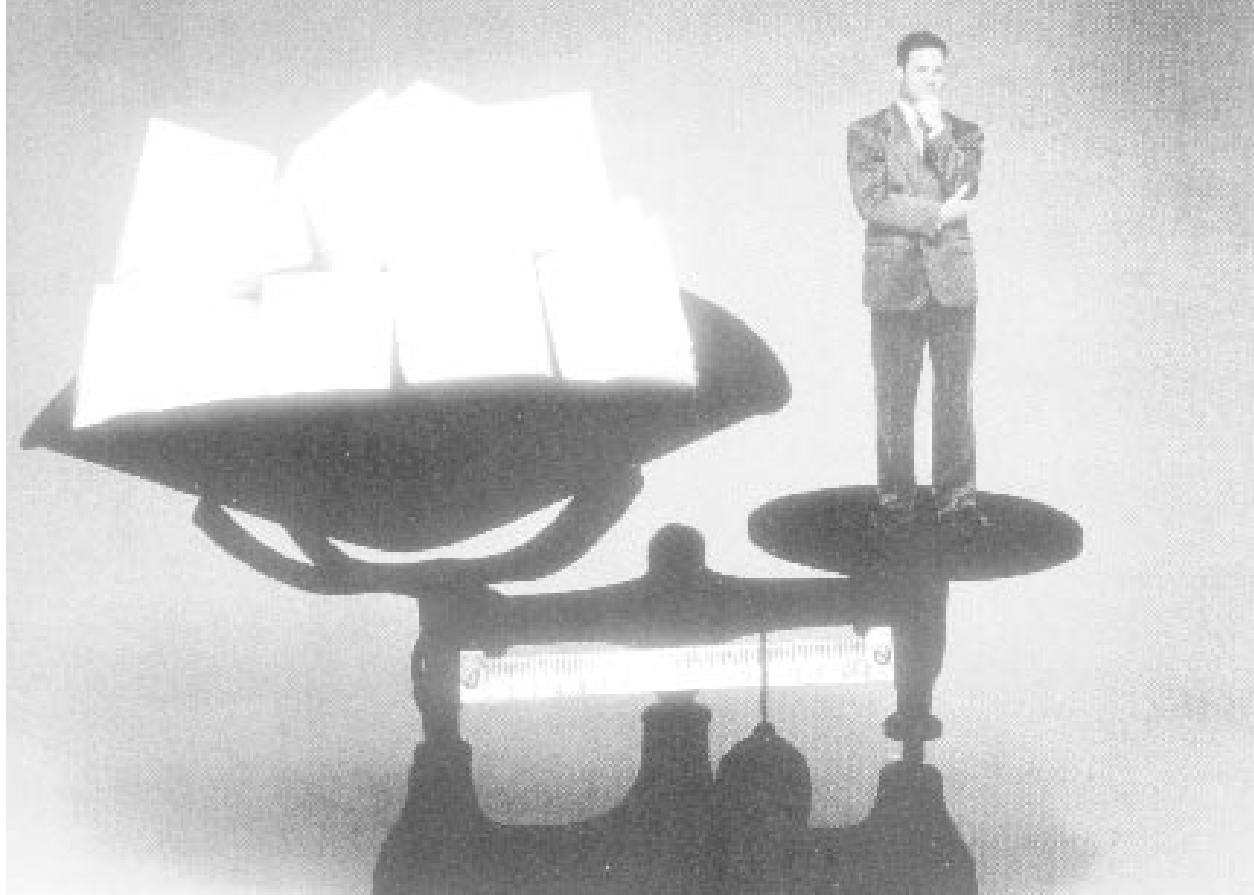


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THE ADVANTAGES OF OUTSOURCING SICK PAY, SALARY CONTINUATION, SHORT-TERM DISABILITY AND LONG-TERM DISABILITY PLAN MANAGEMENT



by Jack Bredehorn

Among the hot issues for companies looking toward the millennium is the administration of burgeoning employer disability programs and their ominous consequences for a company's bottom line. Currently, costs associated with employee disabilities are estimated at over \$160 billion annually, and this number does not even include many of the hidden expenses of disability, such as hardware, facility costs, overhead, lost productivity and worker replacement (Source: Spencer's research reports on employee benefits 8/26/94). According to a survey conducted by the Washington Business Group on Health, this dollar figure translates into 6 percent to 10 percent of payroll—and the number of disability claims is on the rise. At the same time, the proliferation of plan options, the changing legislative environ-

ment, and evolving company needs make administration more difficult and demand continuous education.

Clearly, offering quality benefits and services to employees while conforming to ongoing pressure to downsize is one of the most significant challenges facing employers today. To address these issues, companies are increasingly evaluating the advantages of outsourcing disability plan administration. Nearly half of employers nationwide outsource some or all of their employee benefits and human resources functions.

Generally, outsourcing objectives center around cost reduction, but cost is only part of the picture. When outsourcing is handled properly, improved plan administration, improved employee/employer communication, increased awareness and expectations of the abilities of claimants,

decreased reliance on entitlements, and improved productivity are all achievable goals.

Yet employers need to be cautious about jumping on the outsourcing bandwagon prematurely. Outsourcing requires a long-term partnership with an administrator, and as such needs to be evaluated as carefully as any other strategic partnership a company might consider forging. The concept should be examined thoroughly and implemented gradually.

