Two Decades and 10 Lessons Learned: How Self-Insureds Can Achieve Outstanding Results

Frank X. Altiere, III
President, PMA Management Corp.

2011 marks the 20th anniversary of PMA’s third-party administration (TPA) and risk services business. In 1991, we entered the market for a simple, yet compelling, reason: Our insurance clients who were entering the self-insurance arena asked us to.

During our 20 years, we have worked with leading employers ranging from large state and Ivy League universities and state and municipal governments to trade associations and major health care systems—many of whom have won awards for their risk management programs. In the process, we have gained extensive knowledge into what makes self-insured programs successful—10 simple, but meaningful, keys to achieving outstanding results in workers’ compensation programs:

1. Set goals: what gets measured, gets done
2. Keep your eyes on the road ahead (but look in the rear-view mirror, too)
3. Design your risk management program from a macro and micro approach
4. Optimize technology in your risk management program
5. Manage your insurance/self-insurance program like a profit center
6. Use a return-on-investment (ROI) approach
7. Make everyone in your organization accountable for risk management goals
8. Never stop learning
9. Never stop improving
10. Choose the right partner

Set goals: what gets measured, gets done

The foundation for a successful workers’ compensation program—and one of the most effective ways to address claims costs—is goal setting. Benchmarking provides a formal framework for setting goals, measuring performance and achieving results.

PMA encourages clients to establish two sets of benchmarks: one for measuring their performance and one for measuring our (the TPA’s) performance. Both sets of scorecards should link directly to bottom-line results.
Start with 5 to 10 key metrics, such as claims frequency, claims closing ratios, Preferred Provider Network penetration, medical savings, subrogation/excess recoveries or loss reporting time frames. Measure your performance at least annually against your own results from past years and those of your industry peers.

Another effective way to benchmark is with annual or semi-annual stewardship reports that document results achieved. PMA clients receive stewardship reports that clearly record these results. These reports provide tangible data that clients can use to “grade” TPA performance and guide future improvements. Ask your TPA for these reports.

If an organization is falling short, it should look to its TPA and broker/agent not just to report performance data, but also to interpret it and make actionable recommendations for improvement.

Keep your eyes on the road ahead (but look in the rear-view mirror, too)

Successful self-insureds prioritize and implement both pre- and post-loss initiatives. On the pre-loss side, build a culture and infrastructure that promotes loss prevention through safety committees and safety training, and integrates safety into daily operations.

Effective pre-loss initiatives require two key components. First, the leadership of the company should set the tone for the entire organization, and actively support a safety culture and demonstrate their commitment on an ongoing basis. Second, employers and managers need to understand the importance of loss prevention and the reasons for complying with safety initiatives.

Of course, for even the most proactive clients, accidents and claims may occur. It is important to take an equally disciplined and rigorous approach to post-loss initiatives, including:

- Reporting claims as soon as possible
- Maintaining frequent and detailed communication with your TPA
- Getting injured workers safely back to work with a return-to-work program

In short, work with your TPA to meet or beat benchmark goals through effective claims management.

Design your risk management program from a macro and micro approach

In working with hundreds of risk managers, PMA has found that the most effective are those who balance macro and micro risk management.

It is important to build and execute a high-level risk management strategy. As described above, your macro approach should be comprised of the following steps:

- Setting goals
- Establishing performance metrics—benchmarks
- Identifying and implementing key action steps

Case Study

Pre- and Post-Loss Initiatives
Reduce Loss Ratio by 30 Points

A 30-point reduction in a workers’ compensation loss ratio is a significant accomplishment, especially for a trade association with over 350 separate member businesses. Here is how PMA and one client achieved those results:

Pre-Loss Initiatives:

At the heart of the client’s pre-loss initiatives was a scorecard system to measure results. Safety professionals evaluated each member’s safety practices, and presented them with results and recommendations on a scorecard. Those who did not improve were put on an action plan for improvement. Other initiatives included providing incentives for drug-free work environments and communication programs to address workplace hazards.

Post-Loss Initiatives:

A results-driven claims team—including a Registered Nurse and other behind-the-scenes support personnel—focused on achieving better post-loss results through medical cost containment, return-to-work initiatives and modified duty. An initiative to encourage prompt claims reporting resulted in over 70% of claims being reported over the Internet within three days of the accident. Settling claims when appropriate also helped to drive down the loss ratio.
Effective plans should also include micro risk management and are built on good data. Conduct an analysis of the last five years of your risk management data. Examine areas such as frequency of losses, when and where the losses occur and loss ratios. To gather more information, conduct a risk management assessment of your facility (or ask your TPA or other risk management expert to do so). Integrate both sets of research to form the basis of your plan.

