10 Tips for Picking a TPA

To find the right third-party administrator for your health plan, ask questions, check references and get to know laws and regulations.

Choosing a third-party administrator (TPA) to manage your, self-funded health plan is much like getting married. You'll be forming a close relationship with a mate who will have access to your assets. The success of the relationship will depend largely on how much you know about your potential partner and how candid you are about your own situation before you walk down the aisle.

Knowing what questions to ask is tough because there’s more to know about TPAs today than in the past. At one time, these companies simply administered claims; now they provide a spectrum of services, although they do not sell specific policies.

Each employer forges a custom arrangement with its TPA, which can perform as many or as few tasks as the client delegates. A TPA can help design insurance plans, administer claims, ensure compliance with government regulations, review how employees use the health plan, arrange participation in preferred provider organizations (PPOs), maintain plan records and prepare materials to explain health care changes to employees.

The Society of Professional Benefits Administrators (SPBA) says that about 66 percent of all U.S. workers are now covered by self-funded health plans, most of which are managed by TPAs.

Many companies hire brokers or consulting actuaries to assist in their TPA searches. "These firms can charge a lot of money for information that's often available directly from the TPA," says SPBA president Fred Hunt. And, whether you choose to hire outside help or not, you'll want to do your homework before tying the knot. Here are 10 steps to use when evaluating TPAs:

1. **Look for a TPA capable of tailoring a health plan to the specific needs of your workplace.**

   Innovation is a major advantage of self-funded plans. Your TPA should be flexible enough to design a plan to fit your employee demographics. For example, if your workforce is dominated by women of child-bearing age, you might need to include more maternity coverage. By working with your TPA to design a plan that fits your particular workforce, you can cut costs while improving employee satisfaction.

   Keep in mind that TPAs may be specialized, and be sure to look for one familiar with your type of business. Some primarily handle single-employer plans, while others work mostly with government and church-related groups. Others specialize in plans developed through collective bargaining.

2. **Check references from some of the TPA's larger clients.**

   Rather than just accepting a list of references provided by the TPA, ask the TPA for a list of its largest clients. Then ask the clients about their satisfaction with the TPA's service, whether they would renew their contracts with the TPA and what advice they might offer on negotiations.

   "Large companies will generally have their own auditing team and will have gathered information on the company," says Kenneth W. Harvey, president of Corporate Benefits Services Inc. in Charlotte, N.C., which administers health plans for 90,000 people. "You can often learn a good deal about the TPA from their experience."
3. **Ensure that the TPA uses and provides accurate legal information.**

The laws involving self-insured health plans are complex, unclear and often untested, so TPAs increasingly provide their clients with the latest information on government compliance. Employers have legal responsibility for actions taken by their plans, so mistakes on the part of your administrator could open your company to expensive litigation and crippling fines. "In my mind, this is the single biggest risk plans face," Hunt says. "Human resource people often quibble over minor points but risk the whole company on sloppy compliance. Look for a TPA that will communicate with you often and keep you up-to-date on changing regulations," he says.

TPAs operate under the Employee Retirement Income Security Act (ERISA) of 1974, which regulates pension, health and other benefits plans. Hunt warns employers that insurance law is different from ERISA. "Normal insurance practices can be criminal offenses under ERISA," he says. For example, an insurance company can link its products, which may require that a customer buying health insurance also buy life insurance. That practice, although legal in other situations, is prohibited under ERISA because ERISA judges the financial prudence of each transaction individually.

TPAs with SPBA membership receive frequent newsletters informing them of the law and its interpretations, and SPBA members meet annually with government decision makers to discuss compliance. Getting fresh information about compliance regularly is important "because the laws are often counter-intuitive," Hunt says. "They can be interpreted quite differently from what one would expect."

4. **Understand how your PPO fits into the picture.**

You may need your TPA to put together a PPO arrangement, or you may be hiring a TPA while you already are participating in a PPO. The TPA may not negotiate on your behalf with the PPO, but either way, you make the final decision about how much choice your PPO offers your employees. "It's the employer, not the TPA, who has the leverage here because they can deliver the patients" to the PPO, says Mary Smith, president of Insurance Management Administrators of Louisiana, a TPA based in Bossier City, La., which administers plans for 15,000 employees and their dependents.

Smith suggests you make sure your PPO allows your TPA to discount health claims directly, without having to go back to the PPO for clearance. Plan administrators search each claim against the PPO network. If it's in the network, they re-price the claim and put the plan discount on it. "When TPAs have to send claims out [to the PPO] for re-pricing, they often get lost in the shuffle," Smith says. So, ensuring that your TPA can perform re-pricing itself will save you effort, Smith advises.

