



# NEGOTIATING CLAIMS ADMINISTRATION CONTRACTS

Module 8

# OBJECTIVES

Illuminate and address misaligned incentives in claims administration contracts;

Gain greater control, reduce costs and improved outcomes.

# CLAIMS ADMINISTRATION CONTRACT NEGOTIATIONS



Claims Administration Agreements and Fee Arrangements are typically separate from the Insurance Policy Terms and Conditions

# CLAIMS ADMINISTRATION CONTRACT NEGOTIATIONS

## CFO/Risk Manager

- “I need a lower price.”

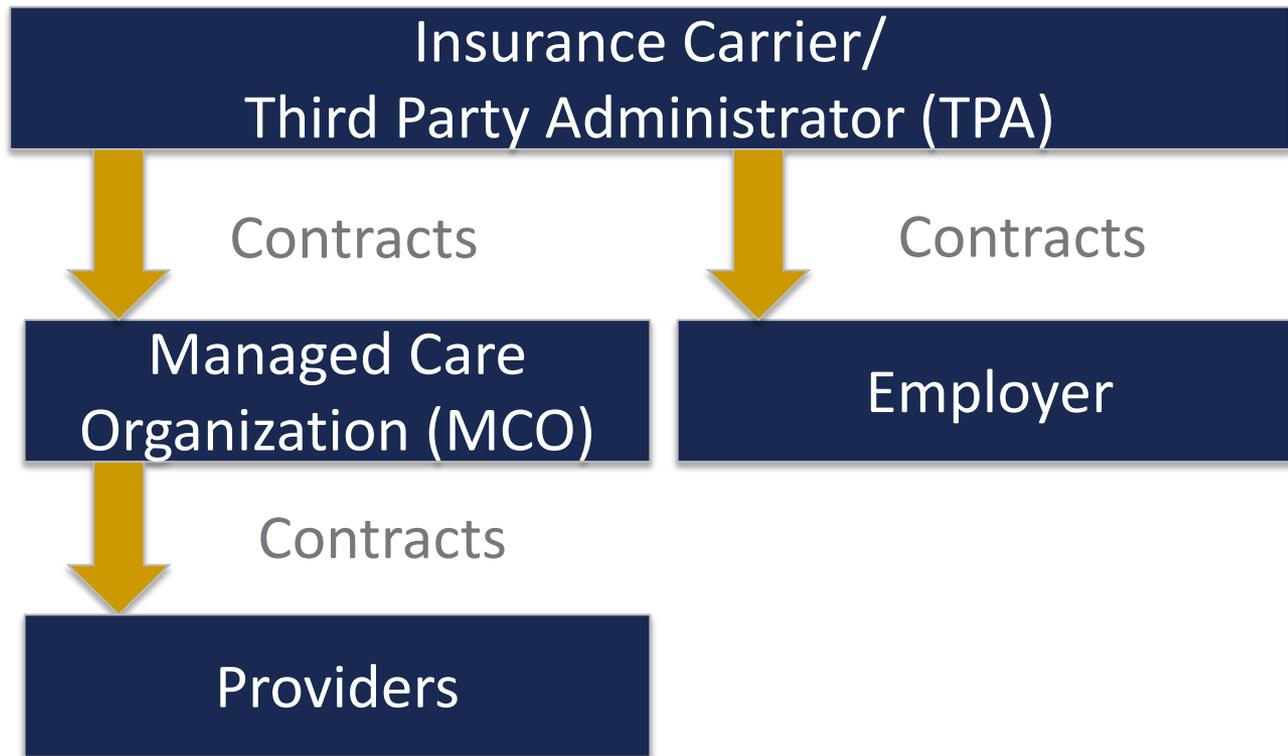
## Carrier/TPA/MCO

- “Ok, I will reduce our fees (ULAE).”

