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

Insurer:	**Empire HealthChoice HMO, Inc.**
Line of Business:	Individual HMO
Filing Type:	4308(c) prior approval
Effective Date:	1/1/2015
Affected Members:	67,567 (as of 5/31/2014)
On/Off NY State of Health:	On and Off
Annual Premium:	$387.8 million
SERFF Tracking Numbers:	AWLP-129582432 AWLP-129582419

Summary:

Requested	Approved	Reduction
18.40%	7.37%	-11.03%

The analysis included the following "requested" versus "approved" assumptions for the various parts of the application:

		Requested	Approved
1.	Annual Claim Trend Rate	11.30%	9.00%
2.	Administrative Expense Ratio	14.18%	14.18%
3.	Profit Objective (% of premium, pre-tax)	3.00%	1.00%
4.	Medical Loss Ratio (MLR)	82.82%	84.82%

Analysis:

Under the Affordable Care Act (ACA), all policies in the individual market, both on and off the New York State of Health (NYSOH), must be rated as a single risk pool, which was required in the Department of Financial Services (DFS) rate application. DFS reviewed the material that Empire submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, projected premiums and claims, profit objectives, and the development of the needed rate change, as well as comparisons to similar historical data in each of these areas. DFS considered the insurer's overall solvency and the ability of the insurer to meet its obligations after DFS's decisions. In addition, DFS took into account comments on the rate application received from consumers, consumer groups and policyholders.

2014 is the first year that many of the reforms of the ACA have been in place and the first year that the NYSOH Individual and Small Group Marketplaces have been operational. These reforms have brought significant changes to the health insurance market in New York and have increased enrollment dramatically. However, there is limited claims data and information regarding enrollee health status. Consequently, many insurers and industry experts have pointed out the difficulty and uncertainty in developing accurate premium rates for 2015 (see, e.g., American Academy of Actuaries Issue Brief, "Drivers of 2015 Health Insurance Premium Changes," June 2014, page 2). This was reflected in the rate applications submitted to DFS for 2015 premium rates. There were wide differences in insurers' assumptions and projections about future claim costs. Because of this wide variation, as well as the recognized uncertainty in accurately projecting 2015 medical costs, DFS has given attention to insurers' average overall assumptions, with consideration for regional differences in New York.

Claims Trend:

The claims trend assumptions of insurers submitting rate adjustment applications to DFS varied widely. As noted above, there was very little claims and enrollment data for insurers to base their projections on.

Empire assumed a claims trend of 11.30%. Based on information submitted by Empire, the average requested trend assumptions of all insurers in the same geographic region, and external studies on medical cost projections, DFS finds Empire's claims trend assumption to be unreasonable and finds that a claims trend assumption of 9.00% is reasonable.

Morbidity / Federal Risk Adjustment:

Under the ACA, the Centers for Medicare and Medicaid Services (CMS) must develop a risk adjustment program that will establish a risk adjustment pool that insurers will have to either pay into if their members have lower than average morbidity or receive money from if their members have higher than average morbidity. Insurers were required to include in their 2015 rate applications any adjustments that reflected federal risk adjustment payments or receipts. To assist insurers, DFS conducted a risk adjustment simulation. DFS reviewed insurers' assumptions regarding risk adjustments in conjunction with the insurers' assumptions as to morbidity since risk adjustment and morbidity assumptions are related.

DFS finds Empire's assumption of 1.125 as to risk adjustment and morbidity to be reasonable, a finding that has no impact on the requested rate increase.

Federal Transitional Reinsurance Program:

Under the ACA, CMS established a three year transitional reinsurance program that provides reinsurance for high cost claims in the individual market. CMS indicated that the attachment point for the program would be decreased from $70,000 to $45,000 for 2015.

Empire had assumed in its rate application that the attachment point would be $70,000. DFS modified the rate based on the $45,000 attachment point, which resulted in a -2.17% impact on in Empire's requested premium rates.

Administrative Expense Ratio:

Empire assumed an administrative expense ratio of 14.18%. DFS finds this assumption to be reasonable.

Profit Objective:

Empire assumed a profit ratio of 3.00%. Based on information contained in the rate application and the financial condition of the company, DFS finds a profit ratio of 1.00% to be reasonable.

Medical Loss Ratio (MLR):

With an administrative expense ratio of 14.18% and a profit ratio of 1.00%, Empire's projected loss ratio will be 84.82%.

Other Adjustments:

Prior to the enactment of the ACA, individual and small group policies were subject to a risk adjustment pool under New York Regulation 146 from 2007 to 2013. As New York transitioned to the federal risk adjustment pool under the ACA, funds remained owing to insurers under Regulation 146. DFS required that those funds accrue to the benefit of policyholders and be reflected in 2015 and 2016 premium rates, as applicable. Based on funds available to Empire in the individual market, DFS finds that an adjustment of -0.34% is appropriate and reasonable.

As mentioned above, insurers had little 2014 claims data on which to base their projections, which resulted in a great deal of uncertainty in claims projections. This is evident in the wide variation in insurers' requested premium rates. DFS therefore reviewed insurers' premium requests, compared them to requests of other insurers, and made adjustments accordingly. Based on this analysis, DFS finds a -1.00% adjustment to Empire's premium request to be reasonable.

Decision:

Based on the review and analysis described above, DFS finds that the requested increase is not reasonable and modifies the increase as shown in the summary chart above.