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State of the TPA Industry & Forecast for 2010

December 2009

By SPBA President Fred Hunt

For 29 years, I have been writing these reports on the state of the TPA industry, the marketplace, and business partners ...and a forecast for the coming year(s). I am writing this before the outcome of the 2009 round of health reform is known. However, this is about the twelfth time that comprehensive health reform was a "sure thing" to pass, so this is not a unique situation, and frankly, it does not drastically impact the forecast for our industry.

INTERNAL FACTORS & CHANGES FACING TPAs:

The internal world of TPAs today is a good-news/bad-news situation, mainly reflecting an evolution of the TPA business. The TPA business & market has constantly evolved & changed; sometimes slowly, and sometimes at a quick rate. When I came to SPBA, TPA clients were almost entirely Taft-Hartley plans, and almost totally pension oriented. So, for TPAs, evolution has been growth in market and new profit-center opportunities.

CHANGE OF BUSINESS PLAN: The business plan of the 1980's & 1990's of primarily serving as processor of self-funded claims, and taking an ever-larger role in government compliance services for the plan (usually with no extra pay) is no longer enough. The quagmire of medical costs (profiteering by some doctors & hospitals, phony discounts, phases of aggressive marketing and too-good-to-be-true "savings" by large insurers, and increasing patient fraud & waste) means that the marketplace looks like a World War I battlefield, where the ground is stripped bare by the constant crossfire.

CALMING PRICING: Whether health reform passes or not, there will be some lasting effects that will help. Health Reform has raised awareness that all Americans are not equal in what they get charged for medical services, and sometimes the range of difference is shocking. The recent system of phony discounts that had the effect of propping up inflated health charges is starting to crumble. If there is a Public Option, especially which would have a negotiated payment rate for providers, any Public Option rate will quickly be adopted by the private sector as the new Usual & Customary standard payment schedule for everyone. Unlike Medicare, which was always seen as a discounted program, a negotiated Public Option rate would have the credibility of the federal government standard of a fair acceptable rate for regular people. Would providers object and try to balance bill? Perhaps at first, but telling a patient that the amount negotiated in good faith between providers and the government is a bogus rate is awkward. This won't happen overnight, but the public and the politicians are recognizing that there is some pricing funny business going on.

NEW SERVICES & MARKETS: TPAs really shine when it comes to helping clients design, implement, and administer innovative plans & services. This is the place where the biggest evolution has been going on. Wellness is booming in a wide variety of formats. Interest in Consumer-Directed Health Plans (CDHP, such as HSAs) is expanding, as are ways to help plan participants be better consumers and maximize the value of Consumer-Directed and other flexibility. Every day seems to bring new services TPAs can offer their clients to not only maximize efficiency for plan administration & expenditures, but TPAs are also helping plans have more value for the new generations in the workforce.

The effect of this evolution was clear at the Fall 2009 SPBA Meeting. While other organizations' meetings were gloom & doom about the future, the SPBA meeting focus was on the new directions, new markets, and new profit centers. It was inspiring to see members coming away from the SPBA Fall Meeting energized for a brighter future.

Best of all, the new directions & services are a perfect fit for the very personalized on-going hands-on interaction at which TPAs have always out-shined everyone. Insurers, consultants, etc. have never been geared to the combination of personalization & on-going administration which TPAs give. Therefore, insurers, consultants and others are more apt to be business partners or suppliers rather than head-on competitors to TPAs.

DO-OR-DIE CHALLENGES:

(1). TPAs & Stop-Loss absolutely must invest time and money to get to and stay on the cutting edge of this evolutionary curve. TPAs who sit back in 1990 mode will soon find themselves as out-of-date as last week's newspaper. Being cutting-edge requires attention & action from two levels of every firm. First, the senior management of TPA & Stop-Loss firms (and outside owners & investors) need to realize that there is a new day dawning, and they have to proactively position the firm (and their own thinking) to be part of it. Second, the staff of every function/service area of the firm also need to be involved and brainstorming with other TPA & Stop-Loss staff to proactively seek and embrace new opportunities (and not waste money with each firm re-inventing the wheel).

(Please re-read this paragraph, because many TPA firms have died and millions of investors' dollars lost by not following this advice.)

(2). TPAs will need to figure out how to charge enough for the value and quantity of all they are providing to clients. Under-charging is not sustainable. Getting paid what you are worth will be a new skill to learn for both TPAs & Clients. Clients are willing to shell out big bucks to less-informed outside attorneys & consultants, but clients tend to take the TPA's expertise for granted as a freebie. TPAs have been notoriously bad at getting paid for the value-added services they provide.

Fortunately, most of the new types of services are not covered by the compensation pressures of ERISA fiduciary duty. So, instead of worrying how DOL might second-guess how much is charged, be thinking what the client would have to pay someone else for all your government compliance expertise/implementation/maintenance + for your personalized assistance to plan participants + to implement the new hot things like wellness the clients & workers are hearing from others. I realize that this is easier said than done, but if TPAs are not able to convince clients of their true value, those TPAs will not be able to survive.

(3). TPAs will need to be prepared for rapid expansion. Any form of health reform is going to bring dozens of new or expanded health administration services (an estimated 400 new admin services in the House bill). Not only will you have more administrative duties for the plan, but more omni-present government guidance of health, plans, and per-individual factors will open the door to roles for TPAs in new areas such as payroll (the income level of each participant is apt to be a trigger for some benefits factors & taxes), etc. TPAs need to be aware and unafraid, because the job of TPA will have a role in more and more functions.

