

## TPAs AND ASO: THE GROWTH OF SELF-INSURANCE

Employers increasingly prefer to self-insure for their employee’s health benefits. This is a trend that began late in the last decade and the level has remained high ever since.

Based on data extracted from the Sherlock Benchmarks, Figure 1 shows an increase in the proportion of Administrative Service Only (ASO) members as a proportion of total commercial membership. For Blue Cross Blue Shield plans, ASO share climbed sharply in 2009 and plateaued over the last three years at slightly more than half of all members. Independent / Provider – Sponsored have posted a slower and steadier shift and their ASO membership now comprises more than one-third of the total. While we consider this representative, to achieve comparability, the sample sizes are small.

Self-insurance has always carried a number of advantages over fully-insured arrangements. According to the TPA Managed Benefit Plans, these include:

- Possibly lower administrative costs.
- Reduction of profit required to fund state reserves and an ROI for health insurers’ assuming risk.
- Exempt from many state mandated benefit requirements and premium taxes.
- Potentially lower costs if employer membership is healthier.
- Superior cash flow characteristics.

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**Figure 1. Plan Management Navigator**  
Proportion of ASO to Total Commercial  
 Mean Values

	2007	2008	2009	2010	2011	2012
Blue Cross Blue Shield	42%	41%	48%	51%	51%	51%
Independent/Provider-Sponsored	26%	29%	30%	29%	32%	34%

Source: Sherlock Expense Evaluation Reports, Blue and IPS, 2008-2013 editions.

## FORMING TPA BENCHMARK UNIVERSE

In a few weeks, we will circulate our surveys for the third TPA Benchmarking Study. *We would like to invite your participation.*

We have the commitments of several large TPAs and we know of several more considering. TPAs differ from insurers in their remarkably modest cost structure and what they consider to be high flexibility. This study is scheduled to launch in late April and the results will be published in August.

The Sherlock Benchmarks will help your TPA recognize whether it is operating at best practice. And, since the shortest distance between your TPA and those that are best in class are the most important differences between yours and theirs, our highly granular benchmarks prioritize your targets for improvement. To assure comparability, functions eliminate distortions from any product mix differences. Certain operational metrics are also included.

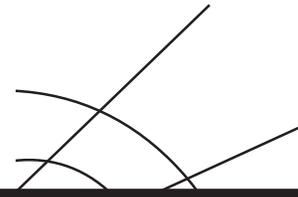
In addition, our benchmarks facilitate:

- Evaluation of outsourcing of selected operations, and the value-added of management consultants.
- Development of a realistic and cost-effective budget.
- Execution of business combinations, including due diligence, estimation of the effect of synergies and development of a plan for successful integration.

Operational metrics including staffing ratios are included. In addition to insights on TPAs, participants receive information concerning the performance of competitors from other sectors, such as insurance plans.

*Please contact us for a summary of the most recent TPA cost information, and Tables of Contents.*

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## TPAs and ASO: *Continued from Page 1*

The superior cash flow characteristics may help explain why self-insurance sharply increased in popularity when it did. According to the National Bureau of Economic Research, the recent recession began in December 2007 and ended in June 2009. The recession was accompanied by failure of certain financial institutions, resulting in a more difficult credit environment for businesses. Thus, credit spreads between the 5-year U.S. Treasury Bond and Moody's Seasoned Baa Corporate Bond yield peaked during the fourth quarter of 2008 at 6.7 percentage points. This was sharply higher than the fourth quarter in 2007 and 2006, in which the spreads were 2.7 percentage points and 1.7 percentage points, respectively.

To get a sense of the magnitude of the cash flow advantages of self-insurance, consider a hypothetical health plan employing 200 people. Since health plans have on average 46 days of claims payable, self-insurance provides immediately available cash of about 1.5 months of additional cash flow. Assuming an average overall contract size of 2.02, this firm would have on hand \$248,000 in additional cash by converting to a self-insured arrangement.

The Patient Protection and Affordable Care Act appears to provide additional reasons to self-insure. This may explain why, even as credit availability has improved, self-insurance has remained high. According to the Center for American Progress (CAP), the following benefits are required of insured products but not required in self-insured products.

- Insurers are required to use modified community rating to price their premiums.
- Fully-insured offerings are, at a minimum, required to cover certain essential health benefits. These include emergency services, maternity care, mental health services, and others.
- Lastly, insurers offering fully-insured products must adhere to guaranteed issue and renewability. Health insurers must cover individuals with pre-existing conditions.

Smaller organizations that have younger than average members have the additional cost of

higher premiums since the broader rating bands mute their favorable experience.

The Center for American Progress, "dedicated to improving the lives of Americans through progressive ideas and action," believes that these differences are likely to encourage small business to choose self-insurance. It notes, "the result of this shift could cause an insurance premium death spiral and threaten the stability of the exchanges – the health care law's new insurance market-places." Note the *accelerating* growth of self-insurance implied in the CAP reference to a "death spiral." CAP views this development as sufficiently worrisome that it recommends "regulating ... (certain associated stop-loss) policies" in order to "discourage small businesses from self-insuring," though we are unaware that this policy initiative is broadly taking place.

The experience of Massachusetts supports CAP's view. According to Stephen Miller of the Society of Human Resources Management, from 2006, when the state passed its own version of health care reform, to 2011, firms have generally increased the percentage of its employees in self-insured plans. ASO participation in firms with employee size between 50-99 increased from 54% to 67%. For companies with 100-999 employees grew 17% to 29%, while firms with over 1,000 employees increased from 74% to 86%. Massachusetts had the highest percentage of workers in self-insured plans in the nation for 2011 at 74%. ♠

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## TPA Benchmarking: *Continued from Page 1*

Accordingly, *as soon as possible*, let us know whether participation is of interest since we will begin some of the Sherlock Benchmark surveys in two weeks. Participation entails efforts on your part but you receive numerous comparative analyses. While licensing, which contains most of the same content as participation, can save your plan time, it costs more and cannot analyze your plan's relative performance. *Reach us at 215-628-2289 or [sherlock@sherlockco.com](mailto:sherlock@sherlockco.com).* ♠

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