BRACING FOR A SEISMIC SHIFT

Disruptive innovation may be coming to a TPA near you as the industry evolves from claims adjudication to more of a strategic role in self-insurance

Written By Bruce Shutan

Innovation is clearly reshaping the health care landscape. A new year began with news of the blockbuster partnership involving Amazon, Berkshire Hathaway and JPMorgan Chase, which has caused endless speculation about whether it will have the same game-changing impact as online shopping did for brick-and-mortar retailers.

The trend is extending to third-party administrators whose role is shifting from health claims payer to strategic partner. The chief beneficiary is their self-insured clientele who increasingly will come to expect more than simple service with a smile.

"I think disruption breeds opportunity," says Dave Reynolds, Sr., president of Capitol Administrators, a Lucent Health subsidiary, who has been a part of the TPA community for slightly more than half his roughly 40-year career in the insurance industry.

Shaking off complacency

The trouble is that as many as 80% of TPAs aren't doing anything different than their competitors, cautions Vincent Esposito, an executive in the health care arena with a hedge fund background who addressed the topic at SIIA's national conference in Phoenix last October. "They're basically a commoditized service, and they're not really looking to push the envelope on innovation within health care," he says.

Rather than just adjudicate claims, he suggests TPAs need to help their employer clients actually *reduce* such claims in the first place by driving better health outcomes if they want to stay relevant. That's happening, he acknowledges, though not on a wide enough scale.

For example, some TPAs have layered on top of their basic claims-payment function a risk-bearing entity in the form of their own reinsurance company or strategic partnerships with carriers for greater operational efficiency.

Another ripe opportunity for innovation and transformative results is on the care management side, he adds. Esposito also has noticed a handful of ancillary, consumer-based technologies erupting in the private market to help support TPAs – from wellness platforms to tracking devices and mobile apps.

The bottom line, according to Esposito, "is any company that's servicing the health care sector, or at least TPAs, will be technology based." He says tools of the future will feature a machine learning platform with access to all data and custom-built algorithms that match claims, outcomes, drugs prescribed and doctors seen for predictive modeling.

A sunny forecast

Despite concern about complacency across a huge swath of the TPA market, the state of the industry has never been better for several reasons, reports Steve Rasnick, a TPA business pioneer who is president of Self Insured Plans, LLC.

One is the Affordable Care Act (ACA), which led most TPAs to sell a lot of minimum essential coverage programs and experience exponential growth in the number of covered lives, "albeit many in the skinny plans," he says. "Most TPAs have doubled in size since the ACA, and if they haven't, they should really take a look in the mirror and wonder what they're doing wrong."

Identifying the exact number of TPAs isn't easy because it depends on how they're actually defined, according to Rasnick, who says the industry is trying to determine a more accurate measure. An informed estimate places the current number of traditional entities that process medical and dental claims for self-funded single employers at about 200. Another 100 to 150 entities could be added to the mix when counting boutique services such as Section 125, health reimbursement arrangement or Medicare claims specialists.

An older estimate that someone sent Esposito pegged the number of TPAs as high as 1,000 to 2,000 if virtually every boutique shop is counted, though he notes that about 80% of the business is done by 20% of the TPAs.

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TPA performance used to be evaluated based on cost, as well as the accuracy and turn-around time of claims payments, whereas nowadays Rasnick describes the way claims are paid as commoditized, and therefore, "probably the least important of all services that we provide."

Times have certainly changed. Forward-thinking TPAs are investing in infrastructure to bolster every aspect of the claims process and pursue population health strategies to ensure that each health plan member "receives the right treatment at the right time from the right physician who's doing the right thing," he observes.

The emergence of a four-legged stool model sums up this new dynamic marketplace, Rasnick says. On the clinical side, any meaningful footprint includes keeping patients healthy, as well as evaluating providers based on cost and quality associated with episodes of care vs. mere occurrences. It is supported by investing heavily in technology that manage claims far better than legacy systems and providing concierge-type customer service. Such efforts may feature attempts to negotiate discounts, as well as help patients interact with their providers and schedule appointments.

