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FINAL REPORT
ON THE
HEALTH AND ACCIDENT COVERAGE (HAC)
PROGRAM

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CHAPTER I
INTRODUCTION

This study is an evaluation of the Health and Accident Coverage (HAC) program directed by AID's Office of International Training (OIT). Current enrollment in the program is reported at levels of approximately 4,000 foreign nationals in this country. At the outset of this study four major problem areas or issues were identified:

- (1) Delays in the initial enrollment of new participants;
- (2) Delays in claims payments;
- (3) Administrative costs exceeding expected levels; and
- (4) Adequacy of insurance funds for claims payments.

In the context of these major issues this study focused its evaluation efforts by assessing or analyzing the following:

- Roles of different parties involved;
- Administrative handling of the program, including procedures for enrollment in the HAC program and claims payment;
- Alternative features of health insurance coverage;
- Premium payments measured against claims payments; and
- Administrative cost indicators.

This chapter gives a general description of the HAC program, reports on enrollee experience with the HAC program, explaining the purpose of the study, and describes the overall study methodology.

A. General Description of the HAC Program

The HAC Program provides health and accident coverage for foreign nationals selected to participate in various types of training and observation programs in the United States. While the program is directed by AID, HAC covers not only AID sponsored participants, but a substantial number of Nigerian Task Force (NTF) participants as well and a few participants sponsored by the Bureau of International Narcotic Matters (BINM). The current program is a self-funded one. Sponsors of the participants contribute a monthly \$25 premium per participant to the program through AID's Financial Management. These funds are used to cover all non-catastrophic claims costs and

administrative costs. The current \$25 premium was set at this level to build up a reserve of funds to cover some or all of any catastrophic costs which might occur. The Nigerian Task Force contributes to the program by paying the actual claim costs of its participants plus a prorated share of the administrative costs. The latter is based on the proportion of Nigerian participants of total HAC enrollees.

Since the inception of the current program (February 1980), enrollment has been maintained at an approximate level of 4000 participants. The program provides comprehensive coverage with several important exclusions. The latter includes routine physical exams, dental care in general, eye care, hearing aids, and medical costs due to pregnancy. For those medical expenses which are allowable the program provides 100% coverage, i.e., no deductibles or coinsurance is required of the participant.

The HAC program is currently administered by a private contractor, Trust Fund Administrators (TFA), located in Washington, D.C. TFA does not underwrite any of the insurance coverage since the program is a revolving self-funded one. TFA's primary responsibility is the processing and payment of claims and regular reporting to AID. AID, NTF, and BINM provide enrollment information to TFA which uses this information to verify claims. Active enrollment lists are maintained on computer file, and claim information is also entered into the active computer file when the claim is verified and payment is made. Participants or providers mail their claim forms directly to TFA.

The current self-funded HAC program was implemented in February 1980, replacing a commercial carrier, St. Paul Fire and Marine Insurance Company. The commercial carrier received monthly premium payments from AID and other policyholders to cover claim costs, their own administrative expenses, and expenses of the claims processor (International Underwriters). In effect this previous program was a self-funded one in that claim costs were not pooled or the risk shared with any other group of enrollees. The current self-funded program was recommended in a feasibility study (performed by Martin E. Segal Company) primarily as a means for saving or reducing the administrative costs of third parties. One apparent change is that premiums are now routed through AID FM, rather than through an outside insurance carrier. TFA performs much

of the same administrative functions as International Underwriters did. Chapter III of this report delves into the question of whether or not significant administrative cost savings have been achieved.

B. Participant Experience with the HAC Program

The HAC program is one of several support systems provided for the benefit of the training participant. Other support systems encompass living allowances, family support, participant contact with the programming agent, and administrative and personal support provided on-site by a program contact office. These support systems are in addition to the actual training and selection of training provided for the participant.

In an earlier study of the AID participant program sponsored by the Office of International Training (OIT)* the health insurance support system was found to be one of the weakest parts of the training program. Serious delays in reimbursement of health insurance claims were found to be the rule rather than the exception among participants who had filed claims. Only half of them had the Health and Accident Coverage (HAC) card which they were supposed to have. There were also serious delays in getting health insurance coverage started for new participants. Statistically speaking, approximately 70 percent of the sampled participants who attempted to use the HAC system reported experiencing either serious delay or difficulty in obtaining payment for their medical expenses. Participants were also emphatic in complaining about the lack of coverage for dental or eye care.

