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

Insurer:	**Aetna Life Insurance Company**
Lines of Business:	**Small Group EPO/PPO**
Filing Type:	Section 3231(e)(1) Prior Approval Filing
Effective Date:	January 1, 2013 through December 31, 2013
SERFF Tracking #:	AETN-128494178
Rating Structure:	Quarterly rolling rates - renewals on policy anniversaries.
Affected Members:	29,636 (as of 4/30/12)
Earned Premiums:	$140.6 million (calendar year 2011)

Summary:

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

2013 Rates	**Requested**	**Approved**	**Change**
All Plans	+11.7%	+7.4%	-4.3%

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

		Requested	Approved
1.	Annual Claim Trend Rates	11.2%	11.2%
2.	Admin Expense Ratios	13.2%	12.5%
3.	Profit Objective Ratios	4.6%	2.0%
4.	Medical Loss Ratios (MLR)	82.2%	85.5%

Membership and Average Monthly Premiums:

Average Membership	SG EPO/PPO Plans
2009	57,529
2010	38,334
2011	27,602
April 2012	29,636

The monthly premium per member for calendar year 2011 for SG EPO/PPO averaged $425.

Prior Application:

Aetna did not request rate increases 4Q2012. The previous rate application covered the 4 quarters of 4Q2011 through to 3Q2012. Year-over-year rate actions in calendar year 2012 are as follows:

	Requested	Approved
1Qrt 2012	12.6%	9.3%
2Qrt 2012	13.7%	9.3%
3Qrt 2012	14.8%	9.3%
4Qrt 2012	11.4%	9.3%
Total Year	12.9%	9.3%

In 2011, there were quarterly rate increases of 2.5% in 1Q2011, 3.0% in 2Q2011 and 3Q2011, and no rate increase in 4Q2011.

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 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.

ACA Impact:

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

Annual Claim Trend Assumptions:

Aetna requested an annual claim trend rate of 11.2%.

Based on information contained in the rate application, DFS finds Aetna's requested claim trend 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 13.2% of premiums.

DFS finds this assumption to be unreasonable and approves an expense ratio of 12.5% of premiums, which is more consistent with the average expense ratio for similar downstate companies.

Profit Objective:

Aetna requested a 4.6% pre-tax profit objective. DFS finds this to be excessive. An analysis of Aetna's financial condition and recent financial data indicates that a 2.0% pre-tax profit margin is reasonable and would achieve an after-tax return on equity of about 14.3%.

DFS therefore approves a pre-tax profit objective at 2.0% of premiums.

Medical Loss Ratio (MLR):

With the approved administrative expense ratio of 12.5% and the approved profit objective ratio of 2.0%, DFS approves a projected medical loss ratio of 85.5%.

Financial Conditions of Aetna (Total US):

As of year-end 2011, Aetna had $16.3 billion in assets, not including separate accounts. Aetna's surplus at year-end 2011 was $3.0 billion. The net gain from operations in 2011 before dividends to policyholders and before federal income taxes was $1.5 billion on total premium and annuity considerations of $11.2 billion.

Decision:

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