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## Empire HealthChoice Assurance, Inc. Rate Review

**Empire HealthChoice Assurance, Inc. has asked for a rate increase\* for the following product in New York:** EPO-EPO-Small Group-44113NY024.

### Review Status: Pending Review

If the increase happens:

- The average rate increase will be 16.40%
- The effective date of the rate increase is 04/01/2012. The actual date of your rate increase may vary based on the anniversary date of your policy and other factors.
- This increase will affect 1740 people

**\* This posting does not mean that the requested increase is unreasonable. Either the state or federal reviewer will decide that and the decision will be posted here.**

### More Information about this Rate Increase:

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### Why does my insurance company want to raise my premium?

Your insurer says that costs are going up:

Type of Cost:	Per Member Increase Per Month Increase**	Portion of Increase
<b>Medical Services*</b> - Cost of providing healthcare services to policyholders	\$69.18	118.78%
<b>Administrative Expenses</b> - Marketing, claims processing, and other costs to the company	-\$8.64	-14.84%
<b>Underwriting Gain/Loss</b> - Amount the company keeps after paying claims and administrative expenses	-\$2.30	-3.95%

\* 19.60% of the Medical Services cost increases are due to how many people use the services and how often they use them and 80.40% is due to the cost of services.

\*\* These increases won't add up to the average rate increase if everyone doesn't get the rate increase at the same time.

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## What kinds of Medical Services are causing this rate increase?

Medical Service	Per Member Per Month Increase	Portion of Increase
<b>Hospital Inpatient</b> - Care in a Hospital	\$9.60	13.87%
<b>Outpatient</b> - Care in a hospital or other facility that doesn't require an overnight stay	\$6.05	8.75%
<b>Professional Services</b> - Payments to doctors and other healthcare professionals	\$10.84	15.67%
<b>Prescription Drugs</b> - Medicines you need a prescription to buy	\$5.49	7.94%
<b>Ancillary Services</b> - Medical supplies, ambulance fees, etc.	\$0.55	0.80%
<b>Capitation</b> - A fixed per person payment the insurer pays to a provider to cover a person's medical costs	\$1.27	1.84%
<b>Cost Sharing</b> - Changes in deductibles, copayments, benefits, etc.	\$5.84	8.44%
<b>Current Medical Cost Adjustment</b> - The difference between what your insurer thought it was going to pay for medical services and what it actually paid during the current year	\$29.53	42.69%
<b>Total Medical Service Cost Changes</b>	\$69.18	100.00%

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## How would my insurance company use my premium?

Type of Cost	How Premium Dollars Will be Spent if the Requested Rate is used	
	Per Member Per Month	Portion of Rate
<b>Medical Services</b> - Cost of providing healthcare services to policyholders	\$383.99	85.00%
<b>Administrative Expenses</b> - Marketing, claims processing, and other costs to the company	\$46.36	10.26%
<b>Underwriting Gain/Loss</b> - Amount the company keeps after paying claims and administrative expenses	\$21.40	4.74%
<b>Total Request Rate</b>	\$451.75	100.00%

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## Last three rate increases for this product:

Year	Requested	Got
2011	10.00%	9.40%
2010	14.50%	14.50%
2009	15.60%	15.60%

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## Who is reviewing this rate increase?

The rate increase request is being reviewed by the State.

State laws either:

- Allow the insurance regulator to review rate filings, but do not allow the regulator to stop a rate from being used, or
- Allow the insurance regulator to both review rate filings *and* stop an unreasonable rate from being used.

If a state's laws do not allow the insurance regulator to perform effective rate reviews, the federal government\* will review any rate increases at or above 10% in the individual or small group market.

\*If the federal government is reviewing, [click here](#) to see the filing.

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## Insurer's explanation of the rate increase

Empire HealthChoice Assurance, Inc. has prepared the following written explanation of this rate increase.

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## Part II of the Preliminary Justification

### Scope and Range of the Rate Increase

Empire BlueCross BlueShield (Empire) provides health insurance coverage to over 5 million people in 28 counties in eastern and southeastern New York State, which includes the New York City metropolitan area.

Empire has made an application to the New York Superintendent of Financial Services for essential premium rate changes for several small group (2 to 50 employees) health plan products including the Essential EPO product which covers approximately 2,000 small group members.

In New York, the costs of care and coverage for small group employers and their covered employees and dependents are combined, by long standing State law, in what is known as a community rated pool. All subscribers enrolled in the pooled plan are guaranteed issuance of coverage and are charged the same premium rate as any other subscriber for the health insurance product they select regardless of health status, age, sex, or other demographic factors other than the region of the State where the group is located, policy anniversary date and their family structure.

