

Effectively Managing Employee Absence

A Perspective on Self-Insured Short Term Disability



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As employers, institutes of higher learning are constantly looking for ways to remain competitive, manage costs, recruit and retain top faculty and staff, and provide their teams with a positive employee experience.

Having a work environment which fosters a commitment to the college, university or institute includes providing employees with a meaningful benefit package and process. As faculty and staff have looked to their employer to provide such benefits as medical, dental, life and long-term disability coverage, employers have turned to traditional insurance carriers or developed their own sick-pay or salary continuation plans for short-term disability events.

In recent surveys, as many as 80% of employers have indicated they provide either salary continuation or short term disability coverage. While many of these benefits are fully-insured, larger employers are increasingly self-insuring these programs and outsourcing their previously self-administered salary continuation plans.

Educational organizations continue to face a series of workforce challenges, including

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2009 Update on Benefit Trends, TP Benefits DataBank

double-digit increases in the cost of health care and changing budgetary and economic environments, which often results in the need to increase employee productivity while concurrently reducing many human resource functions.

Employers are becoming keenly aware of the need to understand and take control of employee absences and their overall effect on productivity. Some have experimented with absence management and return-to-work programs for their occupational plans, but many have not examined the impact of their salary continuation and short term disability plans. In addition, those employers that do track the direct costs associated with absences due to disabilities, such as sick days and workers' compensation premiums often fail to quantify the indirect costs including: staff costs needed to administer the plan, additional training and recruitment needed to replace the absent employees, extra workload and overtime for current employees, and compliance costs which may periodically arise.

As employers realize that they have limited information and data on the costs and effectiveness of these benefits, they are embracing alternative methods for effective cost controls, including implementing programs aimed to manage disability and promote early intervention and outsourcing claims management to those that can provide this high level of service.

Although, many third-party and carrier absence management vendors have emerged over the past decade, *TBX is uniquely qualified to support our college, university and institute clients in facilitating the process through which we work together to develop and implement an appropriate solution.*

Self-Insured STD's Role in the Market – Why Self-Insure?

Employers who self-insure business risks such as salary continuation or short term disability plans typically:

- Want to outsource their disability management to more effectively control lost time cost;
- Seek to minimize their costs by reducing or eliminating usual “insurance” costs, such as state premium and other taxes and risk fees;
- Improve their cash flow by freeing funds otherwise used for insurance premium;
- Offer a formal plan of coverage (but often self designed) as part of a competitive benefit package;
- Are prepared to handle additional administrative services, and are comfortable making final claim decisions and assuming the risk of all claim liabilities; and
- Assume a relatively low risk benefit due to the highly predictable nature of the absences.

TBX Benefit Partners’ Market Position

TBX helps review and manage a wide range of carrier and administrator products and services designed to address the absence management needs of its clients. Although the employer may be comfortable in assuming the short term disability financial risk, many aspects of the claim management process may create unintended consequences that the employer had not initially considered.

For example:

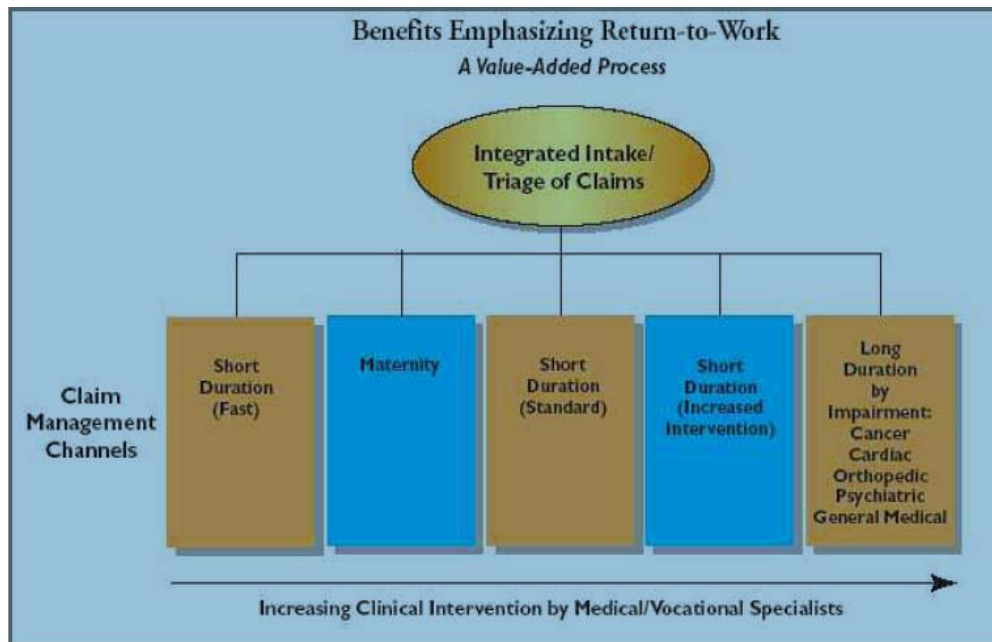
- Who decides which claims are valid and should be paid? Are policies in place and do employees understand them? Can the employer establish and ensure consistent claim practices and avoid a perception of entitlement?
- Does HR staff have the necessary background and expertise to understand the nature of the disability and when and how an employee could return to work with modifications?
- Does the employer have the necessary safeguards in place to ensure the employee's claim information is handled confidentially, particularly when sensitive medical information is involved?
- Are there effective mechanisms in place to track absences and determine trends? Are these mechanisms supported by technology that is flexible and can report a variety of data?

