

RECENT OPERATIONAL METRIC TRENDS – SALES AND MARKETING

Overview

This edition of *Navigator* reports and analyzes trends of operational metrics from the most recent Blue Cross Blue Shield edition of the *Sherlock Expense Evaluation Report (SEER)*. The key functional areas we review are Sales and Marketing, Enrollment, Customer Services, Provider Network Management and Services, Claim and Encounter Capture and Adjudication, Information Systems, Corporate Services and HR / Compensation / Staffing.

The Blue Cross Blue Shield edition of *SEER* reflects the results of 22 Plans, serving more than one half of all states. Other universes include Independent/Provider-Sponsored plans, Medicaid plans and Medicare plans.

Operational metrics provide in-depth analyses, which facilitate drill-downs in the key functional areas. The metrics are logically organized to highlight the effects of primary demand, productivity, unit costs, staffing ratios and costs per employee. Many other metrics reinforce the insights from these expense drivers. When used in conjunction with the Volume I financial metrics, the operational data provides an even more granular view of how a plan is operating.

We did not endeavor to provide a single global theme or explanation in the following results. Health plan operational improvements are executed incrementally, and the 85% repeat participation rates in our longest-lived universes of the *Sherlock Expense Evaluation Report (SEER)* illustrate this.

In this edition of *Navigator*, we will focus on the Sales and Marketing cluster of functional areas. The other functional areas will be discussed in the coming weeks in other editions of *Navigator*.

In each section or edition in this case, we identify the operational cluster, list the functions that comprise it and briefly summarize trends in the functional area. Then the primary findings for the area are listed in bullet point format under relevant subtopic headings.

Methodology

The methodology for determining the type of change, if any, primarily consisted of comparing the central

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PARTICIPATION IN 2010 PERFORMANCE BENCHMARKS

The challenging operating environment for health plans has convinced many managers that effective management of operating costs is central to their plans' long-term success. The weak employment environment creates pressures on revenue yields and membership, forcing rationalization of operating costs. The weak credit environment heightens plan sponsor interest in self-insurance, which increases the visibility of administrative expenses to customers. Finally, health care reform efforts heighten the interest in operating costs by regulators and lawmakers.

Benchmarking helps firms determine whether they are operating at best practice for costs and, if not, what functional areas provide the highest return on management's efforts in improvement. *If improving your plan's performance is on your company's agenda for 2010, we invite you to consider participation in Sherlock Company's benchmarking surveys.*

We have a very strong network of plans. Fifty-one plans serving nearly 40 million insured Americans

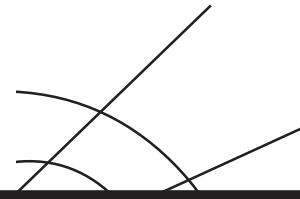
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SEER UTILIZATION METRICS AVAILABLE

We are pleased to offer health care cost and utilization metrics for health plans. Our metrics comprising the results of up to 24 health plans and up to 13 million insured Americans.

Health care costs and utilization information is segmented into up to 40 health services or products, and eleven products. For example, maternity admissions, among the forty health services or products, are analyzed across nine products. For each of those products, metrics include admissions per thousand, days per thousand, average length of stay, cost per admission, cost per day, cost per member per month and cost as a percent of total health care costs are provided. C-Section rates are also provided by product.

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Operational Trends: From Page 1

values for the current year versus the prior year. The most current year was the 2009 edition of *SEER*, comprised of 2008 data. "This year" or "current year" refers to 2008 results. Descriptions of the magnitude of changes were subjective.

Sales and Marketing

This area consists of functional areas of Rating and Underwriting, Product Development/Market Research, Sales and Marketing, Commissions and Advertising and Promotion. In the current survey year, Marketing cost decreased along with staffing ratios. The internal sales, broker and quote success rates all seemed to have decreased. The average group size appears to have increased, while the number of groups sold per FTE was down. Broker commissions per broker seemed flat, but broker commissions per broker member increased.