Great risk managers also get “in the weeds.” For example, they visit job sites and assess safety for themselves. They also attend claim review meetings, safety committee meetings and even legal hearings on injured worker claims. Front-line exposure and experience help risk managers better understand what is driving their organization’s risks and losses. That insight is crucial to successfully executing high-level goals.

Optimize technology in your risk management program

Self-insureds and their TPAs should embrace technology to improve efficiency in their workers’ compensation programs and for their risk information needs. Ensure that your TPA has made investments into a powerful claims management system. Working with a TPA who has a technology-driven claims operation can help you realize the efficiencies associated with eliminating paper files, minimizing manual processing, centralizing data and implementing automatic controls throughout the life cycle of claims.

A first-rate risk management information system yields tremendous benefits, allowing you to use your loss information to enhance your business performance. Use it to monitor and manage claims, identify emerging claims trends and take quicker corrective action. A risk management information system also facilitates automated cost allocation, which holds business managers accountable for their results.

For a risk management information system to be effective, make sure the right people have the right information and tools. For example, a risk manager may require graphing capabilities to illustrate claims trends to senior management, whereas a human resources manager may need to view claims adjuster log notes. Carefully assess each member of your team and their specific information needs to ensure everyone in the organization is focused on reducing loss costs.

Case Study

Achieving a Macro and Micro Balance

Despite significant safety challenges, a PMA client is achieving an optimal balance between micro and macro risk management.

KEYS TO THEIR SUCCESS INCLUDE:
A risk management enterprise program:
Best practices are systematically applied to each risk management business process—from preventing claims to reporting claims to returning employees to work. This “macro approach” is supported by the company owners who are actively involved in risk management issues.

Day-to-day risk management focus:

• A company-wide risk management information system connects even remote locations, providing a channel for supervisors to report losses and easily access claims information.

• A detailed corporate risk management manual provides guidance on all key risk management issues.

• An accident investigation program requires supervisors to detail what could be done in the future to prevent accidents when they report an incident.

• Workers’ compensation medical savings programs are maximized by creating panels with medical providers who are easily accessible to employees.

• A strong litigation management program is employed, with guidelines for all defense counsel attorneys and attendance by company risk management staff at practically all workers’ compensation hearings.

• A model return-to-work program is executed, with no limit on how long an employee can participate in modified duty.
Manage your insurance/self-insurance program like a profit center

Today's workplace faces unprecedented pressure to reduce costs and increase efficiency. Workers' compensation programs are no exception. Most CFOs and CEOs are asking their leadership team to reduce costs.

Treating your insurance program as a profit center is one way to improve your company's financial results. When you embrace a profit center approach, you no longer consider your insurance expenses as necessary and uncontrollable costs of business. Rather, you manage your workers' compensation program in a manner that focuses on achieving goals, performance and results. The savings achieved will result in a positive contribution to the financial results of your company.

In our experience, this management style can be very valuable. It encourages self-insureds to continually raise the bar—asking “how” and “why” it can meet ever-higher goals of cost savings.

Use a return-on-investment (ROI) approach

Steps 5 and 6 are closely aligned. As part of your approach to achieve positive financial results with your insurance program, you need to look at how you can generate a return on your expenditures. One of the most significant and controllable costs in a workers’ compensation program relates to losses, so there should be a focus on claims and medical costs.

Start by working with a TPA that is proactive and results-oriented, has the goal of returning to you a multiple of your claims fees in savings, and is passionate about reducing your total cost of risk.

The TPA should help you identify areas affecting cost and implement a plan to address these cost drivers. Successful self-insureds, in partnership with their TPA, carefully manage claims and medical costs, addressing issues such as the compensability of claims, return-to-work programs, action plans for open claims, claims settlements and recovery opportunities.

Also, ensure your TPA has a comprehensive managed care program that includes quality medical case management and medical bill review programs, medical network strategies, pharmacy benefit management programs and PPO programs. To maximize the effectiveness of these programs, confirm that your TPA has integrated these programs together and into their claims handling processes. Managed care programs need to work synergistically with each other and the claims management process to optimize costs savings and achieve the best return-to-work outcomes.

One example of the ROI strategy is through the prompt reporting of claims to reduce claims costs. In our experience, clients with successful programs report losses promptly, typically within three days. To achieve this goal, take a systematic approach. Implement key steps such as evaluating lag time by department/location, educating stakeholders, assigning accountability, reviewing reporting techniques and providing results data.

There are many areas to achieve ROI. You and your TPA should analyze costs, implement cost containment strategies and even consider strategic investments to maximize your return.

A return-on-investment approach can help you conduct a successful workers’ compensation program. We have demonstrated to our partners that they can convert saved workers’ compensation dollars into bottom-line contributions to the company’s overall profitability.

