Claims Audits and Fiduciary Issues

Brought to you by AIM, a Conner Strong & Buckelew Affiliate

Thursday, May 24, 2012
2:00 pm – 3:00 pm
Today’s Speakers

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- AIM
AIM specializes in delivering products and solutions for the most complex employee health and benefit deliverables. This includes delivering compliance, audit, administration, wellness, data analytics and advocacy services for employers and plan sponsors. AIM’s approach allows for customized solutions rather than a “cookie cutter” approach.

J.A. Montgomery specializes in designing and conducting complete safety and risk control programs for public entities and businesses across all industries. With one of the most seasoned teams of risk control professionals, our programs have been proven to deliver safer environments and positively impact our clients' bottom lines.

PERMA specializes in providing risk management services to establish and manage sophisticated risk pools and self insurance programs including joint insurance funds and property and casualty captive and employee benefit stop loss captives. PERMA also provides strategic captive consulting advisory and captive management services.
AIM specializes in delivering products and solutions for the most complex employee health and benefit deliverables. This includes delivering compliance, audit, administration, wellness, data analytics and advocacy services for employers and plan sponsors. AIM’s approach allows for customized services and solutions.

Key services:
- Audits
- BenePortal
- Wellness
- Compliance
- Communications
- Data Analytics
- BeneService
- Administration
The focus of today’s webinar is to discuss certain fiduciary and other issues for plan sponsors that self-insure their medical plans. Self-insuring healthcare expenses removes the direct financial incentive for the claims payer to control medical costs. A strategic and effective **claims audit** approach will assist your organization in gaining control of your self-insured benefits. We'll review certain key learning objections:

- Plan's fiduciary responsibility to plan participants
- ERISA, Sarbanes-Oxley, and other regulatory requirements
- Audit rights under TPA agreements
- Translating audit findings into cost savings
- Approaches for evaluating vendor (TPA) performance
- Best practices for audits and vendor management
- Collaborative approach between plan sponsor, claims payer, and auditor
What is the Problem?
Managing Medical Costs

- Self-insuring healthcare expenses removes the direct financial incentive for the claims payer to control medical costs.
- All health plans pay medical, dental, vision, prescription benefit claims in accordance with a plan of benefits.
- Self-insured companies outsource their claims handling and associated administrative responsibilities to TPAs and Carriers to process their claims in accordance with their medical, vision, dental, and/or prescription services employee benefit plans.
- These TPAs and Carriers pay health care claims on your behalf, in hundreds of thousands or millions of dollars annually.
The Cost of Benefit Plans

- Employers and employees continue to see substantial increases in health care costs
- There is no single solution to address the complexities in increasing health care costs
- The best solutions include a myriad of strategies and techniques working in tandem to combat cost and quality

2007 Total Cost = $8,597

- $6,620 Employer Paid
- $1,977 Employee Paid

2012 Total Cost = $11,664

- $8,900 Employer Paid
- $2,704 Employee Paid

Total Benefit Spend 2007 vs. 2012 NBGH Survey
It is estimated that the overpayment error rates range from 3% to 6% of overall claim costs each year at these TPAs.

Claim processing errors result from high volumes; reliance on automation; manual processes; increasing plan complexity; utilization of “book of business” approaches; loss of expertise.

It is likely that many self-insured companies overpay their medical, vision, prescription and/or dental claims to some extent.

Poor performance at the TPA results in direct financial impact on you.
One Strategy to Address the Problem

- Conduct periodic audits of your healthcare claims. Most employers and plan sponsors include the cost of claim audits in their benefits budget.
- Audits are a best practice for a self insured plan sponsor.
- Plan sponsor/administrator has an active duty to ensure that the plan is properly administered for the benefit of plan participants.
- Performance of claims payer should be held to industry best practices.
- Plan sponsor should engage services of professional, full-time, independent audit firm to evaluate claims payer.
- Allows the plan sponsor and claims payer to work together to ensure that claims are paid as accurately as possible and that there is an opportunity to correct errors.
What is a Claims Audit?
Review of TPA’s Claims Processing

- Comprehensive/detailed review of the TPA’s claims adjudication (with focus on financial and claims processing accuracy)

- A health care claims audit is designed to assess whether your claims are being adjudicated in accordance with the provisions of your plan of benefits, and benefits paid only for eligible participants.

- Conducted by independent audit /consulting firm, like Conner Strong & Buckelew and AIM

- Most claims audits are conducted on medical plans | for self-insured plans.

- Provides plan-level and claim-level view of TPA’s internal controls / adequacy.
Is / Is Not

- A claims audit **Is**:  
  - Independent, detailed review of TPA’s claims administration  
  - For self-insured employers / public entities  
  - A prudent business activity of a plan sponsor (as fiduciary)  
  - The obligation of the plan sponsor – not merely the “right”

- A claims audit is **Not**:  
  - A punitive activity  
  - Likely to recover significant overpayments  
  - Going to cause friction with a competent TPA (partner)  
  - A stand-alone solution for rising health care spend
Why Conduct a Claims Audit?
What the Benefits Consultant Says

- A third party pays your employee claims with your funds

- If you are not measuring performance, you can’t manage it

- You should be conducting an audit (i) if you haven’t done one recently, (ii) if you’ve changed your TPA, (iii) if you have serious service and claim issues with TPA, (iv) if you want to raise the performance level of your TPA as service vendor.

- Audits should be performed with scheduled regularity

- Critical component of comprehensive vendor management strategy

- Audits are just one part of a multi-channel strategy to address (not control) healthcare costs and ensure proper plan administration.
What the ERISA or Plan Attorney Says

- Under ERISA, plan sponsor has an active duty to ensure that the plan is properly administered.

