Workers’ Compensation

To Unbundle or Bundle: Is This Even the Most Important Question?
In choosing loss-sensitive workers’ compensation products, such as large deductibles and retrospectively-rated premium plans, large employers face a classic decision. Should they select a “bundled” option with insurance coverages and services provided by their insurance carrier, or should they opt for an “unbundled” approach with claims services provided by a third-party administrator (TPA)?

In this white paper, we explore key considerations in the unbundled versus bundled decision and look at what’s really crucial to achieving strong results in any workers’ compensation claims management program.

**Workers’ Compensation Claims Management: A Changing and Challenging Landscape**

A well-designed and managed loss-sensitive program offers employers many benefits, including potentially lower costs. However, it’s important to remember that with a loss-sensitive program, you are assuming a greater proportion of your risk—including a portion of your claims costs.

If not managed properly, these costs can be significant. Nationally, the average cost of a lost-time workers’ compensation claim exceeds $50,000 (National Council on Compensation Insurance). Medical and pharmacy costs comprise approximately 60% of workers’ compensation claims costs and are increasing. And new issues impacting claims continue to emerge, including an aging workforce and growing incidence of chronic health conditions among injured workers. These situations can make recoveries lengthier and more complicated, driving up the cost of claims.

Whether you choose an unbundled or bundled approach, to avoid derailing the financial benefits of a loss-sensitive program, it’s critical to ensure your claims are expertly managed with results-driven rather than process-oriented services. Key indicators of quality claims handling include use of a strategic approach before, during, and after a loss, and a proactive claims and managed care model with frequent interventions that control costs, durations, and excessive utilization.
The Case for Unbundled Services

Many brokers recommend that their clients embrace unbundled services for large deductible or retrospectively-rated premium plans. The most prevalent argument for this approach is that unbundling will give employers stronger control over the execution of services that impact their program results.

Organizations that opt to unbundle often seek to control their “destinies”—reducing costs by carefully packaging services. In some cases, they may be able to leverage performance-based incentives not available from carriers.

Other reasons that an organization unbundles include:

- **Focus.** TPAs may be very familiar with the needs of large accounts on loss-sensitive programs, including a better understanding of special handling guidelines.

- **Alignment.** While insurance company risk control and claims staff represent the carrier, TPA personnel are presented as being more aligned with the client’s best interests.

- **Flexibility.** A TPA typically provides clients with the ability to build a team of vendors and offers greater portability of services.

- **Transparency.** TPAs are thought to offer more clarity about pricing.

Many TPAs use a “cost plus” revenue model, in which selling additional services is a critical revenue driver. With that in mind, inquire about controls to ensure programs (such as specialty networks, case management, and nurse triage) are used appropriately and managed cost effectively. Without such controls, you may experience unexpected costs and competing interests—yours versus those of the TPA.

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**Key Questions to Ask a TPA**

Although the advantages of unbundled services may seem compelling, you need to understand the factors that can hinder achievement of promised benefits. Take a deeper dive with the following questions:

- **How much workers’ compensation does the TPA handle?** What industries and what size accounts does it serve?

- **How does it manage midsize accounts?** Read between the lines regarding how it values large/midsize versus jumbo accounts.

- **How does it address loss drivers (frequency, duration, medical costs, and utilization)?**

- **How is the TPA handling medical management of workers’ compensation claims?** More specifically, how is the TPA addressing:
  - The aging workforce?
  - Comorbidities, such as obesity, diabetes, and hypertension?
  - Narcotics utilization?
  - Physician dispensing?
  - Changing dynamics in medical management, such as the impact of the Affordable Care Act?

- **When examining their model, does the TPA focus on managing the “total cost of risk” or are they processing claims?**

- **How is the TPA using data and analytics to target specific interventions to drive better outcomes?**

- **What is their service model?** What are their financial and performance benchmarks/results?
The Case for Bundling with the Right Workers’ Compensation Carrier

As previously noted, issues related to workers’ compensation are highly complex. In today’s dynamic environment, deep expertise in the line, as well as a suite of proven tools, is crucial to success.

Understanding the Success Factors

Choosing bundled services can prove beneficial—but only if an organization selects the right carrier.

A carrier specializing in large account workers’ compensation programs can offer the right experience in terms of supporting outcomes, providing a high level of client and broker communications, and managing the total cost of risk. Carriers tend to have larger infrastructures for investment in new tools and capabilities to address ongoing challenges and changes.

Key Questions to Ask a Carrier

Not every carrier will be able to deliver against the potential benefits of bundled services. Take a deeper dive by asking the following questions:

- **What is the carrier’s service model?**
- **How much does the carrier invest in workers’ compensation cost management?**
- **How integrated are the carrier’s claims management and managed care programs?**
- **How has the carrier demonstrated a commitment to innovation?**
- **How is the carrier using data and analytics to improve outcomes for clients and injured workers?**

Consider the following attributes of a bundled approach with a specialty carrier:

- **Workers’ compensation expertise.** Issues impacting workers’ compensation claims are complex, particularly when you consider that a substantial portion of workers’ compensation claims handling is now medical management. The right specialist carrier will have the expertise and a dedicated infrastructure to handle these intricacies and achieve optimum results.