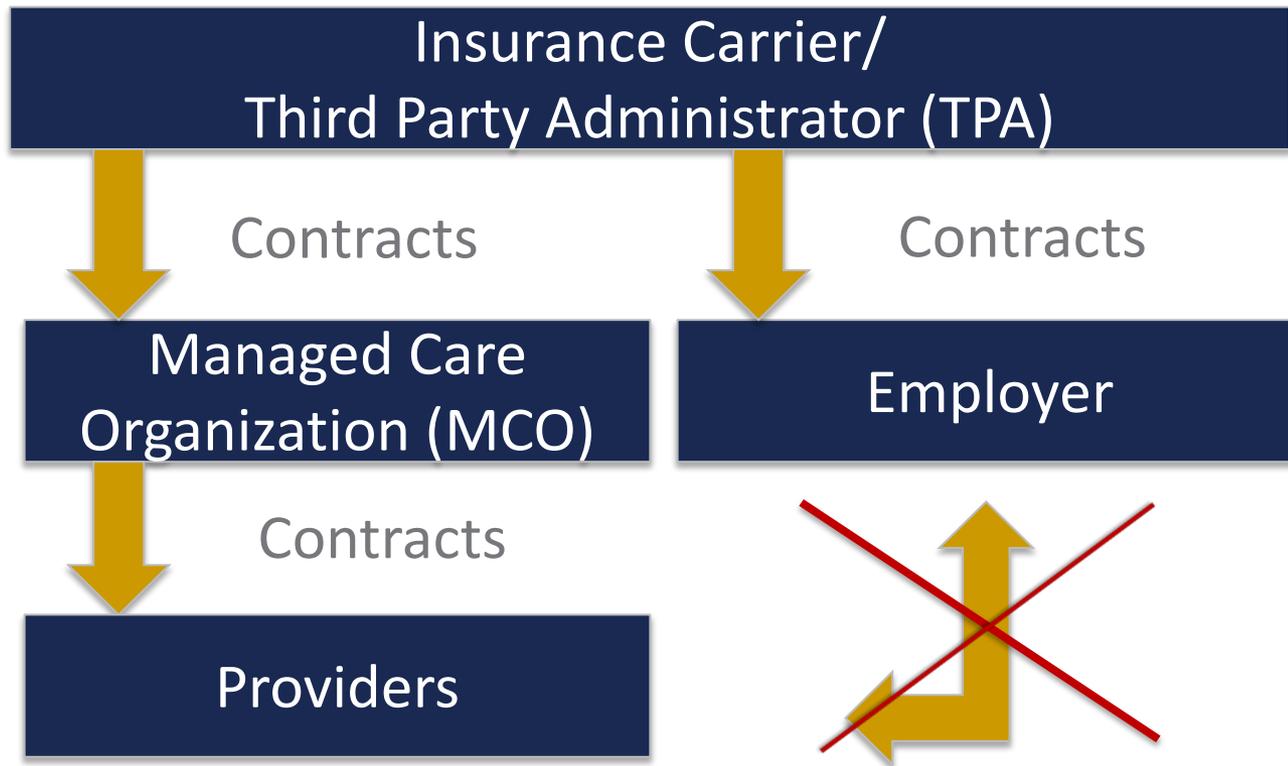
## Service Providers

- “If you want to get business, you have to go along.”

