



RECENT OPERATIONAL METRIC TRENDS – PROVIDER MANAGEMENT, CORPORATE SERVICES AND HR/COMPENSATION/STAFFING

Overview

In this edition of *Navigator*, we focus on the functional areas of Provider Network Management and Services, Corporate Services and Human Resources. In addition, we provide trends information and staffing cost trends including the compensation and staffing for health plans.

This edition of *Navigator* is part of a series that 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 functional areas of Sales and Marketing, Enrollment, Customer Services, Claim and Encounter Capture and Adjudication, Information Systems were discussed in previous issues of *Navigator*.

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

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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 heightens the interest in operating costs by regulators and lawmakers.

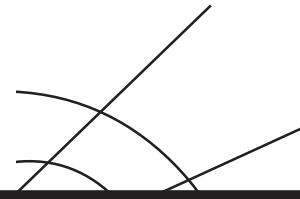
Benchmarking helps firms determine whether they are operating at best practice for costs and, if not, what functional areas provide the highest return on management's efforts in improvement. If improving your plan's performance is on your company's agenda for 2010, we invite you to consider participation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

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

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Health Care Utilization Metrics on Page 6



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 each section, we identify the operational area, 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

We describe change, if any, by comparing the central 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.

Provider Network Management and Services

Provider Network Management and Services consists of activities related to the interaction between the Plan and the provider. Some areas associated with this function include provider inquiries, the recruiting and credentialing of providers, contracting and the auditing and review of medical records and billing. Provider Services costs were higher this year. The Provider Services staffing costs were lower, while the non-staffing costs were higher.

Provider Relations Services Cost Summary

- There was a decline in the number of manual inquiries per member this year.
- The number of members per Provider Relations FTE decreased this year.

- There was a significant decline in the productivity, which is measured as manual inquiries per FTE.
- The Provider Relations costs per manual inquiry increased this year.
- There was a decline in the Provider Relations costs per FTE this year.
- The staffing ratio for Provider Relations decreased this year, as did the costs per member per month (PMPM).

Distribution of Inquiries

- The number of manual calls per member was down this year.
- The share of total provider inquiries that were manual electronic inquiries increased this year. Manual Electronic inquiries are inquiries via the web or e-mail that are responded to by a human.
- The share of total provider inquiries that were manual calls declined over the previous year.

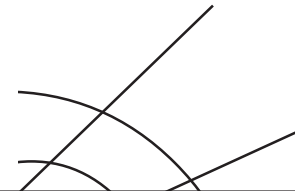
Provider Relations Quality

- The average speed of answer (ASA) increased this year.
- The percent of provider calls answered within 30 seconds was down.
- A larger percentage of calls were terminated by the caller before the rep answered this year.
- There was an increase in the length of time required for each call.

Contracting Summary

- Contracting costs PMPM remained stable this year.
- The Contracting staffing ratio was the same this year, while the Contracting costs per Contracting FTE increased for the same period.
- There was an increase in the number of providers per 1,000 members this year.
- The number of members per Contracting FTE decreased this year.





- There was a slight decline in the number of providers per Contracting FTE this year, while the Contracting cost per provider increased slightly.

Types of Providers

- The total number of providers per 1,000 members was up this year.
- There was an increase in the number of primary care physicians per 1,000 members this year.
- The number of professional specialists per 1,000 members increased this year.
- There was a significant increase in the number of facility providers this year, while the number of ancillary providers also increased.

Other Provider Relations Activities

- There was an increase in the amount of time it took to enroll new providers.
- The amount of time to credential new providers increased this year.
- There was a decline in the cycle time to on system for new providers, which is the number of days from the date of credentialing to when a provider is on the system.

Corporate Services

The functional area of Corporate Services is primarily composed of human resources, legal, facilities, other post employment benefits, audit, purchasing, imaging, printing and mailroom and other various areas. Overall, corporate services costs were down this year, as was the staffing ratio. The number of people supported by corporate services staff increased, while the corporate services costs per total FTE declined for the year. Both staffing costs and non-staffing costs per FTE were mixed.

Corporate Services Cost Summary

- Corporate Services costs PMPM were down this year.
- There was a decline in the cost of Corporate Services per FTE.
- The staffing ratio for Corporate Services decreased this year.
- There was an increase in the number of total FTEs per Corporate Service FTE.