5. **Ask the TPA how it will manage your funds.**

Because ERISA requires each plan to safeguard its assets, TPAs generally recommend that their clients establish formal trust accounts for their plans. "This does not just mean setting up a separate bank account, but actually forming a segregated trust," says Hunt. While trusts are not specifically required by ERISA, the law requires companies to be "prudent" and, according to Hunt, prudence is generally interpreted as having a trust fund that insulates the money from both the TPA and the employer. When expenses are incurred on behalf of the plan, the TPA can remove money from the trust to cover the expenses. These funds, marked for specific payments, then can move to the claims-paying account.

To help verify that their financial practices prevent fraud and abuse, many TPAs offer potential
clients audit reports known as SAS 70 reports. SAS is the Statement on Auditing Standards, the official rules issued by the American Institute of Certified Public Accountants, and SAS 70 reports specifically look at service organizations like TPAs.

"These audits can be useful tools or they can mean little if they're performed by someone who doesn't understand the industry," Hunt says. TPAs often use audit reports as marketing tools. Hunt advises potential clients not to rely just on audit reports but to be sure they question the TPA about its funds management practices.

5. **Ask whether the TPA processes COBRA and HIPAA documentation.**

The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1984 requires employer health plans to offer continued coverage to employees who are laid off and to dependents of those who are fired or die.

At the employees' expense, COBRA extends coverage beyond the end of employment, providing coverage for 18 months for employees and 36 months for dependents.

The Health Insurance Portability Accountability Act (HIPAA) of 1996 was intended to eliminate the waiting periods usually required before new employees are covered by their employers' plans.

Employers are required to notify employees of their rights under these laws. "We require all new employees to sign initial notification statements for both HIPAA and COBRA. This keeps our clients out of the courthouse," says Smith.

If the TPA will administer these programs for you, Smith suggests that your contract state that the TPA is liable for COBRA or HIPAA administration errors. Be sure that the TPA's errors and omissions insurance covers it for COBRA and HIPAA errors.

7. **Learn all you can about the TPA's cost-containment programs.**

Ask the TPA how it handles pre-certifications, large case management, utilization review and PPO network evaluations. "We believe the more the TPA does in house, the better," Harvey says.

Also check out how the TPA deals with catastrophic claims. By detecting and managing catastrophic claims early, your plan administrator can reduce your costs without affecting the quality of care. "Generally, doing what's in the best interest of the patient will be in the best interest of the plan," says Dr. Rick Richards, president of Innovative Health Strategies, a cost containment and dread disease management consulting group headquartered in Augusta, Ga. "Quality care is cost-effective."

8. **Find out how the TPA trains its claims analysts.**

Richards also suggests you ask the TPA how its claims analysts are trained and find out about analysts' turnover rates.

"As front-line stewards of a plan's funds, [claims analysts] should be involved in ongoing education that teaches them how to pay claims intelligently, look for fraud and abuse, recognize unbundling, spot abusive providers and, most importantly, predict claims that are likely to lead to stop-loss notification," Richards says.
9. **Make sure that the TPA practices good management reporting.**

Your administrator should provide you with periodic reports explaining what's going on in the plan. These reports should cover finances, numbers of employees served, medical costs, use of medical services and savings realized from using the PPO.

"Good reports can let you make informed decisions about the health plan from year to year," Harvey says. "They can help you decide what services to add, whether you need to increase or decrease employee contributions and other adjustments you may need to make."

10. **Review bids from stop-loss insurance providers.**

Once you select a TPA, it can contract on your behalf for stop-loss coverage, which is just what the name implies - back-up insurance designed to stop losses from unexpectedly high claims. This insurance is purchased from stop-loss insurance companies called managing general underwriters, and it kicks in once an individual employee's expenses exceed what is called the specific amount or if the plan's total expenses exceed what is known as the aggregate amount.

ERISA requires self-funded health plans to obtain several bids on their stop-loss coverage. When selecting a TPA, make sure that you will be able to review those bids easily. Steven Taylor, vice president of reinsurance consulting firm D.W. Van Dyke and Co. in Westport, Conn., recommends asking how long the stop-loss insurers that bid on your coverage have been in business and how long they have worked with their issuing carriers. "This points to their experience," Taylor says. "You may not want to deal with someone who is just getting started in the business."

If you're changing stop-loss insurance providers, pay special attention to dates and the wording of claims definitions. "If you're not careful, claims that fall near the end of the year may not be covered by the expiring or replacing contract, and the plan can be left holding the liability," Taylor says.

*Betty Sosnin, HR Magazine, February 2000*