- **Total cost of risk approach.** To achieve sustainable results, large employers need a strategic method designed to reduce frequency and manage all aspects of workers’ compensation claims. A bundled approach manages loss drivers, implements effective risk control strategies, and optimizes the claims process. Since one of the primary functions of insurance carriers is to assume risk, carriers are typically adept in addressing costs associated with risk assumption.

- **Availability of risk control services.** With a bundled approach, carriers typically place a great deal of emphasis on preventing and reducing the frequency/severity of losses. Carriers’ risk evaluation and mitigation strategies, as well as ongoing monitoring and benchmarking, can be leveraged to reduce the total cost of risk.

- **Full integration.** In a bundled program, underwriting, claims, managed care, and risk control work in lockstep with the same goals and access to the same data. This approach is powerful, with the unique talents and expertise of team members (underwriting executive, claims professionals, managed care nurses, and risk control professionals) coming together to solve client issues. This approach offers the benefit of annual action planning to identify clear steps to improve safety and address risk—along with annual stewardship reporting to quantify workers’ compensation program metrics, including the financial impact on the organization.

- **Data analytics.** More and more, data is key to reducing an organization’s total cost of risk. A bundled approach provides an insurer with ready access to comprehensive loss data without the gaps that can occur in synthesizing data from multiple vendors. A bundled approach also offers the “central capture” of log notes with input from claims, managed care, and litigation management professionals. With these insights, an insurer can more easily and quickly identify trends, forecast future performance, and develop targeted strategies for improvement. In addition, predictive intervention is most effective when involving all aspects of the program in a coordinated and cohesive way. The availability of data in a bundled approach is very useful in benchmarking workers’ compensation performance year to year and with industry peers.
Total incorporation of services and data. Data yields powerful insights for effectively managing the complexity of workers' compensation claims. However, the key is action. With bundling, a carrier’s claims and managed care staff has ready access to pertinent data, enabling them to make decisions and execute strategies quickly.

It All Comes Down to the Service Model

Whether engaging a TPA for unbundled services or a carrier for an all-inclusive program, every organization needs to carefully assess the provider’s service model. Service models differ for every TPA and carrier, and many different models exist for both claims management and managed care. As a result, no carrier or TPA generates the same claims outcomes or managed care savings results. Regardless of the approach, avoid a collection of independent services that are not integrated from a data, process, and communications standpoint.

No matter which approach is chosen, organizations must select the service organization that delivers the following “must-have” attributes:

- **Understands jurisdictional, medical, and industry challenges.** Workers’ compensation has a host of variables depending on the nature of an injury and the state in which an injury occurs. A provider also needs a deep understanding of industry-specific risks and loss drivers.

- **Values each client.** Every organization has a unique culture and needs. A solid partner will demonstrate a commitment to understanding the organization’s culture and operations, along with goals and expectations for its workers’ compensation program.

- **Creates customized solutions.** An effective partner will implement best claims practices while still tailoring services based on the client’s distinct needs.

- **Invests in tools to improve performance.** When it comes to workers’ compensation, there are almost always opportunities to improve results in claims management, managed care, and risk control. But the most effective partners tackle those areas—and drive results—applying data analytics, account management, and other tools to measure and manage performance.

- **Shows accountability with clear and thoughtful communications and reporting.** Whether delivering bundled or unbundled services, a true partner shows accountability by proactively communicating with clients. A regular cadence of communications and reporting helps ensure timely identification of issues and implementation of new or improved capabilities.

- **Evolves as client and external environment change.** Workers’ compensation is dynamic. An effective approach requires vigilance—to stay abreast of ever-changing industry and business conditions—and flexibility—to adapt promptly and effectively to those changes.

- **Drives the best outcomes for the client.** Any effective service model places the client at the center—while an integrated service model fuels tight connections across all aspects of workers’ compensation claims and all players who may be involved in the process.

Conclusion

Ultimately, there is no right answer to the unbundled versus bundled approach. What organizations need to inquire about—and understand—is the quality of their prospective partner. It’s a mistake to homogenize carriers and TPAs. Know the players, particularly their claims and managed care service models.

At the end of the day, it’s usually the quality of the service provider, not whether the program is unbundled or bundled, that drives the best outcomes for the client.

Critically evaluating the issues raised in this white paper will help to illuminate the right path—and right partner—for any large account.

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About PMA Companies

PMA Companies (www.pmacompanies.com) provides risk management solutions and services in the U.S., specializing in workers’ compensation for larger accounts.

Headquartered in Blue Bell, PA, PMA Companies is part of the Old Republic General Insurance Group (www.oldrepublicinsurancegroup.com), the largest business segment within Old Republic International (NYSE: ORI), one of the nation's 50 largest publicly held insurance organizations.

PMA Companies includes:

- **PMA Insurance Group**, specializing in workers’ compensation, and providing other commercial property and casualty insurance products

- **PMA Management Corp. and PMA Management Corp. of New England**, providing results-driven TPA and Risk Services specializing in workers’ compensation and liability

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