§ 325. Appendix C--Explanation for Secondary Plans on the Purpose and Use of the Benefit Reserve

A. Explanation for Secondary Plans on the Purpose and Use of the Benefit Reserve

COORDINATION OF BENEFITS

The purpose of coordination of benefits is to ensure that a covered person does not receive more than 100% of the total allowable expenses. Any plan that has been determined to be the secondary plan in accordance with this model regulation is

permitted to reduce its benefits so that the total benefits paid by all plans during a claim determination period (a period of time not less than 12 months, usually a calendar year or contract year) are not more than the total allowable expenses.

The secondary plan usually saves money on claims due to the other plan paying first. The amount saved by the secondary plan must be used to pay allowable expenses which would not otherwise have been paid. To do this, secondary plans must establish a benefit reserve account for each covered person. The secondary plan puts the money saved on claims for the covered person into the benefit reserve account. This money is to be used to pay any portion of an allowable expense incurred by the covered person during a claim determination period by using the following procedure:

. First, as each claim is received, the secondary plan determines how much it would have paid if it had been the primary plan.

. Second, the secondary plan subtracts this amount from what it paid on the claim.

. Third, the difference (or savings) between what the secondary plan paid and what it would have paid if it had been the primary plan is then placed in the benefit reserve account established for the covered person.

. Lastly, as subsequent claims are submitted for the covered person, the secondary plan reviews previous claims and determines its obligation to pay for allowable expenses on those claims and pays on those claims to the extent savings are available in the covered person's benefit reserve account. This includes claims that were previously applied to either plan's deductible, coinsurance or copayment. For example, if the first claim incurred by the covered person was applied to both plans' deductibles and the second claim incurred by a covered person was payable at 100% by both plans, the secondary plan must use the savings realized from the second claim to pay toward the first claim.

The procedure outlined above is illustrated in the various claim examples that follow. For all of the examples, Plan A is the primary plan and Plan B is the secondary plan. Both plans have an 80 percent/20 percent coinsurance requirement. For illustrative purposes, Plan A has a $ 25 deductible and Plan B has a $ 100 deductible. Claims are assumed to have occurred in the same claim determination period and in consecutive order.

Examples:

Claim Number 1

Actual Charge = $ 100

Plan A	Plan B
$ 100	$ 100
-25 Deductible	-100 Deductible

Claim Number 1

Actual Charge = $ 100

$ 75	$ 0 Payable
80 percent	
$ 60 Payable	

Plan A must pay $ 60. Plan B makes no payment because it would have no liability under the terms of the policy if it had been primary. No money is available from the benefit reserve account.

Claim Number 2

Actual Charge = $ 5300

Plan A	Plan B
$ 5300	$ 5300
-0 Deductible	-0 Deductible
$ 5300	$ 5300
80 percent	80 percent
$ 4240 Payable	$ 4240 Payable

The deductible on both plans was calculated in Claim # 1. Deductibles will not apply from this claim forward. Plan A must pay $ 4240. Plan B must pay the difference between the actual charge and the amount paid by Plan A ($ 1060). Plan B must now establish a benefit reserve account. This amount, the savings, is calculated by subtracting the amount it paid from the amount it would have paid if primary ($ 4240-$ 1060= $ 3180). Now Plan B must go back to Claim # 1 and pay the $ 40 balance of that claim out of the benefit reserve account, leaving a balance in that account of $ 3140.

Claim Number 3

Actual Charge = $ 110

Plan A	Plan B
$ 110	$ 110
80 percent	80 percent
$ 88 Payable	$ 88 Payable

Plan A pays $ 88. Plan B pays the difference of the actual charge and the amount paid by Plan A ($ 22). Plan B would have paid $ 88 if primary, but only paid $ 22, so the balance of the savings of $ 66 goes into the benefit reserve account, which now totals $ 3206. Plan B does not have to go back to any other prior claims to pay any incurred, but unpaid, allowable expenses, because there are none outstanding. So, the balance in the benefit reserve account remains unchanged at $ 3206.

Claim Number 4

Actual Charge = $ 1500

Plan A	Plan B
$ 1300 RVS	$ 1100 RVS
80 percent	80 percent
$ 1040 Payable	$ 880 Payable

The insured is liable for the difference between the actual charge and the highest amount under the relative value schedule (RSV) reimbursement methodology ($ 200). Plan A pays $ 1040. Plan B pays the difference between the highest RSV amount and the amount paid by Plan A ($ 1300-$ 1040=$ 260). The benefit reserve account is increased by the difference between what Plan B would have paid if primary and the amount actually paid by Plan B ($ 880-$ 260=$ 620), for a new balance of $ 3826.

Claim Number 5

Actual Charge = $ 2295 for 51 visits

This claim involves spinal manipulation. Plan A provides up to 26 visits per year on an 80 percent/20 percent basis. Total actual charge of $ 45 per visit is within RSV limits.

Plan A $ 1170 RSV for 26 visits 80 percent $ 936 Payable	Plan B has no coverage for spinal manipulation. However, because Plan A has coverage under its policy, the claim is considered an allowable expense for the 26 visits. Plan B must pay the 20% coinsurance ($ 234) amount for the 26 visits from the benefit reserve account, leaving a final balance of $ 3592. The remaining amount of $ 1125 for the additional 25 visits is not payable by either Plan A or Plan B because it is not considered an allowable expense under Plan A. Plan A pays benefits for only 26 visits per year. Again, Plan B has no coverage for spinal manipulation.