The 411 on ASOs

Proponents of BUCA-backed arrangements say they offer bundled firepower, broad choice and consumer comfort, while critics warn against faux discounts, conflicts of interest and inflexibility in the age of customization

By Bruce Shutan

What has been characterized in some circles as a David vs. Goliath battle for the hearts and minds of self-insured employers isn't necessarily so black and white in today's ever-changing marketplace.

In one corner of the competitive canvas, scores of independent third-party administrators (TPAs) line up to sell their wares. They tout best-of-breed connections with multiple strategic partners as part of an approach built largely around flexibility and customization, industry observers say.

Many of those stand-alone operations pale in comparison to so-called BUCA plans (i.e., Blue Cross Blue Shield, UnitedHealthcare, Cigna and Aetna) that have made their mark with administrative-services-only (ASO) arrangements powered by economies of scale. Experts note that these behemoths bundle services and offer massive networks to help manage costs.

But this clear choice may be more nuanced than meets the eye. Consider, for instance, that each of the BUCAs have acquired TPAs that largely operate independently from their corporate parent. So while traditional carriers with fully insured options may be controlling the purse strings for self-funded plans, their influence may be somewhat limited. One such example involves Meritain Health, an independent subsidiary of Aetna since 2011.

Over more than three decades, there has been an increasing demand on health insurance carriers to match TPAs "because they do so much bundling and connectivity without outside entities," explains Dave Parker, head of national accounts at Meritain Health.

Some carriers, he observes, are starting to act more like a TPA now that bigger-ticket items for self-insured customers include pharmacy benefits management (PBM) and stop-loss insurance. The result is "a greater willingness to unbundle than they did in the past," he says. "If care management is a big value proposition for the carriers, they are holding onto that." Aetna last year agreed to a $69 billion deal with CVS. The drugstore retailer acquired the Caremark PBM in 2007.

ASO carriers believe that their products bring best-of-breed results to the table, according to Parker, who adds that buyer preferences and/or the employer's benefits broker shape those outcomes. "There are a lot of clients that really do want to build their own best of breed," he says, "yet then we see a lot of other clients that love the bundled approach" for its simplicity or brand appeal.

Critical eyes

That's not to say every ASO in the market is firing on all cylinders or without controversy. Several knowledgeable sources are highly critical of the involvement of traditional health insurance carriers with self-insurance, and representatives from three of the four BUCA letters declined participation in this story.

There's no denying the comfort level many employers have when a BUCA logo is embossed on their medical cards, says Gary C. Becker, CEO of ScriptSourcing, which helps self-funded employers mitigate prescription drug claims.

However, he believes that "the perception of having the right PPO network trumps an ability to manage risk and the cost associated with working with an ASO." Since ASOs earn substantial revenue from their PBM contracts, his area of expertise, he says they're able to provide artificially low per-employee per-month fees.

Michael "Mick" Rodgers, managing partner with the Axial Benefits Group, laments that many of his fellow employee benefit brokers who lack self-funding experience are naïve about ASO contracts and fooled by promises of discounts.

"Self-insurance on their terms doesn't align incentives, and it doesn't lower costs," he warns. *"I have empirical data that says that our independent third-party administrators run 10% or 12% better than my ASO contracts with the same plan design, claims and everything because we're able to use best-in-class cost controls when an independent TPA allows us to do it."*

Becker also has seen similar savings. For example, one of his clients moved from a BUCA ASO to an unbundled health plan using an indie TPA without much change in their demographics and lowered its annual per-employee cost to $6,700 last year from more than $7,300 in 2016.

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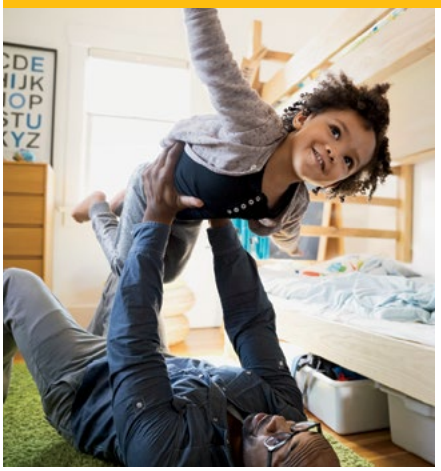

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While ASOs can help BUCAs "leverage their brand awareness and reputation" for all the expected mid-market conversion to self-insurance, a greater propensity to customize solutions offer independent TPAs a competitive leg up, opines Vincent Esposito, chief strategy and business development officer at BuffCo Holdings, a holding company that makes strategic investments in health care companies. He says these capabilities square with a culture of "extreme flexibility" that customers are demanding in virtually every sector of the economy.

ASOs might not always have the bells and whistles of traditional TPAs in terms of plan design or utilization data, cost containment, reporting mechanisms, telemedicine or fee-for-service options, according to Esposito. Moreover, he's skeptical about the possibilities for growth of this sub-segment when fully insured arrangements are their cash cows.

But other consultants take a more measured view. Jim Winkler, chief innovation officer for Aon's Health Solutions Group, challenges the veracity of any blanket statement that either an ASO or independent TPA is always better. "We look at this stuff on a client-by-client basis," he says. "You figure out their tolerance for the tradeoff between cost management and employee noise, and help them find a solution that fits."

