

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

Insurer: Independent Health Association, Inc. [IHA]
Lines of Business: Direct Pay HMO/POS Plans
Standardized Plans and Non Standardized Plans
Filing type: Section 4308(c) Prior Approval Filing
Effective Date: January 1 – December 31, 2013
SERFF Number: NDPD-128526753
Affected Members: 250 members under Standardized Plans
 65 members under Non Standardized Plans
Annual Premiums: \$4.5 million
Rating structure: Non-Rolling rates – All Plans renew on January 1, 2013

Summary:

| <u>CY2012 to CY2013</u> | <u>Requested</u> | <u>Approved</u> | <u>Change</u> |
|-------------------------|------------------|-----------------|---------------|
| Std. HMO | +7.70% | 0.00% | -7.70% |
| Std. POS | +6.51% | 0.00% | -6.51% |
| Non Std. | -5.59% | -5.59% | 0.00% |

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

| | | <u>Requested</u> | <u>Approved</u> |
|----|-------------------------|--------------------|--------------------|
| | | <u>(all plans)</u> | <u>(all plans)</u> |
| 1. | Annual Claim Trends | 9.4% | 9.4% |
| 2. | Admin Expense Ratios | 6.27% | 6.27% |
| 3. | Profit Objective Ratios | 1.73% | 1.73% |
| 4. | Med. Loss Ratio (MLR) | 92.00% | 92.00% |

Membership:

| <u>Membership</u> | <u>Standard</u> | <u>Non Std.</u> |
|-------------------|-----------------|-----------------|
| 2009 | 422 | 108 |
| 2010 | 341 | 78 |
| 2011 | 272 | 65 |
| June 2012 | 250 | 65 |

In calendar year 2011, monthly premiums per member averaged \$1,270.00 for Standardized plans and \$420.00 for Non Standardized plans.

Prior Application:

For calendar year 2012, average requested and approved rate actions were as follows:

| | <u>Requested</u> | <u>Approved</u> | <u>Change</u> |
|----------|------------------|-----------------|---------------|
| Standard | 0.0% | 0.0% | 0.0% |
| Non Std. | -7.0% | -7.0% | 0.0% |

Analysis:

The Department reviewed the material that IHA submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, projected premiums and claims, profit objectives, reimbursements under stop loss pool, reimbursements under the Regulation 146 market stabilization pool 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.

ACA Insurer & Reinsurance Fees:

IHA included in its rate application no adjustment for the impact of the Affordable Care Act’s (ACA) Insurer Fees and Reinsurance Assessment Fees, which will be introduced in calendar year 2014.

All of IHA’s Direct Pay plans will renew on January 1, 2013, and there will be no impact on IHA of such fees in calendar year 2013.

DFS finds this approach to be reasonable.

Annual Claim Trend Rate Assumptions:

IHA requested annual claim trend rate is 9.4% for all Direct Pay plans.

DFS finds IHA’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 “standardizes” the premiums. 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 IHA’s standardization process to be reasonable.

Administrative Expense Ratio / Profit Objective / Medical Loss Ratio:

IHA’s application reflected an administrative expense ratio to premiums of 6.27%, and a medical loss ratio of 92.00%, implying a profit objective of 1.73%.

DFS finds IHA’s medical loss ratio of 92.00% to be reasonable.

DFS finds IHA's administrative expense ratio of 6.27% and implied profit objective of 1.73% to be reasonable.

Regulation 146 and Stop Loss Reimbursements:

Direct Pay plans are eligible to receive subsidies from the State-funded stop loss pool and from the Regulation 146 market stabilization pool. These reimbursements serve to reduce and stabilize premium rates.

The Department found that IHA's requested assumptions with respect to these pools were understated. The Department approves higher reimbursements, more consistent with reimbursements received by IHA in calendar years 2009 through 2011.

Financial Conditions of IHA:

IHA's capital and surplus at December 31, 2011 was \$453 million or 37.31% of premium income of \$1,213 million in calendar year 2011. Net gains in the last 5 calendar years amounted to +2.24% of premium income for all lines of business combined.

Decision:

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