



Health Insurance Bulletin

Number 2008-1

Bundling Discounts

We have received questions regarding the appropriateness of health plans passing administrative or medical cost savings to subscribers 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). Specifically, questions have been raised regarding (1) the legality of providing such bundling discounts or credits in the large employer market (R.I. Gen. Laws § 27-18.6-1 *et seq.*) in the absence of an explicit rating factor for such discounts in the health plan's rating manual and (2) the legality of providing such bundling discounts or credits in the small employer market (R.I. Gen. Laws § 27-50-1 *et seq.*) given the statutory limits on rating factors in that market.

Such discounts and credits have been available in the small employer market since 2002. For example, one health insurer provides a discount on its rates to small employer market groups that have a complementary workers' compensation plan with a third party workers' compensation carrier. In support of the discount, the insurer provided documentation of actuarial justification for the amount of the discount. As required by R.I. Gen. Laws § 27-50-5(h)(1), the determination of the amount of the discount was based on actuarial assumptions and principles. Since the discount was equally available to all small employer groups, but was only applied to the rates of those groups that availed themselves both health and workers' compensation insurance through the bundled package, application of the discount was determined to be a benefit adjustment, rather than a rating factor, and was permitted under the terms of R.I. Gen. Laws § 27-50-1 *et seq.*

This bulletin clarifies that this standard will now be uniformly applied to all carriers in the small and large employer markets. However, such discounts or credits must meet the requirements of this bulletin or they risk being classified as an inappropriate rating factor or as a predatory marketing practice.

In order for a bundled insurance package discount or credit to be classified as a benefit adjustment, rather than a rating factor or as a predatory marketing practice, the bundled package must meet the following requirements:

1. The discount or credit passed on to purchasers of the bundled package must be actuarially justified. In other words, the administrative or medical cost savings passed on to purchasers must be quantifiable;
2. The savings realized from the bundling must actually be passed on to purchasers of the bundled package;
3. The discount or credit must be available to all similarly situated employer groups covered by the insurer, but may only be provided to those employer groups that avail themselves of the bundled package; and
4. The insurer seeking to offer the discount or credit must notify the Office of the Health Insurance Commissioner in writing of its intent to offer the discount or credit and must 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).

Once the insurer files the required documents with the Office, the insurer may offer the bundling discount or credit to its existing and potential customers. The Office will, however, review the filings and the insurer's implementation of the bundling discount or credit periodically (e.g., during a small group market conduct examination or a large group rate filing review) to ensure that the requirements of this bulletin have been met.

Nothing in this bulletin should be construed as requiring an insurer to offer a bundling discount or credit.

Christopher F. Koller
Health Insurance Commissioner
February 28, 2008