# CONTRACT RELATIONSHIPS



# CONTRACT RELATIONSHIPS



# FEE ARRANGEMENTS



# Claims Administration Expenses



# UNALLOCATED LOSS ADJUSTMENT EXPENSES

Cost to the insurance company to  
manage claims department

# UNALLOCATED FIXED FEE EXAMPLES

## Per Claim Fee

- \$ 150 Medical Only
- \$1,500 Indemnity

## Loss Conversion Factor

- 1.07 X Claims' Cost

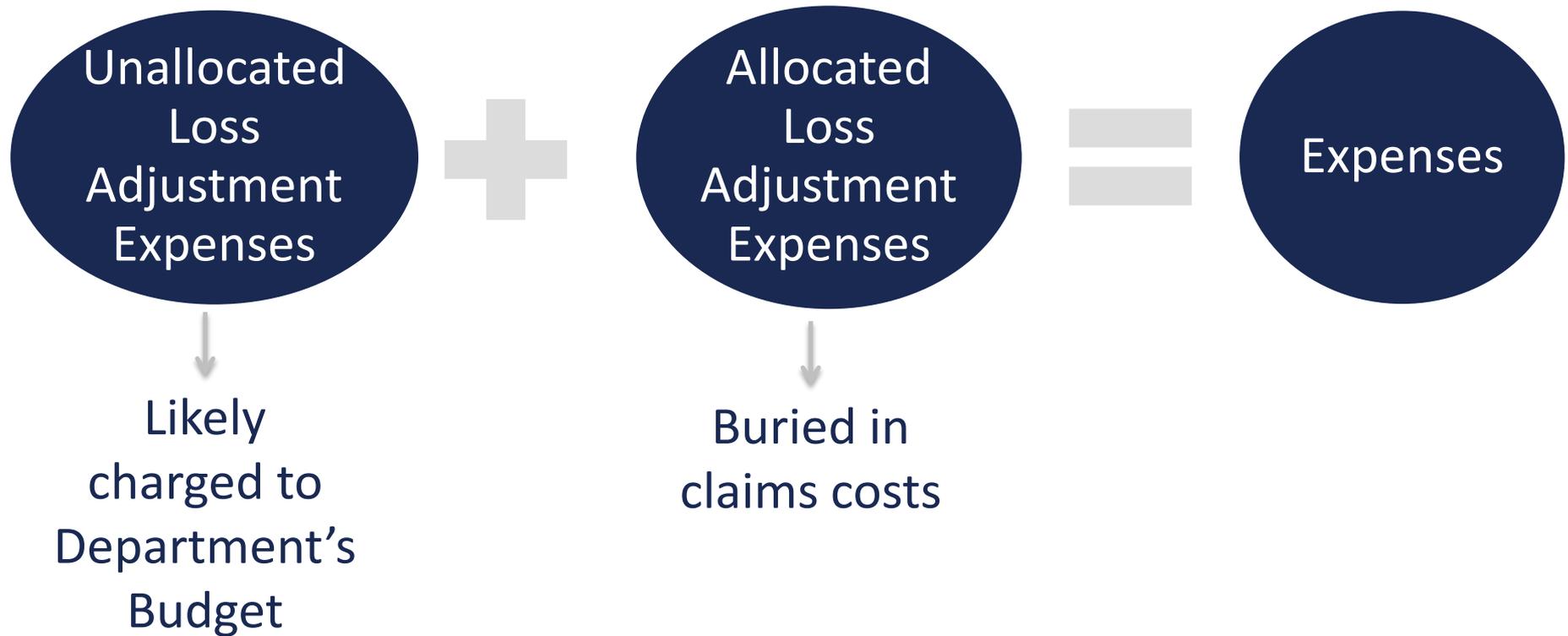
# UNALLOCATED LOSS ADJUSTMENT EXPENSES

“Fees do not include Allocated  
Loss Adjustment Expenses.”