“A first-rate risk management information system yields tremendous benefits, allowing you to use your loss information to enhance your business performance.”
Make everyone in your organization accountable for risk management goals

Some organizations simply monitor claims and their costs and react to news as it unfolds. A solid TPA and risk services partner helps a self-insured understand where the highest frequency and severity of claims are occurring. With that information, an organization can proactively address its challenges.

Effective organizations actively engage with frontline managers, training them on the importance of safety and, in some cases, linking compensation to workers’ compensation performance and charging back associated costs to their budget centers.

The key lesson? It is critical to build a sense of accountability—giving pre- and post-loss initiatives focus and weight within the organization.

Never stop learning

Organizations consistently face new risk management challenges. In this economy, many risk managers need to do more with less—and to wear many hats. To have the right information to address emerging issues, it is important for risk managers to be active learners and participate in seminars and training programs. Look to your TPA to explain the implications of legislative changes, workers’ compensation trends and other developments and make actionable recommendations.

Successful self-insureds count on their TPA for more than core service delivery. An outstanding TPA can also serve as educator, consultant and trusted advisor. For example, one of our clients recently hired a new risk manager. To help the risk manager get up to speed on workers’ compensation issues, our client engaged us to provide monthly, one-on-one coaching sessions with the new employee.

Never stop improving

Successful self-insureds are committed to improvement and continually ask the question, “How can we make it better?” They tap into their TPA’s resources for help identifying and executing improvements. By improving their processes, they can save money, and garner better care and improved outcomes for injured workers.

For example, when one of our clients, a public entity, hired us, they made it clear that continual improvements were very important to them. In particular, they wanted a more assertive approach to claims management than they had in the past. They asked us to review all their open claims (nearly 1,000) and look for closure opportunities. We reduced their open pending claims by more than 60% within ten months.
Choose the right partner

As the industry has undergone extensive consolidation, the number of TPA providers has declined. Virtually every TPA now seemingly offers the same services and capabilities—at least on paper. Successful self-insureds know that an effective partnership requires more than checkmarks on a list of requirements. It is about engaging with the right team—a group of people with knowledge, experience, passion and a service-driven ethic.

The very best TPAs manage your risks, your claims and your money as if it is their own. That level of commitment and advocacy is crucial to long-term success. Their goal is to provide you with results you need, expect and deserve. Ask these questions about your potential partners:

- Have they received a Service Organization Control (SOC 1), type 2 (formerly known as Statement on Auditing Standards [SAS] 70), with an unqualified auditor’s opinion?
- Is their case management program URAC accredited?
- Can they provide recent independent client satisfaction survey results?
- Do they have consistent growth and strong client retention?
- What is their value proposition or guiding principles—and do they deliver what they say they will?
- Do they specialize in your industry?

Be sure that you have a clear picture of your TPA partner.

Looking ahead: The next 20 years

As we look to the future, we know there will be challenges and opportunities ahead. The workers’ compensation industry may face new regulatory mandates. Our clients may encounter new exposures (consider, for example, that carpal tunnel syndrome was rarely talked about in 1991). And in all likelihood, we will face opportunities to adopt new technology—along with heightened requirements for protecting the security and confidentiality of electronically transmitted data.

While no one can fully predict the changes ahead, we feel confident that the fundamental objectives for self-insured workers’ compensation programs will remain unchanged—protecting workers and reducing the total cost of risk.

PMA is proud of what we have helped our clients accomplish over the past two decades. We look forward to continuing to partner with clients to help them get the most of out their risk management program.

About the Author

Frank X. Altiere, III is President of PMA Management Corp. He has 33 years of risk management and insurance experience, with a focus on helping organizations develop and implement high-performing risk management programs. He has spoken at many professional conferences and seminars and has authored articles on the total cost of risk, claims management, workers’ compensation, and achieving return-on-investment for self-insured clients.

Mr. Altiere, a Risk and Insurance Management Society (RIMS) Fellow, holds CPCU, ARM, AU, IIA and AIS designations and is a member of the Self-Insurance Institute of America.

About PMA Companies

PMA Companies (www.pmacompanies.com) provides risk management solutions and services, specializing in workers’ compensation and offering property and casualty insurance, in the U.S.

Headquartered in Blue Bell, PA, PMA Companies is a member of Old Republic Companies. Old Republic International Corporation (NYSE: ORI) is one of the nation’s 50 largest publicly held insurance organizations.

PMA Management Corp., one of the PMA Companies, provides results-driven claims and risk management service solutions to clients in a broad range of programs, including individual self-insurance, self-insured groups, captives and unbundled insurance programs. PMA Management Corp., which has consistently received SAS 70 (type 2) reports with an unqualified auditor’s opinion, is currently celebrating 20 years of consistent annual growth and expansion.