California Healthcare News®

cahcnews.com Articles, Interviews and Statistics for the Healthcare Executive

Maximizing Value from Purchased Services

By William Norris
Director
Moss Adams LLP

By Francis Orejudos, MPH
Manager
Moss Adams LLP

No one knows whether the health care reform law will withstand the series of challenges that now confront it in the courts, Congress, and the states. But one thing is certain: Whether it's through decreasing fraud and abuse or increasing operational efficiency, the drive to cut health care administrative costs will continue, no matter how the health care reform battle turns out in 2011 and 2012.

As a result, we expect that health care payers (insurers, health plans, and self-funded employers) will keep increasing their use of purchased services through third-party administrators (TPAs), both onshore and offshore, in an effort to reduce unwanted overhead.

For many, outsourcing makes a lot of sense in terms of jettisoning cumbersome, costly, and time-consuming tasks, processes, and functions. But once this decision is made, the work for health care payers just begins.

Indeed, payers who delegate administrative programs to outside entities have a huge responsibility to manage and analyze the results of their performance. Without vigilant oversight and sufficient accountability, these organizations are at considerable risk—and may not realize cost savings that were expected. Despite this imperative, few health care payers effectively establish and manage the specifics of the outsourcing arrangement.

Unfortunately, it's in monitoring the complex provisions that the problems begin. Crafting contracts (such as purchased services agreements, or PSAs) clearly, concisely, and unambiguously—so that all parties understand what's expected—is the best first step toward making these relationships work. It's also important to make sure each condition in a PSA is measurable and that everyone agrees on the right measurement methodology and approach. Without these fundamentals in place up front, the likelihood of underperformance and litigation increases significantly.

Furthermore, PSAs between purchasers and administrators are extremely complex and particularly hard to manage. The purchaser must also identify, and be aware of, the high-risk areas that can cause huge problems down the road. And it helps considerably if the purchaser has a dedicated staff with the appropriate level of managed care experience to monitor the administrator's performance and adherence to contracts. In fact, this is crucial, because even the smallest errors can lead to millions of dollars in unwanted—and unexpected—costs.

Key questions to consider as a PSA

is being developed include:

- What provisions should you incorporate into the agreement?
- How do you keep the agreement simple but effective?
- How do you structure the agreement so it's easily administered?
- What are the agreed-upon goals and processes in place for monitoring performance?
- What are the mechanisms for addressing performance gaps?

These questions are especially relevant for health care payers, who are currently outsourcing a variety of services, such as claims processing, enrollment, authorization, and referrals for health care, finance, information technology, operations, and benefit contracts.

Some of these areas are extremely intricate and business-critical. Claims processing, arguably the heart of any payer operation, includes interpretation of complex contracts, calculation of payment, determination of covered services, and eligibility for benefits. Information technology needed to adjudicate these claims requires the configuration of complex files that control the level of payment, copayments, and benefit-level determinations.

Making sure administrators meet their commitments in these crucial areas is absolutely essential for health care payers that outsource services—and it's why these provisions should be clearly identified in the PSA. Goals must be outlined to ensure performance standards are met. For example, if a TPA says it will accurately adjudicate 98 percent of a client's claims, and, after close examination, it's discovered that only 92 percent of the claims are being processed correctly, the remedy must be clearly identified in the PSA.

This kind of serious accountability is the only way health care payers can optimize savings through purchased service relationships in today's marketplace. The system is just too complex, the metrics for success tend to be subject to great interpretation unless clearly defined, and the failure to follow up with rigorous management and monitoring is tempting and all too prevalent.

The bottom line is that outsourcing administrative services in health care without proper oversight just won't cut it—and may in fact increase the expenses you hoped to reduce when you initially entered into your outsourcing arrangement.

William Norris has more than 17 years of health care consulting experience in managed care and provider operations in payer, insurer, medical group, and independent physician association environments. He can be reached at (949) 623-4172 or william.norris@mossadams.com.

Francis Orejudos has over eight years of experience serving managed care organizations. He has led payer initiatives related to claims auditing, contracting, operational assessments, and business process redesign. He can be reached at (949) 221-4033 or francis.orejudos@mossadams.com.

Reprinted with permission from the California Healthcare News. To learn more about the California Healthcare News visit cahcnews.com.