

New York State Department of Financial Services

Premium Rate Approval – Decision Summary

Insurer: Empire HealthChoice Assurance, Inc. (Article 42 Insurer)
Filing Type: Section 3231(e)(1) Prior Approval Filing(s)
Effective Date: January 1, 2012
SERFF Tracking Number: AWLP-127179419
Lines of Business: Individual Standardized Medicare Supplement Plans A, B, C, F, H, H w/o Rx, K, & L
Affected Members: 50,350
Rating Structure: Annual Rates / Regional Rates

Summary:

	<u>Requested</u>	<u>Approved</u>	<u>Reduction</u>
Plan A	6.2%	0.0%	-6.2%
Plan B	7.5%	0.0%	-7.5%
Plan C	9.9%	7.9%	-2.0%
Plan F	5.6%	0.0%	-5.6%
Plans H, H w/o Rx	9.9%	2.0%	-7.9%
Plans K, L	0.0%	0.0%	0.0%

Discussion:

Empire’s rate application pertains to its “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.” Empire’s application requested premium increases for a closed block of Pre-MIPPA plans, which have a total of 50,350 members.

Empire’s Pre-MIPPA products, Plans A, B, C, F, H, H w/o Prescription Drugs, K and L, cover members in 3 rating regions throughout NY. Empire did not vary the rate increases requested by region.

Analysis:

The Department reviewed the material that Empire 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.

By regulation, the minimum medical loss ratio (MLR) for Individual Medicare Supplement plans offered by Article 42 insurers in New York is 65%. Empire's target expected loss ratio for these Pre-MIPPA plans is 75%.

Empire's application included the following assumptions as to non-claim expenses:

Administrative Expense Ratio: 12.3%

Profit/Risk Margin: 12.7%

Total Expenses: 25%

Following the Department's objections concerning Empire's high profit/risk margin, Empire reduced the increase requests by 2% for all plans.

Plans A, B, and F. For Plans A, B, and F, the New York experience shows loss ratios near the target of 75% (77%, 75.7%, & 74.2% in 2010, respectively). Empire is requesting a rate change in order to offset the assumed claim trends and to maintain the MLRs at or near 75%. Empire's annual claims trend assumptions are 3.7%, 3.5%, and 2.9% for Plans A, B, and F, respectively. The 2010 experience was trended for 2 years to 2012. The projected loss ratios indicate that a rate increase can be justified based on Empire's target loss ratio of 75%. However, the 75% target loss ratio is derived in part by adding a 12.7% profit/risk margin. If the proposed profit/risk margin was cut to 5%, to provide for a more reasonable return on equity, no rate increases would be allowed. Based on that change Department has determined that no increase for these plans is justified at this time.

Plan C. The projected MLR for 2012 without an increase is 89.3%, well above the target loss ratio. When combined with the average expense ratio of 12.3%, the resulting ratio exceeds 100%. Therefore, the proposed increase, as revised by Empire, of 7.9% is justified.

Plans H and H w/o Prescription Drugs. For Plans H and H w/o Prescription Drugs, the projected MLR for 2012 without an increase would be approximately 84%. After considering the average expense ratio of 12.3% and a profit margin of 5%, the Department finds that an increase of 2.0% is justified at this time.

Decision:

Based on the analysis as described above, the Department modifies the rates as summarized in the chart above.