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REDUCING THE COST OF RISK

TPAs as Solution Providers

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Today, all organizations need to be as cost efficient as possible, especially in the area of insurance cost. An important way to accomplish this goal is for the third party administrator (TPA) and the public risk manager to have a business partnership with joint goals.

As an effective partner, the TPA is an extension of the risk management department and plays an active role in providing solutions to reduce the cost of risk. A TPA should identify areas that affect your cost of risk and design a plan to address these cost drivers. This approach starts with researching three to five years of your claims data, which will provide important trends and a starting point for improvement.

This article provides an overview of nine key areas that can drive down workers' compensation costs: frequency rates, root causes of claims, prompt claims reporting, calendar year payments, medical savings, closure rates, recoveries, settlements and benchmarking. Of course, there are more than nine areas to drive down these costs, but this is a excellent starting point.

Frequency Rates

Claims frequency is a key driver of insurance costs, so a TPA should help you understand your frequency rates and find solutions to improve them. In short, it's a great tool to gauge where you are and where you want to go.

Start by comparing your frequency rates with payroll costs to determine your frequency ratio. Then dig deeper. A detailed risk assessment will identify exactly which tasks, departments and facilities are generating claims, so rather than taking a broad-brush approach to the hundreds of exposures that exist, you can strategically attack those areas that have the highest claims frequency.

To lower claims frequency, there are two important steps to take:

- First, leadership must be committed to change. For example, for your fleet of vehicles, you need a commitment to enforce your policies and procedures regarding the selection and training of drivers. Without this commitment, all other risk management initiatives will fall short.
- Second, educate managers and employees so they understand why safety is important and specifically why certain safety precautions must be followed. If workers are required to use personal protective equipment, for instance, they should understand how that equipment protects them and the dangers that result from a failure to do so.

Once these two initial steps are in place, your TPA can help reinforce safety procedures with specific training programs, on-site visits, incentives for results-driven safety programs, educational materials such as safety booklets, videos or newsletters and techniques to measure your success.

Root Causes of Claims

A partnership with your TPA also can help you drill deeper into claims to understand what type of decisions and behavior caused a specific type of accident. This will help you understand why accidents are occurring and how can you prevent them.

For example, if your employees drive over the speed limit, they have made a decision to put themselves at risk. The question is, why do they do it? Do employees like the thrill of driving fast? By discovering the answer to this question, you understand why the employee's decision was made and can take steps to prevent this behavior. The same is true when a worker decides not to use personal protective equipment or a municipality decides not to invest in this equipment.

This safety management approach, called behavioral-based or decision-based safety, looks at behaviors that result in accidents and drills down to the decisions that led to those dangerous behaviors. The intent is to change these decisions that will improve behavior and reduce accidents.

While this may not be an easy approach for a public risk manager to undertake, the results can be dramatic. One organization that used this approach experienced only two lost-time claims in the first 12 months of implementing this program and realized an 82 percent reduction in incurred costs—a savings of nearly $260,000.

Prompt Claims Reporting

Failing to promptly report claims is a cost driver that can be improved. Your goal should be to report all claims to your TPA within three days.

By examining your claims reporting history, your TPA can learn how timely you are reporting your claims and provide you with details by department, location, etc. Any late reporters can be identified, and an improvement plan created that includes:

- Educating all stakeholders about the importance of prompt reporting;
- Assigning accountability;
- Reviewing reporting techniques, e.g., using the Internet to report claims; and
- Providing frequent updates on progress made by each location, department, etc.

For example, a state government with more than 50,000 employees was averaging 19.2 days for lost-time claims. Their TPA identified the departments that were not meeting reporting goals, educated them on why and how to improve reporting times, and provided frequent reports on their progress. The result? In three years, lost-time claims reporting dropped 64 percent to just 6.9 days and medical-only claim reporting time also improved. (*See Figure 1*).

By improving their claims reporting, this public entity was able to lower their workers' compensation costs.

Calendar Year Payments

Another way a TPA can help lower an organization's cost is by assisting public risk managers to understand and address calendar year payments. These payments outline the cost of the workers' compensation program during a fiscal year and can be monitored closely to determine if they are moving in the right direction. If calendar year payments are increasing at a rate faster than inflation, it needs to be addressed.

Since calendar year payments determine an insurance program's annual cost, it's important to understand the variables that comprise these payments. A TPA should break down your payments by indemnity, medical and expenses and ask questions like these:

- What is the ratio (divide calendar year payments by payroll) from year to year?
- Were there settlements in any years that increased calendar year payments?
- What is the rate of medical/indemnity inflation and its impact on payments?
- Is there a plan to reduce payments?

