

Reducing Healthcare Costs *for Employers*

Employee Benefits Series

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Getting More Bang for Your TPA Buck: Questions Employers Should Ask Before Paying

Employers are changing how they conduct due diligence on third-party administrators (TPAs), evaluating them not just on the cost of their services, but on the TPA's ability to expand or adjust services later and its ability to provide more comprehensive programs.

"Historically employers looked primarily at the cost of services. But now employers are looking at the rising costs and asking TPAs about their results and what they're doing to better manage their risk," explains Joe Manheim, president of benefits administration for The TriZetto Group, based in Newport Beach, Calif. Since health benefits are a company's second-highest cost after payroll, health management costs becomes a critical factor in a company's ability to compete, he adds.

Employers are also demanding more transparency from TPAs, particularly on what goes into fees the plan pays the TPA. Plans are scrutinizing line items for unexplained expenses and comparing bills from month to month and year to year, according to Joseph Paduda, principal, Health Strategy Associates, Madison, Conn.

Many TPAs are transforming ... from a commodity based vendor model to one of more of a risk manager, says Manheim. "The world is changing. TPAs need to change [their practice and structures] with it — to accommodate their employers," he explains.

Question TPA's Operations

Employers should "get in the weeds" and ask some specific questions of a TPA they're working with or thinking of engaging, experts say. They include:

- **Can the TPA offer more complex benefits than merely processing claims?** If an employer wants to add to its plan design, such as adding wellness programs or disease management, now or down the road, the TPA needs to be able to handle the changes or else run the risk that the employer will go elsewhere for its TPA needs, warns Manheim.
- **Can the TPA improve the plan design by aligning incentives?** Out-of-sync incentives can increase health care costs. For instance, the employer may cover preventive care, such as mammograms or immunizations, but if the employee must pay a high copayment for the privilege, she may not take advantage of the preventive care, which can backfire when she gets sick, says Manheim. TPAs should be looking out for that.
- **Is there a broker fee included in the TPA fee?** Sometimes the broker is getting a cut of the TPA's per member per month (pmpm) fee paid by the employer. However, since brokers typically get paid by commission, also paying them a cut means that they're getting paid twice, warns attorney Catherine Stowers, with Krieg Devault in Indianapolis. Employers should not be paying for that. "You need to ask what the elements of the pmpm fee are," she suggests.
- **How efficient is the TPA's operation?** The more efficient and integrated the TPA's processes and tools, the better it will operate, which means reduced costs for employers, says Manheim. For example, if the TPA is part of a national network of highly qualified providers, employees are likely to remain in-network for health care services, but also to obtain higher-quality care.
- **What kind of reports can the TPA generate?** TPAs should be able to provide data and report

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so that it can be analyzed and the plan design changed, if necessary. For example, if the TPA can monitor trends regarding patients with chronic diseases, it may determine that the employer would benefit from adding nurse coaching to reduce those long term costs, says Manheim.

- **How does the TPA handle subrogation?** Some TPAs are better at pursuing and winning third-party recoveries from employees who have been reimbursed for medical claims from other insurers, such as automobile insurance companies. “If a TPA is not identifying these claims and notifying the plan sponsor, then money is lost on the back end,” says Stowers. Some TPAs handle these claims in-house, others use law firms or subrogation companies, but the TPA should spell out how these cases will be covered.
- **Will the TPA keep the employer in compliance with applicable regulatory requirements?** Employers often rely on their TPAs to ensure that their ERISA, U.S. Department of Labor and other forms and filings are compliant, but they are sometimes deficient, warns Stowers. Some TPAs handling employers’ IRS Form 5500 filings don’t file on time. The employer runs the risk of fines and penalties down the road, she notes.
- **What is the TPA doing to transition to the HIPAA 5010 standards and ICD-10 diagnosis codes?** These billing mandates become effective in 2012. “If the TPA’s system can’t become compliant,

will it migrate to a platform that does, [and what will that cost the employer],” Manheim says.

- **Does the TPA conduct eligibility audits?** Eligibility audits will ferret out people who are not or are no longer eligible for coverage, such as dependents who have turned 18 and who are not full-time students. The TPA should be conducting or at least assisting with these audits, says Stowers.
- **How well does the TPA handle stop-loss and re-insurance?** “Ask how quickly the TPA files claims and administers this. If it’s not done quickly, the employer can get stung [by missing filing deadlines],” says Manheim.
- **Are the managed care fees being charged reasonable?** Sometimes the fees the TPA pays a managed care plan for services get inflated, such as a too-high network access charges or unnecessary case management services, says Paduda. “Employers need to know where their money is going. Any employer not closely tracking the line items is setting itself up to be taken advantage of,” he warns.
- **Is the TPA outsourcing services?** It often makes sense for TPAs to outsource services it doesn’t provide, such as case management or electronic claims data generation, says Paduda. But the employer should know what is and isn’t being outsourced, and if the fees for that are reasonable, he says. “The contract between the TPA and the employer should say that the TPA agrees to disclose financial relationships that exist as a result of [or in furtherance of] this contract,” he suggests. 



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