In the present study, Development Associates' evaluators obtained additional impressions of participant experience with the HAC program from interviews with several OIT staff. These interviews substantiated the results of the earlier study. Some OIT staff reported that claim delays with the current HAC program have been longer than with the previous health program. OIT's health insurance claim researchers and the Counseling Section at OIT have received numerous telephone calls from irate doctors, schools, bill collectors,

*Development Associates, "Evaluation of Training Support Services of AID's Participant Training Program" May 25, 1981.

and participants themselves. For instance, during one of DA's interviews with OIT staff a call came in from the University of Nebraska Student Health Center. Because a participant health bill at the Center had not been paid, the participant was not going to be allowed to register. The OIT staff person reassured the caller that "we have had administrative problems with the contract" and "the U.S. Government guarantees payment."

A delay of claim payment will result whenever Trust Fund Administrators initially declines to pay the claim and instead sends the claim onto OIT for their review. Initial denial of claim payment is attributed to a variety of causes, including: patient's name is not on TFA's active list of enrollees; claim date falls outside entitlement period; incorrect name; wrong PIO/P number; participant sponsor has not fully paid the \$25 monthly premium fee; or sufficient information on the claim was not obtainable. Much of the problem here stems from shortcomings in TFA obtaining accurate, up-to-date enrollment information from AID. The unavailability of funds in the contractor's Federal Reserve Letter of Credit (contractor oversight) has also contributed to the serious delays. Subsequent chapters of this report will examine these causes in greater depth and provide recommended remedies.

C. Purpose of the Study

Two major reasons prompt the necessity for this evaluation study of the HAC program. One reason is the considerable delays in claims payment described in the previous section. The other reason is that the administrative costs of the program are currently running much higher than budgeted in the TFA contract. The current rate of administrative expenditures is more than 50 percent higher than the amount budgeted. One of the major reasons for implementing the current self-funded HAC program was the expectation for substantial costs savings.

Administrative costs which are running higher than the amount budgeted does not necessarily preclude that substantial costs savings are being achieved with the current program relative to the previous one. However, the higher administrative expenses do require a closer monitoring of the costs of the

program and a better understanding of the resources required to operate the program. Also, the considerable delays in claims payment also warrant a close investigation of the workings of the program.

This study, therefore, is designed to examine the HAC program in depth. In particular, Chapter II of this report examines the enrollment, claims processing, and premium payment procedures, or in other words, how the program is being run administratively. Chapter II also addresses the issue of coverage of the program. Chapter III analyzes the costs of the HAC program, examining both administrative and claims costs. In this chapter cost indicators have been calculated and historical cost comparisons are presented. Recommendations to modify or strengthen the HAC program are presented in the final chapter.

D. Study Methodology

This study of the HAC program required numerous and repeated interviews of staff and officials involved with the HAC programs. Their knowledge and perspectives formed much of the basis for the study's understanding and analysis of the HAC program. Not only staff at TFA (the HAC contractor) were interviewed, but also OIT staff, persons involved with OIT's PTIS (Participant Training Information System), Nigerian Task Force staff, and AID Financial Management staff, were interviewed as well. Documents, memoranda, reports, and data sources were carefully reviewed.

More specifically, the following tasks were carried out for this study:

- Interview staff and responsible officials
- Review service delivery to participants
- Review the PTIS and HAC for start-up eligibility of participants
- Examine TFA reports and other data
- Analyze the administration of the program
- Analyze the costs of the program
- Assess alternatives to the present program and make recommendations

Development Associates' previous study of OIT's training program (op. cit.) provided the information base on HAC service delivery to participants. In a separate study of OIT's information systems, the PTIS and its impact on the enrollment of HAC participants were examined. Several TFA reports, dating back to July 1980, were examined and data recorded for this study. These reports included:

- Active Member Listing
- Illness Report
- Claims Analysis Report
- Entitled Without Verification Report
- Exception Listing
- Claim Register
- Claims Received For Participants Not On Enrollment List
- Claims Received For Enrolled Participants Without Funding
- Funding Received For Participants Not On Enrollment List
- TFA's monthly financial invoice submitted to AID FM.

The reports provided cost and enrollment data and provided a basis for further examining claim delays and administrative procedures of the program.

In the next chapter the administrative aspects of the HAC program and the problems that have been associated with it are discussed.

CHAPTER II

ADMINISTRATION OF THE HAC PROGRAM

The HAC Program was established as the self-funded health plan for participants in AID and Nigerian Task Force training programs. Trust Fund Administrators (TFA) was selected as the contractor to administer the program and began operations in February of 1980. In the past year and a half of the HAC Program participants and medical providers have experienced serious problems in dealing with the Program. This chapter contains a description of the HAC Program and of the problems that have attended its operation and continue to pose difficulties for the AID trainees and for providers rendering medical services to the participants.

A. Enrollment Procedures

The process by which a participant is enrolled in the HAC Program distinguishes between participants in training programs operated by contractors and those in programs directly funded by AID's Office of International Training. The system designed for contract participants has been implemented with relatively few problems, but enrollment of direct participants has been subject to lengthy delays and numerous problems.

