

New York State Department of Financial Services

Premium Rate Approval – Decision Summary

Insurer: Transamerica Financial Life Ins. Co. (Article 42 Insurer)
Filing Type: Section 3231(e)(1) Prior Approval Filing(s)
Effective Date: June 1, 2012
SERFF Tracking Number: AEGC-127749449
Lines of Business: Group Standardized & Modernized Medicare Supplement Plans A, B, C, D, E, F, G, H, H w/o Rx (H), I, I w/o Rx (I), J, J w/o Rx (J), K, L, M, N
Affected Members: 4,774
Rating Structure: Annual Rates / Regional Rates

Summary:

	<u>Requested</u>	<u>Approved</u>	<u>Reduction</u>
All Plans	3.0%	0.0%	-3.0%

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	5.3%	4.1%
2. Administrative Expense Ratio	20.0%	20.0%
3. Profit Objective (percent of premium, pre-tax)	5.0%	5.0%
4. Medical Loss Ratio (MLR)	75.0%	75.0%

The Department rejected Transamerica’s rate increase request because the adjusted projected claims trend of 4.1% did not justify a rate increase.

Discussion:

The Department reviewed the material that Transamerica 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.

Transamerica’s rate application pertains to their MIPPA and Pre-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.” Transamerica’s application

requested identical overall premium increases for the Pre-MIPPA and MIPPA plans, which have a total of 4,774 members.

Transamerica's Pre-MIPPA and MIPPA products, Plans A, B, C, D, E, F, G, H, H', I, I', J, J', K, L, M, and N, cover members in 4 (Pre-MIPPA) and 3 (MIPPA) rating regions throughout New York. Transamerica requested a rate change of +3.0% year over year for all plans. The changes are the result of a 3.5% (Pre-MIPPA) and 4.0% (MIPPA) increase in base rates and a -0.5% (Pre-MIPPA) and -1.0% (MIPPA) adjustment resulting from receipts from the Regulation 146 risk adjustment mechanism.

Analysis:

By regulation, the minimum medical loss ratio (MLR) for Group Medicare Supplement plans offered by Article 42 Insurers in New York is 75%. Transamerica's target expected loss ratio is 75%.

Claims Trend:

Transamerica assumed an annual claims trend of 5.3% based on data from Milliman. The Department has determined that a more reasonable claims trend is 4.1% based on Transamerica's recent experience. Considering the claims trend of 4.1%, Transamerica would achieve a loss ratio of 76.7% for 2012 without the proposed increase.

Administrative Expense Ratio

Transamerica's non-claim expenses are broken down as follows:

- Premium Administration: 2.0%
- Commission: 7.0%
- Claims: 3.5%
- Premium Tax: 2.5%
- Acquisition, Marketing & Overhead: 5.0%
- Total Expenses: 20%**

The Department finds this assumption to be reasonable.

Profit Objective.

Transamerica's application contains a 5% profit objective. Based on the target MLR and other data provided, the Department concluded that the proposed margin is reasonable.

Decision:

Based on our review and analysis described above, the Department finds that an increase of 3.0% is not necessary at this time as the projected 2012 MLR is only slightly above Transamerica's target of 75% and the actual MLR has been below the target in recent years.