

The Modular Path to Integration

A case study presented by the Integrated Benefits Institute



Semiconductor fabricator LSI Logic Corporation of Milpitas, California, took a direct route to health and productivity management through outsourcing its disability benefits functions. The building of its modular initiative began in 1986 with self-insurance and now incorporates three components of integrated disability management. Without significant startup cost or reorganization, LSI has created a truly modular initiative—a model for other employers interested in outsourcing.

LSI Logic's experience demonstrates that benefits integration for health and productivity management *can* happen outside the Fortune 500.

LSI Logic is a developer and fabricator of specialized computer chips; its complete "system-on-a-chip" products drive consumer and professional video equipment by Sony,

Panasonic and others. During the 1990s, LSI nearly tripled in size, growing to 6,800 employees by 2000—5,800 of them in the United States.

Rather than build a substantial HR infrastructure to manage disability benefits, LSI chose outsourcing through a third-party administrator (TPA). LSI self-insured workers' compensation (WC) in 1986 with Matrix Absence Management and added another TPA for short-term disability (STD). Consolidating to one TPA in 1993 cleared the path for integration and later addition of long-term disability (LTD) and Family and Medical Leave Act (FMLA). With all benefits under one TPA, LSI efficiently rolled out a medical management component beginning in 1997 and a transitional work assignment (TWA) program beginning in 2000. Pam Porter, hired in 1998 to head LSI's disability management and related programs, was named integrated disability programs (IDP) manager in 2000 following the TWA program startup.

From Challenges to Advantages

The modular path to benefits integration made sense to LSI for several reasons. Among them:

- 1 The relatively high opportunity costs of absence within the semiconductor industry had already made medical management of disability part of LSI's corporate culture and HR budget.
- 2 Because all disability benefits at LSI fell under a single manager in HR, outsourcing was an efficient option and potential turf struggles often experienced by other employers were not an issue.
- 3 Special needs in accommodating injured employees in fabrication plants required a specialized TWA program.
- 4 Importing a new return-to-work (RTW) solution required customization to accommodate diverse operating cultures in different plants.
- 5 Physicians treating non-occ injuries need extra help to specify functional restrictions for TWAs—a task that WC providers are already prepared to perform.

Program Savings

- Outsourced medical case management serving 5,800 U.S. employees replaced three on-site clinics serving 2,200 California employees—for the same cost.
- WC litigation dropped dramatically, from 12 cases in 1995 to two in 2001, due to multiple factors improving employee satisfaction.
- Under outsourced medical management, average STD per-employee claim costs for 1998–2000 dropped 34% from the prior three-year period.
- In the TWA pilot, reduced disability days returned twice the program's \$55,000 startup cost.

LSI's Path to a Modular Initiative: Large-Scale Outsourcing of Benefits Administration

LSI's modular initiative evolved through smaller increments than do many health and productivity (H&P) initiatives. In fact, a true "initiative" didn't exist until 1999, when LSI developed its TWA program to accommodate employee physical restrictions for early RTW from disability events.

Only for that program did LSI invest startup funds. When the Santa Clara pilot site returned greater direct savings from reduced disability days in its first six months than the \$55,000 required to roll out the program to all four major sites, the decision for the VP of HR was clear and a full rollout was authorized. Up to that point, no substantial startup costs were associated with LSI's two other IDP components—TPA-managed self-insurance and TPA-outsourced medical management—both of which had lower administrative costs sufficient to justify installing them in place of their predecessors.

But low upfront costs weren't the only factor making startup so painless for this cluster of programs. Here are some of the others:

1 The high costs of absence and lost productivity.

In 1995, Matrix Absence Management collaborated with clients Intel, Motorola and Sun Microsystems to estimate the indirect cost of lost time of their high-tech workforce. They found that the absence of a single employee cost \$300 per hour—including overtime for others, replacement employees, training, managers' time, lost efficiency, morale issues, disrupted customer relations and turnover. This confirmed to LSI the value of the proprietary skills and knowledge held by its high-tech employees and the critical importance of employee retention and productivity.

HR maintained three on-site clinics in California, providing medical management on WC claims for

the TPA. As a result, the medical management piece—which is often a new expense for H&P initiatives at other employers—was already in LSI's budget. But LSI had to change its culture to reallocate those funds. The clinics had accumulated numerous functions, including free treatment of minor non-occ conditions, a popular supplement to the employee medical benefit. When LSI discontinued the clinics and outsourced medical case management to its TPA, employees expressed disappointment before accepting the new status quo necessitated by cost and other concerns.

2 Minimal turf resistance.

To integrate benefits, many employers must build new bridges between the WC program in Risk Management and the non-occ disability program in HR. But because LSI already grouped all major disability benefits under HR and all four silos under the direct control of a single manager, potential turf struggles among silos were not an issue. With a simple benefits management structure and extensive outsourcing, LSI experienced little turf resistance to integration or reorganization.