Contract participants are enrolled in the program when the contractor submits a HAC card for the participant. The HAC card is sent directly to TFA and contains the following information:

- Name of the participant;
- Birth date and sex of the participant;
- Participant's home country;
- Name of the contractor;
- Name of the contract administrator;
- Contract number;
- Date of the participant's enrollment; and
- Expected date of termination of the participant's training.

TFA enters the eligibility information in a computerized enrollment file, requesting any missing information, if necessary, from the contractor by form letter.

Direct participants are enrolled by another process. Eligibility information is compiled first by the OIT and entered into the Participant Training Information System (PTIS). A report of additions, deletions, and status changes for the HAC Program is generated biweekly from the PTIS system and sent to TFA. Originally the report was a cumulative listing of participants, and the change to the current listing of changes is a substantial improvement, but TFA still receives incomplete information for direct participants and delays in enrollment are still common. This single feature of the HAC Program has created serious problems for both the participants who happen to be in training modules directly funded by OIT and for the members of the medical community serving these individuals.

B. Procedures for Premium Payments

Contract participants have experienced delays in enrollment as the result of another problem in the design of the HAC Program. Enrollment for a contract participant is contingent upon verification that the fees for that individual have been paid. Delays in the confirmation of fee payments have resulted in delays in paying medical claims.

When a participant is assigned to a training program operated by one of OIT's contractors, all funds related to that individual's participation in the training program are paid to the contractor. The portion of the contract amount for the participant's HAC fee of \$25.00 per month must be remitted to the Financial Management division of AID. The established procedures require that the funds destined for HAC premium accounts be routed through the contractor instead of being deposited to those accounts directly.

TFA has taken an active role in ensuring that fees for contract participants have been paid, most often through direct communication with delinquent contractors. Given the broad range of responsibilities assigned to TFA in the contract with AID, the question arises whether the time currently devoted to verifying the payment of fees and acting as a collection agency could be eliminated if the contractor HAC fees were allotted to the HAC premium before the balance to the contractor.

C. Coverage

The benefits package offered by the HAC Program is a broadly defined one. The benefits are stated simply and carry few specific limitations. A general limitation of the package is that no benefits are provided for skilled nursing or extended care; benefits are appropriately intended to cover participants who are able to continue their courses of study.

The lack of definition in the description of benefits makes the program more difficult to administer, for determinations must be made in cases where a medical service is not specifically addressed in the program description.

More important than the problems associated with details of the plan coverage is the absence of any provisions that require the participant to share in the cost of the program. Deductibles, coinsurance, and copayments enable the program to contain costs in two ways:

- Participants are more likely to utilize medical services appropriately if the decision to seek care carries a cash outlay as a consequence; and
- When care is sought, the participant is responsible for a portion of the total charges.

Cost-sharing provisions such as deductibles and coinsurance are widely accepted as effective controls on overutilization by program participants.

D. Claims Processing

When claims are received by TFA, the eligibility of the patient is verified. Claims for individuals not enrolled in the HAC program are rejected, but only after reasonable steps are taken to determine whether the individual should be enrolled. If the claim is for an enrolled participant but the services were rendered on dates outside the participant's eligibility period, the claim is reported to OIT on an exception listing, Claims Received for Participants Who Are Not Enrolled for the Period. OIT must determine whether a change in the participant's status extends coverage to the claim and then notify TFA.

If a claim is received with only part of the required information, the additional information is requested using a form letter. Information on a complete claim is coded for input to the computer. A determination regarding coverage for the services is made by a reviewer prior to data entry. Only claims that will be paid at least in part are data entered. The design of the claims processing system fails to provide adequate controls against the loss of claims in process. Claims are not logged as they enter the system. Nor are they grouped in batches and the batches controlled.

In light of the problems described here, Chapter IV contains the study's recommendations for improving the current program. The following chapter presents a cost analysis of the HAC Program.

CHAPTER III COST ANALYSES

As indicated in the Introduction of this report, an important incentive for implementing the current self-funded HAC program was the potential for substantial cost savings. The subject of this chapter is to examine the costs of the program and to assess if, indeed, any cost savings have been achieved by implementing the current HAC program. The tentative conclusion, subject to the reliability of implementation made available for this study, is that in spite of administrative costs running much higher than budgeted, substantial savings in administrative costs are being realized.

In order to address this central study issue several data were collected from TFA reports and cost and enrollment tables were derived from them. In the process of doing so, cost and enrollment data were summarized and key cost indicators were developed. The results provide additional insight into the workings of the program (and raise additional unanswered questions) and serve as instruments for continual monitoring of the program. These results are presented and discussed in Section A of this chapter, while Section B discusses the potential cost savings of the program.

