Request of:

Excellus Health Plan, Inc. doing business as

- **Excellus BlueCross BlueShield**
- **Univera Healthcare**

To:

The Department of Insurance of the State of New York

For approval of community rate increases in 2012

Filed: on or about July 13, 2011

NARRATIVE SUMMARY

I. OVERVIEW

Excellus Health Plan, Inc. (NAIC code number 55107) has made application to the Superintendent of Insurance to adjust premium rates for its community-rated products, including its direct pay, small group, large group and Medicare supplement contracts. Excellus Health Plan provides health insurance for about 1.8 million upstate New Yorkers in 39 counties. The proposed premium rates affect approximately 295,540 members or 16.1 percent of the health plan's total membership. Its proposed rates are subject to review and approval by the New York Department of Insurance pursuant to section 4308 of the Insurance Law, with the determination by the Department to be based upon sound actuarial assumptions and methods.

The rate application was filed with the Department on or about July 13, 2011 (SERFF number: EXHP-127301522). The actual rate increases approved will be communicated to the impacted parties upon completion of the Department's review and are scheduled to be effective beginning on January 1, 2012. Excellus policyholders with renewal dates during 2012 would, if approved, receive the indicated rate adjustments on their next anniversary date on or after January 1, 2012.

Excellus Health Plan is required by New York State law to develop rates that assume that at least 82% of premium revenue will be spent on health care costs, be actuarially sound, cover all claim costs, and provide a contribution to ensure adequate reserves. The percent of premium attributable to claims is referred to as the Medical Loss Ratio (MLR).

The actual MLR may vary over time based on changes in the amounts paid to hospitals, physicians, and other providers, the increase in health care trend or inflation and health care utilization by our members. Excellus Health Plan's MLR for its overall community-rated book of business has been and continues to exceed the 82 percent statutory minimum. In 2010, the overall community-rated MLR for Excellus Health Plan was 85.1%. The difference of the 3.1 percentage points amounted to $40 million which is greater than the entire margin achieved on all lines of business by the health plan. With the proposed rate adjustments, Excellus Health Plan's overall MLR would remain well above the 82% minimum. In the event the MLR falls below the required minimum, the health plan refunds the difference to policyholders.

As explained further in this narrative, the requested rate increases are due primarily to the annual increases in the cost of medical care. Excellus has attempted to limit the rate increases to the lowest amounts possible and exceed the minimum threshold of medical benefit payments as a percent of premium, while also preserving the financial integrity of the Plan.

Periodic rate adjustments are necessary to secure the ability of Excellus Health Plan, or any insurer, to produce sufficient revenue and surplus for reserves to assure continued coverage and claim payments both for current health care needs, and potential catastrophic cost situations. Excellus Health Plan's reserves vary from year to year based on actual health care costs incurred. As of Dec. 31, 2010, the health plan had reserves equivalent to 2.9 months of claims which is more than the minimum required by New York State law. These reserves are the "insurance" that assures payment even when costs run higher than anticipated, or emergencies or disasters occur, and should not be used as an alternative fund to temporarily reduce rate adjustments.

In April 2011 Citi Investment Research & Analysis (a division of Citigroup Global Markets Inc.) published

an industry overview for managed care. In their analysis, they reviewed the publicly available regulatory data of 34 non-profit Blue Cross Blue Shield plans, including Excellus. The data showed that as of year-end 2010, the risk-based capital ratio of Excellus was lower than that of 30 of the other 33 plans and well below the average. The RBC formula was introduced by the National Association of Insurance Commissioners and adopted by the BCBSA prior to 2000 in an effort to provide an objective and comparable calculation of health plan statutory reserve adequacy versus other measures historically used by the industry and regulators such as capital as a percent of premium or return on surplus. The RBC formula takes into account the size and risk characteristics of the health plan which these other measures do not consider.

Seeking to achieve a minimum level of reserves or a minimum risk-based capital ratio is not a sound financial practice for any health plan, just as it would be imprudent for a family to seek to only achieve a minimum savings account to cover unexpected costs. The health plan does not seek to accumulate industry benchmark levels of reserves or reach top RBC scores that have been achieved by some BlueCross BlueShield plans. The community rate increases proposed are designed, in concert with other lines of business, to achieve an overall operating margin for the business of less than 1 percent, which would keep the health plan in the lowest quartile of RBC ratios nationally among the same nonprofit BlueCross BlueShield plans listed in the Citigroup report.