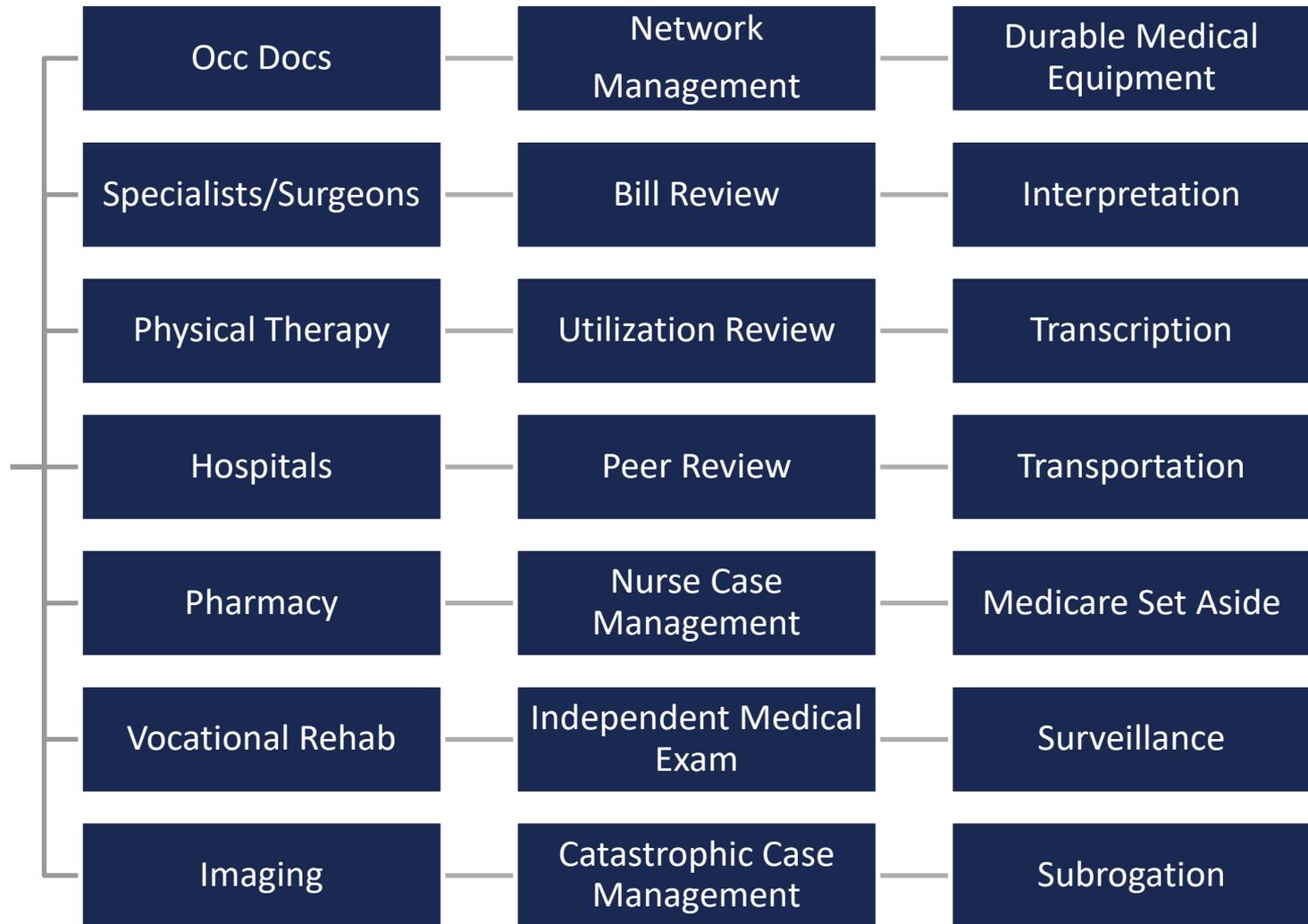
# ALLOCATED LOSS ADJUSTMENT EXPENSES

Allocated expenses are charges related to the adjusting of individual claims.