A. Claims Costs and Administrative Costs

Tables III-1 through III-5 present data on a monthly basis covering the period from July 1980 to August 1981. The reported period starts with the July 1980 month (as opposed to the beginning month of the HAC program, February 1980) because of the relatively greater accessibility and reliability of the data starting with this month. TFA computerized its reporting system in the June month of 1980. The data are taken or derived from information in TFA's claims analysis reports, enrollment listings, and monthly financial invoices submitted to AID.

Tables III-1 through III-5 present, respectively: volume and costs of HAC claims by sponsor; HAC enrollees by sponsor; total HAC costs and enrollment for the July to December 1980 period; total HAC costs and enrollment for the

January through August 1981 period; and summary monthly indications of the HAC program. In the latter tables a distinction is made between the July to December 1980 period and the January to August 1981 period in order to provide a basis for making historical cost comparisons. Also, average figures are derived for these periods in order to even out fluctuations in the data from one month to the next. The monthly figures by themselves can be misleading due to lag time periods involved in OIT's submitting accurate, up-to-date enrollment figures and TFA's processing of claims. The December 1980/January 1981 time offers a convenient split for two comparative periods in that TFA in December 1980 implemented an automated system for claims processing. Subsequent to December 1980 TFA was capable of processing claims on a faster basis (also, TFA hired additional staff for claims processing).

TABLE III-1
HAC CLAIMS* -- VOLUME AND COSTS

	AID Fund			NTF		
	No. of Claims*	Billed	Paid	No. of Claims*	Billed	Paid
July 1980	254	23,829	23,561	262	16,291	16,291
August	447	38,947	38,615	246	7,729	7,675
September	364	26,707	25,507	266	17,919	17,472
October	421	23,212	22,683	194	10,279	9,759
November	488	36,928	35,826	409	22,024	21,726
December	645	44,194	39,593	480	25,154	23,992
January 1981	---	---	---	---	---	---
February	525	23,502	23,084	1,113	52,787	51,605
March	1,163	98,363	96,961	115	4,705	4,705
April	642	52,192	51,060	115	15,540	14,051
May	786	69,973	67,599	910	85,001	82,145
June	292	20,443	19,576	110	9,313	9,062
July	---	---	---	---	---	---
August	3,052	208,887	199,916	1,114	62,091	60,710
September	717	68,813	63,551	306	35,685	30,462

*No. of claims is the number of claims paid. The total amount paid for almost any given month is somewhat less than the amount billed because for any claim being submitted some portion of it may be disallowed.

TABLE III-2
HAC ENROLLEES*

	<u>NTF</u>	<u>OIT</u>	<u>Direct**</u>	<u>Total</u>
July 1980	1,917	685	1,889	4,491
August	1,913	563	1,730	4,206
September	1,644	450	1,733	3,827
October	1,643	568	1,686	3,897
November	1,643	572	1,726	3,941
December	1,641	716	1,670	4,027
January 1981	1,641	652	1,569	3,862
February	1,436	673	1,828	3,939
March	1,303	840	1,779	3,922
April	1,303	943	1,914	4,160
May	1,277	912	1,832	4,043
June	1,277	855	1,930	4,074
July	1,156	799	1,927	3,911
August	1,220	726	1,943	3,918

*As reported in Trust Fund Administrator's reports.

**Direct enrollees are those sponsored directly by AID Mission as opposed to OIT sponsorship. They include a few enrollees, though, who are sponsored by the Bureau of International Narcotic Matters.

TABLE III-3
HAC COSTS AND ENROLLMENT FOR JULY-DECEMBER 1980 PERIOD

	<u>Total Claims</u>			<u>TFA</u>	
	<u>No. of Claims</u>	<u>Billed</u>	<u>Paid</u>	<u>Total Enrollees</u>	<u>Administrative Costs</u>
July 1980	516	\$ 40,120	\$ 39,852	4,491	\$ 9,541
August	693	46,676	46,290	4,206	10,854
September	630	44,626	42,979	3,827	9,391
October	615	33,491	32,442	3,897	12,488
November	897	58,952	57,552	3,941	14,152
December	1,125	69,348	63,585	4,027	19,035
Total	4,476	\$293,213	\$282,700	24,389	\$75,461
Average (Monthly)	746	48,869	47,117	4,065	12,577