Many employers, recognizing that non-occupational disability costs represent more than half of the \$160 billion total, have taken the first step outsourcing their non-occupational disability benefits: sick pay, salary continuation, short-term disability and long-term disability. By grouping these benefits in a single outsourced entity, administrative redundancies can be eliminated, and claims can be carefully managed from the outset to promote the employee's fastest possible return to productivity.

How Outsourcing Works

According to a 1995 survey by The Alexander Consulting Group that measured attitudes toward productivity in benefits administration, 72 percent of participating companies indicated that human resources staff members spend more than 25 percent of their time, and that 28 percent spend more than 50 percent of their time, on routine administration matters. The various components of self-administered disability plans are often managed by several individuals, who may be in completely different departments within a company.

When non-occupational disability plan management is outsourced, the administration of multiple plans (sick pay, salary continuation, and short-term disability) is organized into a single process. Early invention begins when the claimant contacts the third party administrator, typically via a toll-free telephone number, to apply for benefits. The administrator would likely set up the claim immediately over the phone, prompting the claimant to provide the necessary information verbally instead of via a written claim form.

Next, medical information would be gathered from the provider, and the case would be monitored by the disability management vendor, who also would act as an advocate for the claimant, answering questions and explaining each step of the process. Early intervention and careful monitoring of disabled workers throughout the disability period are keys to administrative success. With proper support early on, individuals will develop higher expectations, and schedules can be devised to return them to work as soon as possible, reducing the incidence and duration of long-term disability.

This not only frees internal administrators to concentrate on their core competencies, it eliminates confusion over benefit coverage's and filing obligations for claimants. All aspects of claims processing are handled by the third party administrator who brings to the process objectivity, technology and plan expertise that self-administered programs rarely, if ever, have. This system also ensures that return to work, clinical oversight, rehabilitation, and application of disability duration's and of policy provisions are managed consistently.

An Outsourcing Scenario

Imagine for a moment a large, decentralized corporation with offices nationwide. The company has allowed its individual offices to operate fairly autonomously, which means that each has created and administers its own disability benefits program. As the company grows, the differences in benefits among the offices become more pronounced, and variations among state provisions governing disability plans only aggravate the situation. What's worse, because there is no centralized management of claims, information on overall trends that would help the company make strategic decisions for the future is next to impossible to complete.

By centralizing administration with a disability management vendor, this employer can standardize benefits, presenting a seamless front to employees regardless of the need to conform to differing state disability insurance regulations. The disability management vendor would also ensure that plan benefits were offset for workers' compensation, Social Security, third party awards, and any state or government programs.

This can be less than straightforward for employers who administer their own programs. For example, state disability awards may be tax free causing many employers to make the mistake of overpaying claims. They simply offset the state award but ignore the tax consequences (i.e. 100 percent gross pay less the state award means the remaining gross pay is taxed at a much lower rate than normal, and when the tax-free state awarded is added, total net pay has increased). The company ends up paying the employee more to be off work than he or she would receive while at work.

The disability management vendor would also track the employer's trends nationally and by location to help the employer understand what it really costs to provide benefits. Comparisons of branches within the same company, with other companies in the same industry, or with other corporations in general can help an employer pinpoint those areas where costs may be out of line.

What to Expect From a Plan Administrator

The following checklist gives a preliminary idea of the range of services that employers should expect from potential disability plan administrators when they outsource sick pay, salary continuation, short-term disability and long-term disability plan management:

- Consulting services on plan design can help ensure the most effective disability benefits program for the employer by filling in coverage gaps and applying offsets where overlapping voluntary and mandated benefits could otherwise result in double payments.
- Paperless claim processing eliminates written forms for claimants, employers and attending physicians, removing administrative hassles for all parties and increasing productivity and processing time for initial benefit payment.
- On-line access to the administrator's claims management system is another way to avoid pushing paper while facilitating access to claims data for inquiry or input.
- Third party administrators can automatically withhold

payments for employee deductions such as medical and dental plan contributions, eliminating the process of employee reimbursement of these fees and the accompanying administrative work.

- Long-term disability pre-alert systems ensure a smooth transition from short-term disability to long-term disability by signaling the plan sponsor well in advance of the end of the long-term disability elimination period and facilitating coordination with other programs such as disability pension benefits.
- Electronic payment processing systems allow the administrator to send data electronically to the client's payroll department.
- Disability payroll tax services enable the administrator to withhold and deposit the appropriate taxes for benefit plans with employer contributions.
- Data analysis and reporting of program statistics, with the flexibility to customize reports to employers' needs, can help identify trends that could trigger proactive changes to disability programs.

Undoubtedly, more and more services will be offered by disability plan administrators as changing legislation and insurance options require new ways of handling plan administration, and as companies come to a clearer understanding of how outsourcing can benefit them. It seems inevitable, though, that as third party administrators' capabilities increase and corporations' resources decrease, outsourcing some or all disability benefit plan administration will become an even more attractive alternative.

The important thing to remember for those employers in a position to consider outsourcing is that effective disability management is a process that takes time, commitment and patience. It involves changing attitudes, reexamining costs, rethinking work processes and, above all, looking for long-term success. If employers go into the process understanding this, outsourcing can be a big part of the solution to disability plan management problems. ■

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