

Choosing a  
**Workers' Compensation  
Claim Administrator**  
that can maximize ROI



## Introduction

Workers' compensation expenses have steadily risen, peaking in 2016 when direct premiums written for workers' compensation insurance reached a record \$58.5 billion.<sup>1</sup> The increase in workers' compensation costs to companies is due to a growing workforce rather than an rise in premiums, which are declining. Regardless of the cause, employers must find a way to control this increasing financial commitment.

New Jersey businesses have a more pressing financial incentive to self-insure. According to data from the New Jersey Compensation Rating & Inspection Bureau (NJCRIB) and the National Council on Compensation Insurance (NCCI), the Garden State ranks third among the 50 states in cost of workers' compensation benefits and claim-related expense per \$100 in payroll. New Jersey rates are approximately 150% higher than the nation's median rate.

**For companies that self-insure for workers' compensation, an effective way to reduce costs is to partner with an experienced third-party administrator (TPA).** Corporate management should select a TPA that provides quality, efficient workers' compensation claims management and complementary services on an as-needed basis to create a better return on investment. The right TPA can reduce expenses while developing a workers' compensation program that suits an employer's specific needs.

## Benefits of Self-Insuring Coverage

Companies are currently faced with a highly competitive market and need to gain an advantage wherever possible. Employers who self-insure for workers' compensation are initially driven by cost savings, and those bottom-line advantages are tangible. In addition to that benefit, companies can experience other financial and operational gains:

- Interest income generated from retaining funds allocated for workers' compensation premium payments;
- Cash flow improvement due to the elimination of premiums paid in advance;
- Flexibility to create custom-made benefits to suit the needs of its workforce; and
- Reports detailing allocation of workers' compensation expenses, which can be used to highlight potential cost savings.

## Selecting the Right TPA

An employer must understand the specific needs of the organization to choose a TPA capable of meeting those needs. This choice requires employers to look beyond fees, which represent only 8% of total claim costs. Companies should focus on the other 92% of costs to identify the TPA that provides the most value.<sup>2</sup> Other criteria to be considered include:

- Effective medical management;
- Timely disposition of claim issues;
- Strong return-to-work program;
- Claim closure rates that outperform industry standards;
- Transparency of third-party vendor use in the claims process;
- Ability to minimize excessive expenditures resulting from mistakes, errors in judgment, ineffective litigation management and penalties; and
- Fraud prevention measures.

With a comprehensive analysis, corporate management can ensure it is selecting the best TPA for the organization, avoiding wasting time, money and resources on a partnership that will not provide the expected benefits. Two of the most important factors that an employer should consider are whether the TPA is appropriately staffed to handle the applicable claim volume, and whether it will offer plan flexibility and options. Additionally, a TPA that is familiar with the employer's industry and business size is better equipped to create a program that is tailored to an employer's business.

## Medical Management

Employers should retain a TPA that takes a comprehensive, proactive approach to medical management, utilizing a highly experienced team of in-house nurses and physicians. A TPA using these tools can ensure a company's employees receive timely, high-quality care from medical providers with the added benefits of effective cost controls and safe return-to-work practices. A TPA's medical management services can include the following:

**Managed Care Organization (MCO)** – A TPA with its own medical network can deliver quality medical care to injured employees at a more transparent, reduced cost to employers. Bundling managed care with claims administration also allows the TPA to effectively coordinate the sharing of data to improve claims management and better control rising medical expenses.

**Pharmacy Benefit Management** – The cost of medication can be one of the most neglected areas of workers' compensation cost control. It is estimated that workers' compensation programs drive an annual average of \$5.5 billion in prescription drug payments.<sup>3</sup> A TPA can help manage this cost with a comprehensive pharmacy benefit management (PBM) program, which ensures injured workers receive the appropriate medication at an efficient cost to the employer.

All medication for work injuries should be reviewed and authorized by the TPA's claims representative and/or registered nurse (RN) pharmacy precertification team. These staff reviews should be supported by an electronic claim-management system that hosts information relative to appropriate network discounts, injury-specific medication plans and formularies, and timely drug utilization reviews to ensure the right prescription is dispensed at the appropriate time for the correct dollar amount. This holistic approach benefits both the employer and the injured worker.

Using a TPA that has an advanced PBM program will also help identify high-risk claims. The TPA will use data from the PBM program and its own claim system, in addition to evidence-based medicine and medical guidelines, to determine if an intervention could be beneficial.

