Chapter 28

Third-Party Administrators

A third-party administrator (TPA) is an entity that directly or indirectly underwrites, collects charges or premium from, or adjusts or settles claims on residents of a state, in connection with life, annuity or health coverage offered or provided by an insurer, unless accepted by statute.

When an employer offers its employees a self-funded health care plan—the employer helps finance the health care costs of its employees—the employer often contracts with a TPA to administer the plan. The employer may also contract with a reinsurer to pay amounts in excess of a certain threshold in order to share the risk for potential catastrophic claims experience.

In most states, a TPA is required to register with the state. Some states require a bond. The TPA is required to answer inquiries from the state insurance department, but, if the TPA is working for a self-funded Employee Retirement Income Security Act (ERISA) plan, a state has limited authority to take enforcement action against the TPA. An insurer may also act as a TPA for certain customers. This can be confusing to a consumer who has an identification card that has a name similar to a well-known health insurance company. The consumer often thinks coverage is provided by that insurance company instead of the employer plan.

