

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

**Insurer:** Empire HealthChoice HMO, Inc. (Article 43 Corporation)  
**Line of Business:** Standardized Direct Pay HMO/POS Plans  
**Filing Type:** Section 4308(c) Prior Approval Filing  
**Effective Date:** January 1, 2013 through December 31, 2013  
**SERFF Number:** AWLP-128570954  
**Rating Structure:** Non Rolling Rates  
**Affected Members:** 6,597  
**Annual Premiums:** \$109 million

### Summary:

2013 Rates	Requested	Approved	Change
HMO Plans	+17.3%	+12.2%	-5.1%
POS Plans	+17.3%	+12.2%	-5.1%

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

		Requested	Approved
1.	Annual Claim Trend Rates	16.50%	16.50%
2.	Admin Expense Ratios	7.15%	7.15%
3.	Profit Objective Ratios	5.95%	2.00%
4.	Combined Expense & Profit Objective	13.10%	9.15%
5.	Medical Loss Ratios (MLR)	86.90%	90.85%

### Membership and Average Monthly Premiums:

Average Membership	HMO Plans	POS Plans	Combined
2009	7,772	2,805	10,577
2010	5,579	2,662	8,241
2011	4,607	2,586	7,193
June 2012	4,052	2,545	6,597

The monthly premium per member averaged \$1,264.00 for calendar year 2011.

### Prior Application:

For calendar year 2012, the requested rate action was 17.9% and the approved rate action was 6.0% for both standardized direct pay HMO plans and POS plans

## **Analysis**

The Department 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 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 Insurer & Reinsurance Fees:**

Empire included in its rate application a +1.0% adjustment for the impact of the Affordable Care Act (ACA) Insurer Fees and Reinsurance Assessment Fees which will be introduced in calendar year 2014.

The Department finds this approach to be reasonable.

### **Annual Claim Trend Rate Assumptions:**

Empire requested an annual claim trend rate of 16.5%.

Based on information submitted in the rate application, DFS finds Empire's requested annual claim trend rate 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 level. 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 Empire's standardization process to be reasonable.

### **Administrative Expense Ratio / Profit Objective / Medical Loss Ratio:**

Empire's application reflected an administrative expense ratio to premiums of 7.15% (including +1.0% for ACA Fees), and a medical loss ratio of 86.90%, implying a profit objective of 5.95%.

DFS finds Empire's expense ratio of 7.15% to be reasonable.

DFS finds Empire's profit objective of 5.95% to be excessive and finds a profit objective of 2.00% to be reasonable based on Empire's financial condition and industry averages in this market. Therefore the approved medical loss ratio is 90.85%.

**Financial Conditions of Empire:**

Empire HealthChoice HMO's capital and surplus at December 31, 2011 was \$496 million or 26.60% of premium income of \$1,863 million in calendar year 2011.

Underwriting gains in the last 5 calendar years amounted to +7.48% of premium income for all lines of business combined.

For the Standardized Direct Pay HMO/POS plans, the underwriting gains in the last 3 calendar years amounted to about 22.30% of premium income.

**Decision:**

Based on our 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.