

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

Insurer: Oxford Health Plans (NY), Inc. (“OHPNY”) (Article 44 HMO)
Oxford Health Insurance Company (“OHIC”) (Article 42 Insurer)

Lines of Business: OHPNY – Small Group HMO plans
OHPNY - Small Group POS plans (in-network)
OHIC - Small Group POS plans (out-of-network)

Filing Type: Sections 4308(c) and 3231(e)(1) prior approval filing

Effective Date: January 1 – December 31, 2013 (four Quarterly rate tables)

SERFF Tracking #: XFRD-128362721 -Small Group HMO plans
XFRD-128363184 -Small Group POS plans (in-network)
XFRD-128363403 -Small Group POS plans (out-of-network)

Affected Members: 172,000 (HMO)
35,000 (POS)

Annual Premiums: \$1.3 billion

Rating Structure: Quarterly Rolling Rates

Summary:

| CY 2012 to CY 2013 | Requested | Approved | Reduction |
|---------------------------|------------------|-----------------|------------------|
| HMO | 17.0% | 12.5% | -4.5% |
| POS | 28.3% | 11.3% | -17.0% |
| Average | 21.4% | 13.3% | -8.1% |

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

HMO Plans:

| | <u>Requested</u> | <u>Approved</u> |
|---------------------------------|------------------|-----------------|
| 1. Annual Claims Trend Rates | 12.50% | 10.00% |
| 2. Administrative Expense Ratio | 12.76% | 12.76% |
| 3. Profit Objective (pre-tax) | 3.24% | 2.75% |
| 4. Medical Loss Ratio (MLR) | 84.00% | 84.49% |

POS Plans:

| | <u>Requested</u> | <u>Approved</u> |
|---------------------------------|------------------|-----------------|
| 1. Annual Claims Trend Rates | 12.50% | 10.00% |
| 2. Administrative Expense Ratio | 9.91% | 9.91% |
| 3. Profit Objective (pre-tax) | 5.09% | 2.75% |
| 4. Medical Loss Ratio (MLR) | 85.00% | 87.34% |

Membership by Plans:

Membership in the HMO plans has grown rapidly while membership in POS plans has eroded at an annual rate of about -20% on POS plans.

| <u>Average</u> | <u>HMO Plans</u> | <u>POS Plans</u> | <u>Subtotal</u> |
|-------------------|------------------|------------------|-----------------|
| <u>Membership</u> | | | |
| 2009 | 7,600 | 60,300 | 67,900 |
| 2010 | 65,800 | 42,300 | 108,100 |
| 2011 | 123,600 | 37,200 | 160,800 |
| 1Q 2012 | 149,800 | 35,500 | 185,300 |

In calendar year 2011, monthly premium per member averaged \$388.00 for HMO plans and \$779.00 for POS plans.

Prior Applications:

Small Group HMO:

| | <u>Requested</u> | <u>Approved</u> |
|--------------|------------------|-----------------|
| 1Q, 2Q 2011: | 22.5% | 12.5% |
| 3Q, 4Q 2011: | 16.1% | 3.3% |
| 2012: | 22.7% | 11.3% |

Small Group POS (in-network and out-of-network)

| | <u>Requested</u> | <u>Approved</u> |
|--------------|------------------|-----------------|
| 1Q, 2Q 2011: | 15.0% | 10.0% |
| 3Q, 4Q 2011: | 10.4% | 3.7% |
| 2012: | 21.8% | 9.7% |

Analysis:

DFS reviewed the material that OHPNY 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

OHPNY 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 OHPNY 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 1st, 2nd, 3rd and 4th Quarter of 2013 respectively, for an average of +1.8%.

DFS finds this calculation to be reasonable.

Annual Claim Trend Rate Assumptions:

OHPNY's overall annual claim trend rate assumption is 12.5% for both the HMO and POS plans.

DFS has reduced the annual claim trend rate for both plans of 12.5% to 10.0%. For HMO plans, the "experienced" annual claim trend rate on which OHPNY based its analysis is unreliable due to the large changes in membership. For POS plans, the experienced annual claim trend rate is only 10.5% from calendar year 2009 to calendar year 2011, which includes both the traditional claim trend rate and the impact of migration discussed in the next section.

Migration Impact:

Policyholders in Oxford'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. OHPNY's applications include a trend adjustment factor to reflect the impact of this migration on the HMO/POS products. Specifically, OHPNY'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. OHPNY 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.

OHPNY requested a 2 year migration factor of +1.5% on HMO products and +10.5% on POS products.

DFS has analyzed the information provided by OHPNY on the impact of migration experienced in calendar years 2008-11. DFS has reduced this impact for the POS plans from +10.5% to +6.8% as the environment to prevail from calendar year 2011 to calendar years 2013-14 is anticipated to be different than the environment that 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. As to HMO plans, DFS finds the +1.5% migration impact as reasonable.

The combined annual claim trend rate (traditional claim trend rate plus the migration factor) requested by OHPNY is +13.3% for HMO plans and +18.3% for POS plans. DFS has reduced this combined trend rate to +10.8% for HMO plans and to +13.7% for POS plans, which is consistent with the “experienced” overall claim trend rates.

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. The standardization process used by OHPNY is reasonable and acceptable to DFS.

Administrative Expense Ratio:

OHPNY’s applications reflected an administrative expense ratio to premiums of 12.76% on HMO products and 9.91% on POS products. DFS finds these assumptions to be reasonable.

Profit Objective:

OHPNY requested a profit objective of 3.24% for HMO plans and 5.09% for POS plans. DFS finds that a profit objective of 2.75% of premiums for all plans to be reasonable, based on Oxford’s financial condition, comparison to industry profit margins and OHPNY’s return on equity (ROE), which will be 15% on a surplus ratio of 15% of premiums.

Medical Loss Ratio (MLR):

HMO: With the administrative expense ratio of 12.76% and profit ratio of 2.75%, the projected loss ratio will be 84.49%.

POS: With the administrative expense ratio of 9.91% and profit ratio of 2.75%, the projected loss ratio will be 87.34%.

Financial Condition of OHPNY:

OHPNY’s capital and surplus at December 31, 2011 was \$1,107 million or 47.40% of net premiums income of \$2,335 million in calendar year 2011. Underwriting gains in the last 5 years were 9.70% of premium income. The small group block of business covered in this rate application is approximately 45% of total OHPNY 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.