All of these metrics are precisely defined and calculated. They are nevertheless complex. Word use was carefully considered so that a thorough reading of the various results should solve contradictions that may emerge from a scan.

Competitive Environment

- The sum of the absolute change in the product mix remained constant from 2007 to 2008. This is the absolute change between years in the proportion of total membership that a product represents, which is summed together for all its products. In other words, product mixes continued to change, but at the same rate as last year.
- Fewer plans outsourced the management of Flexible Spending Accounts (FSA) and Health Savings Accounts (HSA).
- There was a movement away from Insured products towards ASO for the Commercial line of business.

Growth and Components

- There was a significant percentage decline in the total number of groups among plans this year.
- The average size of a group increased at a greater rate than the prior year.
- The rate of growth in total group members was slower this year.

- There was a decline in the number of total individual members. The rate of growth for both Commercial and Medicare products decreased.
- The growth in total membership was less than last year.
- The decrease in individual membership offset some of the total membership growth this year.
- Growth rates declined for new groups in the current year.
- The number of groups lost increased this year.
- The number of groups declined this year at an accelerated pace.
- There was a decrease in the proportion of groups that remained with plans from the prior year, also called the group persistency rate.
- New groups were less responsible for the increase in total membership than last year.
- Lost groups were more responsible for membership decrease than last year.
- Membership of retained groups grew faster this year.

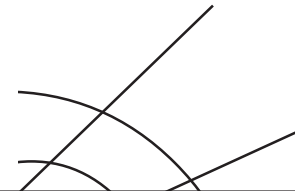
Membership Segmented by Group Size

- Individual members decreased their share of comprehensive total membership this year.
- Small group members increased their share of comprehensive total membership this year.
- Large group members increased their share of comprehensive total membership this year.
- Small groups decreased their share of total groups this year.
- Large groups increased their share of total groups this year.
- The average group size of small groups was stable.
- The average size of a large group was lower than the previous year.
- The average size of a combined small and large group was smaller in the most recent study.
- The average group size, including individuals, decreased this year.
- The average group size, excluding individuals, increased this year.

Quote Activity, All Distribution Systems

- There were fewer total final quotes (internal and broker) per group this year.





- Total renewal quotes (internal and broker) declines as a percent of total quotes.
- Total new group business quotes (internal and broker) was higher in the current year, as a percent of total quotes.
- Group profitability was greater for individual and small groups, but weaker for large groups.

Broker Distribution System: Importance and Characteristics

- Individual members decreased their propensity to buy through brokers.
- Small group members increased their propensity to buy through brokers this year.
- Large group members decreased their propensity to buy through brokers this year.
- The total share of members sold through brokers appears higher this year.
- The percent of small groups sold through brokers decreased this current year.
- The percent of large groups sold through brokers decreased.
- The percent of all groups sold through brokers (including individual) decreased this year.
- The average size of small and large broker groups remained relatively stable in the current year.
- The average size of all broker groups, including individual, was much smaller than in the previous year.
- There was a much higher proportion of new individual members sold through brokers.
- The proportion of new small group members sold through brokers was lower this year.
- The proportion of new large group members sold through brokers declined over the previous year.
- There was a higher proportion of total new members, including individual, sold through brokers that this year.
- The proportion of new individual contracts that were sold through brokers was higher this year.
- The proportion of new small groups that were sold through brokers was greater this year.
- The proportion of new large groups that were sold through brokers remained relatively stable.
- The proportion of all new groups sold through brokers remained stable this year.
- The average size of new small groups sold through brokers was the same as it was in the previous year.

- The average size of new large groups sold through brokers was smaller this year.

Broker Distribution System: Structure and Productivity

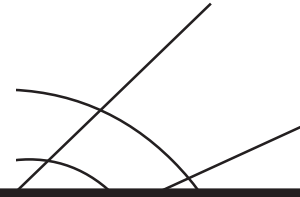
- The number of broker members sold per broker increased this year.
- The number of final quotes per broker was stable.
- The number of renewal quotes made per broker increased this year.
- The number of new business quotes per broker was up.
- The share of final quotes by brokers that were renewal quotes was stable this year.
- The share of total final quotes that were made by brokers decreased this year.
- The share of total renewal quotes that were made by brokers declined this year.
- The share of total new business quotes that were made by brokers decreased this year.

