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

Insurer: Oxford Health Plans (NY), Inc. ("OHPNY") (Article 44 HMO)
Oxford Health Insurance Company ("OHIC") (Article 42 Insurer)
Filing Type: Sections 4308(c) and 3231(e)(1) prior approval filing
Effective Date: January 1, 2012
SERFF Tracking Number: XFRD-127211231-Small Group HMO plans
XFRD-127211286 -Small Group POS plans (in-network)
XFRD-127211299 -Small Group POS plans (out-of-network)
Lines of Business: OHPNY - Small Group HMO plans
OHPNY - Small Group POS plans (in-network)
OHIC - Small Group POS plans (out-of-network)
Affected Members: 112,000 (HMO) 38,000 (POS)
Rating Structure: Quarterly Rolling Rates

Summary:
The chart below includes the average approved increase for all OHP policyholders renewing in 2012, which is 10.6% (11.3% for all HMO members and 9.7% for all POS members). This varies by renewal quarter as shown below.

	Requested (Avg)	Approved (Avg)	Reduction (Avg)
HMO (1Q11 - 1Q12)	20.9%	9.7%	-11.2%
HMO (2Q11 – 4Q12)	21.0%	9.7%	-11.3%
HMO (3Q11 - 3Q12)	25.2%	13.5%	-11.7%
HMO (4Q11 - 4Q12)	25.7%	14.1%	-11.6%
Overall HMO All 4 Quarters	**22.7%**	**11.3%**	**-11.4%**
POS (1Q11 - 1Q12)	20.2%	8.3%	-11.9%
POS (2Q11 – 2Q12)	19.8%	7.9%	-11.9%
POS (3Q11 - 3Q12)	24.0%	11.9%	-12.1%
POS (4Q11 - 4Q12)	24.5%	12.2%	-12.3%
Overall POS All 4 Quarters	**21.8%**	**9.7%**	**-12.1%**
Overall (1Q11 - 1Q12)	20.5%	9.0%	-11.5%
Overall (2Q11 – 2Q12)	20.5%	9.9%	-10.6%
Overall (3Q11 - 3Q12)	24.6%	12.7%	-11.9%
Overall (4Q11 - 4Q12)	25.2%	13..2%	-12.0%
Overall All 4 Quarters	**22.3%**	**10.6%**	**-11.7%**

Average increases are shown above. There are no ranges on the HMO product. Ranges on the POS for the requested and approved increases are 19.6% to 24.5% and 7.6% to 12.2%, respectively.

Prior Applications:

Small Group HMO:
The Small Group HMO plans in the OHPNY application are relatively new products that were introduced in the Fall of 2009. In October 2010, the Department issued a decision on a rate application for these products for the 1Q2011 and 2Q2011 rates, reducing OHPNY's requested increase of 22.5% year over year to 12.5%. In April 2011 the Department issued a decision for the 3Q2011 and 4Q2011 reducing Oxfords requested increases by an average of 12.8% year over year.

Small Group POS (in–network and out-of-network)
OHPNY combines the rates for these products with its affiliated insurance company, OHIC. In October 2010, the Department issued a decision on a rate application for these products for the 1Q2011 2Q2011, reducing OHPNY's requested increase of 15.0% year over year to 10.0%. In April 2011 the Department issued a decision for the 3Q2011 4Q2011 reducing Oxford's requested increases by an average of 6.7% year over year.

Analysis:

The Department reviewed the material that OHPNY and OHIC submitted with the rate applications, which included the projected trend assumptions, administrative expense assumptions, projected claims, 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:

OHPNY and OHI's overall annual claim trend rate (15.2%) included three components: cost inflation (6.4%); leverage of cost sharing (because OHPNY/OHI copays are a fixed amount, an increase in the claim charges will result in OHPNY/OHI paying a larger proportion of the claim charges) (1.3%); and utilization impact (6.8%). OHPNY/OHI's trend rates for inflation and leverage were reasonable. However, the utilization element was excessive based on the underlying data by approximately 1.7%. Furthermore, the Department eliminated the 0.5% risk margins incorporated in the trend rates for both cost inflation and utilization as these margins are part of the profit objective. Therefore, the Department reduced the overall annual claim trend rate 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 plan, 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. OHPNY's applications include an adjustment factor to reflect the impact of this migration on the HMO products.

Specifically, OHPNY's applications assert 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. OHPNY requested an annual migration factor of +2.7% on HMO products and +0.0% on POS products for an average of +1.0%.

OHPNY/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. OHPNY'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 annual migration factor of +1.35% on HMO products is reasonable, about 50% of the requested migration factor. Annual migration of +0.0% on POS products is reasonable.

Administrative Expense Ratio:
OHPNY/OHI's applications reflected an administrative expense ratio to premiums of 13.0% on HMO products and 9.4% on POS products. The Department finds the expense ratios to be reasonable.

Profit Objective:
OHI's expected loss ratio in its application is 82.0%, with a pre tax profit objective in its rates averaging 7.2%. This provides an overall post-tax return on equity (20% of premiums) of about 27.5%.

With the Department's actuarial adjustments specified above, and considering a reasonable return of equity based on an average industry ratio of surplus to premiums, the Department determined that a reasonable profit margin for this rate application was 3.50%, resulting in an expected loss ratio of 83.5% for HMO products and 87.1% for POS products.

Decision:

Based on our review and analysis described above, the Department finds that the requested increases are unreasonable and approves the increase shown in the summary chart above.