

# New York State Department of Financial Services

## Premium Rate Approval - Decision Summary

**Insurer:** Group Health Incorporated  
**Filing Type:** Section 3231(e) (1)  
**Effective Date:** January 1, 2012 through December 31, 2012  
**SERFF Tracking Number:** GRPH-127089917  
**Lines of Business:** Small Group Indemnity products for EPO/PPO plans, including High Deductible plans  
**Affected Members:** Approximately 170,000 members  
**Annual Premiums:** \$710 million  
**Rating Structure:** Quarterly rolling rates, all increases effective on policy anniversaries

### Summary:

Rate Actions	Requested	Approved	Reduction
<u>Year Over Year:</u>			
1Q12	23.79%	17.90%	-5.89%
2Q12	16.98%	11.41%	-5.57%
3Q12	15.85%	10.33%	-5.52%
4Q12	14.74%	9.28%	-5.46%
Averages	17.80%	12.40%	-5.40%

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 (high ded)	22.4%	18.6%
2. Administrative Expense Ratio	16.1%	13.5%
3. Profit Objective (percent of premium, pre-tax)	1.6%	1.0%
4. Medical Loss Ratio (MLR)	82.3%	85.5%

### History:

GHI quarter over quarter rate actions approved in 2011 were +9.0% in 2Q11, +4.0% in 3Q11 and +4.0% in 4Q11 for an overall year over year average increase of 20.9%.

GHI actual underwriting losses have been significant at \$-29.9 million (-5.8% of premiums) in calendar year 2009, at \$-81.8 million (-11.5% of premiums) in calendar year 2008 and at \$-45.1 million (-14.6% of premiums) in first half of calendar year 2011. The Company’s surplus at June 30, 2011 is about 50% of that required by statute (12.5% of annual premium)

### Analysis:

The Department reviewed the material that GHI submitted with the rate application, which included the projected claim trend assumptions, administrative expense assumptions, profit objectives, standardization of premiums, 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.

**Annual Claim Trend Rates:**

In its development of annual claims trend rates, GHI includes four different components for (a) inflation, (b) utilization, (c) leverage and (d) risk score, which is a blend of the impact of aging and morbidity deterioration. The Department accepts all components except the utilization component for High Deductible plans which has been reduced from 7%-10% per year to 4% per year. Consultants on claim trends generally indicate in their surveys that utilization factors are low, below the 4% level.

Overall impact from such reduction is a decrease of annual claim trend rates on High Deductible plans from 22.4% to 18.6%.

As the High Deductible plans account for about 16% of all plans, this revision reduced the quarterly rate action by 1.2% of premiums.

**Administrative Expense Ratio:**

GHI requested an administrative expense ratio of 16.1% of premiums. This is compared with a smaller ratio of 13.5% requested for the last rate application earlier this year. The Department therefore finds that an expense ratio of 13.5% is reasonable.

This revision reduced the quarterly rate action by 3.0% of premiums.

**Profit Objective:**

In its rate application, GHI included a factor of 0.6% of premiums as a risk charge, plus a factor of 1.0% of premiums as a contribution to surplus.

The 0.6% risk charge is rejected. This revision reduced the quarterly rate action by 0.7% of premiums.

**Medical Loss Ratio:**

With the administrative expense ratio of 13.5% and a profit ratio of 1.0%, GHI's projected loss ratio will be 85.5%.

**Decision:**

Based on the analysis as described above, the Department finds the rate actions requested are unjustified and the quarterly rate action is reduced from 5.0% to 0.0% for 1Q2012 over the Q4 2011, while quarter over quarter the rate actions of 3.0% in the subsequent quarters remains as requested.