

Setting Up an Internal Subrogation Unit— Maximizing Financial Returns

Internal subrogation units can generate significantly more recovery dollars than those earned by using an external firm; the keys to a well-run unit include finding the right case management technology



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There are many factors that impact the decision to build an internal subrogation unit versus outsourcing to an external vendor, but perhaps the most important one is financial: A well-run internal subrogation unit can net \$17 annually per covered life in recoveries; outsourcing to an external vendor nets \$11.25 per covered life after fees.

Here's how the dollars break down: Healthplans generate, on average, \$2 billion annually in paid claims per million lives. The industry standard for recoveries generated by subrogation efforts is 1% for internal subrogation units (\$20 million in recovered dollars per million covered lives) and 0.75% for external subrogation firms (\$15 million per million covered lives).

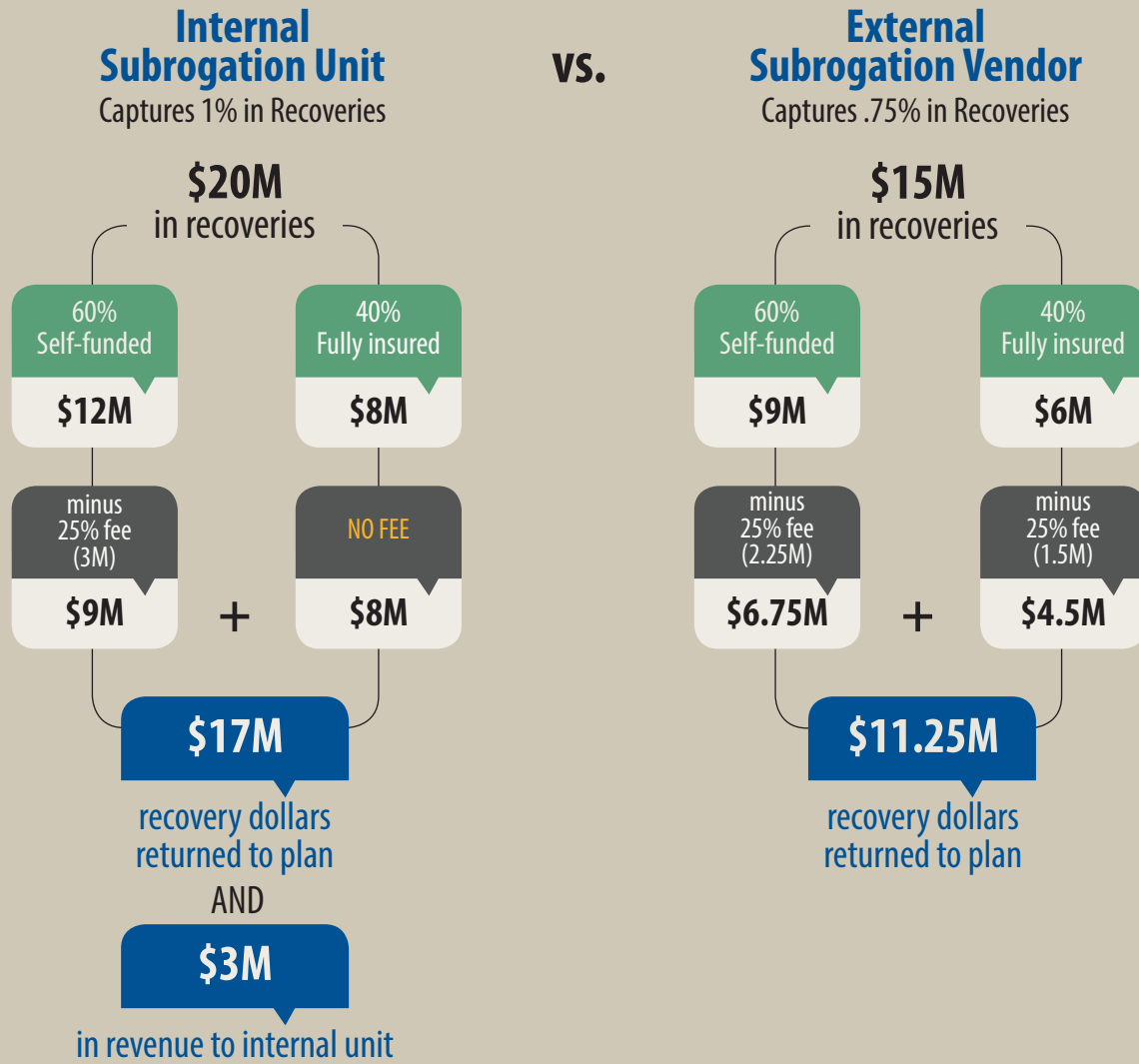
Of the recovered dollars, approximately 60% are for self-funded accounts, leaving 40% that are fully insured.