In filing its rate application, Excellus Health Plan is sensitive to the fact that individuals and small businesses struggle to afford higher premiums. However, it is clear that an increase in premiums is necessary to assure the continued operations of the Plan and the viability of its product offerings. Because Excellus already has a high MLR, failure to approve these rates would only lead to the need for even greater rate increases in the future as claim costs would eventually exceed premiums collected.

II. FACTORS CONTRIBUTING TO THE PROPOSED RATE INCREASE

Escalating health care costs

The cost of health care services, equipment and products continues to be the primary reason for rate increases.

"Trend" is a very important consideration in determining the need for a premium rate adjustment. The trend forecast takes into account projected increases in costs attributed to what Excellus pays out in claims expenses for hospital inpatient and outpatient care, professional services, pharmacy benefits and other goods and services. In upstate New York, the health plan's typical distribution of medical benefit spending is summarized as follows:

- Hospital inpatient, 19-21%
- Hospital outpatient, 22-24%
- Professional services, 32-34%
- Pharmacy, 19-21%
- Other medical goods and services, 3-5%

In upstate New York, Excellus is forecasting an overall medical benefit trend factor range for its commercial fully insured business of 6.7 to 9.3 percent for 2012. These trends do not include

adjustments to base rates for previous rate increases that were insufficient to cover claims and operating expenses for some plan options.

For the lower priced high-deductible products, there are two significant additional factors impacting rates more so than other product types. The effect of leveraging is expected to impact these products an additional 1.5 to 1.9 percent. Leveraging occurs when the deductible remains static while medical costs rise. The second additional factor is the need for greater adjustments to the base rates for these products to more accurately reflect their actual value. The effect of these adjustments is expected to impact the high-deductible products an additional 2.6 to 8.4 percent.

A note about the compounding effects of price and utilization

Health care costs for each of those benefit components take into account the compounding effects of both the price of the goods or services provided as well as the quantity of the goods and services consumed.

For example, if the price of a service was $100 in 2010 and the number of services provided was 100, the total amount spent in 2010 related to that service would be $10,000. If the price of the service rose 10 percent in 2011 and the number of identical services rendered rose by 10 percent, the impact of both the price change and utilization increase is compounded for an overall increase in spending of 21 percent. (110 services x $110 new price = $12,100 spending, or a 21 percent increase over the prior year's spending of $10,000.) The same affect on spending occurs if the intensity of services rises for treating patients.

The ranges presented below of trend factors forecasted for each of the benefit components takes into account that compounding effect. And, the impact that each trend has to the overall cost of coverage is related to proportionate size of the benefit component. For example, overall spending would rise faster as a result of a 5 percent increase in professional services versus a 5 percent increase in drug costs because professional services represents a larger share of medical benefit spending.

Trend factors forecasted for each of the main medical benefit components

Hospital

A 7.6 percent to 11.3 percent trend factor is forecasted for hospital inpatient services and a 10.2 percent to 13.1 percent trend factor is forecasted for hospital outpatient services in 2012. Examples of drivers for those trends are rising costs related to maternity care, inpatient and outpatient surgeries, emergency services, and therapeutic injections.

Professional services

A 4.3 percent to 6.2 percent trend factor is forecasted for professional services. This trend is the result of some moderation in use of professional services combined with significant increases in the cost of immunizations and certain specialty services.

Prescription drugs

A trend factor of 5 percent to 7.2 percent is forecasted for drug spending. Nationally and in upstate New York, brand-name drug price hikes along with an expansion of expensive specialty drugs along with price hikes associated with them are contributing to that trend. In upstate New York, the impact of

those factors would have been more pronounced, but higher levels of less expensive generic prescriptions have helped prevent even larger overall spending increases.

Other Medical Goods and Services

A trend factor of 8.7 percent to 12.5 percent is forecasted for this miscellaneous category of spending. This trend is driven largely by an increase in durable medical equipment purchases, cost and utilization increases attributed to e lab services and more use of home care services.

III. NEW YORK TAXES

Insurance taxes are built into the costs of health coverage. New Yorkers who voluntarily purchase private health insurance coverage paid approximately $4.11 billion in state health taxes in 2010, according to an analysis by the New York State Conference of Blue Cross and Blue Shield Plans.

