

Plan Management Navigator

Analytics for Health Plan Administration



Healthcare Analysts

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ANALYSIS FROM SHERLOCK BENCHMARKS: DOES ORGANIZATION TYPE DRIVE ADMINISTRATIVE COSTS?

In this *Navigator*, we summarize our analysis of the effect of organization type on health plan cost levels. Our results suggest that superior performance is broadly available to plans, regardless of type. *The source of the data used in this study are editions of the 2014 Sherlock Expense Evaluation Reports, which are available for license.*

In performing the analysis, we improved comparability between the two universes by reweighting their product mixes so that they match each other. At the Blue mix, Blue Plans achieved lower Sales and Marketing, Provider and Medical Management, and Corporate Services expenses on both a PMPM and percent of premium equivalent basis. By contrast, IPS plans were lower than Blues for Account and Membership Administration regardless of ratio. In total, administrative cost ratios, PMPM and Percent of Premium, were lower for Blue Cross Blue Shield Plans than for IPS plans.

Using the IPS weight, IPS plans demonstrated cost disadvantages compared to the Blue Plans on a PMPM basis, but a cost advantage on a percent of premium equivalent basis. Sales were lower for Blues, PMPM, but the same as a percent of premium. Provider and Medical Management were lower for Blues, PMPM, but higher as a percent of Premium. Account and Membership Administration and Corporate Services were higher for IPS, PMPM, but lower as a percent of Premiums.

The differences were not of a magnitude to create an overwhelming competitive advantage. Moreover, some of the remaining differences between Blue and IPS plans may stem from cost of living differences. Blue Cross Blue Shield Plans operate in metropolitan areas that have 2.2% lower costs of living than the IPS Plans in our universe. This advantage applies to labor costs and perhaps facilities, but would be unlikely to apply to equipment such as information systems.

Finally, both IPS and BCBS plans can be low cost and high cost. Therefore there cannot be a systematic advantage favoring either organizational type.

In short, there does not appear to be an overwhelming cost advantage in favor of either of the two organizational types. While the differences tend to favor the Blue Cross Blue Shield Plans, there are important exceptions, especially in Account and Membership Administration, and important qualifiers in other clusters of functions.

We develop this further in the November 2014 *PULSE* analysis [Type, Scale, and Product Focus: Do They Determine Health Plan Costs?](#) In addition, this provides an additional look at the effect of scale as well as the effects of product focus. This is available to subscribers of *PULSE*. Please contact us if a subscription is of interest. The cost of an annual subscription is \$375.

SHERLOCK BENCHMARKS COMPLETE

The 2014 editions of the benchmarking study are nearing completion. Once again, Blue Cross Blue Shield, Independent / Provider – Sponsored, Medicaid and Medicare are available for license. We also offer a subset of the largest of the Blue Cross Blue Shield plans called the Larger Plan edition. Please contact us if you wish to license them the Sherlock Benchmarks.

The benchmarks help you discover how you are managing administrative costs, in an environment that increasingly rewards its excellence. They also help you to prioritize any operational cost variances as well as staffing, compensation and productivity differences. Accordingly, they are often referred to as the “gold standard” of health insurance operational benchmarks. Health plans serving 109 million people served with comprehensive health insurance products are users of the Sherlock Benchmarks. Please contact 215-628-2289 or sherlock@sherlockco.com if we can send you additional information on the Sherlock Benchmarks. A brochure is attached to this email.

HAVE YOU CONSIDERED PARTICIPATING IN THE SHERLOCK BENCHMARKS?

In 2013, the Affordable Care Act required health plans to make investments, thereby making it the baseline year. Now that ACA is largely implemented, 2014 is Year 1. So, with the adaptation and “bulge” expenses past, and with the finance department less occupied in support of these investments, perhaps it is timely for your plan to consider participation in the Sherlock Benchmarking study in 2015.

We are now building our 18th consecutive annual panels for Blue Cross Blue Shield Plans and Independent / Provider - Sponsored Plans. We also welcome plans to the Medicaid and Medicare universes, though their survey process will begin a little later in the year. Draft survey materials for the Blue Cross Blue Shield and Independent / Provider - Sponsored universes will be distributed in Late January. The survey forms will be finalized and distributed in March. The completed survey will be due back to us in mid-May and reports will be distributed beginning in the first week in July.

We hope you can join other Sherlock Benchmark users in participating in the “gold standard” effort to begin the process of optimizing administrative costs. Additional information and a mutual confidentiality agreement are available upon request.