# Claims Administration Expenses



# Allocated Loss Adjustment Expenses



# HOW ARE ALAE FEE STRUCTURED?



# ARE “COST CONTAINMENT” SERVICES ACTUALLY CONTAINING COSTS?





# ALAE FEE ARRANGEMENTS

% of  
Savings

Wholesale/  
Retail

Revenue  
Sharing

Flat Fee

Hourly

Cost Plus

# PRICING MODEL

% of  
Savings

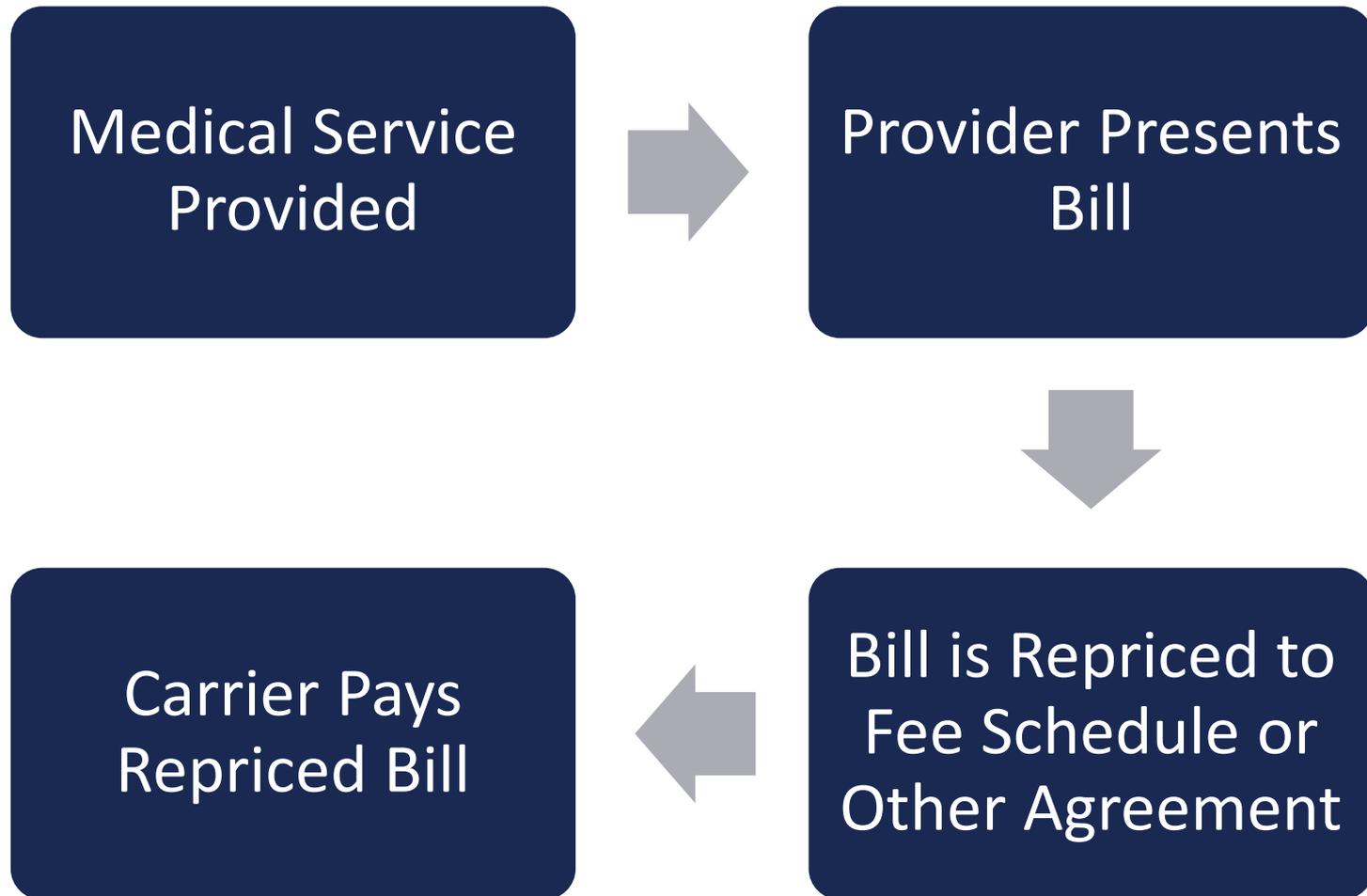
# BILLED CHARGES



# BILLED CHARGES



# BILL REVIEW PROCESS



# BILL REVIEW (ACTUAL REPORT)

	In Network	Out of Network	Total
Bill Count	3,267	1,301	4,568
Bill Amount	\$2,941,862	\$ 847,703	\$3,789,565
Paid Amount	\$1,594,953	\$ 319,401	\$1,914,354
Savings by Category	(See subsequent slide)		
Total Savings	\$1,346,909	\$ 528,302	\$1,875,211

# BILL REVIEW (ACTUAL REPORT)

	In Network	Out of Network	Total
PPO Discount	\$202,944	\$0.00	\$202,944
Non-Compensable	\$0.00	\$ 27,774	\$27,774
Duplicate	\$47,374	\$ 281,905	\$329,279
Fee Schedule	\$1,091,671	\$223,542	\$1,315,214
Total			\$1,875,211

# BILL REVIEW FEES

Total Savings	% of Savings Fee	Total Bill Review Fee
\$1,875,211	27%	\$506,306

# BILL REVIEW FEE ALTERNATIVE

Total Savings	% of Savings Fee	Total Bill Review Fee
\$1,875,211	27%	\$506,306

Bill Count	Price per Bill	Total Bill Review Fee
4,568	\$10 - 15	\$45,680 - \$65,520

Difference
\$440,786



**National Association *of*  
Insurance Commissioners**

# REGISTRATION AND REGULATION OF THIRD PARTY ADMINISTRATORS (TPAs) (An NAIC Guideline)

## Section 9. Compensation to the TPA

- A. A TPA shall not enter into an agreement or understanding with a payor or, with regard to workers' compensation, a payor, employer or co-employer in which the effect is to make the amount of the TPA's commissions, fees, or charges contingent upon savings effected in the payment of losses covered by the payor's obligations. This provision shall not prohibit a TPA from receiving performance-based compensation for providing hospital or other auditing services, from providing managed care or related services, or from being compensated for subrogation expenses.

