New York State Department of Financial Services
Premium Rate Approval – Decision Summary

Insurer:	Empire HealthChoice Assurance, Inc.
Filing Type:	Rate Adjustment pursuant to Section §3231(e)(1)
Effective Date:	April 1, 2012
SERFF Tracking Number:	AWLP-127621857
Lines of Business:	Small Group Essential EPO Product
Affected Members:	32,500
Earned Premiums:	$135 M
Rating Structure:	Quarterly Rolling Rates

<u>Summary</u>:

Requested	**Approved**	**Reduction**
15.5%	9.5%	-6.0%

The rate actions above are on a year over year basis. The approved quarterly rate action are +3.2% from 1Q12 to 2Q12, followed by +3.0% in subsequent quarters.

The analysis included the following "requested" versus "approved" assumptions of the various parts of the application:

		Requested	Approved
1.	Annual Claim Trend Rates	11.6%	11.6%
2.	Administrative Expense Ratio	7.6%	7.6%
3.	Profit Objective (percent of premium, pre-tax)	7.4%	2.75%
4.	Medical Loss Ratio (MLR)	85.0%	89.65%

The modified rates are due solely to a reduction in the profit objective.

<u>Analysis</u>:

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.

Claims Trend Rate:

Empire assumed a claims trend of 11.6%. Empire did not provide a breakdown of the components of its trend calculation (unit cost, utilization, etc.), but the Department is assuming that the claim trend rate includes all components of claim trends, including the leverage component on products with deductibles. Based on the data submitted and industry averages, the Department finds Empire's 11.6% annual claim trend for the Essential EPO product to be reasonable.

Administrative Expense Ratio:

Empire assumed an administrative expense ratio of 7.6%. The requested ratio incorporates the impact of the changes in commission rules recently introduced by Empire. This ratio is generally lower than illustrated in Empire's financial statements. The Department therefore finds this ratio to be reasonable and acceptable.

Profit Objective:

Empire requested a pre tax profit objective of 7.4% (as a ratio to premiums). The Department finds that a profit objective of 2.75% of premiums is reasonable, which would produce a return on equity (ROE) of approximately 12% on a 20% surplus to premiums ratio.

Medical Loss Ratio (MLR):

With the administrative expense ratio of 7.6% and a profit ratio of 2.75%, Empire's projected loss ratio will be 89.65%.

Standardized Premiums:

In order the accurately reflect past premium increases that have not yet gone into effect, the Department "standardizes" the premiums requested. Actual premiums earned during the previous calendar year are adjusted to include premium increases that were subsequently approved but not reflected as actual premiums earned.

The Department finds the requested ratios of standardized premiums [2Q12] to actual earned premiums to be reasonable and acceptable.

Claims Experience:

EPO Essential product was not introduced until January 1, 2011, and Empire used the claims experience under EPO Value product as a proxy for EPO Essential product. This is acceptable to the Department as both types of products are similar and priced on a consistent basis.

Deductible Seasonality Factor:

For EPO Essential product, where there are high deductibles and there was major growth in membership during the experience period, Empire introduced a Deductible Seasonality Factor of 103.5%. This factor is applied to the claims experience to reflect that the claims experience in early duration months are immature because charges are used to satisfy the deductibles. The Department finds this seasonality factor on the Essential EPO product to be reasonable and acceptable.

Decision:

Based on its review and analysis described above, the Department finds that the requested increases are unreasonable and modifies the requested rates as summarized in the chart above.