Costs in most of New York's small group community rated pools, including most of Empire's products are rising significantly faster than the rate of overall medical costs in New York. Current approved rates for the Essential product, and in Empire's overall community rated small group pools are inadequate and must be adjusted to assure future coverage. Rising medical costs, escalating utilization in the community pools, and previous reductions in rate requests under New York's prior approval law compound over time to drive these increases needed to sustain coverage. Much of the more recent increased utilization is driven by what is called adverse selection, and is caused increasingly by fewer small employers offering coverage and fewer employees selecting coverage. In most instances, because issuance of coverage is guaranteed, small groups can buy health coverage whenever they really need it. So an increasing number of the healthiest members drop coverage. Those remaining in the community pool are then disproportionately in need of care, increasing the shared cost of the pool over what it would be if a balanced group of members needing and not needing care participated.

The average rate increase request for the Essential EPO product for policyholders renewing in the second quarter of 2012, including benefit and rating structure changes is 14.8%. Absent of the benefit change, the average rate increase would have been 14.9%. An individual Essential EPO subscriber's actual requested rate increase can be higher or lower depending on the plan selected, where the group is located, policy anniversary date, and how many dependents are covered. The requested Essential EPO increases can range from 10.2% to 23.6% for all policyholders renewing between second quarter 2012 and first quarter 2013, for an overall average annual increase of 16.4%.

### Financial Experience of the Product

The percent of premium attributable to claims is essentially how much of the premium dollar is used to pay claims and is referred to as the Medical Loss Ratio (MLR). Empire's MLR for the small group Essential EPO product and for its overall small group community pool is substantially higher than both the 82% State statutory minimum requirement and the Federal minimum MLR of 80%. This high MLR has been the case for the past several years. Empire's Essential EPO and overall small group MLR has materially increased during 2011 following the adverse selection effects and changes in requested rates during prior approval review noted above. Sustainable coverage is jeopardized for small group Essential EPO members and Empire's overall small group pool without appropriate rate relief and some reduction in the number of plan offerings. Even with the proposed rate adjustments, Empire's overall Essential EPO MLR is expected to continue to remain well above the 82% State minimum allowable ratio. In the event Empire's MLR does not meet the State and/or Federal required minimum, Empire refunds the difference to policyholders.

### Changes in Medical Service Costs

New York stands out as an especially costly state in which to purchase healthcare. New York City remains the second most expensive major metropolitan area in the country with respect to healthcare costs. A 2010 report by Milliman shows the cost of care to be 118.8% of the national average, up from 117.4% in 2009 (See, 2010 Milliman Medical Index and 2009 Milliman Medical Index). New York's dubious distinction as a high cost state is also borne out in Dartmouth Atlas data which shows the State outpacing national average costs in a wide variety of indicators (See, Dartmouth Atlas, last accessed 12/15/2010). As a ratio to national average cost, New York State registered 1.31 in professional and laboratory reimbursements; and 1.37 in short stay inpatient reimbursements.

Nationally, the cost per inpatient discharge continues to increase. In New York, the cost per inpatient discharge has increased from \$5,910 in 2005 to \$9,833 in 2009. In 2009, New York's cost per inpatient discharge also exceeded the national median value of \$8,638.

### Changes in Benefits

Empire continues to adjust benefits and plan offerings to assure similarity to other plans in the New York market. Maintaining significantly richer or different benefits in a community rated market can lead to even further adverse selection and even higher community pool costs and premiums for subscribers. Plan design changes, including coinsurance for certain drug and other benefits later this year and next, help moderate premium increases and empower consumers to utilize cost effective physicians, hospitals, and drugs while still benefitting from solid, comprehensive overall coverage. These types of benefit changes have already reduced Empire's requested premium increases by approximately 0.1%.

Empire will also be reducing the number of small group plan offerings, but still maintaining a choice of HMO, EPO, and PPO options if rate approvals related to

Empire's small group requests are sufficient. We anticipate that many, if not most, of the members in the discontinued products who continue with Empire coverage will select one of the products subject to this, or concurrent, rate applications. We also anticipate that the migration of these members will trigger adverse selection and could have potential additional adverse impact on the remaining products.

Administrative Costs and Anticipated Profit

A federal government website managed by the U.S. Department of Health & Human Services  
 Home **HealthCare.gov** Empire h  
 Empire's administrative costs in New York are currently at approximately 8.9% of small group revenue net of premium taxes collected by State of New York, which now total to 1.9% of small group revenue. While we continue to seek improvements in administrative efficiency and cost, an increase in the portion of small group premium revenue unrelated to direct medical care coverage, and outside Empire's control is required as a part of the premium charged to customers.



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