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

Insurer: **Aetna Health Inc. (Aetna) (Article 44 Corporation)**
Lines of Business: **Standardized Direct Pay POS (DP POS)**
Filing Type: Section 4308(c) Prior Approval Filing
Effective Date: January 1 – December 31, 2013
SERFF Tracking #: AETN-128568520
Rating Structure: Rolling Rates -- all plans renew on policy anniversaries.
Affected Members: 877 (as of 3/31/12)
Annual Premiums: $20.8 million (calendar year 2011)

Summary:

Requested and approved rate actions are as shown in the table below:

2013 Rates	Requested	Approved	Change
All Plans	+7.4%	+5.3%	-2.1%

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

		Requested	Approved
1.	Annual Claim Trend Rates	12.96%	12.96%
2.	Admin Expense Ratios	10.67%	8.70%
3.	Profit Objective Ratios	1.30%	1.30%
4.	Medical Loss Ratios (MLR)	88.03%	90.00%

Membership and Average Monthly Premiums:

Average Membership	HMO Plans
2009	1,961
2010	1,330
2011	1,006
March 2012	877

The monthly premium per member averaged $1,721.00 for calendar year 2011.

Prior Application:

No rate actions were introduced in calendar year 2011. Rate actions in calendar year 2012 were:

	Requested	Approved
1Qrt 2012	+9.0%	+0.0%
2Qrt 2012	+12.3%	+3.0%
3Qrt 2012	+15.6%	+6.1%
4Qrt 2012	+19.1%	+9.3%
Total Yr	+14.0%	+4.6%

Analysis:

DFS reviewed the material that Aetna submitted with the rate application, 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. DFS also considered the insurer's overall solvency and 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.

ACA Impact:

Aetna did not include any adjustments in its rate application for the impact of the Affordable Care Act's (ACA) Insurer Fees and Reinsurance Assessment Fees. DFS finds this approach to be reasonable.

Annual Claim Trend Assumptions:

Aetna requested a 2-tiered annual claim trend rate of 12.4%/17.8%. The 12.4% trend would be applied through to the end of 2012 and the 17.8% trend would apply thereafter, for an average of 12.96% for the entire projection period.

DFS finds Aetna's requested assumptions to be reasonable.

Standardization of Premiums:

In order to accurately reflect past premium rate actions that have not yet gone into effect, DFS asks insurers to "standardize" the premiums to the most current levels. Earned premiums in calendar year 2011 are converted to include premium rate actions approved in 2011 and not fully implemented and the rate actions approved in 2012.

DFS finds Aetna's standardization process to be reasonable.

Administrative Expense Ratio:

Aetna requested an expense ratio of 10.67% of premiums. This figure is higher than the actual expense ratios in submitted financial statements. Aetna's average expense ratio for this product from 2009-2011 was 8.61%. The average administrative expense ratio for all downstate companies during the same period was 6.73%.

DFS therefore finds Aetna's expense ratio of 10.67% to be unreasonable and approves a lower expense ratio of 8.70%.

Profit Objective:

Aetna requested a 1.30% pre-tax profit objective. An analysis of Aetna's recent financial data and the financial condition of the company indicates that a 1.30% pre-tax profit margin is adequate and would achieve an after-tax return on equity of about 11.2%.

DFS therefore approves Aetna's requested pre-tax profit objective of 1.30% of premiums.

Medical Loss Ratio (MLR):

With the approved administrative expense ratio of 8.70% and the approved profit objective ratio of 1.30%, DFS approves a projected Medical loss ratio of 90.00%

Financial Conditions of Aetna:

Aetna's capital and surplus at December 31, 2011 was $206.8 million or 33.5% of net premium income of $616.5 million in calendar year 2011. Underwriting gains for Aetna overall (all lines combined) were 7.9% of premiums in 2011, and 9.0% of premiums for the last 5 years in total (2007-2011).

Decision:

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