# WHOLESALE/RESALE ARRANGEMENTS

Wholesale/  
Retail

Revenue  
Sharing

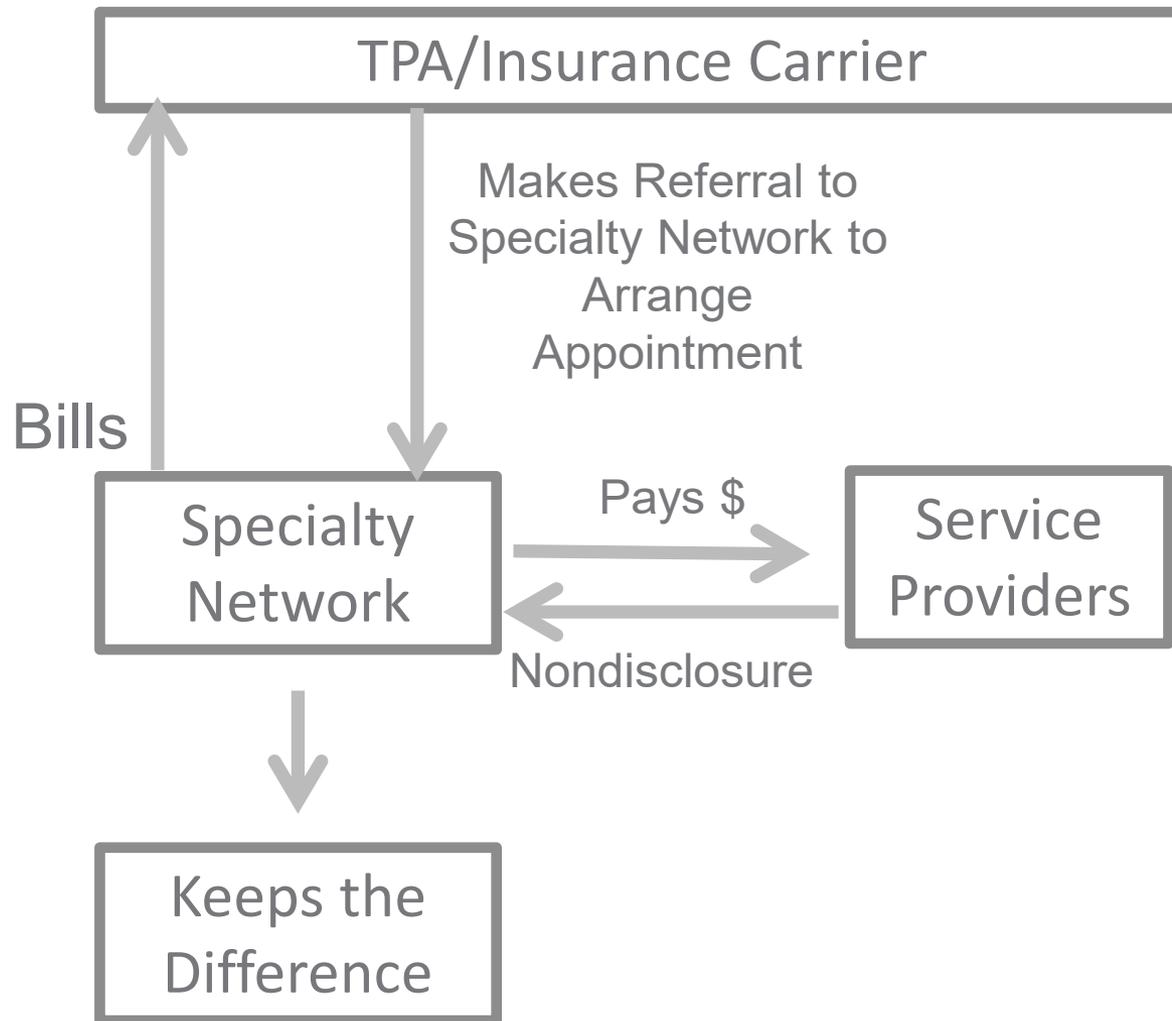
# WHOLESALE/RETAIL ARRANGEMENTS

Outsourced  
Hourly  
Fee: \$95

Fee  
Charged to  
file: \$125

\$35 per  
Hour  
“Override”

