

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

**Insurer:** Group Health Incorporated (Article 43 Not-For-Profit Health Service Corporation)  
**Filing Type:** Section 3231(e)(1) Prior Approval Filing  
**Effective Date:** January 1, 2012  
**SERFF Tracking Number:** GRPH-127168276  
**Line of Business:** Direct Pay Indemnity Plans (Core Plans and Value Plans)  
**Affected Members:** 4,400 Members  
**Annual Premiums Affected:** \$36.9 million  
**Rate Structure:** Non-Rolling Rates (All members renew on January 1)

**Summary:**

<u>Year over Year % Changes [12 months]</u>	<u>Requested</u>	<u>Approved</u>	<u>Reduction</u>
1/1/11 to 1/1/12	+9.8%	+6.7%	-3.1%

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	14.1%	14.1%
2. Administrative Expense Ratio	14.5%	14.5%
3. Profit Objective (percent of premium, pre-tax)	3.1%	1.0%
4. Medical Loss Ratio (MLR)	82.4%	84.5%

**History:**

In the earlier prior approval rate application with a non-rolling effective date of January 1, 2011, GHI had requested a rate increase of +12.6%. The Department approved the requested rate action.

The number of members in these plans for the experience periods 1/2009-12/2009 and 1/2010-12/2010 are shown in the table below:

<u>Membership</u>	<u>Core Plans</u>	<u>Value Plans</u>	<u>Combined</u>
CY 2009	1,240	5,189	6,428
CY 2010	876	4,500	5,376
% Change	-29.3%	-13.3%	-16.4%

**Analysis:**

The Department reviewed the material that GHI submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, Reg 146 Market Stabilization Pool receivables, projected premiums and claims, profit objective 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.

The Department accepted GHI's assumptions and calculations except the profit objective and the projected loss ratio.

**Annual Claim Trends:**

GHI is using a 14.1% annual claim trend rate. The Department accepts GHI's annual claim trend assumption. The 14.1% is well below what the Core and Value Plans are actually experiencing according to GHI's loss ratio reports. Also, the Direct Pay Plans in general tend to experience higher trends as the members disenrolling from these Plans tend to be healthier than the members who remain enrolled in these Plans.

**Administrative Expense Ratio:**

GHI assumes a 14.5% expense ratio consisting of the following components: 9.3% for administration, 4.0% for commissions, 0.9% for regulatory authority fees, and 0.3% for health care quality administration. The Department accepts GHI's expense assumption as reasonable.

**Profit Objective:**

GHI assumes a profit objective of 3.4% of premiums, consisting of 1.0% for statutory contribution to surplus, 1.0% for risk charge, and 1.4% for after tax underwriting margin.

GHI's surplus is at +5.9% of premiums at 12/31/10, and its investment income is at +0.5% of premiums for calendar year 2010. The Department's provision for the profit objective would be +0.6%, determined so as to achieve a rate of return on equity of +12.0% of surplus, after investment income [+0.5%] and income taxes and based on a surplus at about +5.9% of premiums.

Based on the return on equity analysis described above and special considerations as GHI is currently impaired financially, the Department recommends that GHI's profit objective of +3.4% of premiums be lowered to +1.0% of premiums.

**Medical Loss Ratio:**

With the administrative expense ratio of 14.5% and a profit ratio of 1.0%, GHI's projected loss ratio will be 84.5%.

**Regulation 146 Market Stabilization Pool:**

GHI received \$2.3 million from the Regulation 146 Market Stabilization Pool in calendar year 2010. This represented about 7.0% of incurred claims. GHI is projecting a continuation of the Reg 146 Market Stabilization Pool receivables for calendar year 2012 at the same level. The Department accepts this assumption as reasonable.

**Decision:**

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