TABLE III-4
HAC COSTS AND ENROLLMENT FOR JANUARY-AUGUST 1981 PERIOD

	Total Claims			Total Enrollees	TFA
	No. of Claims	Billed	Paid		Administrative Costs
January 1981	---	---	---	3,862	\$ 15,398
February	1,638	\$ 76,289	\$ 74,689	3,939	15,440
March	1,278	103,068	101,666	3,922	17,780
April	757	67,732	65,111	4,160	17,729
May	1,696	154,974	149,744	4,043	17,339
June	402	39,069	28,638	4,074	21,340
July	---	---	---	3,911	18,093
August	4,166	270,978	260,626	3,918	14,694
Total	9,937	\$712,110	\$675,769	31,829	\$137,813
Average (Monthly)	1,242	89,014	84,471	3,979	17,227

TABLE III-5
MONTHLY AVERAGE INDICATORS OF THE HAC PROGRAM

Indicator (Monthly Aver.)	July to Dec. 1980 Period			Jan. to Aug. 1981 Period		
	Total	AID***	NTF	Total	AID	NTF
1. Enrollees	4,065	2,331	1,734	3,979	2,640	1,327
2. Number of Claims	746	437	310	1,242	808	435
3. Claims Paid	\$47,117	\$30,964	\$16,153	\$84,471	\$57,275	\$27,785
4. Administrative Costs*	\$12,577	---	---	\$17,227	---	---
5. Number of Claims Per Enrollee**	2.20	2.25	2.15	3.75	3.67	3.93
6. Amount Paid for Claim	\$ 63.16	\$ 70.86	\$ 52.11	\$ 68.01	\$ 70.88	\$ 63.87
7. Administrative Cost Per Claim	\$ 16.86	---	---	\$ 13.87	---	---
8. Administrative Cost Per Enrollee	\$ 3.09	---	---	\$ 4.33	---	---

*TFA's monthly invoice.

**Annualized based on 12 multiplied times monthly average.

***Refers to both AID, OIT and AID direct participants.

The administrative costs reported in the tables are based on TFA's total monthly financial invoices submitted to AID Financial Management. They do not include OIT's administrative costs or other AID costs for administrative oversight of the program. In particular, additional administrative costs include a one-half person year of effort allocated by OIT to the HAC program, PTIS resources required to submit enrollment information to TFA, AID Financial Management, and OIT senior management involvement. Note also, though, that one-half OIT person year was allocated to the administration of the program prior to the current HAC program and other internal AID resources were similarly involved prior to the current program.

As a prelude to the important Table III-5 (average indicators), several points about the HAC program can be made based on the information available in Tables III-1 through III-4. First of all, they provide basic, descriptive information which anyone involved with administering the program should readily know. Enrollment, for example, has been running consistently at about 4,000 for the period reported here. Other points include:

- Fluctuations in the number of claims being paid and, consequently, the amount being paid have been large on a month to month basis. This suggests a great unevenness in the claims being processed caused by the delays of readily available and accurate enrollment information and other factors.
- For the months of January and July 1981 no claims were paid due to TFA running out of funds in their Federal Reserve Letter of Credit. This occurred because of TFA's accounting oversight.
- NTF's share of total enrollment* has significantly declined in recent months, and therefore, its contributing share of total administrative costs has declined correspondingly.
- TFA's monthly administrative costs were relatively high in December 1980 (\$19,035) because of the extra resources required to implement their automated claims processing system.
- The number of claims paid during the four month period of May through August 1981 (6,264 claims) was much higher than during the prior four month period (3,673 claims). No doubt, some lag or delay in the processing of claims contributed to this difference but whether or not an increase in the number of claims submitted by participants also contributed remains an unanswered issue. (Information on monthly trends in the submittal of claims was not readily available.)

Table III-5 presents monthly average indicators for the two periods of July to December 1980 and January to August 1981. For example, monthly average enrollment was 4,065 and 3,979 for these two periods, respectively. NTF enrollment declined during the latter period relative to the first, while AID enrollment increased. The number of monthly average claims being paid increased dramatically from 746 to 1,242 (66 percent increase), although overall enrollment remained about the same. TFA's "catching up" in the processing of claims, no doubt, contributed to this increase. However, it would also be useful to know if utilization per participant has increased as well, since this would have an important bearing on rising claims costs and sufficient premiums to cover claims costs. The amount paid per claim has increased by only a small amount (from \$63 to \$68) so that the substantial increase in claims costs can be attributed mostly to the increase in the number of claims being paid (rather than an increase in the cost per claim).

TFA's monthly average administrative costs have increased substantially from \$12,577 to \$17,227, attributed mostly to an increase in staff. Administrative cost per claim* processed and paid, however, declined \$3 from \$16.86 to \$13.87. This result could be attributed to TFA's automating their processing system for the second period and economies achieved by handling a greater volume of claims.