For example, a decade ago, a large county government was funding more than $5 million in workers' compensation costs each fiscal year. Their TPA addressed two factors of calendar year payments—recoveries and subrogation. The TPA researched the county's calendar year payments and found a large number of open and pending claims, including a large number of claims that were not being reported promptly to an excess insurance provider. In addition, a group of claims was found where third parties may have been negligent, involving potential subrogation recovery.

The TPA worked with the public risk manager so that claims were promptly reported to the excess carrier and also addressed the subrogation issue. Through these steps, $2 million of workers' compensation costs were eliminated over a period of 10 years, resulting in savings of $200,000 a year in taxpayer money.

Medical Savings

Every public risk manager is aware that medical costs have a significant impact on overall workers' compensation costs. A managed care program can help address these costs.

Your TPA partner should provide programs that not only provide quality health care to injured workers, but also manage medical costs. Here are some strategies that can reduce the financial impact of medical costs:

- **Early intervention** – Disability and medical case management should begin within 24 hours of injury notification.
- **Experienced provider network** – In states that allow you to direct care, your TPA should provide a network of credentialed medical providers who understand workers' compensation and will work with you and the claims adjustor.
- **Medical bill review** – The TPA should help you identify and address inappropriate medical charges.
- **Out-of-network negotiation** – A good program targets costly medical bills from providers that are outside the provider network, often generating additional savings below submitted charges.
- **Reducing pharmacy costs** – TPAs can address rising prescription drug costs by providing access to a pharmacy benefits management program.
- **Return-to-work** – Perhaps most important to manage medical costs is a program that can return workers to gainful employment as soon as medically indicated.

Closure Rates

Of course, the best claim is the one that never occurs. However, the reality is claims do happen. Once a claim occurs, the goal is to resolve the claim as efficiently and appropriately as possible.

A TPA should benchmark your closure rates. For example, if you have 100 lost-time claims in a particular year, the TPA's goal is to close all the claims. The chart below shows an organization's closure rate by year.