# WHOLESALE/RETAIL ARRANGEMENTS



# HOW MANY CARRIERS/TPAS HAVE UNDISCLOSED FEE-SHARING AGREEMENTS?



# ALAE FEE ARRANGEMENTS



# CLAIMS ADMINISTRATION CONTRACT ASSESSMENT

Secure and evaluate existing contracts:

- Insurance Co. or Third-Party Administrator (TPA)
- Managed Care Organization
- Other vendors and sub-contractors

# KEY TAKEAWAYS

## Leverage

Leverage Fixed Fee, Hourly, and Cost-Plus Fee arrangements.

## Require

Require full disclosure of all agreements, side agreements, overrides, commissions, administrative fees, etc. involving all claims.

## Understand

Understand that if the claims administrator agrees to eliminate their side deals, then the client will likely experience higher Unallocated Expenses.

# LOUIS D. BRANDEIS

## 1856 - 1941

“Sunlight is said to be the best of disinfectants.”



# CLAIMS ADMINISTRATION CONTRACTS: QUALITY OF CARE

# CONTRACTS ALLOW EMPLOYERS TO:

## Build

- Build Quality-of-care provisions into written contracts between purchasers and professional service providers.

## Hold

- Hold vendors accountable to specific quality-of-care features, and

## Provide

- Provide a potential legal remedy for redressing specific deficiencies in the provision of appropriate care.

# CURRENT STATE ...



Most claims  
administration  
contracts' language  
regarding quality of  
care is vague.

# CURRENT STATE



Contracts *primarily concentrate* on specifying the financial, legal and administrative relationship between the purchaser and MCO ...

# MATTERS FREQUENTLY COVERED IN THE CONTRACTS INCLUDED:



Timing and terms of the contract pricing;



Billing and compensation liability;



Insurance and indemnification

# MATTERS FREQUENTLY COVERED IN THE CONTRACTS INCLUDED:



Protection of proprietary information and data;



Dispute resolution between the contract signatories,



Financial solvency,

# MATTERS FREQUENTLY COVERED IN THE CONTRACTS INCLUDED:



Reporting and communications between the purchaser and MCO,



Advertising and trademarks,



Contract audit procedures,



Regulatory compliance

# WHAT'S MISSING?



# QUALITY OF CARE AGREEMENTS

# EXAMPLES OF IMPRECISE CONTRACT LANGUAGE REGARDING QUALITY OF CARE

# IMPRECISE CONTRACT LANGUAGE

“[The MCO] shall ensure that quality medical care is provided to eligible insured workers efficiently, purposefully and without waste.”

# IMPRECISE CONTRACT LANGUAGE

“[The MCO] shall render health services to eligible persons in an economic and efficient manner consistent with professional standards of medical care generally accepted in the medical community.”

# IMPRECISE CONTRACT LANGUAGE

“[The MCO] shall assure timely and effective medical care that is convenient to the injured worker.”

# IMPRECISE CONTRACT LANGUAGE

“The attending physician shall actively case manage the care of the eligible insured worker.”

# IMPRECISE CONTRACT LANGUAGE

“[The MCO] will administer workers’ compensation services for covered persons in accordance with [the MCO’s] standard managed care practices and procedures.”

# POWER OF CONTRACTS

Develop and leverage model contract language that can be used to strengthen accountability of MCOs to deliver high-quality care.



# POWER OF CONTRACTS

- Allows employers to use contract language as means to:
  - Build Quality-of-care provisions into written contracts between purchasers and workers' compensation claims administrators and managed care organizations.

# POWER OF CONTRACTS

Contracts can provide a tangible and enforceable mechanism for:

- Ensuring that standardized performance measures,
- An observable, objective and preferably quantifiable indicator of activities, performance measures, or outcomes.