*While the changes from month to month in NTF enrollment correspond to NTF's own figures, the absolute levels revealed by TFA reports are at significant variance from the levels reported by NTF. One possible cause for this is the relatively large number of early departures (before a participant program's specified ending date). This would contribute towards the larger number of Nigerian enrollees reported by TFA.

During the process of developing and analyzing these cost indicators the study evaluators contacted other insurance administrators and asked their opinion on making cost comparisons. The overall impression is that a cost per claim of \$13 or \$16 is unusually high for the industry, particularly in light of the HAC program being a relatively open-ended one in terms of controls on claims costs. That is, the program requires no additional review of claims to determine deductibles and coinsurance, limitations due to preexisting conditions, qualifications of dependents (who are not included in the program), or other similar controls.*

However, important caveats preclude a definitive conclusion on TFA's administrative cost per claim. The most important caveat is that much of TFA's resources for the HAC program has been consumed by problems in obtaining accurate and complete enrollment information from AID (see Chapter II). We believe that once this problem area has been rectified the administrative cost per claim should drop substantially. At any rate OIT should continue to monitor TFA's administrative costs. Another caveat is that TFA's administrative cost figures reported here included the costs for supplies and materials used to produce HAC cards, handbooks, and reports. Another caveat is that a better cost indicator would be cost per claim handled rather than claim paid**

B. Potential Cost Savings

As discussed previously, a key study question is whether or not the current self-funded HAC program has achieved substantial administrative cost savings

*Less reliance should be placed on the administrative cost per enrollee indicator relative to cost per claim for two reasons. For one, the data on enrollment (especially NTF enrollment) are less reliable than the data on number of claims paid. Also, number of claims processed and paid is a better indicator of TFA's level of production than number of enrollees.

**This factor, though, should have a relatively minor impact on the cost per claim indicator in that TFA reports that it pays, in the long run, about 95 percent of all claims submitted.

relative to claims if the previous health insurance program were still in operation. Comparisons between the administrative costs of the current HAC program and the previous one can be made under the assumption that the claim costs are effectively the same for the two programs.* According to the feasibility study done prior to implementation of the current HAC program,** the previous insurance company, St. Paul Fire and Marine Insurance Company, retained 30 percent of the total premiums charged for their own purposes. The remaining 70 percent of total premiums covered the actual claims costs.

In light of this information (subject to its reliability), the current HAC program has achieved substantial administrative cost savings relative to the previous program. In particular, for the January to August 1981 period, total claims costs were \$675,769. Under the previous program based on the 30 percent factor, administrative costs would have been \$289,615.*** Instead, TFA's administrative costs for the period were only \$137,813, resulting in a cost savings of \$151,802.

As long as TFA's administrative costs are less than 30 percent of the total costs of the program, administrative cost savings will be achieved relative to the previous program. For the January to August 1981 period, administrative costs were only 17 percent of total costs. For the July to December 1980 period, they were 21 percent.

On the other hand, the current \$25 monthly premium barely covers both administrative and claims costs for the January to August 1981 period (although for the July through December 1980 period a \$15 premium would have covered total costs). A recent catastrophic case for an AID participant will render the \$25 premium totally inadequate. The total amount of claims costs and possible approaches to savings of such costs should be of concern as well as the administrative costs. The current HAC program is a very open-ended one in

*This assumption is made only for comparing the administrative costs on a standard basis so that the comparison is a valid one.

**Martin E. Segal Company, "Special Report of Study of Health/Accident Program," July 18, 1979, p. 5

***I.e., under the previous program administrative costs are 30 percent of the total costs of the program while claims costs are 70 percent of the total costs. Total costs equals claims costs divided by .7, and administrative costs equal 30 multiplied times total costs.

that there are no coinsurance and deductibles, stop-loss provisions for catastrophic costs, limitations due to preexisting conditions, or other controls on excessive utilization and claims costs. Previously long delays in the payment of claims likely acted as a deterrent to overutilization (as well as placing a considerable burden on claimants). Participants, anticipating problems in obtaining payment for their medical bills, may have used university health insurance or sought out other alternatives to some degree or other. If the problem of delays in the payment of claims is successfully cleared up, one might expect utilization and therefore claims costs to increase.

C. Recommendation

Consideration should be given to placing controls on rising claims costs while at the same time not jeopardizing the participants or their training programs. For example, as a trade-off against participant payment of deductibles, their monthly budget allowance could be slightly increased to offset the deductibles. The deductible would serve the purpose of providing incentive to the participant against excessive utilization. In any event claims costs should be carefully reviewed and duly reported. It is suggested that the types of cost indicators and analyses performed for this study be carried out on a routine, regular basis (e.g., quarterly) for purposes of senior management review.