- Section 404 of ERISA requires that employers monitor the performance of the managed care organizations with whom they have contracted. Conducting regular audits can be an effective means for a plan sponsor to satisfy this requirement. (fiduciary standards)

- Public sector (“non-ERISA”) employers have same obligation as their private sector counterparts to administer their plans in a responsible, fiduciary and cost efficient manner.

- Audits are one way to meet ERISA (or other applicable) fiscal / fiduciary standards for oversight of plan assets.
What Your CFO or the Plan CPA Says

- In light of Sarbanes-Oxley requirements and the need to ensure plans are being managed and administered at optimal level, a comprehensive claims audit provides plan sponsor with an important tool to assure compliance and due diligence.

- The plan sponsor should play an active and invested role in making certain that the TPA/third party is paying claims correctly.

- The direct financial impact of poor performance and the significant claim dollars involved make it incumbent upon the plan sponsor to ensure that its financial interests are protected. It is an unsound business practice to do otherwise.

- Public sector plans have same obligations as private sector counterparts to administer their plans with same standards of financial accountability and governance.
What Other Plan Sponsors (Like You) Say

- Reason #1: Satisfy fiduciary requirements /obligations
- Reason #2: Assess TPA performance issues; site/system change; unusual claim activity
- Reason #3: Address internal plan issues: change in TPA; new plans
- Reason #4: “Need to be sure” that my second largest line item expense is being paid and managed properly
- Reason #5: Smart business to manage and monitor the performance results of one of the largest vendor relationships the business has
Claims Audit Process
Review of TPA

- A claims audit focuses on the adequacy of the TPA’s internal controls for processing and paying claims to ensure that claims are being paid:
  - In accordance with the plan of benefits and provider contractual agreement,
  - Using the proper negotiated rate for the plan, to network providers under that plan,
  - Only for eligible participants under the plan.

- On-site review at TPA

- Access TPA systems and documentation.
Claims Readjudication

- Auditor readjudicates claim at point of receipt
  - Eligible for benefits on DOS?
  - Accuracy of claim payments (deductible, copayment, OOP)
  - Adherence to all applicable plan provisions (precert / M/N, U&C)
  - Discount / network administration
  - Internal reviews and authority limits
  - Coordination of Benefits / Medicare / Other Third Party Liability / Subrogation
  - Exclusions and limitations.
Steps in a Claims Audit

- Request for claims data for selected audit period
- Analysis of data / diagnostics
- Pull sample of claims
- Audit team goes on-site to TPA office
- Audit team does detailed review of each sample claim
- Inquiry and rebuttal with TPA
- Findings and Recommendations in draft report
- Final written report to client
- In-person delivery to client at read-out meeting with TPA
- Follow-up with remediation.
Types of Claims Audits

- Types of claims audits:
  - Stratified, random sample of paid claims (*recommended approach*)
  - Pre-Implementation (on test claims) (*recommended approach at installation*)
  - Focused audit (e.g.; high-dollar claims)
  - Electronic (“100%”)
  - Contingency (*not recommended*)

- Operations assessment
Typical Audit Findings
Typical Error Findings

- Incorrect application of (or failure to apply) network rates – usually where manual processes are involved
- Incorrect plan accumulators applied (e.g.; deductible, out-of-pocket maximum) – typically seen where claim adjustments have been made
- Payment for ineligible charges (e.g.; bariatric surgery; assisted/artificial reproductive techniques).
Typical Error Findings (more)

- Incorrect coordination of benefits calculations (or COB methodologies at odds with plan design)
- Failure to apply office visit copayments correctly
- Inconsistent / illogical application of office visit copayments
- Duplicate claims
- Retroactive terminations.
How to Get Started
ERISA requires plan sponsor to ensure plans are properly administered.

Opportunity to proactively influence performance of TPA partner going-forward, not just measure performance retrospectively.

Hold TPA to standards of best industry practices.

Address issues related to vendor performance management and/or internal concerns.

With the dramatic increase in health care costs, there is financial significance to a plan’s recovery of overpaid claim dollars.

It is equally important that members not suffer the financial burden of underpaid claims.
You May be an Audit Candidate if......

- Self-insured and have not had a paid-claims audit within the past two-three years
- Self-insured and have recently moved claims administration to a new TPA
- Self-insured and experiencing serious service issues related to prompt and accurate claims processing
- Want to encourage improved performance at your TPA and excellent administration of your benefit plans.
You Have the Right to Audit

- ASO agreement should include the right to audit
- TPA may look to limit audit frequency
- TPA may restrict your choice of auditor
- TPA may seek to dictate sampling parameters, audit methodology
- ASO agreement may insulate TPA from liability for payment errors.
Plan Sponsor’s Role in a Claims Audit

- Decide what plans to audit, what audit period
- Inform TPA of upcoming audit activity
- May be involved in negotiation of confidentiality agreement
- Resolve open issues of plan intent
- Serve as final authority on contested findings
- Participate in audit report delivery
- Review TPA remediation plans
- **No heavy lifting for the employer**
So What’s the ROI$?

There are various ways to measure the ROI of a claims audit other than simply satisfying the legally required obligations of a Plan Sponsor:

- Ensure your dollars and that of the plan members are being paid properly
- Correcting errors and getting payments refunded or re-directed to the right participant
- In many instances, the cost of the audit is paid for through the various recoveries of claim errors
- Being sure that you have the right safeguards in place to constantly and methodically protect the final interests of your plan using established techniques
Getting Started

- Contact your Conner Strong & Buckelew account representative to discuss the process and audit approach
- Engagement of our audit experts
- Audit Proposal
- Get started
Questions & Answers
Thank you for your participation!