New York State Department of Financial Services

Premium Rate Approval - Decision Summary

Insurer:	Aetna Health Inc. (Article 44 HMO)
Filing Type:	Section 4308(c)
Effective Date:	January 1, 2012 through December 31, 2012
SERFF Number:	AETN-127331586
Lines of Business:	Healthy New York (HNY)
Affected Members:	5,678 (as of 3/31/11)
Earned Premiums:	$22.2 million (calendar year 2010)
Rating Structure:	Quarterly rolling rates, but rates for each quarter are the same; increases annually on policy anniversaries

Summary:

Year-over-year rate actions are:

	# of Members	Requested	Approved	Reduction
Group A	1,330	32.0%	19.9%	-12.1%
Group B	144	51.4%	19.9%	-31.5%
Group C	4,204	27.0%	17.9%	-9.1%
Overall	**5,678**	**28.6%**	**18.4%**	**-10.2%**

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%	10.0%
2.	Administrative Expense Ratio	10.6%	10.6%
3.	Profit Objective (percent of premium, pre-tax)	0.5%	-1.7%
4.	Medical Loss Ratio (MLR)	88.9%	91.1%

This rate application affects all Aetna HNY members in all regions, including both the regular and the high deductible plans, both with and without drugs. New rates will be effective on policy anniversaries in 2012.

There are three groups of policyholders for purposes of the rate actions. Group A is members whose policies renewed in January, February and March of 2011, but did not receive the 2011 increases (implemented too late due to late application and notices), and also new policies sold in January 2011 using the 2010 rates. Group B is members in the high deductible plans that were written prior to 2009 and that were last renewed at 2009 rates due to systems issues. Group C is all of the remaining members.

History:

Aetna requested and received Department approval for an average 12.3% rate increase for HNY for 2011. The approval did not occur in time to implement the increase for policies that were due to renew in the first quarter of 2011, nor for any new policies that were sold in January of 2011.

Underwriting gains on this product were favorable at 5.1% of premium in 2010, but 2009 had an underwriting gain of -20.9% (a loss). The 2010 loss ratio report shows a loss ratio of 88.7% and the 2009 loss ratio report shows a much higher loss ratio of 98.8%.

Membership continues to decline for this product. There were approximately 6,800 members in 2009 and 6,250 members in 2010. For the first 6 months of 2011, there were approximately 5,800 members.

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 claim trend rate of 12.4% before any stop loss reimbursements. The Department approves a 10.0% annual claim trend rate because it is more consistent with the average annualized claim trend that downstate Healthy New York plans are experiencing.

Administrative Expense Ratios:

Aetna's application assumed an administrative expense ratio of 10.6% of premiums. The Department finds this assumption to be reasonable as it is consistent with the expense ratio from the 2010 financial filings and Aetna's expense levels for 2006-2009.

Profit Objective:

Aetna assumed a pre-tax profit margin of only 0.5%. This equates to a loss ratio of 91.9% (100 less 0.5 less 10.6 for expenses). The Department believes that, given problems with the prior application and Aetna's administrative errors, this profit margin is not reasonable. Accordingly, the Department's rate action will result in a -1.7% profit margin and an effective loss ratio of 91.1%.

Stop Loss Reimbursements:

Aetna assumed that per member per month (PMPM) reimbursements in 2012 would trend forward from the experience period to the effective period (of the new rates) at the assumed claim trend of 12.4%. Using this methodology, Aetna has assumed 2012 stop loss reimbursements of $195.45 per member per month (PMPM).

The Department currently expects stop loss reimbursements to remain constant at the 2010 levels of about 78 cents per dollar of claims submitted. Aetna is effectively assuming far in excess of 78 cents per dollar because it is trending this amount forward at 12.4%. Without the 12.4% trend, the assumed $195.45 PMPM would only be $148.68 (the 78 cents per dollar level).

Decision:

Based on the analysis as described above, the Department finds the rate actions requested are unreasonable and modifies the rate as summarized in the chart above.