External firms charge a percentage of overall recoveries, usually 25%, for compensation for services. This means that healthplans can net \$11.25 million of recovery dollars from the original \$15 million pool by using an external firm—\$9 million minus the 25% fee (\$2.25 million) leaves \$6.75 million for self-funded accounts; \$6 million minus the 25% fee (\$1.5 million) leaves \$4.50 million for fully insured accounts.

For internal subrogation units, the math is as follows: \$8 million of the recoveries (40% of the original \$20 million) are from fully insured accounts; the healthplan can recover all \$8 million as it will not have to pay the 25% fee to an external firm.

Recovery Dollars Returned to Healthplan

Based on \$2B Annual Paid Claims



However, internal subrogation units can charge self-funded accounts a 25% fee to manage their \$12 million in recoveries; this \$3 million more than offsets the estimated \$1 million it costs to establish an internal subrogation unit: the unit needs about seven full-time employees per million covered lives; at an average cost of \$75 K per employee for salary and benefits, labor cost is approximately \$525,000. Other expenses, including for mailings and call center services, will round out the cost to approximately \$1 million per year per million covered lives.

The bottom line: internal units can recover \$17 million of the \$20 million of recovery dollars for both self-

funded (\$9 million) and fully insured clients (\$8 million). And, they generate \$3 million in revenue to offset operating expenses.

Internal subrogation units have a compelling advantage over external firms in terms of recovered dollars: \$17 million for internal subrogation units versus \$11.25 million for external firms. In order to capture them, internal subrogation units need to pay close attention to several key areas, including staffing and case management technology.



Staffing: Hire for Healthcare First, then Legal Expertise

A well-run internal subrogation unit needs about seven full-time employees per million covered lives. That includes one manager to lead the unit, one clerical support person, and three to five file handlers, depending on their experience.

While the case management technology should automatically assign cases based on criteria established by the unit (geography, dollar amount, etc.), the associate-level clerical person should manage other aspects of the front end of the case-assignment process, including gathering outstanding information regarding insurance, attorneys, or court issues. That person can set up the case, and send out the initial notice letters along with the claims resume. They then can pass the cases along to the file handlers, who should manage between 750 and 1,000 cases at any given time.

Some vendors that develop case-management software also provide consulting services to help Plans build internal subrogation units

The ideal candidate for the file handler position will be versed in both healthcare and the law, but which is most important when hiring new staff? Many internal subrogation units find that it is easier to hire file handlers from within the healthcare system who understand claims and claims processing, and teach them the relevant points of the law. Plans can develop training modules to teach file handlers about workers' compensation and subrogation law, including language they can use to fully pursue the value of the subrogation claim. Healthplans can also leverage their internal legal resources for training and guidance in these areas.

Some vendors that develop case-management software also provide consulting services to help Plans build internal subrogation units—look for this feature when building a new department.

Reaching Out: Managing the Letter Process

The first step in the subrogation process is identifying trauma-related claims to gauge whether or not they are recoverable opportunities. Healthplans will establish a set of ICD-9/ICD-10 codes that will prompt the most-likely cases; for each million covered lives, an internal subrogation unit should expect to send approximately 100,000 questionnaires per year. Of those, 3-5% will be cases that warrant further investigation.

