

Employer Self-Administration

Background

Larger employers are increasingly looking the possibility of adjudicating and processing their own plan benefits.

Several reasons are cited for this interest.

- Merging of on-the-job and off-the-job related illnesses and injuries.
- Emphasis on cost containment.
- Health care costs are high as a percent of payroll.
- Facility of the microcomputer.
- Inability of either the insurer's or the TPA's system to be flexible enough to meet employer's demands.
- Dissatisfaction with the performance of present plan supervisor.
- Experience with self-administration of their pension plan increasing their comfort level.

Many employers who have gone to self-administration are pleased with the results; most employers when they seriously contemplate such an act back away from it as being to risky. There are savings to be made if such administration is properly done, however.

The usual number of lives mentioned as reasonable for the breakpoint where self-administration is feasible is 3,000.

Advantages to Employer

When the employer self-administers, it will have these advantages:

- Better handle difficult and specialized plan or employee needs.
- Better control the benefit-containment-turnaround process.
- Better negotiate with the providers for a PPO, e.g.
- More quickly modify the plan.
- Major administrative cost savings.
- Access over the use and storage of participant data.
- Provide virtually instant claims turnaround by such techniques as walk in claims service. Conversely it can also schedule so as to coordinate with employer's cash flow.
- Better coordination with employer's other benefit packages.
- Nearly perfect coordination with workers' compensation program, also with the long-term disability plans.

- Fits in nicely with those employers, which have a paternalistic philosophy of management.

Disadvantages to Employer

When the employer self-administers, it will have these disadvantages:

- No buffer so that employer alone will deal with the difficult problem.
- Concern with employee confidentiality.
- Investment in staff, space, equipment, systems, etc.
- Difficulty in managing or obtaining excess loss.
- Occasional legal conflict of self-serving accusation by being both the payer and the adjudicator.
- Employer must assume the many technical tasks assumed by an outside administrator-actuarial, legal, excess loss, cash flow, bonding, reserving, utilization and other cost containment functions, benefit design, e.g.
- Particular administrative difficulties with the employer's plan is fragmented by different geographic locations, union and management plans, etc.

General Employer Considerations

1. *Will it be central or fragmented?*
One benefit administrative function is good; too many are bad.
2. *What is expected turnaround time?*
An employer demanding rapid turnaround may well opt for its own administration.
3. *Is employer satisfied with workload per examiner?*
Only by doing it themselves will the employer be able to discipline and obtain efficiencies, which it expects.
4. *Telephone, employee and public relations-Is employer ready to accept these responsibilities?*
A considerable time by the insurer and TPA is devoted to keeping peace and harmony. Is employer willing to accept or recognize this obligation?
5. *Will employee stay current on tools?*
The UCR, PAS, ICD-9, CPT, and PDR books change frequently. The employer must keep up with these changes.
6. *Does employer wish special reports?*
Where special reports are desired, the employer may be motivated to do its own benefit administration.
7. *What is the hardware/software to be used?*
A strong motivation for the employer to do its own benefit administration is the ready availability of many excellent packages, which operate off of a microcomputer.
8. *Does employer have unique benefits?*

Many large employers have such unique benefits that the availability of good health benefit administration from most TPA and many insurers is limited. Where plans are negotiated, where there is a retiree benefit and where benefits are unusual are three examples.

9. *What is goal of employer?*

Does employer wish more efficiency, lower costs or merely more control?

10. *Management Support*

Does administrative change have the full support of the employer's management?

11. *Union Reaction*

Employer-administration issue would most likely be a subject of collective bargaining.

Minimal Employer Needs

A partial checklist of items by the employer to get a self-administered plan started is as follows:

- Staff, space, etc.
- Claims, computer hardware and software.
- Paperwork and forms (plan document, booklets, ID cards, communication materials, administration manual, claims forms, etc.).
- Excess loss arrangement.
- Training program.
- Relationships with provider (PPO, hospital discounts or perks, drug discounts, etc.).
- Coordination with workers' compensation claims administration; company's medical staff, etc.
- Goals and standards relative to claims turnaround, handling of problem claims, etc.
- Statistical system, usually but not always from the computer.
- Method set as to data confidentiality.
- Arranging for outside experts such as legal, actuarial, medical, etc.

Specific Employer Attitudes

In discussing with numerous employers the issue of TPA-administration or employer-administration, their attitudes appeared to be significant.

Buffer or Bad Boy Role of TPA. Some employers are convinced that this need for a *Bad Boy* buffer is not warranted. There is no need to becloud an honest relationship with the employees with a *Bad Boy* buffer. In fact, having the relationship open and direct with the employees sensing the intense push-pull on the employee and employer is helpful in controlling the cost and avoiding unwarranted demands for benefits or the resistance to price hikes. However, the majority of employers believe a buffer is needed.

