 2010)
Rating Structure: Quarterly rolling rates

Summary:

Year-over-year rate actions are:

<u>Effective Date</u>	<u>Requested</u>	<u>Approved</u>	<u>Reduction</u>
	<u>Annual</u>	<u>Annual</u>	<u>Annual</u>
1Q2012	12.5%	3.0%	-9.5%
2Q2012	15.9%	6.1%	-9.8%
3Q2012	19.4%	9.3%	-10.1%
4Q2012	22.9%	12.6%	-10.4%
<u>Total Year</u>	15.4%	5.6%	-9.8%

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

	<u>Requested</u>	<u>Approved</u>
1. Annual Claim Trend Rates	12.4%	12.4%
2. Administrative Expense Ratio	4.6%	5.3%
3. Profit Objective (percent of premium, pre-tax)	12.6%	4.0%
4. Medical Loss Ratio (MLR)	82.8%	90.7%

History:

Aetna submitted a prior approval rate application on September 28, 2010 requesting an average 10.3% increase for 2011. Aetna subsequently withdrew the application, and there were no rate changes for 2011. Prior to 2011, the most recent rate increases were in 2010. There was no rate change in 1Q2010, and there were rate increases of 2.3% in 2Q2010, 2.2% in 3Q2010, and 2.4% in 4Q2010.

The enrollment declined by about 10% from 2009 to 2010. Enrollment continues to decline through the first 6 months of 2011. At the current pace, enrollment could decline by an additional 16% by the end of 2011.

The 2010 Loss Ratio Report submitted to the Department in June 2011 measured calendar year underwriting results for the DP HMO during 2010. The reports show a medical loss ratio (MLR) of 90.3%.

Analysis:

The Department reviewed the material that Aetna 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. The Department also considered the insurer's overall solvency and ability of the insurer to meet its obligations after the Department's decisions.

Annual Claim Trend Rates:

Based on recent large group experience, Aetna assumed a trend rate of 12.4% before any stop loss reimbursements and before any Regulation 146 market stabilization pool reimbursements. The Department finds this assumption to be reasonable.

Administrative Expense Ratio:

Aetna assumed an expense ratio of 4.6% of premium in the application. The Department believes this is slightly low compared to expense ratios over the last several years and instead finds that an expense ratio of 5.3% of premiums is reasonable.

Profit Objective:

Aetna requested a pre-tax profit margin of 12.6%. The Department approves a pre-tax profit margin of 4.0%, which would yield an after-tax return on equity of 20% on surplus (first 20% of premiums) when combined with investment income (2.1% of premiums)

Medical Loss Ratio (MLR):

Aetna's projected MLR was 82.8% (4.6% expense ratio and 12.6% profit). The Department's modifications result in a projected MLR of 90.7% (5.3% expense ratio and 4.0% profit ratio).

Stop Loss Reimbursements:

Aetna assumed that per member per month (PMPM) reimbursements in 2012 would be \$154.66, which is the 2010 level trended forward at 12.4% for two years. The Department accepts Aetna's assumption on stop loss reimbursements.

Regulation 146 Market Stabilization Pool Reimbursements:

Aetna assumed Regulation 146 reimbursements of 25% of premiums, which is reasonable based on plans recently submitted to the Department.

Decision:

Based on the changes to the expense assumption, the profit objective, and the stop loss reimbursements that are described above, the Department believes that the requested rate increase is not justified. The Department therefore approves increases of 3.0% per quarter for each quarter of 2012.