New York's Health Care Reform Act of 1996 created two surcharges on health insurance and an additional tax is imposed under Section 332 of the state Insurance Law. Excellus Health Plan pays a significant amount as a result of these three taxes.

The covered lives assessment is an annual flat surcharge or tax on every person who has insurance coverage in the state. Health plans are assessed on the basis of the number of people they cover with individual and family rates that vary depending on the residence of the insured. Among upstate regions defined by the state, the annual covered lives assessment rates in 2011 that impact Excellus Health Plan members are as follows:

- Western: Individual, $34.90; Family $115.17
- Rochester: Individual, $93.45; Family $308.40
- Central: Individual, $49.97; Family $164.90
- Utica/Watertown: Individual, $7.68; Family $25.35
- Northeastern: Individual, $35.82; Family $118.22

The second surcharge created by the 1996 Health Care Reform Act is collected from health plans in the form of a sales tax on many hospital-related services. The surcharge is applied to both self-insured and fully insured plans. Beginning at 8.18 percent in 1997, the surcharge is now at 9.63 percent.

The third levy, the Section 332 assessment, was originally established to finance New York state Department of Insurance operations but its funding purposes have expanded beyond that purpose. The assessments apply to all licensed insurers in the state (e.g. life, property and casualty, and health), and are based on "New York premiums."

IV. ADMINISTRATIVE COSTS

It is important to note that while health plan administrative costs are a component of the premium rate, Excellus Health Plan's administrative expenses are less on a per member per month basis than all other health plans based in upstate New York.

A portion of what is reported to the state as "administrative expenses" is attributed to what Federal

Health Reform considers "quality improvement expenses," meaning the federal government recognizes that these represent costs that lead to overall improvements in health care versus simply a routine business expense, and as a result will be considered a medical benefit expense for purposes of federal MLR calculations.

Those quality improvement expenses include such items as:

- Improvements in health outcomes brought about by case management and disease management programs,
- Actions taken to help prevent hospital readmissions through such things as discharge planning and counseling,
- Wellness and community health promotional activities, and
- Health information technology that is used to help measure clinical effectiveness and predictive modeling.

Out of the estimated 11% of premium revenue spent in 2011 on administrative expenses, about 0.5 percentage points are attributed to those quality improvement expenses.

Another component of administrative expenses to health plans is the New York State - imposed Section 332 taxes discussed above. These taxes and assessments comprise an additional 0.6 percentage point of Excellus' overall administrative expenses.

If both the quality improvement expenses and the state imposed Section 332 tax expense were subtracted from "administrative expenses," our health plan's remaining business expense would represent slightly less than 10 percent of premium revenue.

V. DETAILS OF THE PROPOSED RATE INCREASE

The following charts set forth the range of premium adjustments proposed by region and type of contract:

January 2012 & 2012 Q1 Rolling

Rochester Region - Groups Renewing in Quarter 1 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Medicare Supplemental, Plan A	5% to 10%
Medicare Supplemental, Plan N	-5% to 0%
Medicare Supplemental, all other Plans	0% to 5%
Medicare Complementary	0% to 5%
Healthy New York	-2.5% to 2.5%

ValuMed / ValuMed Plus	-10% to -5%
Direct Pay HMO & POS	-10% to -5%
Commercial PPO Copay	8.9% to 12.9%
Commercial PPO Hybrid $250, $500, and $1000 Deductibles	9.5% to 13.5%
Commercial PPO Hybrid $2000, $2500, and $3000 Deductibles	12.5% to 17.5%
Commercial High Deductible Health Plans	17.9% to 19.9%
Commercial Large Group HMO-Blue Choice	3% to 8%
Commercial Small Group/Sole Prop HMO-Blue Choice	10% to 15%
Commercial Indemnity	10% to 15%

Syracuse Region - Groups Renewing in Quarter 1 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Medicare Supplemental, Plan A	5% to 10%
Medicare Supplemental, Plan N	-5% to 0%
Medicare Supplemental, all other Plans	0% to 5%
Medicare Complementary	0% to 5%
Healthy New York	-2.5% to 2.5%
ValuMed Plus	-10% to -5%
Direct Pay HMO & POS	-10% to -5%
Commercial PPO Copay	7% to 11%
Commercial PPO Hybrid $250 and $500 Deductibles	6.9% to 9.9%
Commercial PPO Hybrid $1000 Deductible	9% to 13%
Commercial PPO Hybrid $2000 Deductible	10% to 15%
Commercial PPO Hybrid $2500 and $3000 Deductibles	14% to 19%
Commercial High Deductible Health Plans $1300 20%, $1800 10%, and $2600 0%	12.5% to 16.5%
Commercial High Deductible Health Plans $2600 20% and $5500 0%	16.5% to 19.5%
Commercial Indemnity	6.9% to 9.9%
Commercial HMO Blue	6.9% to 9.9%

