

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

Insurer: Excellus Health Plan
Lines of Business: Standard Direct Pay, Healthy NY, and ValuMed
Filing Type: 4308(c) Rate Adjustment Filing
Effective Date: January 1, 2013
SERFF Tracking Number: EXHP-128423258
Rating Structure: Non-rolling rates
Affected Members: Standard Direct Pay = 656, Healthy NY = 24,605, ValuMed = 2,692
Earned Premiums: Standard Direct Pay = \$11 million; Healthy NY = \$67 million; ValuMed = \$8 million

Summary (year over year rate changes)

<u>Product</u>	<u>Requested</u>	<u>Approved</u>	<u>Change</u>
Standard Direct Pay	-3.4%	-3.4%	0.0%
Healthy NY	3.6%	3.6%	0.0%
ValuMed	14.1%	12.9%	-1.2%

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

<u>Standard Direct Pay</u>		<u>Requested</u>	<u>Approved</u>
1.	Annual Claim Trend Rates	5.95%	5.95%
2.	Administrative Expense Ratio	2.5%	2.5%
3.	Profit Objective (% of premium, pre-tax)	3.0%	3.0%
4.	Medical Loss Ratio (MLR)	94.5%	94.5%
<u>Healthy New York</u>		<u>Requested</u>	<u>Approved</u>
1.	Annual Claim Trend Rates	7.55%	7.55%
2.	Administrative Expense Ratio	12.3%	12.3%
3.	Profit Objective (% of premium, pre-tax)	3.0%	3.0%
4.	Medical Loss Ratio (MLR)	84.7%	84.7%
<u>ValuMed</u>		<u>Requested</u>	<u>Approved</u>
1.	Annual Claim Trend Rates	7.57%	7.57%
2.	Administrative Expense Ratio	11.7%	11.7%
3.	Profit Objective (% of premium, pre-tax)	3.0%	1.0%
4.	Medical Loss Ratio (MLR)	85.3%	87.3%

Members by Product

<u>Average #</u> <u>Members for Year</u>	<u>Direct Pay</u>	<u>Healthy NY</u>	<u>ValuMed</u>
2009	973	27,163	3,678
2010	847	26,462	3,243
2011	728	24,898	2,868

Prior Rate Application

The prior rate application was effective January 1, 2012. The table below summarizes the requested and approved rate actions.

<u>Product</u>	<u>Proposed</u>	<u>Approved</u>	<u>Change</u>
Standard Direct Pay	-7.5%	-7.5%	0.0%
Healthy New York	+0.3%	+0.3%	0.0%
ValuMed	-7.5%	-7.5%	0.0%

In the January 1, 2011 rate filing the requested and approved rate change for all three products was 5.4%.

Analysis

DFS reviewed the material that Excellus submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, projected premiums and claims, underwriting margins, 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.

Annual Claim Trend Rate Assumptions

Excellus assumed effective annual claim trends as follows:

Standard Direct Pay = 5.95%,
Healthy NY = 7.55%, and
ValuMed = 7.57%.

DFS finds these trends to be reasonable.

Standardization of Premiums

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

DFS finds the standardization process used to be reasonable.

Administrative Expense Ratio

The rate application reflects an average administrative expense ratio to premiums of 2.5% for Standard Direct Pay, 12.3% for Healthy NY, and 11.7% for ValuMed. DFS finds these expense ratios appears to be reasonable based on the company's reported amounts and a comparison to industry averages.

Profit Objective

Excellus requests an average underwriting margin of about 3%. DFS finds this acceptable for the Direct Pay and Healthy New York products.

DFS finds that a 1.0% underwriting margin is reasonable for ValuMed, based on the company's financial condition, comparison to industry averages, and the company's return on equity (ROE). Members should not be penalized by the adverse experience on this product and by Excellus building back its underwriting margin simultaneously.

Medical Loss Ratio (MLR)

With the administrative expense ratios indicated and an the indicated underwriting margin, the projected medical loss ratio will be about 95% for Standard Direct Pay, about 85% for Healthy NY and about 87% for ValuMed.

Financial Condition of the Company

Excellus' capital and surplus as of December 31, 2011 was \$1.3 billion, or 22.3% of premiums of \$5.7 billion in calendar year 2011. Underwriting gains from 2007 to 2011 averaged 0.7% of premium and ranged from -0.4% in 2008 to 2.8% in 2011 (over all products, including governmental programs like Medicare).

The block of business covered in this rate application is about 1.5% of the company's total business (by premium).

Decision

Based on the review and analysis described above, DFS finds that the requested increases are reasonable for the Direct Pay and Healthy New York products, but unreasonable for the ValuMed product and approves the increase shown in the summary chart above.