LSI Logic's simple benefits management structure made it possible to insert IDP Manager Porter into the existing organizational chart in place of the three on-site clinics. Porter reports to Global Benefits Manager Kathy Kost, who reports to Peggy Saenz, one of five HR directors reporting to VP of HR Jon Gibson. For other employers, when an initiative requires reorganization of the HR hierarchy or special bridges between HR and Risk Management, the initiative leader may have to be higher up the corporate ladder.

3 Special needs of fabrication plants to accommodate injured employees.

Roughly one-third of LSI employees work in fabrication plants, but they generate the lion's share of WC costs. A key challenge with WC claims in production facilities was that few accommodations were available to meet medical restrictions such as lifting limits. With most of its office employees, LSI's Environmental Health Services strives to prevent ergonomics-related injuries by adjusting workstations, but such programs were less developed in the fabrication plants—particularly after the on-site clinics were eliminated.

Most manufacturing employers profiled by IBI addressed this issue in their WC programs before developing an initiative, then expanded it to serve non-occ cases; the typical solution is an on-site coordinator who can analyze essential job functions and broker a transitional work assignment acceptable to supervisor, employee and physician.

LSI's solution: Hire an ergonomics consultant to visit sites, develop a systematic database of TWAs and train plant managers and supervisors to use them. The TPA's medical case managers select TWAs from the database, which they propose to supervisors to accommodate transitional RTW. Supervisors either accept the proposed TWA or do some quick research to generate a more acceptable one. Training supervisors to look beyond their own work units and retrain employees to fill new TWA duties is a key to the TWA program's success.

4 Importing a new RTW solution.

Even before launching an initiative, most employers already have a return-to-work program in place. Often it evolves gradually in the workers' comp unit, is managed by experienced coordinators at major sites and is modified just enough to serve non-occ cases. LSI launched its RTW program from a clean slate at the plant sites, however, importing a consultant's expertise.

As a result, the RTW program needed a shakedown cruise and customization at each plant. Some plants were recently acquired, and managers there sought to preserve their traditional operating methods and culture. "They had to understand that we weren't just taking a California program and saying 'Here it is!' That would have gotten us nowhere," said Porter.

5 Non-occ medical providers' limitations.

Educating non-occ physicians one by one during the flow of case management remains challenging. Occupational physicians understand the importance of clear, specific work restrictions in planning TWAs: "Limit lifting to 20 pounds" is useful; "no heavy lifting" is not; and visits to educate 12 occupational physicians at several busy clinics in four states were productive. But reaching a significant percentage of the far more numerous non-occ physicians with personal visits would be impossible, Porter concluded.

When WC physicians prescribe specific work restrictions, the fee-for-service system accommodates and compensates them and they accept the value of early RTW. This didn't always carry over to non-occ physicians, who aren't compensated for time in prescribing restrictions and who may fear that early RTW would alienate some entitlement-oriented patients. Educating non-occ physicians during the flow of case management remains challenging for LSI.

Controlling the Details

Case management. LSI employees and supervisors report claims toll-free to a TPA claim intake center in Arizona. As claims progress, callers work with different units in regional claim centers. For benefits questions, the employee or supervisor calls the claim examiner, and the assigned nurse case manager answers employees' medical questions. This approach keeps phone contacts straightforward for LSI callers but still allows the TPA to use specialists in various functions as appropriate.

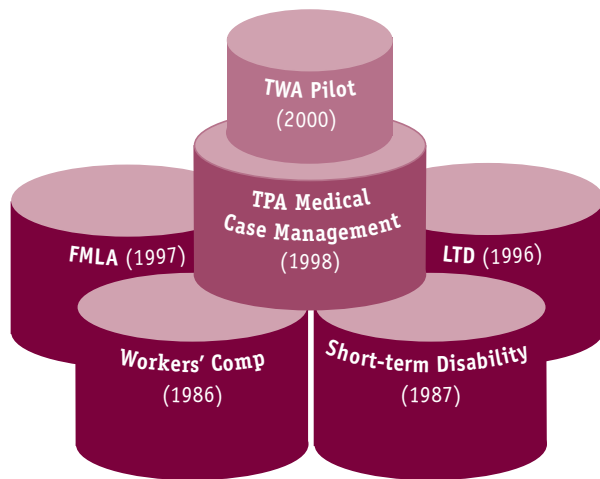
Cost shifting. LSI's benefit structure minimizes shifting of claims from STD into WC. Its benefits-payment program is organized to tolerate delay in accepting WC claims while still paying claims in a timely manner and preventing double-dipping. Payment of a claim regardless of cause permits thorough review and investigation. Also, because benefits levels for WC and STD are virtually identical in the first 90 days of a claim, employee incentive to misfile an STD claim in WC is reduced. And, finally, both WC and STD benefits plans require employees to return to work if a TWA is available that meets their medical restrictions, so both benefits have the same qualification threshold.