CHAPTER IV
RECOMMENDATIONS

The HAC Program suffers from a number of problems that reduce its ability to serve effectively the participants and medical providers. Some of these problems have a significant impact on the costs that have been experienced. Several changes could greatly improve the operations of the HAC Program. Development Associates, after a full review of the components of the HAC program, makes the following recommendations:

1. The enrollment process for direct participants should be changed to allow TFA to enroll participants upon receipt of a HAC card. The problems posed by the current system of enrollment for direct participants are the most severe of any we encountered in our review. The processing of medical claims for new enrollees is often delayed and administrative costs of the program increase to cover the research necessary to resolve the eligibility status of affected participants. Ensuring that pending enrollment information is not lost is not difficult.

The PTIS system should be circumvented. The enrollment of contract participants using a HAC card offers a demonstrated, successful enrollment process that should be substituted. Additionally, the system of using HAC cards to initiate enrollment in the program should be applied just as well to extensions of individual training programs. Training agents will find that the additional reporting requirement is less of a burden than dealing with complaints arising from the existing system.

2. Premium payments should be handled solely by the Financial Management Division of AID. TFA should not be in the collection business. Financial Management is the appropriate agent to ensure that contractors' HAC fees are paid. The simplest solution is to allot the HAC fee directly to the HAC premium accounts rather than require the contractor to return those fees. TFA should be able to process claims for a new enrollee without having to verify that the fees have been paid.

Removing the responsibility for verifying fees from TFA's contract should reduce administrative costs and speed the payment of claims.

3. Controls should be established in the claims processing system to ensure that claims are not lost or misplaced. TFA's system currently affords no protection against the loss of claims. Especially in a system where claims are not logged or data entered until a payment decision has been made, such control is needed. That need is amplified because of the large number of claims that is diverted from the regular processing flow because of eligibility problems.

A simple batch control system (perhaps employing date of receipt to define batches) would solve most of the control problems that exist in the current system. But implementation of that system at TFA would have to be supplemented by a control scheme for claims being referred to OIT for review. These, too, should be controlled in batches, or logged individually if the volume of the claims requiring OIT review declines significantly. Alternatively, Trust Fund Administrators could keep all originals and only send copies to OIT.

The objective of knowing where a claim is in the process and ensuring that claims are not lost or misplaced is in the interest of serving the participants and their medical providers. A few simple reforms should resolve this problem.

4. The contract between AID and TFA should be tightened. The contract establishing Trust Fund Administrators as the administrator of the HAC Program is weak on several points:

- Limitations on the liability of AID for errors and omissions;
- Performance standards to be met by the contractor; and
- Protection for AID in the event that TFA fails to process claims.

The existing contract leaves AID liable for errors and omissions. The more serious omissions from the contract, however, are the imposition of performance standards to be met by the contractor and protection for AID for failure of TFA to process claims. Both of these omissions make AID vulnerable.

Contractual performance standards for quality and timeliness of the processing would allow AID to ensure that participants are well served by the contractor. If for some reason TFA fails to process a claim, the existing contract does not clearly assign AID the right to secure another processor or to terminate the agreement for cause. Provisions that may be considered in strengthening the contractual agreement between AID and TFA are detailed in Appendix A.

5. OIT should establish a closer and more effective monitoring system of TFA operations and claims processing. The current effort is not sufficient to adequately monitor the HAC program.
6. AID should retain the self-funded approach for the HAC Program, but should also try to generate a better estimate of the contingent liability and consider cost control provisions if the monthly HAC fee does not appear to be sufficient. The self-funded HAC plan appears to be working and fulfilling the objectives that were established for it. But rising costs are a source of considerable concern and pose a threat to the successful operation of the Program.

AID must obtain a better estimate of the program's claim liabilities. During the first year of operation, the estimate of the dollar value of claims incurred but not processed exceeded the payments in the previous twelve months by 70 percent. The claims awaiting eligibility determinations alone exceeded that year's payments. Furthermore, an estimate of claims incurred but not received does not appear to have been included. The actual liability may have been understated.

An analysis comparing date of service to date of receipt and date of payment should be prepared. Using the date of service comparison, Financial Management should be able to project with more accuracy the unpaid liability by month of service and to factor the findings into an evaluation of the adequacy of the \$25.00 monthly HAC fee.

Even if the current fee is found to be sufficient, cost trends point to future problems. AID can choose to increase the monthly fee or to institute cost

control mechanisms to ensure the financial viability of the HAC Program. Deductibles, coinsurance, copayments, and stop-loss provisions are measures that could reduce benefit costs. AID may also choose to reduce the benefits offered, perhaps by targetting those procedures subject to the most abuse. Provisions that could help reduce costs are cited in Appendix B.

