

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

**Insurer:** Oxford Health Insurance Inc. (OHI)  
**Lines of Business:** Small Group Indemnity Products  
**(EPO Plans, Direct Plans and Metro Plans)**  
**Filing type:** §3231(e)(1) Prior Approval Filing  
**Effective Date:** January 1 – December 31, 2013 (four quarterly rate tables)  
**SERFF tracking #:** XFRD-128360458, XFRD-128430286, XFRD-128429999  
**Affected Members:** EPO: 246,000; Direct: 82,000; Metro: 55,000  
**Annual Premiums:** \$2.6 billion  
**Rating structure:** Quarterly Rolling rates

### Summary:

<u>CY2012 to CY2013</u>	<u>Requested</u>	<u>Approved</u>	<u>Reductions</u>
<b>EPO</b>	17.4%	8.3%	-9.1%
<b>Direct</b>	15.6%	4.8%	-10.8%
<b>Metro</b>	23.0%	11.0%	-12.0%
<b>Average</b>	18.2%	8.0%	-10.2%

The requested and approved rate actions are uniform and do not vary within a given product in a given quarter.

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

	<u>Requested</u>	<u>Approved</u>
1. Annual Claim Trend Rates	12.5%	10.0%
2. Administrative Expense Ratio	10.32%	10.32%
3. Profit Objective (pre-tax)	5.70%	2.75%
4. Medical Loss Ratio (MLR)	83.98%	86.93%

### Membership by Plans:

<u>Average</u>	<u>EPO Plans</u>	<u>Direct Plans</u>	<u>Metro Plans</u>	<u>Subtotal</u>
<b><u>Membership</u></b>				
<b>2009</b>	174,000	78,000	107,000	359,000
<b>2010</b>	183,000	83,000	77,000	343,000
<b>2011</b>	189,000	86,000	62,000	337,000
<b>1Q 2012</b>	194,000	82,000	55,000	360,000

In calendar year 2011, monthly premiums per member averaged \$457.00 for EPO plans, \$477.00 for Direct plans and \$616.00 for the Metro plans. Within each product, a variety of plans with varying benefit provisions is available.

**Prior Applications:**

OHI submitted a file and use rate application on June 7, 2010, with rate actions of +20% to +24% for all plans through the 3<sup>rd</sup> quarter of 2011.

For the 4<sup>th</sup> quarter of 2011, DFS approved annual rate actions of +6.0% for EPO plans, +11.8% for Direct plans, and +9.6% for Metro plans.

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

	<b>EPO Plans</b>	<b>Direct Plans</b>	<b>Metro Plans</b>	<b>Avg</b>
<b>Requested</b>	15.2%	22.2%	14.8%	16.9%
<b>Approved</b>	4.3%	9.7%	5.2%	5.7%

**Analysis:**

DFS reviewed the material that OHI submitted with the rate application, which included the projected trend assumptions, administrative expense assumptions, projected premiums and claims, profit objective, stop loss reimbursements 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 the 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:**

OHI included in its rate application the impact of the Affordable Care Act's (ACA) Insurer Fees and Reinsurance Assessment Fees. These fees will be introduced in calendar year 2014, and OHI has prorated impact of the fees to reflect the portion of policy years that fall in 2014 (For example, if a policyholder renewal anniversary is July 1, 2013, half of the plan year falls in 2014, so 50% of the fees are reflected in those rates).

The full impact of the fees would be +3.8%. Prorated, the impact of the fees is +0.3%, +1.2%, +2.2% and +3.1% to the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2013 respectively, for an average of +1.8%. DFS finds this calculation to be reasonable.

**Annual Claim Trend Rate Assumptions:**

OHI's overall annual claim trend rate assumption is 12.5% for the EPO plans, Direct plans and Metro plans. DFS has reduced the traditional annual claim trend rates from 12.5% to 10.0%, which is consistent with OHI's 2010-2011 experienced trend rates.

### **Migration Impact:**

Policyholders in OHI's various products (EPO/PPO plans, as well as HMO and POS plans) are migrating between plans, generally from more expensive plans to less expensive plans. OHI's applications include a trend adjustment factor to reflect the impact of this migration on the EPO/PPO products. Specifically, OHI's applications assert that members who migrate from a given plan to a leaner benefit/lower premium plan have a lower morbidity/lower cost level than the members remaining in the first plan. OHI also asserts that the migrating members also have a higher morbidity level than the members in the plan to which they are migrating. This has an adverse impact on claim costs, over and above the impact of the traditional claim trends.

OHI requested a 2 year migration factor of 1.9% on EPO, 5.4% on Direct and 6.7% on Metro plans. DFS has analyzed the information provided by OHI on the impact of migration experienced in calendar years 2008-11. DFS has reduced its impact to 3.5% for the Direct and to 4.4% for Metro plans (1.9% factor is unchanged for EPO plans), as the environment to prevail from calendar year 2011 to calendar years 2013-14 is anticipated to be different than the environment which prevailed during the experience period, including lower rate actions introduced in calendar years 2011 and 2012, and the introduction of the HMO product in mid-2009.

### **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 2012 that are not yet fully implemented.

DFS finds OHI's standardization process to be reasonable.

### **Administrative Expense Ratio:**

OHI assumed an average administrative expense ratio to premiums of 10.32%. DFS finds this assumption to be reasonable.

### **Profit Objective:**

OHI requested an average profit objective of 5.70% for all plans. DFS finds a profit objective of 2.75% of premiums for all plans to be reasonable, based on OHI's financial condition, comparison to industry profit margins and OHI's return on equity (ROE), which will be 15% on a surplus ratio of 15% of premiums.

**Medical Loss Ratio (MLR):**

With the administrative expense ratio of 10.32% and profit ratio of 2.75%, the average projected loss ratio will be 86.93%.

**Financial Condition of OHI:**

OHI's capital and surplus at December 31, 2011 was \$574 million or 20.82% of net premium income of \$2,755 million in calendar year 2011. Underwriting gains in the last 5 calendar years were 7.52% of premium income. The small group block of business covered in this rate application is approximately 50% of OHI's total business.

**Decision:**

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