# QUALITY OF CARE FEATURES

## Provider Qualifications:

- Credentialing,
- Training/education in occupational medicine and workers' compensation,
- Availability of appropriate specialists and ancillary services,

# QUALITY OF CARE FEATURES

## Access to Care:

- Timeliness of obtaining care,
- Geographical proximity of providers,
- Cultural accommodation and interpreter services,

# QUALITY OF CARE FEATURES

## Process of Care:

- Provisions for assuring continuity of care,
- Use of practice guidelines,
- Case management and patient advocacy,

# QUALITY OF CARE FEATURES

## Process of Care:

- Prevention and surveillance activities,
- Provisions for referral to specialists and ancillary services,
- Worksite job assessment,

# QUALITY OF CARE FEATURES

## Process of Care:

- Treatment and return-to-work planning,
- Data and trend reporting,
- Quality assurance/improvement programs,

# QUALITY OF CARE FEATURES

## Patient-centered Concerns:

- Protection of patient confidentiality,
- Dispute resolution processes,

# QUALITY OF CARE FEATURES

## Patient-centered Concerns:

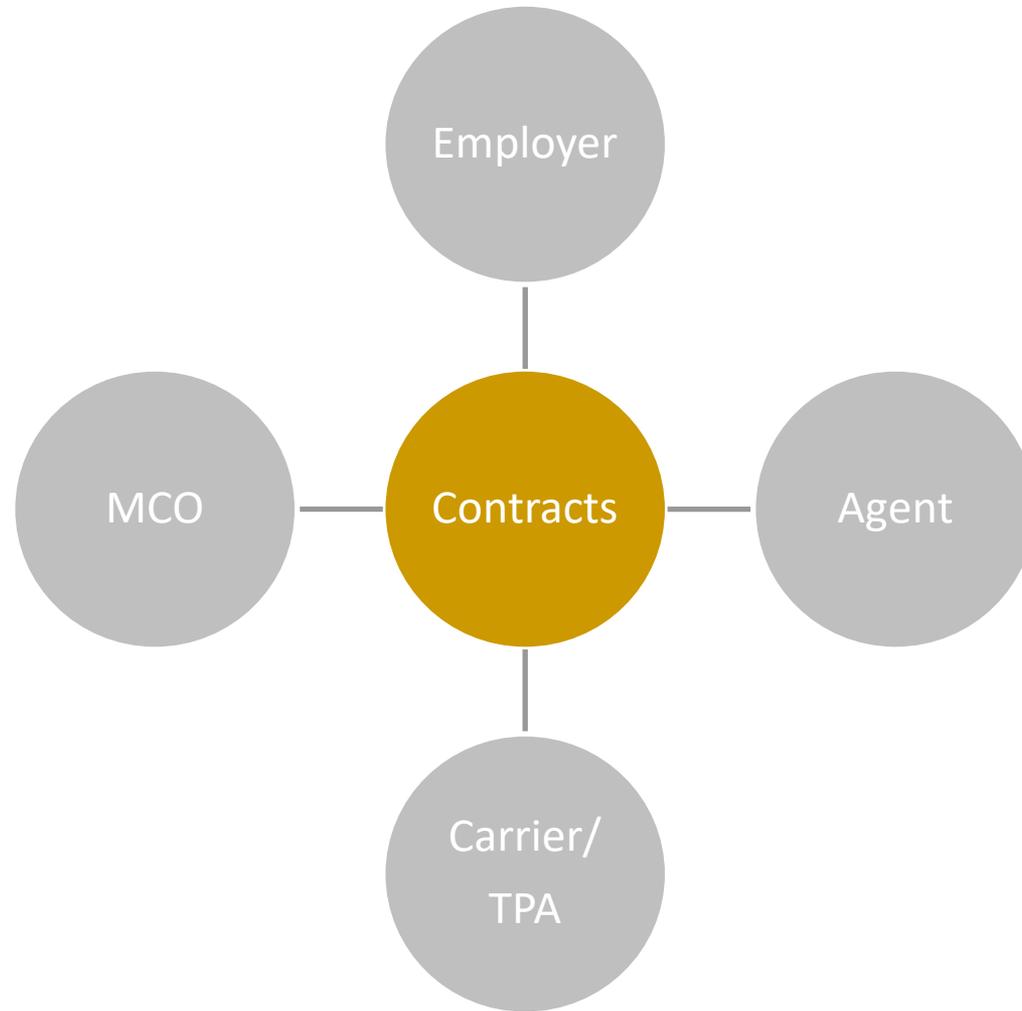
- Assessment of patient satisfaction with care,
- Patient education and communications,

# COLLABORATION



To be most effective, all key stakeholders must be involved in the contract development process.

# COLLABORATION



# RECAP AND Q & A

