



STATE OF NEW YORK

ELIOT SPITZER  
GOVERNOR

DEPARTMENT OF CIVIL SERVICE

Alfred E. Smith State Office Building  
ALBANY, NEW YORK 12239  
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NANCY G. GROENWEGEN  
COMMISSIONER

PA 07-10

To: Participating Agency Health Benefit Administrators

From: Robert W. DuBois, Director of the Employee Benefits Division

Subject: Empire Plan Quarterly Experience Report

Date: June 12, 2007

Enclosed are the First Quarter Empire Plan Experience Report for 2007 and the cover letter to the Chief Executive Officers. This report presents the actual 2006 Empire Plan experience, the projected 2007 Empire Plan experience and the projected 2008 premium rates.

Enclosures



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COMMISSIONER

June 12, 2007

Dear Chief Executive Officer:

Attached is the Empire Plan First Quarter Experience Report for 2007. This report presents the actual 2006 Empire Plan experience, the projected 2007 Empire Plan experience, based on claims paid through March 31, 2007, and the projected 2008 premium rates.

For the 2006 Plan Year, the Empire Plan carriers declared a 2006 net dividend of \$402.0 million or 8.4% of premium. The dividend will be used to offset future premium increases. For the 2007 Plan Year, the Empire Plan carriers project a net dividend of \$204.9 million, 3.9% of premium. This report presents the basis for these projections and future reports will include revisions based on additional claims experience.

The projected 2008 premium rates are presented in Exhibit III and reflect a "best-estimated" net premium increase of 12.5%. A range of the potential 2008 premium rate increase is included for your budget development considerations.

I hope this report is informative. If you have any questions, comments or suggestions, please don't hesitate to contact me.

Sincerely,

Robert W. DuBois, CEBS  
Director  
Employee Benefits Division

Attachments



**PARTICIPATING AGENCIES**

**EMPIRE PLAN**

**2007 First Quarter**

**Experience Report**

**Prepared by The State of New York  
Department of Civil Service**

# **EMPIRE PLAN EXPERIENCE REPORT**

**JANUARY – MARCH 2007**

**Produced for**

**PARTICIPATING AGENCIES IN THE**

**NEW YORK STATE**

**HEALTH INSURANCE PROGRAM**

**by**

**the Employee Benefits Division**

**New York State Department of Civil Service**

**Nancy G. Groenwegen**

**President, New York State Civil Service Commission**

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## Exhibits:

**I.** 2006 Empire Plan Experience

**II.** Projected 2007 Empire Plan Experience

**III.** Projected 2008 PA Premium Rates

**IV.** Empire Plan PA 5-Tier Group Rates 1999-2008

**V.** Empire Plan PA 2-Tier Group Rates 1999-2008

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**NEW YORK STATE HEALTH INSURANCE PROGRAM  
PARTICIPATING AGENCY GROUP  
EMPIRE PLAN EXPERIENCE REPORT  
1<sup>ST</sup> QUARTER REPORT**

**ACTUAL 2006 EMPIRE PLAN EXPERIENCE**

The Empire Plan carriers project a composite dividend of \$402.0 million (8.4% of premium), or \$305.1 million more than the margin loaded in the 2006 rates. The 2006 annual experience is reported in Exhibit I. An additional, \$6.4 million in dividend was declared by Cigna which represents favorable 2006 activity pertaining to the prescription drug contract that terminated effective December 31, 2005. The experience under this contract will continue to be updated until we have accounted for all activity related to claims and pharma revenue incurred/earned by the Program.

The 2006 settlement is based on thirteen months of 2006 paid claim data. The following chart presents the percentage of the incurred claims actually paid as well as observed 2006 trend as compared to the trend assumed during the 2006 rate development:

	<b>% of Actual Paid Claims to Projected Incurred Claims</b>		<b>Projected 2006 Trend</b>	
	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>@ Renewal</u></b>	<b><u>@ 4<sup>th</sup> Quarter</u></b>
Blue Cross Hospital	99.2%	93.1%	13.8%	10.6%
United HealthCare	99.8%	95.5%	10.3%	11.8%
GHI	99.8%	91.7%	4.5%	5.5%
Blue Cross Rx	100.0%	97.9%	16.2%	9.4%

The 2006 dividend for each carrier as compared to the margin level used in the 2006 premium development is as follows:

