

HEALTH STRATEGY ASSOCIATES *Smart Moves. Winning Strategies.*

Part 1 in the 2001 Series on Issues in the Health Care Industry

Specialty Managed Care in Workers' Compensation

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Within the Workers' Compensation insurance industry, there are many carriers and TPAs that have made a name for themselves by focusing on a niche industry, region, or type of business. Some carriers specialize in turning around risks that are tottering on the edge of the assigned risk pool, others are expert in the intricacies of a particular state. There are TPAs that concentrate on integrated disability management, school districts, or self-funded employers in monopolistic states. What all these companies have in common is an expertise based on deep knowledge of a very specific and clearly defined niche market. While their competitors apply their more general expertise to these niche markets, these “specialty” carriers and TPAs know the right underwriting questions to ask and what the right answers are; what the unseen risks are and where to look for them; and which loss prevention and risk management programs work and why.

These niche players have gained their expertise from years' of experience in a narrowly defined market. The smart ones stick to the business they know, consistently outperforming their more broad-based competitors. Lately, a parallel industry has grown up in the Workers' Compensation managed care market, comprised of specialty managed care companies that concentrate on one particular type of claim, case, or medical treatment. While the growth in this sector is new, the actual business premise is remarkably similar to that of the industry's niche underwriters. And, these niche players deliver results that demonstrate their ability to outperform their broad-based competitors within their defined market.

Who are they?

It is easiest to define niche players by talking about them in the context of their more common, and in most cases, better known “big brothers”, the generalist Workers' Compensation managed care firms. Traditionally, generalist firms provide a full range of services, such as networks, bill review, telephonic and field case management, and related services across several, or most markets, to carriers, TPAs, and self-administered employers. Their sales pitch is based on the idea that “integrated” services produce better outcomes than fragmented services. The truth is not every network company provides the best network in every state, not every claims adjuster is closely linked to a case manager, and not every case management determination finds its way into the bill review system. Understanding this, most carriers

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and TPAs have adopted a “best of breed” strategy, where they pick and choose different vendors for different states. A carrier might use First Health in Illinois, MetraComp in New York, and CCN in California. Their bill review might be outsourced to HNC or another firm or performed inhouse, and they might use a combination of in-sourced and outsourced case management nurses. Thus, even broad-based managed care companies have found themselves categorized by the market.

The specialty managed care companies concentrate on a type of care or case where their expertise enables them to deliver outcomes, defined as improved patient functional status and lower costs, that are significant improvements over those results delivered by their broad-based competitors. A specialty company might be expert in the management of physical therapy, catastrophic cases, or radiology. They might provide networks, bill review, and/or case management and referral management, or just one of these services. However, unlike the broad-based managed care firms, they make a point of their specialty, concentrating their efforts where they have expertise.

To better understand these niche companies, we'll need to quickly examine where Workers' Compensation managed care is today and what the market is demanding.

There are plenty of statistics available in this publication and others, and perhaps some on your desk as well, which point to the Workers' Compensation industry's present financial hard times. This situation is hitting traditional managed care programs hard. Recent cutbacks in case management at several carriers, insourcing of bill review and other services by others, and evidence of tough bargains driven for network access rates point to the impact of these goals on managed care vendors. But these changes are not being implemented without thought for their impact. In fact, in many cases the carrier, TPA, or employer has chosen to reduce the use of case management because of the vendors' inability to demonstrate any impact (beyond higher ALAE) on the vast majority of cases. Business as usual just is not good enough any more.

Into this world has stepped the specialty managed care company. Their narrow focus has been their strength; it has enabled them to avoid the problems of their broad-based brethren. Freed from having to manage every case, they can concentrate on those cases where their experience tells them they will have the greatest impact. With loss ratios climbing and senior management demanding better results with lower expenses, the growth of these specialty companies is certain. While there are obstacles to that growth such as carriers' entrenched relationships with other vendors and bureaucratic reluctance to admit someone else can do a better job, the ability of specialty companies to deliver much better results at lower cost assures their success.

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If you would like to discuss specialty managed care in workers' compensation in more detail, please let us know by clicking on the link above left, or giving us a call. You can also visit our website at www.HealthStrategyAssoc.com.

Sincerely,

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Joseph Paduda, Principal of Health Strategy Associates, is an independent consultant focused in the Workers' Compensation and managed care markets. His clients include large Workers' Compensation insurers, managed care organizations, self-insured employers, and software and systems companies. Prior to his present position, Mr. Paduda was vice president of MetraComp, a United HealthCare Company specializing in the application of managed care techniques to the Group Disability and Workers' Compensation industry. Paduda was responsible for marketing, sales, and account management. Paduda holds a Master's of Science Degree in Health Management from the American University and is a frequent speaker on managed care issues. He lives and works in Madison, Connecticut and can be reached at 203 245 1249 or jpaduda@healthstrategyassoc.com