Managing this high volume of letter generation and mailing can be done internally, but most internal subrogation units choose to use a corporate print center or an external print center for the tedious work of printing, folding, and mailing the questionnaires. This process is streamlined with a case management system that can support batch printing, a crucial feature when using a print center.

Members should have multiple options for answering the surveys: mailing back a completed survey, calling the Plan's call center, or logging into a secure web site to complete the questionnaire. The best case management systems support all three options, as preference for each method varies depending upon the Plan's membership demographics. While web-based and letter options are the least expensive, it is very difficult to "funnel" members into one method over another. Providing members with a choice can increase compliance, and increased compliance is the name of the game: the more cases an internal subrogation unit can review, the higher the potential for recovery dollars.

Expect a 70-80% response rate to the first questionnaire; the case management system should automatically generate second and, if needed, third follow-up letters after a predetermined amount of time has lapsed. Once the third letter has been generated, the case management system should provide delinquency reporting to allow for further follow up on high-dollar "null" responses. As the member's healthplan, an internal subrogation unit can investigate matters further

and has the ability to offset claims for those individuals who choose not to comply. In addition, they have the ability to deny or recoup claims when other insurance is prime, allowing for cost avoidance when there are first-party dollars available. An external vendor pursues all claims paid charging a fee on those dollars where other insurance may be primary.

The letter-generation process is streamlined with a case management system that can support batch printing, a crucial feature when using a print center

In general, questionnaire response rates are better for internal subrogation units than for those sent by an external subrogation vendor. Because the members have a relationship with the healthplan, they are more likely to comply.

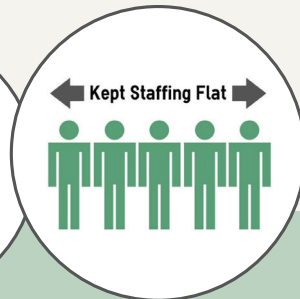


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Managing Incoming Data

The best way to manage incoming letter surveys is via bar codes; the case management system can generate these on the questionnaires so that when they are returned, they can be scanned by the corporate mail center. This information can be imported into the case management system so that it will know it does not need to generate second- or third-request questionnaire. In addition, this action will ensure that the subrogation staff does not have to review all 100k returned letters—just the ones that bear “yes” answers.

As with the print center, internal subrogation units can choose to hire internal call center staff or work with an external vendor to manage the incoming calls. Either process works well; the key is to ensure that the case management system supports both options. Look for a system that offers a guided call-tree solution that

prompts call center staff to ask the right questions of members, and document their responses directly within the case management system. This guided system enables the internal subrogation unit to devote

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lower-level resources—either at the Plan’s internal call center or at an external call center vendor firm—toward the screening process, and reserve highly trained staff for more complex tasks.

Case Management System – The Details Matter

A full-featured case management system is one of the most important elements needed to achieve the financial benefit of an internal subrogation unit. Some important features already discussed are the ability to work with internal or external vendors for printing and call center as well as a web-based portal accessible by members to complete survey questionnaires. Another important feature is the ability to generate and manage multiple letter templates based on parameters including group, customer, and business type.

In terms of ongoing case management, look for a system that enables file handlers to attach correspondence to a case to cut down on the need to shuffle paper back and forth between departments. A full scheduling diary enables clerical and file-handling staff to set up a case and manage all opportunities. And robust reporting enables management to track delinquency and file-handling status at multiple levels, including by group.

Choose a vendor that is focused on case management and committed to continuously improving the system. Many out-of-the-box solutions are never updated, leaving the subrogation unit unable to take advantage of new methods for efficiency and increasing recoveries. Web-based solutions offer two advantages to healthplans: they are continuously updated with new features and don’t require costly or disruptive software upgrades, and they enable subrogation units to hire remote workers.

Setting up an internal subrogation unit requires dedication and attention to detail, but the financial rewards can be great. By boosting recoveries from \$11.25 to \$17 per covered life while also generating revenue, a well-run internal unit can justify its existence in any healthplan’s corporate structure.

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