	<b><u>Margin</u></b>	<b><u>2006 Dividend/(Loss)</u></b>	<b><u>Increase/(Decrease)</u></b>
Blue Cross Hospital	\$26,222,000	\$175,973,000	\$149,751,000
United HealthCare	\$47,285,000	\$40,487,000	(\$6,798,000)
GHI	\$2,628,000	\$8,013,000	\$5,385,000
Blue Cross Rx	\$20,771,000	\$177,488,000	\$156,717,000
<b>Total</b>	<b>\$96,906,000</b>	<b>\$401,961,000</b>	<b>\$305,055,000</b>

The large increase in the dividend is primarily attributable to the significant reduction in the claim costs from those amounts projected during the development of the 2006 premium rates for the prescription drug and hospital programs. When the 2006 premium rates were developed in October 2005, the amount of the actual 2005 incurred and paid claims through September was approximately 62% of the 2005 projected incurred claim amounts. Approximately 38% of the incremental dividend is attributable to a lower 2005 claim base as compared to the projected 2005 claim base used in the 2006 premium development. Another 38% of the incremental dividend is attributable to lower actual 2006 trends as compared to the projected trends used in the premium development. The balance of the incremental dividend is attributable to a number of components including lower retention charges and an increase in pharma revenue receipts.

UHC's modest decrease in dividend is attributable to a moderate increase in the 2006 claims base caused by a higher than projected trend, partially offset by a credit for the Basic Medical Discount Program fee charged to the Program. For GHI, the increase in the dividend projection is primarily attributable to the decrease in their projected 2005 claims based coupled with a modest increase in the 2006 trend.

### **PROJECTED 2007 EMPIRE PLAN EXPERIENCE**

The Empire Plan carriers project a composite dividend of \$204.9 million (3.9% of premium), or \$71.7 million more than the margin loaded in the 2007 rates. The 2007 annual experience projected by the insurance carriers is reported in Exhibit II.

This projection is based on only three months of 2007 paid claim data. The following chart presents the percentage of the projected incurred claims actually paid as well as the current 2007 trend as compared to the trend assumed during the 2007 premium rate development:

	<b><u>% of Paid Claims to Projected Incurred Claims</u></b>		<b><u>Projected 2007 Trend</u></b>	
	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>@ Final Renewal</u></b>	<b><u>@ 1<sup>st</sup> Quarter</u></b>
Blue Cross Hospital	96.7%	14.4%	12.9%	13.5%
United HealthCare	98.0%	16.2%	12.6%	12.4%
GHI	97.0%	12.5%	4.0%	7.6%
Blue Cross Rx	98.0%	24.4%	12.0%	11.3%

The 2007 projected dividend for each carrier as compared to the margin level used in the 2007 premium development is as follows:

	<b><u>Margin</u></b>	<b><u>2007 Projected Dividend/(Loss)</u></b>	<b><u>Increase/(Decrease)</u></b>
Blue Cross Hospital	\$34,710,000	\$53,550,000	\$18,840,000
United HealthCare	\$49,267,000	\$68,028,000	\$18,761,000
GHI	\$2,573,000	(\$4,265,000)	(\$6,838,000)
Blue Cross Rx	\$46,622,000	\$87,543,000	\$40,921,000
<b>Total</b>	<b>\$133,172,000</b>	<b>\$204,856,000</b>	<b>\$71,684,000</b>

The increase in the dividend projection is primarily attributable to the decrease in the 2006 claims base projected during the development of the 2007 rates for the prescription drug, hospital and medical programs coupled with an increase in the projected pharma revenue for the prescription drug program. For GHI, the decrease in their projected 2007 dividend is primarily attributable to the projected increase in claim costs associated with compliance to Timothy's Law, which became effective on January 1, 2007. This increase in projected claim costs is reflected in the projected 2007 trend.

## **2008 PROJECTED PREMIUM RATES**

Exhibit III presents the projected 2008 Empire Plan gross and net premium rates assuming the application of \$300.0 million in dividend to all payors. In aggregate, the Empire Plan gross premium is projected to increase approximately 11.9% while the net premium is projected to increase approximately 12.5%.

A range of the projected gross and net premium rate increase is also included (9.0% - 15.9%). Carrier rate projections made at this time of the year have been historically conservative with the rates ultimately approved and implemented being significantly less than the projections contained in the First Quarter Reports. Each agency should assess its budgetary environment in using the enclosed projections.

Exhibit IV presents the individual and family rate history for the Core Plus Medical and Psychiatric Enhancements option based on the 5-tier Empire Plan billing rate history in effect since January 1, 1999. Exhibit V presents, for illustrative purposes only, the 2-tier rate history from 1999 to 2008.

Enclosures