Determining a better way to interface with health plan members and encourage action will be a cornerstone of success for TPAs that go the extra mile and embrace health care consumerism, Reynolds says. These steps may include reminding them through text messages or other communication channels about doctor visits, taking medicine or filling scripts. The aim is to offer concierge-like service on the member level featuring one-on-one relationships with a nurse practitioner and patient advocacy.

He believes these strategies will help drive down claims, especially for the relatively small portion of covered lives who drive most large claims. "The best discount you're going to get on a claim is one that didn't happen," he explains.

Another piece to the puzzle is aggregating the data of small groups to stabilize their volatility and better absorb risk so they can be underwritten as a large group, according to Reynolds. His TPA is doing just that in the cloud and also boasts a huge Medicare databank to help examine claim patterns across that aging population to manage costs and improve health outcomes.

Developing better analytical and forecasting tools is expected to help his business stop-loss market partners and employer clients conduct a predictive analysis to determine which programs will have the biggest impact.

Competing with BUCAs

Some of the biggest TPA disruptors spent enough time in a traditional insurance capacity that they were inspired to take on greater risks. After working for about 30 years on the BUCA (Blues UnitedHealthcare Cigna Aetna) side of the industry, Linnea

Bentz joined a TPA believing there would be far more opportunities to innovate in that segment. Today she's a business development executive with Hawaii-Mainland Administrator (HMA), which differentiates itself with integrative technology systems and solutions.

The TPA's more notable services include value-based and reference-based pricing, consolidated invoicing, client-driven teams of concierge account managers, an off-the-shelf pharmacy benefits manager with tiered formularies and heavy presence in the association professional employer organization segment. Other key capabilities include population health management, a customized provider network, internal reporting and compliance function, an information technology system completely built from the ground up and proprietary software.

By partnering with a captive solution, HMA can offer self-insurance to small businesses with as few as five covered lives. An ability to trickle that far down the market on a self-funded plan "is why the TPA industry is going to be leading in any health care discussion going forward," Bentz believes.

Indeed, Rasnick years ago developed products for the small to midsize customers that surrounded him in Naples, Fla., after moving from Chicago where he served large firms such as McDonald's and Greyhound. That portfolio includes a level-funded plan from 2002 for employers with as few as 15 employees.

While roughly 80% of employers with head counts of 200 to 250 people or more self-fund, he says the same is true for only about 25% of those with fewer than 100 to 150 lives. ***"If I'm a TPA who wants to capture market share, I'm going to go after [that market] because that's where I believe the carriers are vulnerable,"*** Rasnick opines.

Apart from technology, Esposito believes capital markets will play a role in driving innovation and believes financial instruments with "characteristics better than mortgages" will be used over time to amortize claims and reduce the burden on carriers or reinsurance companies, while also expediting payment to providers.

"When you marry financing tools at affordable and digestible rates to different entities, you can change the true risk profile of a group and the way that you do the math in underwriting," he explains.

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Mr. Grillo joined the Bureau of Captive and Financial Insurance Products in November 2014, he currently serves as a Captive Analyst II.

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So what does the future hold for TPAs and their self-insured customers? Esposito predicts a major bifurcation of massive growth with some TPAs and tremendous shifts in market share that favor innovators as more employers transition to a self-funded solution. As part of his vision, TPAs will consolidate as more associations self-fund the health benefits of their members and administrative-services-only (ASOs) contracts continue to gain in popularity.

While acknowledging that ASOs occasionally show up on her radar, Bentz notes the potential for conflict of interest when an employer client is contractually bound to use the carrier's provider network. That ties their hands, she says, when "all they have to do is lease the network to us." Thus, it could give TPAs a tremendous competitive leg up with independent-minded customers.

"Everything that you used to get from your BUCAs, you now get from your TPAs – only you're paying less for admin," she concludes. "I don't think of a TPA as my competitor. I think of the BUCAs as my competitors."

Bruce Shutan is a Los Angeles freelance writer who has closely covered the employee benefits industry for 30 years.