Complexities of Administration. Most employers are properly concerned about the complexities of benefit administration. Consider the *subculture* of COB, subrogation, ERISA-denials, reasonable and customary, federal guidelines (end-stage renal, e.g.), etc. most employers state their present staff is not sufficiently trained; to handle the administration properly, outside talent must be imported with an attendant experience. Some employers, however, have as their goal the creating of a *team* attitude and the increased cost, if any, is part of that price.

Other Benefit Functions. By having a staff to process benefits, the burden of administering other corporate benefits (cafeteria, 401 (k), e.g.) may be assumed with little extra burden and sometimes considerable advantages.

Starting-Up Costs. Most employers view their initial start up costs to be as follows:

- *Hardware and software.*
Very few begin manually.
- *Staffing and Training.*
Usually a key person is found with experience and offered attractive terms. Many employers believe that they can hire, train and supervise benefit payers as well as the TPA-some believe even better.

Plan Design. Some employers believe a better plan design for them results where they do their own administration. The intimacy with the plan benefits results in an intimacy with needed plan design. Removal from plan benefit payout insulates the employer from subtle plan design needs.

Overall Operating Costs. Most employers would agree that in-house is more expensive than TPA Administration. Reasons: fewer units, therefore higher unit costs than TPA-Administered plans; more management overhead is usually given by employer (legal, medical, accountants, computer, e.g.), need for outside consulting help (government forms, computer, actuarial, risk management, e.g.); better communication packages are generally more extensive with employer-administered plans. The real issue is not that employer-administration is more experience (it probably is) but do sufficient added advantages result therefrom.

Stop-Loss Coverage. Most stop-loss carriers are reluctant, or in fact refuse, to offer their product to a plan administered by an unknown, inexperienced or questionable plan supervisor-TPA *or* employer. The employer must convince, at least a quality stop-loss carrier that it can properly do the job. The burden, and a heavy one, is on the employer to so this demonstration.

Extended Services of TPA. Many employers are not mindful of the fact that when they take the administration of their plan from a TPA, or insurance carrier that they lose many built-in services-such as medical, actuarial, legal, etc.

Other Services. Many thoughtful employers note the potential problems with actual benefit processing. The other administrative functions (funding, recordkeeping, communicating, e.g.) are far better handled by the employer than by the TPA. The *scare talk* against employer-administration is directed at benefits but the other functions are not usually discussed.

Control. The same factors which motivate an employer to self-fund (control of plan) is the same factor which motivates it to fully self-administer it.

Feasibility Of Employer-Administered Plan

Most of the time when employers carefully explore the feasibility of paying their own health claims, they decide against doing so. For those employers who successfully process their own claims, the rewards may be substantial. These include:

- Increased control over all phases of the process.
- Improved handling of unusual employee needs.
- Being better able to establish and maintain preferred provider arrangements.
- More rapid benefit modifications.
- Savings on administrative costs.

These are some negatives which must be considered:

- Employer must deal directly with all of the complaints.
- Problem of confidentiality and privacy are ever present.
- Employer must handle the legal aspects of claims and recordkeeping.
- In many instances the employer will spend more than it would if it hired a good TPA.

In considering whether to do in-house administration, these types of questions should be considered:

- Is lowering costs the employer's goal? Does the employer wish to make the claims operation more efficient? Does the employer simply want more control of the overall process?

Once goals and objectives are clear, an employer should look at current claims experience and costs using an outside administrator. Next comes data gathering:

- How many providers or HMOs are included in the company's health plans?
- How are benefits designed?
- Does the employer wish to do only medical claims, medical and dental, or will the employer include disability and/or workers' compensation coverage as well?
- What are company's data processing policies, practices and procedures? (These are particularly important if time-sharing arrangements are used or anticipated.) How might those change with in-house claims processing?
- What is the level of internal expertise? Are appropriately trained personnel available?
- What are the employer's staff training capabilities?

Other items to consider include:

- How would in-house claims administration mesh with flexible benefits program if the employer has one?
- Would the new department start with a claims backlog inherited from the outside administrator or would the employer start fresh with new claims only?
- Does the employer want this to be a centralized operation or does the employer want to delegate some portion of the work to other sites? How would that decision affect the claims processing department?

Additional questions the employer must address include: How centralized will the in-house operation be, given the number of the employer's plant or offices locations; how will that compare to what an outside administrator provides; and is centralization important to the employer? If centralization isn't important, how and when will personnel at different locations be trained for claims processing and who will train them? Who will be responsible for monitoring their performance?

Available data indicates that approximately 5-10% of all self-funded employers administered their own claims. The larger the employer, the higher the percent.

The administrative conveniences to the employer are considerable. The disadvantages are also considerable. One of the greatest disadvantages to processing health claims in-house is that all complaints about claims will come directly to the employer.

Moreover, the employer has to maintain strict confidentiality and non-disclosure of information to those inside and outside the company who aren't entitled to it; otherwise, the firm could find itself violating state and federal privacy laws.