

New York State Department of Financial Services

Premium Rate Approval – Decision Summary

Insurer: Aetna Life Ins. Co. (Article 42 Insurer)
Filing Type: Section 3231(e)(1) Prior Approval Filing(s)
Effective Date: July 1, 2012
SERFF Tracking Number: AETN-127860938
Lines of Business: Individual Standardized Medicare Supplement Plans A, B, F
Affected Members: 287
Rating Structure: Annual Rates / Regional Rates

Summary:

	<u>Requested</u>	<u>Approved</u>	<u>Reduction</u>
All Plans	20%	15%	-5%

The analysis included the following “requested” versus “approved” assumptions of the various parts of the application:

	<u>Requested</u>	<u>Approved</u>
1. Annual Claim Trend Rates	8%	8%
2. Administrative Expense Ratio	15%	15%
3. Profit Objective (percent of premium, pre-tax)	10%	5%
4. Medical Loss Ratio (MLR)	75%	80%

Discussion:

The Department reviewed the material that Aetna Life submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, projected premiums and claims, and the development of the needed rate change. The Department also considered the insurer’s overall solvency and ability of the insurer to meet its obligations after the Department’s decision.

Aetna Life’s rate application pertains to their Pre-MIPPA policies. MIPPA refers to the Medicare Improvements for Patients and Providers Act of 2008. It called for increased benefits to the Medicare Supplement Standardized plans starting June 1, 2010. MIPPA plans are also referred to as “Modernized” Medicare Supplement plans. Standardized Medicare Supplement plans (inforce since the early ‘90s until May 31, 2010) are referred to as “Pre-MIPPA” or “Standardized.” Aetna Life’s application requested identical premium increases for the Pre-MIPPA plans, which have a total of 287 members.

Aetna Life’s Pre-MIPPA products, Plans A, B, & F, cover members in 5 rating regions throughout NY. Aetna Life requested a rate change of +20% (year over year) for all plans.

Analysis:

By regulation, the minimum medical loss ratio (MLR) for Individual Medicare Supplement plans offered by Article 42 Insurers in New York is 65%. Aetna Life's target expected loss ratio is 75%.

Claims Trend:

Aetna's NY experience is not fully credible with only 287 policyholders, so nationwide experience was used. Aetna Life assumed an annual claims trend of 8%. Considering the claims trend, Aetna Life would achieve a nationwide loss ratio of 97.5% for 2012 without the proposed increase. The Department finds this assumption to be reasonable.

Administrative Expense Ratio

Aetna's non-claim expenses are broken down as follows:

Acquisition Expense: 1.7%
Commissions: 6.5%
Administrative Expense: 4.8%
Premium Tax: 2.0%
Total Expenses: 15.0%

The Department finds this assumption to be reasonable.

Profit Objective.

Aetna's application contains a 10% profit objective. Although Aetna is not currently achieving this profit objective, it is still considered excessive. Reducing the profit margin to 5% produces a revised target MLR of 80%.

Decision:

Based on our review and analysis described above, the Department finds that an increase of 15% is reasonable.