

# New York State Department of Financial Services

## Premium Rate Approval – Decision Summary

**Insurer:** First United American Life Ins. Co. (Article 42 Insurer)  
**Filing Type:** Section 3231(e)(1) Prior Approval Filing(s)  
**Effective Date:** 60 Days following approval  
**SERFF Tracking Number:** AMLC-127367032  
**Lines of Business:** Group Standardized & Modernized Medicare Supplement Plans A, B, C, D, F, HDF, G, N  
**Affected Members:** 706  
**Rating Structure:** Annual Rates / Regional Rates

### Summary:

	<u>Requested</u>	<u>Approved</u>	<u>Reduction</u>
All Plans	2.8%	0.0%	-2.8%

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	6%	6%
2. Administrative Expense Ratio	17.7%	17.7%
3. Profit Objective (percent of premium, pre-tax)	7.3%	2.2%
4. Medical Loss Ratio (MLR)	75%	80.1%

### Discussion:

The Department reviewed the material that FUA 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.

FUA’s rate application pertains to its “MIPPA” and “Pre-MIPPA” Medicare Supplement policies. MIPPA refers to the Medicare Improvements for Patients and Providers Act of 2008. It called for increased benefits to the Medicare Supplement Standardized plans starting June 1, 2010. MIPPA plans are also referred to as “Modernized” Medicare Supplement plans. Standardized Medicare Supplement plans (inforce since the early ‘90s until May 31, 2010) are referred to as “Pre-MIPPA” or “Standardized.” FUA’s application requested identical premium increases for both their Pre-MIPPA and MIPPA group plans, which have a total of 706 members.

FUA's Pre-MIPPA & MIPPA products, Plans A, B, C, D, F, HDF, G, and N, cover members throughout New York, and rates do not vary by rating region. FUA requested a rate change of +2.8% (year over year) for all plans. The changes reflect a -0.2% adjustment resulting from receipts from the demographic pool under the Regulation 146 risk adjustment mechanism.

**Analysis:**

By regulation, the minimum medical loss ratio (MLR) for Group Medicare Supplement plans offered by Article 42 Insurers in New York is 75%. FUA's target expected loss ratio is 75%.

**Claims Trend:**

FUA assumed an annual claims trend of 6%. The Department finds this assumption to be reasonable.

**Administrative Expense Ratio**

FUA's non-claim expenses are broken down as follows:

Administration: 5.5%  
Other Acquisition Costs: 1.0%  
Commission: 5.0%  
Taxes, Licenses and Fees: 2.3%  
Federal Income Tax: 3.9%  
**Total Expenses: 17.7%**

The Department finds this assumption to be reasonable.

**Profit Objective and Medical Loss Ratio (MLR).**

FUA's application contains a 7.3% profit objective. The Department finds this profit margin to be excessive. Reducing the profit margin to 2.2% would increase FUA's target MLR to 80.1%. Considering the claims trend and the overall rate adjustment of +6.8% that FUA implemented in November 2010, FUA would achieve a loss ratio of 80.5% for 2012. Based on the revised profit margin and revised target MLR, and considering the data provided, the Department concluded that the current rate level is sufficient and no increase is necessary.

**Decision:**

Based on our review and analysis described above, the requested rate increases are disapproved.