His colleague, James Fraser, a VP in Aon's Health Solutions Group, sees a growing number of midsize employers in the Colorado market he serves switching from fully-insured to self-funded arrangements. His sense is there are lower barriers to entry if they embrace one of the carrier ASO models. In some cases, he considers it "the next step from fully-insured to a truly unbundled TPA arrangement where you can pick best-in-class vendors and customize every area of your self-funded plan with a real independent TPA."

If one of these employers chooses to be self-funded with UnitedHealthcare, then Fraser says the firm still will be immersed in the UHC ecosystem and primarily using similar tools or pre-negotiated deals with vendors to the ones offered on a fully-insured basis.

Limited freedom

The degree to which ASOs can work with specialty vendors may not always be crystal clear. The Meritain Health acquisition created what Parker describes as "a different channel of opportunity" for Aetna beyond fully insured options without sacrificing on flexibility. While clients can easily access Aetna's premier networks and tools, there's also an ability to work with a variety of stop-loss carriers, PBMs or other outside entities, as well as help employers build their own networks or pursue direct contracts.

"One of our biggest guidelines was to make sure we kept our TPA DNA," he explains, *"and we feel that we have been able to continue to do that."*

Parker reports "very good growth in all markets, small, midsize and national accounts," and feels that kind of growth will continue. The breadth and depth of Aetna resources fueled Meritain Health's growth. A sales force of 15 to 20 people prior to the acquisition suddenly was able to work with 300 of their peers at the parent company. He says it gave the TPA "a significant amount of exposure and opportunity" with the help of introductions to scores of brokers and consultants. And while Meritain Health immediately benefited from Aetna's scale from a pricing standpoint, Parker also credits clinical programs and tools for tricky areas such as specialty pharmacy.

Meritain Health clients have seen their costs go down in recent years, he says, "because a significant amount of business migrated from a lesser PPO network or a rental-type network." There have been additional cost savings from care management and/or pharmacy tools.

BUCA-type carriers nationwide are purchasing TPAs and allowing access to networks under ASO-style contracts or promoting them more than ever as self-insurance expands, Rodgers observes. The

Dave Parker

trouble with indie TPAs that are acquired, however, is they start imposing limits on what can be carved in or out, he says. One example involves a BUCA plan whose ownership change recently tied the hands of a client's independent nurse case manager.

Perception can be another obstacle. Parker says "not every network is going to work with us because of our ownership," noting the potential need to sign confidentiality

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agreements for competitive reasons. "We did have access to several of the networks that, as a result of our acquisition, impacted the agreements out of concerns for that," he reports.

Assessing potential conflicts

But there may be even bigger barriers ahead. Rodgers says prospective self-insured customers need to realize the chief mission is "to create revenue everywhere they can," which will benefit the PBM, case management company and stop-loss outlet whose services are bundled under the carrier's umbrella and may be overpriced relative to being offered by an independent TPA.

It's also worth noting that many traditional health insurance carriers "are honoring reinsurance premium and head counts towards the undisclosed retention bonuses that the advisers are getting which can be substantial income to the guys that are making the recommendations and is a total conflict of interest," he adds.

A potential conflict of interest could arise if the relationship between a TPA, its BUCA parent and other vendors such as PBMs under the same umbrella of ownership isn't fully disclosed to an employer that is making purchasing decision, Winkler notes. That same thinking extends to referral agreements and commissions or incentives to steer business a certain way. It also would violate "probably virtually every state's brokerage and consultant licensing code of ethics," he says.

However, greater flexibility and customization represent "the fastest way to remove conflict of interest when it comes to servicing the client," Esposito believes. He cautions that these virtues also involve an increased level of complexity for delivering on service in a way that fits customer expectations. And since most TPAs fall short of that mark, he cannot entirely dismiss ASOs.

Sharing the spoils

One key difference Fraser notes between ASOs and indie TPAs is that BUCAs focus on auto-adjudication of claims as a barometer of efficiency, whereas many emerging TPAs, and ASO arrangements to some extent, pursue a "much more hands-on evaluation of the large claims." For example, there would be greater scrutiny of 5% to 10% of the population that represent 60% or 70% of the cost to weed out fraud, waste and abuse.

With self-insurance flowing down market with greater ferocity, BUCAs with broad and compelling networks face significant opportunities to at least retain clients if not actually achieve net growth, according to Winkler.

He says they could facilitate a conversation with employer customers about moving from a fully insured to self-funded solution. But Winkler also notes that "health plans can make money in the fully-insured space certainly more so than they are likely to make in the self-insured space," depending on the circumstances, state and rate-filing process on the fully insured side.

Accessing an ASO's BUCA network can be a double-edge sword, industry experts agree. For example, Winkler explains that a broad network of providers also produces a wide variation of cost and quality, while a narrow network may not be as compelling to consumers, but could lower the total cost of care.

Employers that cotton to the ASO model might involve those for whom a large provider network would best handle employees who are scattered around the country, Esposito says. But such needs are dwindling in the face of narrow networks and reference-based pricing, he adds.

"At the end of the day," Esposito observes, "small and medium-size employers need to become smarter on health care as a whole. And transitioning from full insurance into self-funding is a natural fix for that, especially when you layer on top stop-loss or level funding."

Parker believes there's enough mounting interest in self-insurance for both ASOs and TPAs to share in the spoils. "It's exciting to see self-funding continuing to rise and be a bigger alternative, which I think helps our industry as a whole," he says. ■

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