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Specialty Managed Care in Workers' Compensation

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Loss ratios above 125%. Medical trend rates climbing above 10% annually. Carriers merging, insolvent or in receivership. Comp rates climbing rapidly while capacity is disappearing. Mandatory managed care legislation repealed as industry experts point to high claims management costs.

So much for the promise of managed care.

Well, maybe not. While some are abandoning Workers' Compensation managed care as fast as they can tear up their contracts, others have taken a step back to reassess their original goals, evaluate their present programs, and figure out what they need to do to start making money in Workers' Compensation again. What they are learning is instructive for all.

What worked in the past won't necessarily work in the future. This is as true in managed care as it is in electronics, telecommunications, and medicine. We didn't expect copper wires and dial phones to last forever, and we shouldn't expect old managed care techniques to either. The question should be, what should the next phase of managed care look like? Many large carriers, TPAs, and employers have decided to look deeper for answers, and they have focused their attention on specialty managed care solutions.

Clearly, the large generalist Workers' Compensation managed care firms have served us well up till now. While there is some disagreement about their real effectiveness, they have been able to demonstrate significant PPO savings and publish attractive ROI statistics for bill review and case management. Unfortunately for them, they appear to have run their course; across the nation Workers' Compensation payers' savings levels are actually declining while network penetration rates are leveling off. While these generalist firms are merging, consolidating, and broadening their reach, their results are diminishing, along with the value they are delivering to their clients. Meanwhile, a whole new branch of the industry has grown up almost unnoticed, until it is now poised to take over a significant share of the Workers' Compensation managed care market.

Who are they?

It is easiest to define specialty Workers' Compensation managed care companies by talking about them in the context of their more common, and in most cases, better known "big brothers", the generalist

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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 are easier to administer 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. Up till recently, the additional benefits inherent in specialty companies' tight focus and special expertise was (in the minds of some) outweighed by the challenge of working with multiple vendors. The recent startling growth of specialty managed care firms proves that many Workers' Compensation carriers, employers, and claims payers are revisiting that calculus and finding that specialty Workers' Compensation managed care programs are highly cost-effective.

The specialty managed care companies concentrate on a geographical area, type of care or case where their expertise and focus 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 may know a particular state, or a type of provider, better than anyone. They may have 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.

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.

There are two general types of specialty firms; those that are geographically focused and those that concentrate on a type of care or type of provider.

Typically, geographic firms provide network access, and sometimes other services such as bill review and case management in a state. Their local knowledge and presence has several advantages:

- Ability to work with local claims and policyholder staff to educate them on and interface with the provider community
- Strong market share provides good negotiating leverage

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- Local experience helps identify the providers that are most attractive, lending credibility to the network
- Deep knowledge of state regulations and the legal environment is invaluable to adjusters
- Strong ties to and knowledge of the provider community enables them to negotiate more intelligently and effectively, driving down costs and delivering the best providers.
- Local knowledge ensures they are on top of changes in the health care community; mergers, alliances, and ventures that will impact patients and insureds.
- Typically, local firms have good access to and relationships with local regulators and officials, streamlining regulatory approvals and the like.

Examples of strong local firms include Choice Medical Management in Florida, MagnaCare in New York City, and EOS in California. While these are three very different firms, all enjoy strong market share positions, effective networks, locally-expert staff, and excellent results.

Specialty firms

Unlike geographically focused companies, specialty firms concentrate their energies and resources on a type of care or specialty and likely operate in several jurisdictions. They may work in the imaging, physical therapy, occupational medicine, or pharmacy sectors, among other niches. Wherever they are concentrated, effective specialty firms have several common features.

- Extensive in-house expertise in their niche ∂ PTs, pharmacists, radiologists etc.
- Unique or specific business models that are highly relevant to their niche
- Highly effective technology solutions that enable integration of their program into broad-based programs
- Strong data collection, analysis, and reporting orientations
- Medical management programs that address the unique nature of their niche; e.g. DUR for pharmacy; utilization management tools for PT.

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- Systems connectivity capabilities that facilitate integration of their program into a payer's overall managed care offering
- Deliver value to providers in the form of technology, billing management, connectivity, medical guidelines, cash flow management tools

Examples of specialty managed care firms include MedRisk, a musculoskeletal specialty company in 19 states; and Express Scripts Inc, a national Pharmacy Benefit Management company with Workers' Compensation-specific networks and deep discounts. Both firms are technologically savvy, have dominant market share in their niche, and strong relationships with their affiliated providers

With loss ratios climbing and senior management demanding better results with lower expenses, the growth of these specialty companies is certain. Clearly, if carriers and employers are to survive, they must find better answers. These answers lie in the expertise, experience, and tight focus on specialty managed care firms. While there are obstacles to the implementation of these specialty solutions, increasingly these are being overcome via sophisticated and highly reliable technology answers. Most importantly, there are several Workers' Compensation carriers and TPAs that are well down the road to improving results through the use of specialty managed care.

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