**Case Management** – Employers should choose a TPA with an experienced team of healthcare professionals and support staff that can monitor a claim from start to finish. When staff members are actively involved in the process, they can identify potential issues early on, which can have a significant impact on medical outcomes and costs.

For a TPA to manage cases effectively, it needs a team of case managers — typically in-house RNs and other certified healthcare professionals — who maintain open lines of communication with employees, the employer and the healthcare providers. A lack of transparency may adversely impact the claim, extend worker disability and delay medical care, slowing a claimant's recovery and return to work.

**“Effective claim management requires a system that is easy to access with information readily available when the employer asks for it.”**

Case managers assess a claimant's injuries or occupational illness, then gather demographic and clinical information on inpatient admissions and outpatient treatment. They then certify the medical necessity of services and assign an appropriate length of stay and other treatment plans. This comprehensive approach creates a more accurate estimate of time out of work.

**Utilization Review** – Qualified nurses and physicians conduct utilization reviews to determine the appropriate medical services and treatment for a work-related injury. It has become a commonly accepted practice for controlling costs.

A TPA should conduct a utilization review based on established medical guidelines using an in-house medical utilization department. A team approach benefiting both the injured worker and employer should be used for treatment, whereby the healthcare professionals provide any required support and medical expertise to the claims and legal staff. As a result, healthcare services are utilized responsibly, and medical treatment is appropriate for the claimant's injury.

## Claim Management

Companies need to ensure the TPA they select can efficiently manage claims and mitigate costs. Effective claim management requires a system that is easy to access with information readily available when the employer asks for it.

Employers should consider whether a TPA's service team has experience in their industry and whether the employer needs dedicated adjusters. Generally, a company should use a dedicated service team if it has an exceptionally high claim volume. To evaluate a TPA's service team properly, employers should ask:

- Will my company be issued a dedicated account manager?;
- Who will be my key contact(s) and are they equipped to provide information and answer questions?;
- Are adjusters well-versed in my industry?; and
- Are adjusters capable of making flexible decisions based on circumstances, or do you use an automated response process?

Employers should also consider a TPA's employee turnover rate, utilization of supervisors and other personnel issues.

## Support Services

The long-term cost of workers' compensation is more closely tied to the associated expense of employees' medical treatment and lost time than it is to the annual costs of the plan. Because of this, a TPA must be able to do more than just effectively manage claims. The best partner should also have ancillary services that companies can use on an as-needed basis.

**Loss Prevention** – Creating a safer workplace should be a common goal of an employer and its TPA partner. Companies should look for a TPA that has a loss-prevention team consisting of experts in their respective industries. Loss-prevention professionals can be used to conduct regular inspections to identify potential safety issues and offer corrective measures that will improve loss ratios.

**Staff Counsel** – A TPA with an in-house team of attorneys can provide effective litigation strategies and also work with outside counsel to ensure that an employer's defense is seamless.

## Mitigate Risk

Partnering with an experienced TPA can also lower the financial and legal risks for employers. Employers can work with a TPA to mitigate their legal and financial risk in several ways:

**Plan Creation** – An effective TPA program needs to deliver the services that an employer enjoys as part of its existing workers' compensation plan. To this end, experienced TPAs will prepare documents that clearly define the specific coverages and limitations included in the plan. Services that are not covered should be plainly delineated.

**Stop-Loss Coverage** – Many states, including New Jersey, require stop-loss coverage in the form of a posted security or an excess workers' compensation insurance policy. By leveraging its experience and expertise, a qualified TPA can conduct an analysis of past claims and current underwriting to recommend an appropriate self-insured retention amount. Employers can use this analysis as part of their criteria for establishing the cap that is most appropriate for their business.

**Custom Programs** – A TPA with adequate IT resources can develop programs to review plan-utilization and case-management data to monitor the expense, efficacy and cost of workers' compensation.

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## Conclusion

Choosing the right TPA takes due diligence, but it is worth the effort to find the best fit for an employer's industry and risk-management needs. A TPA plays a large role in an employer's workers' compensation claims outcomes and costs. For this reason, it is important to consider all variables, including the TPA's staffing, adjuster education and experience, claims systems, reporting capabilities and ability to apply a team-oriented approach to supporting an employer's goals.

**References:**

<sup>1</sup> Workers' Compensation: Costs, Legal Activity and Employment Rolls Are Increasing—But So Are Profits; A.M. Best Special Report.

<sup>2</sup> How to Pick a TPA for Work Comp Claims; Insurance Thought Leadership.

<sup>3</sup> Prescription Drug Management in Workers' Compensation: The Thirteenth Annual Survey Report; CompPharma, LLC.

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