Information systems. Using a single TPA helped LSI avoid the major task of linking legacy information systems—a common challenge for integration initiatives. Its TPA tracks and reports on benefits utilization, cutting checks for WC claims and providing vouchers to LSI's Payroll Department to cut checks for STD claims. As a next step, the TPA is now developing an information system to provide performance and cost-trending information for more-precise management oversight of benefits administration.

An Illustrated Overview

LSI Logic's simple benefit structure relies heavily on the third-party administrator. LSI self-insured its WC program using a TPA in 1986, early in the emerging U.S. WC cost crisis. In 1987 it self-insured STD and related non-occ programs using a TPA. Consolidating STD and WC coverages under one TPA in 1993 was so successful that LTD was added in 1996, followed by FMLA management in 1997. Working in partnership with a single TPA to administer all disability programs made it possible to develop modular—or "stackable"—programs.

Extensive use of outsourced services created other substantial advantages for LSI: no turf struggles, administrative simplicity, ease in coordinating plan designs and modular programs. LSI also found it more efficient to rely on an outsourced solution for early RTW from a disability event—an area for which many employer initiatives develop an in-house solution.



Bottom layer: Claims administration for four major benefit silos is handled by a single third-party administrator, with self-insurance begun in the years shown.

Middle layer: In 1998 the TPA added a centralized medical management unit, which collaborates with claim administrators serving each benefit silo.

Top layer: In 2000 LSI began rolling out a transitional work assignment program for fabrication employees. A consultant designed and helped launch the program, which has software to help TPA medical managers initiate TWAs.

Reduced Program Costs

The success of LSI Logic's initiative has resulted in substantial savings since its implementation. Some examples:

Short-term Disability

Moving from in-house clinics to outsourced medical management (average claim cost per employee year in California):



Cost reduction: **34%**

Workers' Comp Litigation

Several factors improved employee satisfaction, which reduced litigation:



Improvement: **83%**

Transitional Work Assignment Pilot

Total disability days in the pilot population after launching the return-to-work program:



Improvement: **32%**

Outsourcing Can Facilitate the Modular Initiative...

LSI Logic's integration initiative is good news for employers seeking a simple and direct route to benefits integration. Until now, every initiative profiled by IBI is a virtual war-game of pragmatic strategies to solve or work around challenges in a long list of interacting programs and environments. Unique among them, LSI's experience demonstrates that a modular path to integration *is* possible under favorable circumstances.

LSI's lean benefits administration structure under HR presents a bare minimum of challenges to integration, allowing the usual organizational complexity to be outsourced to its TPA, which maintains the claim management and database infrastructure.

LSI's experience shows that benefits integration for health and productivity management *can* happen outside the Fortune 500. The successful, long-term TPA partnership worked because LSI demanded more from its TPA than the lowest fees, and it valued Matrix's specialized expertise in its industry.

In addition, the high average wages and critical employee skills in the semiconductor industry created a company culture favorable to effective RTW. Most of LSI's managers and supervisors intuitively agreed that disability management could add value to the company. As a result, LSI was able to install three components of integrated disability management without significant startup cost or reorganization—a truly modular initiative.

...When Guided by Strategic Vision

LSI was able to evolve a modular initiative because the company made an early commitment to integration and followed through:

- The 1993 decision to consolidate to a single TPA laid the groundwork for integration and non-occ cost reduction.
- When outsourced medical management didn't substantially reduce WC claim costs—already lower than for comparable employers—LSI sought a consultant RTW program to generate further WC cost reductions.

LSI Logic's experience demonstrates that fast-growing employers with a lean administrative structure for managing benefits *can* explore outsourcing as a potential fast track to integration for health and productivity management.

LSI's experience demonstrates that fast-growing employers with a lean administrative structure *can* explore outsourcing as a fast track to integrating H&P management.

In addition, many employers are motivated to outsource solely to reduce administrative costs, without an eye toward the broader view of H&P management;

this position need not prevent an initiative. Internal advocates of integration should use all their influence to steer corporate leaders to an outsourcing vendor and plan that can accommodate health and productivity management.

Written by Peter Mead. LSI Logic provided performance data that were reviewed but not independently confirmed.

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The **Integrated Benefits Institute** is a national, nonprofit organization supported by employers, insurers, healthcare providers, brokers, third-party administrators, consultants, pharmaceutical companies, behavioral health providers and others having an interest in health and productivity management through integrating employee benefits. To best serve the needs of employers and employees, IBI identifies and analyzes health and productivity issues as they cut across traditional benefits programs of workers' compensation, group health and non-occupational lost time. IBI's programs include research, assessment of full costs of benefits and an integrated benefits educational forum.

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