Broker Distribution System: Compensation

- Total broker commissions per broker member per month was slightly higher this year.
- Total broker commissions declined as a percent of premium equivalents for broker members in the current year.
- Excluding overrides, there was an increase in the total broker commissions per broker member per month this year.
- Total broker commissions, excluding overrides, remained stable as a percent of premium equivalents.
- Broker overrides and bonuses per broker member per month remained unchanged in the current year.
- The total of broker overrides and bonuses were unchanged as a percent of revenue.

Internal Distribution System: Importance and Characteristics

- About the same percentage of individual members were sold internally this year.
- The average size of small groups sold internally declined in the current year.
- The average size of large groups sold internally declined.
- The average size of all groups sold internally, including individual, declined this year.



Internal Distribution System: Internally Segmented Costs

- Marketing costs per internal member, excluding commissions, were lower in the current year.
- The internal marketing staffing ratio decreased this year.
- Marketing costs, excluding commissions, per marketing employee declined in the current year.

Employee Costs

- The Sales and Marketing functional area staffing ratios appeared higher overall in marketing, especially in the areas of sales and sales support.

Sales and Marketing Cluster Cost Summary

This cluster includes the functional areas of Rating and Underwriting, Product Development/Market Research, Sales and Marketing, Commissions and Advertising and Promotion.

- Sales and Marketing costs per total sales FTE were slightly lower this year.
- Sales and Marketing costs PMPM (per member per month) were slightly lower in the current year.
- The number of members sold per total sales FTE was higher this year.
- Average group size per broker group was slightly higher.
- The total success rate for brokers remained constant. The success rate is measured by the total groups sold as a percent of final quotes.
- The number of final quotes per total sales and marketing FTE was lower.
- Commission costs per broker member per month increased this year.
- Commission costs per broker were the same in the current year.
- This year, there were more members sold per broker.
- The average group size per broker declined this year.
- The Sales and Marketing costs PMPM (excluding commissions) remained the same for internal members.
- Sales and Marketing costs (excluding commissions) per internal sales FTE were lower.
- The number of members sold per internal sales FTE (excluding commissions) increased in the current year.

- This year, the average group size of internally sold groups was smaller.
- The number of groups sold per internal FTE increased this year.
- The Rating and Underwriting costs PMPM were about the same as they were in the previous year.
- The Rating and Underwriting staffing ratio remained about the same this year.
- All of the other Rating and Underwriting metrics remained relatively stable in the current year.
- Total Sales and Marketing costs were lower PMPM.
- The total Sales and Marketing staffing ratio was lower. 🌟

2010 Performance Benchmarks: From Page 1

participated in our benchmarking studies in 2009. At least seven additional plans have committed to participate in 2010. Our universes consist of Medicare plans, Medicaid plans, Independent/Provider-Sponsored plans and Blue Cross Blue Shield plans. Other universes that may more precisely match your needs are under consideration.

We have unparalleled experience. Now beginning our thirteenth survey, we have 397 health plan years of experience. Our data definitions, metrics, “scrubbing” procedures and analysis methods are well-developed. Our experience means our benchmarks achieve a high degree of insight for your efforts.

Our benchmarks are generally accepted. Including licensees, health plans serving more than one-half of all insured Americans are current users of our benchmarks. They are also relied upon for advocacy and health policy purposes.

We are structurally sound. Reliability is enhanced by voluntary participation, freedom from conflicts of interest and incentives against the “tragedy of the commons.”

If your plan would like to consider participation, we invite you to give us a call at 215-628-2289 or email us at sherlock@sherlockco.com. We will launch the surveys beginning in March 2010 to reflect 2009 calendar year results. 🌟