Without scalable and professional claim management, these examples would require tough decisions by our client's staff. Today, the need to make these decisions quickly, fairly and consistently is more important than ever. Not only do these decisions affect the employer's bottom line, but they also have an effect upon employee morale, company productivity, and legal compliance with the Americans with Disabilities Act (ADA), Family and Medical Leave Act (FMLA) and other leave policies.

Managing short term disability claims can be particularly challenging because they occur more frequently than longer

duration claims. Because all long duration claims start as short duration claims, ineffective management of a short term absence can prolong the duration of the employee's lost time unnecessarily and, in some cases, it can even lead to an unnecessary long term absence. Appropriate claims management is designed to enable self-insured employers meet these needs. No matter the nature of a disability or its severity, proper specialized resources and unique claim management processes deliver the right resources at the right time for each claim received.

Employers often find value in the specialized approach and clinical resources that are available when using a chosen vendor's claims management organization. While not encouraged, employers utilizing an Advice to Pay (ATP) self-insured process have the latitude to override decisions recommended by claim's team.



Advantages and Disadvantages of Self-Insured STD

Advantages

- Employers minimize their costs by reducing or eliminating usual “insurance costs,” such as premium taxes and other taxes associated with traditional insurance premiums and other risk fees.
- By using their own funds to make disability benefit payments to employees, employers will have more control over their cash-flow, if the data that is used to predict the claim volume and average benefit payment is reliable and accurate.
- For some employers, the plan design flexibility offered by a self-insured program is appealing.
- For employers who are comfortable with making claim decisions and assuming the risk of claim liabilities, a self-insured program may be acceptable.

Disadvantages

- Although a fully insured short term or salary continuation plan may initially appear to reduce costs, if the employer will be providing in-house claim services, it must be willing to invest additional resources in the administrative procedures necessary to support the plan over the long-term.
- Employers must have a well designed program that is properly communicated to employees; otherwise employees often assume the benefit is an entitlement program that requires little more than a note from an attending physician. As a result, it may be impossible for an employer to build the internal resources needed to assist in managing claims with a true return-to-work and rehabilitation focus.

- Making objective decisions use sensitive employee medical information, which may place the employer in a position where it is difficult to be consistently fair and objective.
- If the employer does not have the internal policies or staffing to support the additional administrative processes or assumed risk, a self-insured program may lead to legal disputes and employee discontent.

Summary

In today's business environment, work absences and the accompanying loss of productivity often represent one of the largest unknown operational costs facing an employer. In addition, the indirect productivity costs that frequently occur under a self-insured, self-administered salary continuance plan can be among the most difficult for employers to track. By identifying areas within these programs that require process and structural efficiency improvements, an employer can reap the simultaneous benefit of both significant employee productivity increases and a reduction in direct and indirect absence costs.

In partnership with our clients, TBX's unique leave management diagnostic process helps employers streamline leave management policies, procedures and administrative functions. To the extent that an employer needs an outside vendor to manage the leave management function, TBX diligently evaluates third party service providers on our client's behalf to ensure that the selected vendor is well-suited to provide extensive claims management support, comparative reporting and analysis, and return-to-work resources that will assist the employer in its transition from an unmanaged lost time environment to one that maximizes the productivity of the

workforce and reduces the compliance risks inherent in a self-administered environment.

Sources:

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