OFFICE OF THE
HEALTH INSURANCE COMMISSIONER
STATE OF RHODE ISLAND

Health Insurance Bulletin

Number 2008-4

Bundling Discounts, Revised

On February 28, 2008 this Office issued Health Insurance Bulletin 2008-1, entitled, "Bundling Discounts." In that bulletin, insurers were provided guidance on the appropriateness of passing administrative or medical cost savings to subscribers in the form of discounts or premium reductions when such savings result from the bundling of various insurance products with health insurance products (e.g., workers' compensation insurance and health insurance, dental insurance and health insurance). If correctly structured, such discounts would be viewed as benefit adjustments (i.e., adjustments reflecting the plan of benefits chosen), rather than rating factors (i.e., adjustments reflecting characteristics of the group purchasing insurance). In order to ensure that such benefits were correctly structured as a benefit factor, the discount or credit passed on to purchasers of the bundled package had to be actuarially justified (the administrative or medical cost savings passed on to purchasers had to quantifiable), the savings realized from the bundling had to be passed on to purchasers of the bundled package, the discount or credit had be available to all similarly situated employer groups covered by the insurer, and the insurer was required to file with this Office documentation supporting the discount or credit (i.e., explaining the basis for the discount or credit and quantifying the savings resulting from the discount or credit). There was no prior approval process, though Bulletin 2008-1 contemplated a so-called "file and use" system whereby the insurer was free to offer the discount or credit once the filing was made.

Since the issuance of Bulletin 2008-1, questions have been raised about the methodology used to establish some discounts. Without pre-judging the validity of such questions, this Office acknowledges that an insurer that files, pursuant to Bulletin 2008-1, an invalid discounting methodology that does not properly establish a benefit factor discount (whether intentionally or unintentionally) could enjoy an unfair marketing advantage resulting from its use of an illegal rating factor.

Accordingly, this Office has determined that it will now require prior approval of any bundling discounts that are offered in the market on or after November 24, 2008. In order to obtain approval to use a bundling discount as a benefit factor, an insurer must file an application with this Office that includes documentation in support of its claim that the discount or credit is actuarially justified. Such documentation should include:

1. A detailed explanation of the basis or bases for the discount or credit;

2. A quantification of the savings that are expected to result from bundling of coverage;

    a. If the savings that are expected to result from bundling of coverage are expected to come from improved morbidity or other improvement in claims risk, the documentation should include a demonstration of why bundling of these coverages with one insurer will result in lower claims risk than separate insurance of these coverages under different insurers;

    b. If a demonstration can be made that having multiple coverages reduces claims costs, but that it cannot be demonstrated that the multiple coverages must be with the same carrier, a discount or credit can be offered, but then it must be offered equally to groups that have the multiple coverages with multiple carriers on the same basis as it is offered to groups that have the multiple coverages with a single carrier.

    c. If the savings that are expected to result from bundling of coverage are expected to come from lessened administrative expense, the documentation should include a demonstration of which expenses will be reduced by bundling of coverage, and particularly whether the coverages must be purchased at the same time in order to realize any administrative savings;

3. If relevant, the insurer shall also provide details with respect to any program or agreement that the insurer has entered into with another insurer to provide a bundling discount or credit for jointly marketed products.[1]

4. A signed certification by an appointed actuary that the insurer's bundling discount or credit has been calculated in compliance with the requirements of this bulletin;

5. An addendum to the actuary's certification that includes such additional exhibits as may be required to support the conclusions and opinions stated in the certification;

[1] For example, a health insurer and a workers compensation insurer could jointly market their products and offer a discount that meets all of the other requirements of this bulletin. Nothing in this bulletin should be construed as requiring any particular insurer to offer a discount in conjunction with another insurer.

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6. A certification that any savings realized from the bundling will be passed on to purchasers of the bundled package;

7. A certification that the discount or credit will be available equally to all similarly situated employer groups covered by the insurer;

8. A certification that the discount will be provided to any purchasers who avail themselves of the bundled package from the insurer; and

9. Any other documentation or information deemed by the office to be reasonably available to the insurer and necessary to the Office's evaluation of the filing.

Within twenty days of the filing, the commissioner shall approve or disapprove the filing. If a filing is not approved, the insurer may request an administrative appeal of the decision. Notice of such an appeal must be filed within twenty days of the decision to disapprove the application.

This bulletin supercedes Health Insurance Bulletin 2008-1.

Christopher F. Koller
Health Insurance Commissioner
October 24, 2008