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-127321078
Lines of Business:	Direct Pay POS (DP POS)
Affected Members:	1,063 (as of 3/31/11)
Earned Premiums:	$22.6 million (calendar year 2010)
Rating Structure:	quarterly rolling rates; increases annually on policy anniversaries

Summary Conclusion:

Year-over-year rate actions are:

Effective Date	Requested Annual	Approved Annual	Reduction Annual
1Q2012	9.0%	0.0%	-9.0%
2Q2012	12.3%	3.0%	-9.3%
3Q2012	15.6%	6.1%	-9.5%
4Q2012	19.1%	9.3%	-9.8%
Total Year	**11.7%**	**2.4%**	**-9.3%**

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

		Requested	Approved
1.	Annual Claim Trend Rates	12.4%	12.4%
2.	Administrative Expense Ratio	4.1%	4.6%
3.	Profit Objective (percent of premium, pre-tax)	13.4%	4.0%
4.	Medical Loss Ratio (MLR)	82.5%	91.4%

History:

Aetna did not submit a prior approval rate application last year for rate increases in 2011, and there were no rate changes for 2011. Prior to 2011, the most recent rate increases were in 2010: 7.1% in 1Q2010, 4.1% in 2Q2010, 3.9% in 3Q2010, and 5.3% in 4Q2010.

The enrollment declined by about 32% 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 20% 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 POS during 2010. The reports show a medical loss ratio (MLR) of 80.5%.

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. The analysis included the following requests and recommendations for the various components of the application.

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 rate stabilization pool reimbursements. The Department finds this assumption to be reasonable.

Administrative Expense Ratios:
Aetna assumed an expense ratio of 4.1% of premium in the application. The Department believes this is slightly low compared to expense ratios over the last several years and instead recommends 4.6% of premiums.

Profit Objective:
Aetna requested a pre-tax profit margin of 13.4%. The Department approves a pre-tax profit margin of 4.0%, which when combined with investment income (2.1% of premiums) would yield an after-tax return on equity of 20% on surplus (first 20% of premiums).

Medical Loss Ratio (MLR):
Aetna's projected MLR was 82.5% (4.1% expense ratio and 13.4% profit ratio). The Department's modifications result in a projected MLR of 91.4% (4.6% expense ratio and 4.0% profit ratio).

Stop Loss Reimbursements:
Aetna assumed that per member per month (PMPM) reimbursements in 2012 would be $435.60, 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 Rate Stabilization Pool Reimbursements:
Aetna assumed Reg. 146 SMC reimbursements of 24% 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 no rate change in 1Q2012, followed by increases of 3.0% per quarter for each of 2Q2012, 3Q2012, and 4Q2012.