7. TFA should make partial payments up to \$5,000 on large claim bills. The current policy is that TFA pays no part of a claim exceeding \$5,000 until OIT has formally approved payment. Medical providers have been required to wait unusually long periods of time before any payment is made. Partial payments of less than \$5,000, if made promptly, will alleviate a great deal of dismay and frustration on the part of the parties involved with the claim.

Development Associates' staff believe that the HAC Program is conceptually sound. The recommended changes will aid the program in achieving the objective of service to participants and provides and ensures the financial viability of the program.

APPENDICES

APPENDIX A: RECOMMENDED CONTRACT REVISIONS

APPENDIX B: EXAMPLES OF COVERAGE REVISIONS

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APPENDIX A

RECOMMENDED CONTRACT REVISIONS

The following additions or other revisions to TFA's contract with OIT are recommended:

1. The Contractor may be held liable for any wrongful or negligent act or omission provided that the Contractor will not be deemed to have acted wrongfully or negligently if the Contractor relied in good faith upon written instructions from AID.
2. The Contractor can be required to obtain an errors and omissions liability insurance policy, insuring AID in the customary form against the consequences of errors and omissions by the Contractor.
3. AID should have the right to approve or reject any employee of the Contractor who performs work under the contract and who has direct contact with AID, provided that approval shall not be unreasonably withheld.
4. AID reserves the right to require that a backup on all data files be created and maintained at a separate facility.
5. The contract should state that an adequate and documented audit trail must be created if changes are made to a claims during review.
6. The contract should specify that the inventory of unused checks must be controlled to protect against unauthorized use.
7. AID may wish to improve contractual performance standards, such as:
 - 90 percent of all claims must be paid or rejected with 30 calendar days of receipt.
 - 98 percent of all claims must be paid or rejected within 60 calendar days of receipt.
 - 100 percent of all claims must be paid or rejected within 90 calendar days of receipt.

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Of course, such standards would only be reasonable to impose if the enrollment and premium payment problems were solved.

8. AID might also require that incorrect payments be reported and that overpayments not recovered by the Contractor that exceed one-third of one percent of the total dollar amount of the checks drawn but not voided shall be deducted from the Contractor's fixed fee.
9. In the event of the Contractor's failure to process claims, the Contractor can be required to reimburse AID for all costs and expenses incurred by AID in connection with the processing of claims by a third party that exceed the amount that would have been paid the Contractor to process claims pursuant to the contract. Such a penalty would not be applicable if the failure to process lasted less than seven days or was caused by a natural disaster.
10. The reasons for terminating the contract should be specified:
 - Breach of any term or provision;
 - Failure of AID to pay for services rendered;
 - Termination of the HAC Program;
 - Cessation of the Contractor's business through bankruptcy, receivership, or liquidation;
 - Any act of gross negligence, fraud or embezzlement on the part of the Contractor; and
 - Sale of controlling interest in the Contractor's business without AID's written consent.
11. The Contractor should be enjoined to use the personal data on participants for only routine uses in the payment of claims to protect the privacy of those participants.
12. AID must be specifically allowed to examine the records of the Contractor or to appoint an auditor of its choice to inspect them.

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APPENDIX B

EXAMPLES OF COVERAGE REVISIONS

The following examples of specific items of health insurance coverage are presented for OIT's review and consideration.

1. Laboratory and x-ray must be ordered by a physician for diagnosis or treatment of a definite condition, illness or injury and must be performed by a licensed laboratory.
2. Physical therapy, occupational therapy, and psychotherapy must be prescribed and supervised by a physician.
3. Certain dental procedures should be exempted from the dental limitation, such as procedures performed by a dental surgeon or general surgeon for:
 - Tumors of the jaw;
 - Fractures of the jaw; and
 - fractures of the facial bones.
4. Prior approval could be required for surgical procedures, including but not limited to, the following:
 - Intestinal bypass for obesity;
 - Gastric bypass for obesity;
 - Cerebellar implants; and
 - Organ transplants.
5. AID should consider whether to exclude:
 - Services provided by a chiropractor;
 - Services provided by a naturopath; and
 - Acupuncture therapy.

6. The Plan should exclude charges for:

- Telephone conversations with a physician in lieu of an office visit;
- Writing a prescription;
- Medical summaries and medical invoice preparations;
- Services of any practitioner who is not legally licensed to practice medicine, surgery or counseling except as specifically provided in the plan description;
- Services furnished by tax-supported or voluntary agencies;
- Personal services and personal comfort items during an inpatient confinement;
- Exercise equipment; and
- Treatment with new technological medical devices and therapy except with the prior approval of AID.

7. In addition, excessive charges and finance charges in connection with a medical bill should be excluded.

8. A general exclusion covering any types of services, supplies or treatment not specifically provided offers added protection.