

Feature Story

Flexing their muscles

TPAs serve up flexibility for midsize employers



BY LYDELL C. BRIDGEFORD

Despite recent acquisitions and a push for more high-tech solutions, third-party administrators still believe the middle market craves flexibility and highly personalized service.

“For middle-market employers, the large health insurance and managed care companies — such as Blue Cross and Blue Shield, United, Cigna and Aetna — tend not to offer much flexibility with their services,” says Elliot S. Cooperstone, CEO of Prodigy Health Group, Inc., a health services holding company, specializing in benefits management. “Moreover, the service level they tend to offer midsize employers is varied,” he adds.

Industry analysts generally define the middle market as employers with 200 to 5,000 workers. About 52% to 55% of nonfederal U.S. workers with health employee benefits are in plans using some degree of TPA, according to the Society of Professional Benefit Administrators.

“We seem to be seeing more TPAs that are entering that market, or in some cases they are expanding the number of states in which they provide administrative services,” says Joe Patton, founder and president of CRS Licensing, a Florida-based firm that provides licensing and compliance consulting services to third-party administrators and employee benefits administrators. “That would suggest to me that the mid-size employers are outsourcing administrative functions more frequently,” he adds.

Some experts assert that midsize companies see TPAs as offering more bang for the buck in the plan administration arena and, compared to major carriers, they are more open to their needs and concerns. What’s more, midsize firms — especially those with workers in multiple states — desire flexibility with plan design, funding and the type of networks they prefer. Obviously, all mid-size employers are not the same and have unique TPA concerns and goals, ranging from 100% managed cost to highly personalized services.

“TPAs are primarily designed to serve middle market employers,” says William A. Howard Jr., executive vice president

of markets at Fiserv Health, a national TPA. “The flexibility that TPAs inherently provide is a key component to what employers should be looking for. In our experience, there is clearly a segment of the middle market today that likes the TPA service model and doing business with them, whether they are local or national,” he adds. “The flexibility model still has value to mid-size employers.”

What to look for

At a small and midsize firm, the boss is likely to live in the same town as many of his or her workers, and he or she doesn’t want a story in the local newspaper about a poorly managed health plan, says Frederick Hunt Jr., president of Maryland-based Society of Professional Benefit Administrators. “And this is where TPAs really shine — by

bringing highly personalized services to the table,” he adds. “The middle market tends to be more attentive with plan designs; so therefore, the middle market is perfect for TPAs.”

Meanwhile, Hunt says some members of his organization have noticed an increase with brokers spearheading TPA deals for midsize firms. Moreover, federal authorities are calling for greater transparency in the health insurance industry and more companies are moving toward consumer-driven health. He hopes these developments don’t negatively influence how TPAs deliver services.



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CEO of Prodigy Health Group **Elliot S. Cooperstone** advises middle market clients to insist on a TPA that will design programs that over time will promote healthier lifestyles and better health care decision making.

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TPAs

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In years past, TPA owners could compete with big man-

aged-care outfits because they sometimes neglected the needs of the middle market. TPAs would appeal to mid-size employers who wanted decent serv-

ices for their workforce, Cooperstone points out.

“That was the battle being fought, but that’s changed in the last five years because of escalat-

ing health care costs,” he argues. “Companies will no longer make a decision just based on services and flexibility. In fact, most companies will sacrifice service and

flexibility just to be able to afford some kind of health plan that they can offer to their employees.”

Cooperstone says midsize employers should look for TPAs that have the size and leverage to minimize administrative costs for clients and the capabilities to effectively manage claims costs. Furthermore, he adds, they should select a TPA that will work closely with clients and their brokers to develop multiyear strategies to drive the behavior changes in their employees that can really affect the cost curve of health care.

Middle-market clients should insist on a TPA that will design programs that over time will promote healthier lifestyles and better health care decision making, Cooperstone asserts. “This is the only way to sustain health care benefits for employees — stop thinking about marginal improvements and start working on behavior change as the only approach to reduce the wildly escalating cost of health benefits plans.”

State compliance and stop-loss coverage

Patton of CRS Licensing says many of his TPA clients that administer for midsize and small employers tend to be centered more geographically in particular groups of states, such the West and Southeast, as opposed to having a countrywide presence, but not in all cases.

Generally, most states define a TPA as a company that collects premium and/or administers claims on behalf of residents of the particular state with respect to life or health insurance plans, Patton notes.

“This definition varies from state to state, but that is a general definition that most states use to determine whether a TPA has to be licensed,” he explains. “From there, some states allow

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exemptions from TPA licensure for administrators that solely administer self-funded employer plans where no insurance carrier is involved, while other states do require TPA licensure of those same administrators in their states.”

Patton continues: “From a licensing compliance standpoint, we are seeing both employers and their administrators struggling with state law definitions of what constitutes a third-party administrator for licensure purposes in the context of the administration of employer-sponsored health and benefit plans.”

The impact of ERISA licensing preemptions, COBRA administration, stop-loss insurance and other factors can affect whether a particular TPA is required to be licensed in a given state. Patton adds that regulatory and insurance mandates, which are constantly changing, tend to be the areas where many TPAs have questions and concerns.



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out having a competitive excess-loss contract, which they must purchase from an independent third-party insurance company. The insurance helps employers to insulate themselves from losses. Yet many excess-loss carriers are leaving the market.

Without these contractual advantages, it might become difficult for TPAs to provide protection to mid-size employers, so that there is an employer-defined financial risk, Van Arsdale says.

Midsized firms might have to absorb the cost of some high dollar claimants in addition to the premiums that they pay for excess-loss coverage.

New trends

“We are beginning to see some future trends right now,” observes Van Arsdale. For example, he notes, major health insurers are beginning to lease their proprietary networks and corresponding savings to TPAs. However, they are leasing those networks with a number of

because of network savings.” TPAs will begin to do more than process claims, moving toward specializing in disease management, con-

sumer driven health plans and wellness programs, Van Arsdale says. “This is a new window of opportunity for TPAs.” — L.C.B.

TPAs are primarily designed to serve middle market employers. The flexibility that TPAs inherently provide is a key component to what employers should be looking for.

“The mid-market component is strong in some regions, but not strong across the country,” says Gary Van Arsdale, a vice president at Aon Consulting’s health and benefits group.

The challenges faced by TPAs will depend on the region of the country they are located in. For instance, Van Arsdale says, along the Atlantic coast there are a number of strong purchasing coalitions where employers have banded together to provide effective options for TPAs. “Yet in much of rural America, it’s far more difficult to obtain competitive pricing,” he adds.

TPAs can’t sell their services with-

out caveats that make it more expensive for the midmarket employer to use the network. But as time progresses, we will probably see this process become more competitive, he adds.

Also, the TPA market will continue to see employers banding together and establishing purchasing coalitions to negotiate with hospitals and doctors for discounts to help the mid market employers, predicts Van Arsdale. “What’s more, excess loss insurance carriers will step in because they will be at a disadvantage if they are not receiving these discounts, and there will be a reduction in total cost to the midmarket employers



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