

# New York State Department of Financial Services

## Premium Rate Approval - Decision Summary

**Note:** This summary covers both the Aetna Small Group HMO and the Aetna Small Group POS. Aetna combines the data for the HMO and the POS for determining rate actions. Unless otherwise indicated, information contained herein applies to both the HMO and the POS.

**Insurer:** Aetna Health Inc. (Article 44 HMO)  
**Filing Type:** Section 4308(c)  
**Effective Date:** January 1, 2012 through September 30, 2012  
**SERFF Number:** AETN-127389963  
**Lines of Business:** Small Group HMO and Small Group In-Network POS  
**Affected Members:** 3,974 (as of 6/30/11)  
**Earned Premiums:** \$19.5 million (calendar year 2010)  
**Rating Structure:** Quarterly rolling rates for 1Q2012, 2Q2012, and 3Q2012;  
(increases annually on policy anniversaries)

**Insurer:** Aetna Health Insurance Co. of New York  
**Filing Type:** Section 3231(e)(1)  
**Effective Date:** January 1, 2012 through September 30, 2012  
**SERFF Number:** AETN-127389996  
**Lines of Business:** Small Group Out-of-Network POS  
**Affected Members:** 587 (as of 6/30/11)  
**Earned Premiums:** \$0.5 million (calendar year 2010)  
**Rating Structure:** Quarterly rolling rates for 1Q2012, 2Q2012, and 3Q2012;  
(increases annually on policy anniversaries)

### Summary:

<u>Effective Date</u>	<u>Requested</u>		<u>Approved</u>		<u>Reduction</u>	
	<u>Quarter</u>	<u>Annual</u>	<u>Quarter</u>	<u>Annual</u>	<u>Quarter</u>	<u>Annual</u>
1Q2012	-2.0%	+0.9%	-4.0%	-1.0%	-2.0%	-1.9%
2Q2012	+2.0%	+3.0%	+2.0%	+1.0%	0.0%	-2.0%
3Q2012	+2.0%	+2.0%	+2.0%	+0.0%	0.0%	-2.0%

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	11.5%	11.5%
2. Administrative Expense Ratio	10.3%	10.3%
3. Profit Objective (percent of premium, pre-tax)	6.4%	4.5%
4. Medical Loss Ratio (MLR)	83.3%	85.2%

**History:**

A prior approval rate application was submitted in April 1, 2011 covering the 4 quarters from 4Q2011 through to 3Q2012. That application requested no quarterly rate change in 4Q2011, followed by +2.0% quarterly increases in each of 1Q2012, 2Q2012, and 3Q2012. Those rate increases were approved by the Department on June 24, 2011.

Since the June 24th approval of the rate increases in the April 1st application, Aetna has examined their experience through the first 5 months of 2011 (the April 1st application was based on experience data through the end of calendar year 2010). Aetna has seen an improvement in its recent experience and has decided to submit the current rate application for a decrease of 2% in 1Q2012.

The 2010 loss ratio report (for the small group HMO and in-network POS) shows a relatively high loss ratio of 89.8%, while the 2009 loss ratio report shows a much lower loss ratio of only 70.0%. Membership had been steadily declining on these plans from 2006 through 2009, but that trend has reversed itself from 2009 through to 2011. The first 6 months of 2011 show membership growing at an annual rate of about 38%. The main driver for the growth is the HMO, where Aetna has been selling more of the lower-priced NYC Community plans. The POS membership continues to decline slightly.

**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:**

Aetna assumed a claim trend rate of 11.5% based on their most recent large group experience. This is a change from the trend assumption in the previous filing (April 1, 2011) where Aetna assumed a rate of 12.4%. The Department accepts the 11.5% trend assumption as reasonable.

**Administrative Expense Ratio:**

Aetna assumed an administrative expense ratio of 10.3%, which is consistent with the expense ratio from the 2010 Data Requirements Supplement. This assumption is unchanged from the previous application several months ago. The Department accepts this assumption as reasonable.

**Profit Objective:**

Aetna assumed a pre-tax profit margin of 6.4%. Based on available data, the Department finds a profit objective of 4.5% to be reasonable.

**Medical Loss Ratio:**

With the administrative expense ratio of 10.3% and a profit ratio of 4.5%, Aetna's projected loss ratio will be 85.2%.

**Decision:**

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