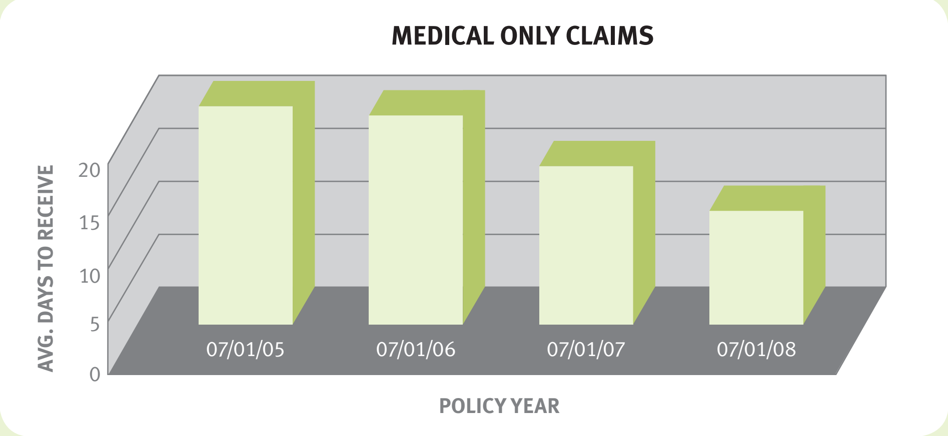
FIGURE 1

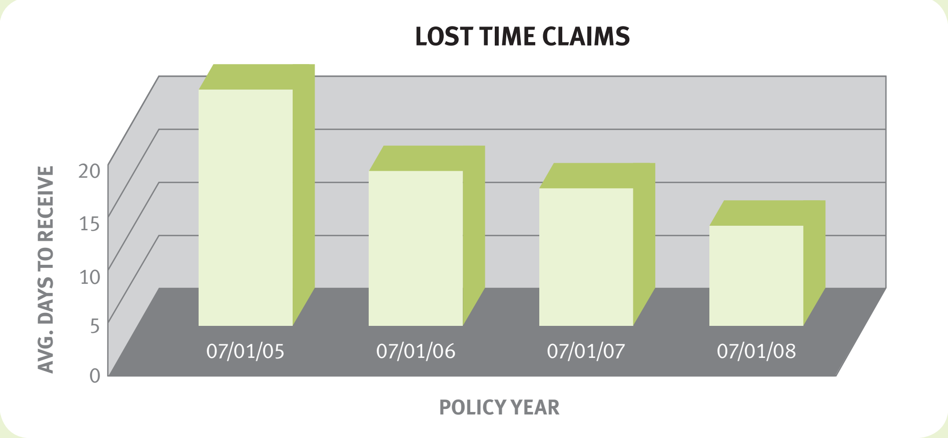
WORKER'S COMPENSATION TIMELY REPORTING – POLICY YEAR SUMMARY

Claim Type: Lost Time, Medical Only

Accident Dates: 07/01/05 to 01/01/09

EFFECTIVE DATE	CLAIM TYPE	CLAIMS	AVG. DAYS TO RECEIVE
07/01/05	Lost Time	693	19.2
	Medical Only	3,150	18.0
	Total	**3,843**	**18.2**
07/01/06	Lost Time	651	10.8
	Medical Only	3,163	16.5
	Total	**3,814**	**15.5**
07/01/07	Lost Time	686	9.8
	Medical Only	3,039	12.0
	Total	**3,725**	**11.6**
07/01/08	Lost Time	295	6.9
	Medical Only	1,436	8.0
	Total	**1,731**	**7.8**





In this example, this organization's closure rate was 96 percent in 2002. The targeted closure rate for this jurisdiction for 2002 was 94 percent, so this organization was two points better than the industry benchmark, potentially saving approximately $20,000 in workers' compensation costs. (*See Figure 2*)

By benchmarking and monitoring your closure rate, you can more effectively manage claims and ultimately lower your workers' compensation costs.

Recoveries

You can also find pretty significant savings by looking at recoveries.

In the example above, I discussed a county government that saved $200,000 a year in recoveries by addressing both subrogation and prompt reporting to excess insurance providers:

- To address subrogation issues, a TPA should have a unit that focuses on the causes of losses, can identify when third-party negligence is involved and undertakes subrogation recovery on your behalf.
- A TPA should ensure prompt reporting to excess insurance carriers, a step that can result in recovery of sums due your organization under the relevant policy.

TPAs should be very knowledgeable with the state's workers' comp laws that allow for recoveries, through, for example, second injury funds. These potential fund recoveries vary by state and are constantly changing. A results-driven TPA will always search for ways to return dollars back to the public entity through subrogation, excess recoveries and other recoveries, as permitted by state laws.

Settlements

Every claim needs to be resolved; some claims are best resolved through settlement. An experienced TPA who understands public risk claims can determine the best course of action to provide you with the optimum solution.

Some settlements are straightforward. For example, your medical provider concludes that an injured worker has reached his/her maximum medical improvement and will never be able to return to work. Therefore, you should consider a potential resolution.

But other settlements can be more difficult. For example, a medical provider may deem a worker fit to return to work in some transitional duty, but the injured worker disagrees and litigation ensues. Should you litigate and risk paying out over a longer period of time or do you attempt to settle now?

An experienced TPA manages litigated claims aggressively, conducts thorough investigations, handles high exposure and complex claims, uses a stringent defense counsel selection process and guidelines and advises you on the right settlement timing and amount to minimize your costs. To make sure your needs are met, your TPA should maintain frequent communication with you and review with you all the facts that involve a settlement.

FIGURE 2

LOST TIME CLAIM CLOSURE RATES BY POLICY YEAR

EFFECTIVE DATE	EXPIRATION DATE	TOTAL LT CLAIMS	OPEN LT CLAIMS	CLOSED LT CLAIMS	PCT. CLOSED
01/01/01	01/01/02	143	5	138	96.5%
01/01/02	01/01/03	129	5	124	96.1%
01/01/03	01/01/04	77	4	73	94.8%
01/01/04	01/01/05	119	7	112	94.1%
01/01/05	01/01/06	101	9	92	91.1%
01/01/06	01/01/07	64	7	57	89.1%
01/01/07	01/01/08	64	12	52	81.3%

Benchmarking

Another important strategy that you and your TPA should pursue is benchmarking. By establishing benchmarks for everything from frequency rates and calendar year payments to closure rates, your TPA can provide you with effective measurement tools to determine and track your progress and to control your insurance program costs.

You should benchmark against yourself from past years, against your peers and against industry wide measures. For example, the Public Entity Risk Institute (PERI) has important data that can serve as benchmarks. Also look to the Occupational Safety and Health Administration (OSHA), the National Council on Compensation Insurance (NCCI) and other organizations for important benchmarking data. And if your TPA is experienced in working with public entities, they will likely have their own data that can help you benchmark against your peers.

Good Solutions = Good ROI (Return on Investment)

By choosing a TPA that is experienced, accountable and will actively partner with you to address the nine focus areas of this article to drive down costs, you should receive solutions that generate savings on every dollar you pay in claim fees. In other words, when you have a real partnership with your TPA and that TPA is a true solution provider, you receive real tangible value and a positive return on investment for the price you pay for your TPA's service. ■

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