

New York State Department of Financial Services

Premium Rate Approval – Decision Summary

Insurer: State Farm Mutual Automobile Ins. Co. (Article 42 Insurer)
Filing Type: Section 3231(e)(1) Prior Approval Filing(s)
Effective Date: May 1, 2012
SERFF Tracking Number: STLH-127346231
Lines of Business: Individual Standardized & Modernized Medicare Supplement Plans A, B, C, & F
Affected Members: 911
Rating Structure: Annual Rates / Regional Rates

Summary:

	<u>Requested</u>	<u>Approved</u>	<u>Reduction</u>
All Plans	+13.1%	+6.7%	-6.4%

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	4.1%	4.1%
2. Administrative Expense Ratio	20.6%	20.6%
3. Profit Objective (percent of premium, pre-tax)	4.0%	4.0%
4. Medical Loss Ratio (MLR)	75.4%	75.4%

Discussion:

The Department reviewed the material that State Farm 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.

State Farm’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.” State Farms’s application requested identical premium increases for the Pre-MIPPA and MIPPA plans, which have a total of 911 members.

State Farm's Pre-MIPPA and MIPPA products, Plans A, B, C, & F, cover members in 3 rating regions throughout NY. State Farm requested a rate change of +13.1% (year over year) for all plans.

Analysis:

By regulation, the minimum medical loss ratio (MLR) for Individual Medicare Supplement plans offered by Article 42 Insurers in New York is 65%. State Farm's target expected loss ratio is 75.4%.

Claims Trend:

State Farm assumed an annual claims trend of 4.1%. Considering the claims trend, State Farm would achieve a loss ratio of 83.7% for 2012 without the proposed increase. The Department finds this assumption to be reasonable.

Administrative Expense Ratio

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

- Claim Administration: 1.5%
- Commission: 10.0%
- Taxes, Licenses and Fees: 0.7%
- Policy Admin & General Overhead: 8.4%
- Total Expenses: 20.6%**

The Department finds this assumption to be reasonable.

Profit Objective.

State Farm's application contains a 4% profit objective. Based on the target MLR and other data provided, the Department concluded that the proposed profit margin is reasonable.

Decision:

Based on our review and analysis described above, the Department finds that an increase of 13.1% is reasonable in order for State Farm to maintain an actual MLR near the target of 75.4%. However, State Farm indicated that they are in receipt of payments from the demographic pool under the Regulation 146 risk adjustment mechanism, yet it is not accounted for in the rate increase request. The Department concluded that, as a result of the proposed base rate increase of 13.1% combined with a (multiplicative) decrease of 5.7% to reflect the demographic pool receipts, an overall increase of 6.7% is reasonable and approved.