These are not new. They have been the challenges and blueprint for the future of the TPA industry for several years. (I recently came across a piece in which I told this in 2000.) The do-or-die of many TPAs will be whether they can move from hearing & reading this to actually adjusting their corporate planning and staff focus to making it happen.

What are the obstacles? I see two kinds of self-defeating obstacles which poison firms over and over. First is when TPAs shortchange their future by "saving money" in counter-productive ways. We see examples such as buy-outs & mergers in which the parent firm simply cuts off the staff of the acquired firm from all professional insight. They refuse to let them be SPBA "contacts" and refuse to allow enough of the right mix of people to attend SPBA meetings, webinars, etc. I use those examples because we see the bad effects every day. Those cut-off people & offices soon start losing customer base or waste time/money to reinvent things already available, or they get into very expensive legal trouble which could have been avoided. All of those cost more than they save and make the firm look less competent to clients & brokers.

The second self-defeating obstacle we see is that we are in a generation shift. I was here when the World War II generation of TPAs retired. Now we are seeing the Baby Boomer generation of TPA owners thinking ahead to retirement. Mellow thoughts of retirement do not mix well with the fast pace of change & opportunities today. The TPA on glide path to retirement is tempted to think he won't see ROI on the costs described above of keeping staff & skills on the cutting edge and investing in new items and fronting the cost to position the firm for new services & new markets. It is understandable thinking, but we see so often cases where it is a costly mistake to be cheapskate.

Great Communicators: On the bright side, in 2009, TPAs found their voice. For my entire tenure at SPBA, I have been frustrated that TPAs are incredibly knowledgeable with an unmatched real-world understanding of complex benefits & human issues. TPAs are also so good at selling a message that they could sell the proverbial ice cubes to Eskimos. However, TPAs & Stop-Loss would suddenly get bashful and say they wouldn't know what to say to a Congressman or to the media.

The Health Reform debate turned TPAs & Stop-Loss Partners into master communicators! SPBA provided a stream of up-to-the minute insider perspective, but it was SPBA members who initiated meetings & conversations with Congressmen in every conceivable format: repeated national TV appearances as experts, local TV & radio (which

Congressmen follow closely), national newspapers & magazines, local news, op-eds, etc. It has been amazing. It has also greatly enhanced the image and credibility of the TPA/Stop-Loss/employee benefits community in both desirable areas of local and national. This new role & reputation will pay dividends for years on many topics. A personal salute & thanks to every member who took this kind of leadership role.

THE EMPLOYMENT SLUMP

Obviously, the fortunes of everyone in the employee benefit business is impacted by employment trends. Consequently, TPA client employers and plans have experienced shut-downs, cut-backs, tight finances, and all the other factors hitting the whole economy. Fortunately, TPAs do not seem to have been hit as hard as other parts of the economy, because the services of TPAs & government compliance are seen as a necessity, not an expendable cost. Also, self-funding, personalized plan design and service are seen as cost-controlling. The slump has caused pain, but there is more underlying strength than many other industries are experiencing now and facing the future.

Unlike other industries whose goal is merely to regain the pre-recession levels, the TPA market has a good chance of seeing a larger market. Why & how? No matter if or how health reform evolves, there is now an awareness and priority to get people into health coverage, especially the huge group of individuals who are already eligible for coverage and have simply declined coverage (estimated to be about 66% of the so-called 46 million "uninsured"). Some TPA firms reported as high as 50% of eligible workers & dependents in some plans declining coverage with many being uninsured. Before 2009, government & society didn't really care. Now, it is a priority, and there will be efforts & programs. After all, just a tiny sliver of the Trillion or more dollars being projected for health reform (and less than the nearly \$1 billion that will have been spent on health reform lobbying) could subsidize a lot of new people in employer plans (and the voluntarily-uninsured tend to be younger & healthier than the norm, which is why they chose to be uninsured in the first place). Both Uncle Sam and state governments realize that it is cheaper to have people in employer plans than in public options or Medicaid. (Notice that the Public-Option proposals are designed to be extremely limited, not to lure away from employer plans.)

I don't know how this will evolve, but I think the number of "covered lives" will rebound as employment levels revive slowly, and I strongly believe that we will see a bonus of extra enrollees of the formerly voluntarily uninsured plus any mandate on individuals and/or employers to have health coverage. Also, entities like jails, native tribes, and others are turning to TPAs as a way to cost-effectively administer their non-employment health payments.

SUMMARY:

SPBA members can be proud of their performance in 2009, despite the rocky economy and stress of the unknown of health reform. Looking ahead, the prospects for the TPA business are better than for businesses and the economy in general. The key to success or failure will be if TPA firms (and any outside owners/investors) make the investment to be educated and involved with such things as SPBA meetings, webinars, written materials, etc. to achieve and maintain a position on the cutting edge of ongoing skills (such as government compliance) and the many new profit-center markets & services. Firms that operate as they did in the last century will not survive. Those are the facts of life of survival in this industry. (Re-read the specifics earlier in this report.)

SPBA's goal, services, publications, webinars, and meetings will all continue to be geared to getting members to the cutting edge and keeping on that edge as it constantly moves forward. It is an exciting future.

Fred Hunt – SPBA President