

**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-127793082
Lines of Business: Small Group PPO Product
Affected Members: 10,200
Earned Premiums: \$105 M
Rating Structure: Quarterly Rolling Rates

Summary:

| Requested | Approved | Reduction |
|-----------|----------|-----------|
| 7.7% | 0.0% | -7.7% |

The rate actions above are on a year over year basis. The approved quarterly rate actions are -7.1% from 1Q12 to 2Q12 followed by +2.5% in subsequent quarters. Average year over year rate actions are uniformly +0.0% for all renewals in April 2012 to March 2013.

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 | 8.9% | 8.9% |
| 3. Profit Objective (percent of premium, pre-tax) | 9.1% | 2.75% |
| 4. Medical Loss Ratio (MLR) | 82.0% | 88.35% |

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

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.

Discontinuance:

Empire is discontinuing all their PPO product options except for options # 10 and # 11, which are the least expensive options with premium rates at about 15% below the premium rates for the other options.

Claims Trend Rates:

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 Small Group PPO product to be reasonable.

Administrative Expense Ratio:

Empire assumed an administrative expense ratio of 8.9%. 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 9.1% (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 8.9% and a profit ratio of 2.75%, Empire's projected loss ratio will be 88.35%.

Standardized Premiums:

In order to 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 [1Q12] to actual earned premiums 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.