Utica Region - Groups Renewing in Quarter 1 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Medicare Supplemental, Plan N	-5% to 0%

Medicare Supplemental, all other Plans	0% to 5%
Medicare Complementary	0% to 5%
Healthy New York	-2.5% to 2.5%
ValuMed Plus	-10% to -5%
Direct Pay HMO & POS	-10% to -5%
Commercial PPO Copay	10% to 14%
Commercial PPO Hybrid $250, $500 and $1000 Deductibles	10% to 15%
Commercial PPO Hybrid $2000 and $2500 Deductibles	12% to 17%
Commercial PPO Hybrid $3000 Deductible	15.9% to 18.9%
Commercial High Deductible Health Plans	15.9% to 19.9%
Commercial Indemnity	10% to 15%
Commercial HMO Blue	10% to 15%

Western NY (Univera Healthcare) - Groups Renewing in Quarter 1 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Medicare Supplemental, Plan A	5% to 10%
Medicare Supplemental, Plan N	-5% to 0%
Medicare Supplemental, all other Plans	0% to 5%
Healthy New York	-2.5% to 2.5%
Transitions	-10% to -5%
Direct Pay HMO & POS	-10% to -5%
Commercial PPO Copay	5.9% to 9.9%
Commercial PPO Hybrid $250, $500 and $1000 Deductibles	5.9% to 9.9%
Commercial PPO Hybrid $2000 Deductible	8% to 11%
Commercial PPO Hybrid $2500 and $3000 Deductibles	9% to 14%
Commercial HDHP	14.9% to 19.9%
Commercial Indemnity	10% to 15%
Commercial HMO - Univera Healthcare	10% to 15%

SSA (All Regions) - Groups Renewing in Quarter 1 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
SSA	10% to 15%

2012 Q2 Rolling

Rochester Region - Groups Renewing in Quarter 2 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Commercial PPO Copay	8.9% to 12.9%
Commercial PPO Hybrid $250, $500, and $1000 Deductibles	9.5% to 13.5%
Commercial PPO Hybrid $2000, $2500, and $3000 Deductibles	12.5% to 17.5%
Commercial High Deductible Health Plans	17.9% to 20.9%

Syracuse Region - Groups Renewing in Quarter 2 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Commercial PPO Copay	6% to 10%
Commercial PPO Hybrid $250 and $500 Deductibles	6% to 10%
Commercial PPO Hybrid $1000 Deductible	8% to 12%
Commercial PPO Hybrid $2000 Deductible	9% to 14%
Commercial PPO Hybrid $2500 and $3000 Deductibles	13% to 18%
Commercial High Deductible Health Plans $1300 20%, $1800 10%, and $2600 0%	12% to 16%
Commercial High Deductible Health Plans $2600 20% and $5500 0%	15.9% to 18.9%

Utica Region - Groups Renewing in Quarter 2 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Commercial PPO Copay	10% to 14%
Commercial PPO Hybrid $250, $500 and $1000 Deductibles	10% to 15%
Commercial PPO Hybrid $2000 and $2500 Deductibles	12% to 17%
Commercial PPO Hybrid $3000 Deductible	15.9% to 18.9%
Commercial High Deductible Health Plans	15.9% to 20.9%
Commercial HMO Blue	10% to 15%

Western NY (Univera Healthcare) - Groups Renewing in Quarter 2 - 2012 Requested Rate Change	

Product Type	% Change Required
Commercial PPO Copay	5.9% to 9.9%
Commercial PPO Hybrid $250, $500 and $1000 Deductibles	5.9% to 9.9%
Commercial PPO Hybrid $2000 Deductible	8% to 11%
Commercial PPO Hybrid $2500 and $3000 Deductibles	9% to 14%
Commercial High Deductible Health Plans	14.9% to 19.9%
Commercial HMO - Univera Healthcare	10% to 15%

