

New York State Department of Financial Services

Premium Rate Approval – Decision Summary

Insurer: First United American Life Ins. Co. (Article 42 Insurer)
Lines of Business: Ind. Standardized Medicare Supplement Plans A, B, C, D, F, HDF, G, K, L, N
Filing Type: Section 3231(e)(1) Prior Approval Filing(s)
Effective Date: October 15, 2012
SERFF Tracking Number: AMLC-128390459
Affected Members: 9,930
Rating Structure: Annual Rates / Regional Rates

Summary:

	<u>Change to Base Rates*</u>		
	<u>Requested</u>	<u>Approved</u>	<u>Reduction</u>
Std. & Mod. Plan A	+9.0%	+9.0%	0%
Std. & Mod. Plan B	+3.0%	0.0%	-3.0%
Std. & Mod. Plan C	+9.0%	+4.0%	-5.0%
Std. & Mod. Plan D	+9.0%	+5.0%	-4.0%
Std. & Mod. Plan F	+9.0%	+4.0%	-5.0%
Std. & Mod. Plan HDF	-5.0%	-5.0%	0%
Std. & Mod. Plan G	+3.0%	0.0%	-3.0%

*Actual change in monthly premium varies by 0.1%-0.5% depending on Plan and Region due to the reduction in Demographic Pool Load Factor

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

	<u>Requested</u>	<u>Approved</u>
Annual Claim Trend Rates	5.00%	5.00%
Administrative Expense Ratio	25.30%	25.30%
Profit Objective (% of premium, pre-tax)	9.45%	5.00%
Expected Medical Loss Ratio (MLR)	65.25%	69.70%

Discussion:

The Department reviewed the material that First United American (FUA) 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.

FUA’s rate application pertains to their Pre-MIPPA & 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.” FUA’s application requested various increases depending on the plan and region. FUA has a total of 9,930 members enrolled in Medicare Supplement 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%. FUA’s target expected loss ratio was 65.25% for all Plans. The Department revised the target to 69.7% due to a reduction in profit objective.

Claims Trend:

FUA based their requested trend assumption on combined NY plan experience. FUA assumed an annual claims trend of 5%. The Department finds the trend assumption to be reasonable.

Administrative Expense Ratio

FUA’s non-claim expenses are broken down as follows:

	<u>All Plans</u>
General Administrative	7.00%
Taxes, Licenses, & Fees	2.30%
Commission & Brokerage	16.00%
Total Expenses	25.30%

The Department finds these assumptions to be reasonable.

Profit Objective

FUA's application contains a 9.45% profit objective. The Department finds the profit objective to be excessive. A 5% profit objective is reasonable based on industry averages and the financial condition of the company.

Decision:

Based on the experience provided, the Department has determined that the proposed changes for Plans A and HDF are reasonable and approved as requested. Based on historical experience, the requested increases for Plans B, C, D, F and G are excessive and have been reduced. The proposed increases for Plans B & G are rejected due to low MLRs in recent years, and an increase would likely produce an MLR below the target.