

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

Insurer: HIP Insurance Company of NY (HIPIC)
SERFF Number: HPHP-127306522
State Tracking Number: 2011070116
Filing Type: §3231(e) Prior Approval Filing
Effective Date: January 1, 2012; all quarters of calendar year 2012
Lines of Business: Small Group EPO and PPO
Affected Members: 20,708
Rating structure: Quarterly rolling rates

Summary

This rate application pertains to HIPIC’s EPO Select, EPO Prime, PPO Select and PPO Prime products.

The following table summarizes the requested and approved rate changes (weighted average in parentheses):

| <u>Renewal Quarter</u> | <u>Requested</u> | <u>Approved</u> | <u>Reduction</u> |
|------------------------|---------------------|-----------------|------------------|
| 1Q12 | 17.2%-27.2% (25.3%) | 17.4% | -7.9% |
| 2Q12 | 19.1%-36.1% (24.3%) | 17.4% | -6.9% |
| 3Q12 | 19.1% | 17.4% | -1.7% |
| <u>4Q12</u> | <u>19.1%</u> | <u>17.4%</u> | <u>-1.7%</u> |
| Overall | 23.0% | 17.4% | -5.6% |

*The range shown for the second quarter 2012 reflects a tier reshaping; all the other quarters have already been reshaped pursuant to previous filings. As explained more fully below, the Department rejects the requested second quarter tier reshaping due to lack of support.

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 | 13.1% | 12.0% |
| 2. Administrative Expense Ratio | 14.2% | 11.0% |
| 3. Profit Objective (percent of premium, pre-tax) | 3.8% | 1.0% |
| 4. Medical Loss Ratio (MLR) | 82.0% | 88.0% |

History

The prior rate filing was effective April 1, 2011. This filing requested a 10% increase from first quarter 2011 to second quarter 2011 for all products. The 10% was approved for all but the PPO Select product, which was approved for an average of about 1.4%. Quarterly 3% step ups were approved for third and fourth quarter 2011. HIPIC proposed

a tier reshaping for second quarter renewals: the 2 tier family factor was revised from 2.57 to 2.70, and the 4 tier employee + spouse factor was revised from 2.00 to 2.10.

The Department approved the following year over year increases for the various products:

| | |
|----------------------------|---------------------------|
| EPO Prime: 11.0% to 18.8% | PPO Prime: 10.9% to 18.9% |
| EPO Select: 13.0% to 21.1% | PPO Select: 6.0% to 23.0% |

The aggregated weighted average change was about 13.8%.

Analysis

The Department reviewed the material that the company submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, projected premiums and claims, and the development of the needed rate change, as well as comparisons to similar historic 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 decision.

The Department accepted the company's assumptions and calculations in all except the following: claim trend, administrative expenses, underwriting margin, and tier reshaping for second quarter renewals.

Annual Claim Trend

HIPIC assumed 13.1% average annual claim trend factor. The Department found that a 12% trend factor is reasonable based on available data and historical trends.

Administrative Expense Ratio

The company proposed a 14.2% administrative expense factor. The prior rate filing assumed administrative expenses of 9.4%. The Department decided that a factor of 11.0% was reasonable.

Tier Reshaping for Second Quarter Renewals

HIPIC proposes to modify the 2 tier family factor from 2.67 to 2.90 and the 4 tier employee + spouse factor from 2.10 to 2.40. The company provided no information to support the requested tier reshaping, therefore the Department rejects these adjustments.

Profit Objective (Underwriting Margin)

The company's rate development assumed an 82% target loss ratio. This is based on a 14.2% administrative expense factor and a 3.8% underwriting margin.

The Department concluded that a 1.0% underwriting margin is reasonable.

Medical Loss Ratio (MLR)

With the administrative expense ratio of 11.0% and a profit ratio of 1.0%, HIPIC's projected loss ratio will be 88.0%

Decision

Using the revised assumptions, the Department calculated an average increase of 22.7%. A trend size increase would be 12.0% in line with the accepted annual trend assumption.

Giving a 50% weight to the actual recalculated cost increase of 22.7%, and 50% to a trend size increase of 12.0%, produces an increase of 17.4% which is approved.

The Department concluded that the proposed tier reshaping for second quarter renewals was unreasonable and therefore rejects that adjustment.