

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

Insurer: Nippon Life Insurance Company of America
Lines of Business: Small Group PPO and HD HSA Compatible PPO
Filing Type: Section 3231(e) Prior Approval Filing
Effective Date: November 1, 2012 to October 31, 2013
SERFF Tracking Number: NLAM-128491178
Affected Members: 6,700
Affected Premiums: Approximately \$39 million
Rating Structure: Monthly rolling rates

Summary:

	Requested	Recommended	Change
Year Over Year			
November – December 2012	13.4%	11.5%	-1.9%
January – October 2013	16.9%	15.0%	-1.9%
Average	16.3%	14.4%	-1.9%

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

	Requested	Approved
1. Annual Claim Trend Rates	9.60%	9.60%
2. Administrative Expense Ratio	13.06%	13.06%
3. Profit Objective (Pre-Tax)	2.41%	1.00%
4. Medical Loss Ratio (MLR)	84.53%	85.94%

Membership:

Nippon Life is marketing its products to two types of small groups, including (1) foreign individuals working for Japanese and Korean firms, and (2) traditional small group firms.

Membership in the traditional small groups grew from 677 members as of December 31, 2010, or 34% of total membership, to 5,066 members as of December 31, 2011, or 76% of total membership. This pattern is continuing in 2012 and the traditional small group membership is expected to increase to 83% during the applicability period for the requested premium rates.

Average Membership	Foreign	Local	Total
2009	945	485	1,430
2010	1,167	633	1,800
2011	1,644	3,438	5,082
First Quarter 2012	1,638	5,066	6,704

Prior Applications:

Nippon Life has a rate structure under which premium rates increase at a monthly rate of 0.8% (9.6% annually), plus an ad hoc rate adjustment.

The ad hoc rate adjustments, both requested and approved, in prior applications are:

<u>Effective Date</u>	<u>Requested</u>	<u>Approved</u>
January 1, 2011	-18.0%	-18.0%
July 1, 2011	15.0%	9.0%
January 1, 2012	3.0%	-3.0%

Analysis:

DFS reviewed the material that Nippon submitted with the rate applications, 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. The Department also considered the insurer's overall solvency and the ability of the insurer to meet its obligations after the Department's decisions. In addition, DFS took into account comments on the rate application received from consumers, consumer groups and policyholders.

ACA Insurer & Reinsurance Fees:

Nippon Life included in its rate application the impact of the Affordable Care Act (ACA) Insurer Fees and Reinsurance Assessment Fees. These fees will be introduced in calendar year 2014, and Nippon Life has prorated impact of the fees to reflect the portion of policy years that fall in 2014.

The full impact of the fees would be 2.16%. Prorated, the impact of the fees is 0.56%.

DFS finds this calculation to be reasonable.

Annualized Claim Trend Rates:

Nippon Life's overall annual claim trend rate assumption is 9.6%.

DFS finds this assumption to be reasonable.

Standardization of Premiums:

In order to accurately reflect past premium rate actions that have not yet gone into effect, the Department "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 the standardization process used by Nippon Life to be reasonable.

Administrative Expense Ratio:

Nippon Life's application reflected an administrative expense ratio to premiums of 13.06%.

DFS finds this assumption to be reasonable.

Profit Objective:

Nippon Life requested a 2.41% profit objective.

DFS finds this assumption unreasonable and has reduced the profit objective to 1.00% based on the financial condition of the company.

Medical Loss Ratio (MLR):

With the administrative expense ratio of 13.06% and a profit objective of 1.00%, the projected medical loss ratio is 85.94%.

Financial Condition of Nippon Life:

Nippon Life's capital and surplus at December 31, 2011 was \$130 million, with premium income of \$252 million in 2011. Underwriting gain in 2011 was \$8.1 million, or 3.2% of premium income.

Premium income for this application was \$39 million in 2011, or 15% of the total company.

Decision:

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