2012 Q3 Rolling

Rochester Region - Groups Renewing in Quarter 3 - 2012 Requested Rate Change	
[redacted]	
Product Type	**% Change Requested**
Commercial PPO Copay	8.9% to 12.9%
Commercial PPO Hybrid $250, $500, and $1000 Deductibles	9.5% to 13.5%
Commercial PPO Hybrid $2000, $2500, and $3000 Deductibles	12.5% to 17.5%
Commercial High Deductible Health Plans	18.9% to 21.9%

Syracuse Region - Groups Renewing in Quarter 3 - 2012 Requested Rate Change	
[redacted]	
Product Type	**% Change Requested**
Commercial PPO Copay	5% to 10%
Commercial PPO Hybrid $250 and $500 Deductibles	5% to 10%
Commercial PPO Hybrid $1000 Deductible	7% to 11%
Commercial PPO Hybrid $2000 Deductible	8% to 13%
Commercial PPO Hybrid $2500 and $3000 Deductibles	13% to 18%
Commercial High Deductible Health Plans $1300 20%, $1800 10%, and $2600 0%	11% to 15%
Commercial High Deductible Health Plans $2600 20% and $5500 0%	15.9% to 18.9%

Utica Region - Groups Renewing in Quarter 3 - 2012 Requested Rate Change	
[redacted]	
Product Type	**% Change Requested**
Commercial PPO Copay	10% to 14%

Commercial PPO Hybrid $250, $500 and $1000 Deductibles	10% to 15%
Commercial PPO Hybrid $2000 and $2500 Deductibles	12% to 17%
Commercial PPO Hybrid $3000 Deductible	15.9% to 18.9%
Commercial High Deductible Health Plans	17% to 22%
Commercial HMO Blue	10% to 15%

Western NY (Univera Healthcare) - Groups Renewing in Quarter 3 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Commercial PPO Copay	4% to 8%
Commercial PPO Hybrid $250, $500 and $1000 Deductibles	4% to 8%
Commercial PPO Hybrid $2000 Deductible	7% to 10%
Commercial PPO Hybrid $2500 and $3000 Deductibles	8% to 13%
Commercial High Deductible Health Plans	12.5% to 17.5%
Commercial HMO - Univera Healthcare	8% to 13%

2012 Q4 Rolling

Rochester Region - Groups Renewing in Quarter 4 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Commercial PPO Copay	8.9% to 12.9%
Commercial PPO Hybrid $250, $500, and $1000 Deductibles	9.5% to 13.5%
Commercial PPO Hybrid $2000, $2500, and $3000 Deductibles	12.5% to 17.5%
Commercial High Deductible Health Plans	20% to 22%

Syracuse Region - Groups Renewing in Quarter 4 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Commercial PPO Copay	5% to 9%
Commercial PPO Hybrid $250 and $500 Deductibles	4% to 9%
Commercial PPO Hybrid $1000 Deductible	6% to 10%
Commercial PPO Hybrid $2000 Deductible	7% to 12%
Commercial PPO Hybrid $2500 and $3000 Deductibles	12% to 17%

Commercial High Deductible Health Plans $1300 20%, $1800 10%, and $2600 0%	11% to 15%
Commercial High Deductible Health Plans $2600 20% and $5500 0%	15.9% to 18.9%

Utica Region - Groups Renewing in Quarter 4 - 2012 Requested Rate Change	
Product Type	**% Change Requested**
Commercial PPO Copay	10% to 14%
Commercial PPO Hybrid $250, $500 and $1000 Deductibles	10% to 15%
Commercial PPO Hybrid $2000 and $2500 Deductibles	12% to 17%
Commercial PPO Hybrid $3000 Deductible	15.9% to 18.9%
Commercial High Deductible Health Plans	17% to 22%
Commercial HMO Blue	10% to 15%

Western NY (Univera Healthcare) - Groups Renewing in Quarter 4 - 2012 Requested Rate Change	
Product Type	**% Change Required**
Commercial PPO Copay	3% to 7%
Commercial PPO Hybrid $250, $500 and $1000 Deductibles	3% to 7%
Commercial PPO Hybrid $2000 Deductible	5% to 8%
Commercial PPO Hybrid $2500 and $3000 Deductibles	7% to 11%
Commercial High Deductible Health Plans	10.5% to 15.5%
Commercial HMO - Univera Healthcare	6% to 11%