



OFFICE OF THE
HEALTH INSURANCE COMMISSIONER
STATE OF RHODE ISLAND

Health Insurance Bulletin 2013-5, Revised
Effective January 1, 2015
Group Rating and Underwriting - Unfair Discrimination

(a) **Purpose.** This Bulletin is issued by the Commissioner of the Office of the Health Insurance Commissioner for the purpose of rectifying unlawful group rating and underwriting practices engaged in by certain health insurance companies doing business in Rhode Island. Specifically, a review of group account files has demonstrated that at times companies have discounted group rates by engaging in the following improper practices:

1. Objective, sound actuarial standards and procedures were not established for the development of group rates.
2. Group rates offered were not based on the company's established actuarial standards and procedures.
3. The application of a company's actuarial standards and procedures were not adequately documented.
4. Discounted group rates were based on marketing and business objectives, rather than based on sound actuarial principles.

These improper discounting practices can result in arbitrarily lower rates for some groups, arbitrarily higher rates for other groups, and unfair competition among carriers in violation of the Unfair Competition and Trade Practices Act, which prohibits "unfair discrimination". Rhode Island General Laws § 27-29-4(7)(iii).

(b) **Authority.** This Bulletin is issued in accordance with, and pursuant to the Commissioner's authority under Rhode Island General Laws §§ 42-14.5-2, 42-14.5(e), 42-14-4(c) and (d), and 27-29-12.

(c) **Definitions.** As used in this Bulletin:

(1) "Commissioner" means the Commissioner of the Office of the Health Insurance Commissioner.

(2) "Health insurance company" means any company of any kind doing health insurance business in this state, both domestic and foreign, including any person who offers, issues, or renews a health insurance policy, contract, or other health benefit plan in connection with covered members or policyholders residing or located in Rhode Island, including but not limited to: a health insurance company subject to Rhode Island General Laws Chapter 27-18, including nonprofit dental service corporations subject to Rhode Island General Laws Chapter 20.1, a hospital or medical service corporation subject to Rhode Island General Laws Chapters 19, 19.2, and 20, and health maintenance organizations subject to Rhode Island General Laws Chapter 27-41.

(d) **Group Rating and Underwriting.** The Commissioner intends to monitor group rating and underwriting practices, and to interpret existing law by applying the following standards in determining whether unfair discrimination has occurred in connection with group rating and underwriting, and in connection with group rate discounting.

(1) A health insurance company shall establish group rating and underwriting standards which are based only on rational, objective and financially sound actuarial criteria.

(2) A health insurance company may use the underwriting judgment of its professional staff in connection with a group account; however, such professional judgment must be based on rational, objective and financially sound actuarial criteria.

(3) The practice of "first year discounts", the practice of "bundling discounts" (for example, a discount based upon the concurrent sale of a health insurance plan and a dental insurance plan), and any similar discount practices may be used only if, as applied to a particular group account, it is based on rational, objective and financially sound actuarial criteria.

(4) A health insurance company shall consistently and thoroughly apply its established group rating and underwriting standards when developing and offering group rates.

(5) A health insurance company shall establish internal procedures to adequately document the application of its group rating and underwriting standards, so that an audit or examination of group accounts will clearly demonstrate why a particular rate was offered, and who authorized the offer.

(6) A health insurance company shall establish internal controls to ensure its compliance with its group rating and underwriting standards, and with the regulatory standards established by this Bulletin.

(7)(A) For rates offered after May 1, 2013, a group rate must cover at least 85% of the fully loaded premium including the full administrative expense approved by the Commissioner, and the full formula contribution to reserve approved by the Commissioner.

(B) For rates offered after January 1, 2014, a group rate must cover at least 90% of the fully loaded premium including the full administrative expense approved by the Commissioner, and the full formula contribution to reserve approved by the Commissioner.

(C) For rates offered after January 1, 2015, a group rate must cover at least 95% of the fully loaded premium including the full administrative expense approved by the Commissioner, and the full formula contribution to reserve approved by the Commissioner.

(8) A health insurance company may offer "bundling discounts" (for example, a discount based upon the concurrent sale of a health insurance plan and a dental insurance plan) provided that the discount shall be applied to the administrative charge of ancillary product premium, and that the amount shall not exceed the lesser of 1% of health premium or 3% of the ancillary product premium. The bundling discount must meet the following requirements:

(A) Any discount must be applied to all similarly situated employer groups;

(B) Any discount must be actuarially justified;

(C) The actuarial justification for the administrative expense charge, as well as the standards and procedures for applying the discount to a particular account shall be in accordance with the health insurance company's approved rate manual or rating formula.

(9) If necessary, a company shall amend and re-file its rating formulas, rate manuals, or other means of applying its group rating and underwriting standards to comply with the regulatory standards set forth in this Bulletin.

(e) An Issuer may request clarification from the Office concerning the application of the provisions of this Bulletin to particular facts or circumstances.

(f) Bulletin OHIC-2008-4 (Revised) is withdrawn, effective June 18, 2015.

Dated at Cranston, Rhode Island this 19th day of June, 2015.



Kathleen E. Hittner, MD, Commissioner