

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

Insurer: Oxford Health Insurance Inc. (OHI)

Filing type: §3231(e)(1) Prior Approval Filing

Effective Date: January 1 – December 31, 2012 (four Quarterly rate tables)

SERFF tracking numbers: XFRD-127211304, XFRD-127211314, XFRD-127211310

Lines of Business: Small Group Indemnity Products

(EPO Plans, Direct Plans and Metro Plans)

Affected Members: EPO: 184,000; Direct: 83,000; Metro: 77,000

Rating structure: Quarterly Rolling rates

Summary:

The chart below includes the average approved increase for all OHI policyholders renewing in 2012 which is **5.7%** (**4.3%** for all EPO members, **9.7%** for all Direct members and **5.2%** for all Metro members). This varies by renewal quarter as shown below.

	<u>Requested (avg.)</u>	<u>Approved (avg)</u>	<u>Reduction (avg)</u>
EPO (1Q11 - 1Q12)	13.7%	2.9%	-10.8%
EPO (2Q11 - 2Q12)	12.6%	1.9%	-10.7%
EPO (3Q11 - 3Q12)	11.6%	1.0%	-10.6%
EPO (4Q11 - 4Q12)	24.1%	12.4%	-11.7%
Overall EPO – All 4 Qtrs	15.2%	4.3%	-10.9%
Direct (1Q11 – 1Q12)	22.2%	9.5%	-12.7%
Direct (2Q11 – 2Q12)	21.0%	8.6%	-12.4%
Direct (3Q11 – 3Q12)	19.8%	7.5%	-12.3%
Direct (4Q11 – 4Q12)	26.3%	13.4%	-12.9%
Overall EPO – All 4 Qtrs	22.2%	9.7%	-12.5%
Metro (1Q11 - 1Q12)	14.4%	5.1%	- 9.3%
Metro (2Q11 - 2Q12)	13.3%	4.1%	- 9.2%
Metro (3Q11 - 3Q12)	12.2%	3.1%	- 9.1%
Metro (4Q11 - 4Q12)	20.6%	10.6%	-10.0%
Overall Metro – All 4 Qtrs	14.8%	5.2%	9.6%
Overall (1Q11 – 1Q12)	15.9%	4.9%	-11.0%
Overall (2Q11 – 2Q12)	14.9%	3.9%	-11.0%
Overall (3Q11 – 3Q12)	13.6%	2.7%	-10.9%
Overall (4Q11 – 4Q12)	23.9%	11.9%	-12.0%
Overall Total - All products	16.9%	5.7%	-11.2%

Prior File and Use Application:

On June 7, 2010, just prior to the introduction of the Prior Approval legislation on June 8, 2010, OHI had submitted “file and use” rate applications for the plans that are the subject of the current rate applications. The file and use filings included the first three calendar quarters of 2011. Year over year rate actions in the file and use rate applications were significant, with increases averaging approximately +18.0% to +22.0% for every policyholder who renewed coverage during those calendar quarters. This is the base from which rate increases for the first three calendar Quarters in 2012 were calculated by the Department.

Prior Approval Decision for the Fourth Quarter of 2011:

OHI submitted a prior approval rate application for the fourth quarter of 2011, with the rate actions summarized in the table below.

	EPO	Direct	Metro	Overall
4Q10 -- 4Q11				
Requested	13.5%	19.6%	17.4%	15.9%
Approved	6.0%	11.8%	9.6%	8.3%

The approved 4th Quarter 2011 rates are the base for which 4th Quarter 2012 increases will be calculated.

Analysis:

The Department reviewed the material that OHI submitted with the rate applications, which included the projected trend assumptions, administrative expense assumptions, 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 OHI’s assumptions and calculations in all areas except the following: the annual projected claim trend rates, the impact of migration and the profit objective.

Annual Claim Trend:

OHI’s overall annual claim trend rate of 15.2%, which included three components: cost inflation (6.4%); leverage of cost sharing (because OHI copays are a fixed amount, an increase in the claim charges will result in OHI paying a larger proportion of the claims charges) (1.3%); and utilization impact (6.8%). OHI’s trend rates for inflation and leverage of cost sharing were reasonable. However, the utilization element was excessive based on the underlying data by approximately 1.7%. Also, the Department eliminated an additional 0.5% risk margin that was incorporated in the trend rates for both cost inflation and utilization as these margins are part of the profit objective, resulting in a further reduction of 1.0%. Therefore, the Department reduced the overall annual claim trend rate by 2.7%, from 15.2% to 12.5%.

Migration Impact:

OHI offers three types of EPO/PPO plans, including the EPO Plans, the Direct Plans and the Metro Plans, as well as one type of POS plans which is offered jointly with its affiliated HMO. In addition, OHPNY offers HMO plans. Policyholders are migrating between plans, generally from more expensive plans to less expensive plans. OHI's rate application includes an adjustment factor to reflect the impact of this migration.

Specifically, OHI's application asserts that policyholders who migrate to leaner benefit / lower premium plans bring with them their level of claim charges, which would exceed the level of claim charges prevailing in the plans to which they are migrating, and that this has an adverse impact on claim costs, over and above the impact of the usual claim trends due to inflation, utilization and leverage. OHI requested an average annual migration factor of +1.9%, including +2.4% for EPO Plans, +2.0% for Direct Plans and +0.95% for Metro Plans..

OHI's migration factor, however, appears to have failed to address the fact that once policyholders move to less expensive plans with leaner benefits and higher cost sharing, their utilization patterns will change as they adapt to the reduced benefits. This would mitigate the impact estimated by Oxford. OHI's migration factor also appears to have failed to address the fact that migrating members would tend to have charges at a lower level than the average level for the plans they are migrating from. Therefore, the Department determined that an average migration factor of +0.95% is reasonable, or about 50% of the requested migration factor. Therefore 50% of the migration product requested for each product is approved.

Administrative Expense Ratio:

OHI's applications reflected an average administrative expense ratio to premiums of 11.3% which varies slightly by product. The expense ratios appear reasonable and are accepted by the Department.

Profit Objective:

OHI's expected loss ratio in its application is 82.0%, with a pre tax profit objective in its rates averaging 6.7%. This provides an overall post-tax return on equity of about 27.5%.

With the Department's actuarial adjustments specified above, and considering a reasonable return on equity to be 15% based on an average ratio of surplus to premiums revenue, the Department determined that a reasonable profit margin for this rate application is 3.75%, resulting in an expected loss ratio of 85.0%.

Decision:

Based on our review and analysis described above, we find that the requested increases are unreasonable. The rates in effect for policyholders renewing in 2012 will increase in the first quarter of 2012 by +1.3% for EPO plans, by +2.2% for Direct plans and by +0.0% for Metro plans, over the rates in effect in the fourth quarter of 2011. For subsequent quarters in calendar year 2012, the rates will increase each calendar quarter

by 3.5% over the rate in effect for the prior calendar quarter. This will result in the year over year approved changes listed in the chart above.