Facilities

- Facilities costs PMPM increased this year.
- There was an increase in the amount of square feet of usable space per FTE.
- The Facilities cost per total usable square foot increased this year.
- The Facilities costs per FTE were stable this year.
- There was an increase in the Facilities staffing ratio.
- The only Facilities costs that increased last year were heat, light and taxes, security and maintenance.
- There was a decline costs for the Facilities costs of rent, depreciation and other. Leasehold improvements, improvements to property you do not own, remained stable.
- The Facilities costs per FTE for depreciation, heat, light and taxes and security increased this year.

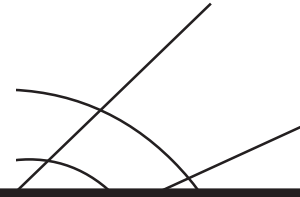
Receivable Management

- The average days in accounts receivable remained stable this year.

Mail Volume

- There was a large decrease in the incoming mail volume per member this year.
- The out-going mail volume per member decreased slightly this year.





Legal Costs

- There was a decline in Legal costs PMPM this year.
- The Legal staffing ratio remained stable this year.
- There was a decline in the Legal costs per Legal FTE.
- The internal and external Legal costs per Legal FTE decreased this year.

Human Resources Function

The function of Human Resources is focused on the compensation and benefits management, training, recruiting, costs and the amount of staff related to the functional areas and other activities. This year, Human Resources (HR) costs were unchanged on a PMPM basis, as was the staffing ratio. Total FTEs were fewer per HR FTE and the HR costs per total FTE were higher. Non-staffing costs per FTE were comparable with the previous year.

Human Resources Cost Summary

- HR costs PMPM remained level this year.
- The HR staffing ratio was unchanged this year.
- There was a decline in the HR non-staffing costs per FTE and the HR staffing costs per FTE this year.
- The HR costs per total FTE increased this year, while the number of FTEs per HR FTE decreased.

HR Activities

- The retention of employees increased this year, which resulted in a decrease in turnover. Retention is the number of employees retained through the year where the employees are able to switch jobs, but they must have stayed with the company.
- The total separations per 1,000 FTEs decreased this year.

- The number of voluntary separations per 1,000 FTEs greatly declined this year. Voluntary separations are separations initiated by the employee, excluding retirement, leaves, layoffs and deaths.
- There was an increase in the number of involuntary separations per 1,000 FTEs this year. Involuntary separations are separations initiated by the employer.
- The number of hires per 1,000 FTEs decreased this year.
- The number of external hires per 1,000 FTEs and internal hires per 1,000 FTEs declined this year. Internal hires are the number of open positions filled internally.

Staffing and Compensation

The *Sherlock Expense Evaluation Report* tracks staffing ratios and compensation by functional area.

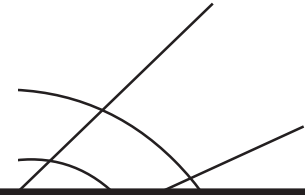
Employee Census

- There was an increase in the amount of days worked per FTE this year and a decline in the number of days missed per FTE.
- The number of missed days per FTE classified as Family and Medical Leave Act (FMLA) days decreased this year.
- There was a decline in the number of missed days per FTE that were classified as workers compensation days.

Employee Mix

- The share of the workforce that was classified as managerial increased this year.
- There was an increase in the share of the workforce that was classified as clerical.
- The share of the workforce that was classified as sales workers increased this year.
- There was a decline in the share of the workforce that was classified as professional.





- The share of the workforce that was classified as technical decreased this year.
- There was a decline in the share of the workforce that was classified as service worker.
- The share of the workforce that was classified as laborer decreased this year.

Employee Training

- The number of training hours per FTE increased across all functions this year.
- The training costs per FTE increased for the categories of sales and marketing, and customer service this year.
- There were declines in the training costs per FTE for the categories of claims and enrollment this year.

Composition of Compensation

- The share of total compensation that was health benefits increased this year.
- There was an increase in the share of total compensation that was salaries this year.
- The share of total compensation that was paid overtime decreased this year.
- Sales and commissions declined in the share of total compensation this year.
- The share of total compensation that was bonus and incentive pay decreased this year.

Compensation Costs per FTE

- The total compensation costs per FTE increased this year.
- Salary compensation costs per FTE remained stable this year.
- There was a significant increase in the health benefits compensation cost per FTE.
- Bonus and incentive plans compensation costs per FTE decreased this year.
- There was an increase in the pension compensation costs per FTE this year, while the 401 (k) compensation costs per FTE increased.

Internal Staffing Costs per Internal FTE


- The internal staffing costs per internal FTE for the Provider Network Management and Services and Medical Management/Quality Assurance/Wellness functional areas decreased this year.
- There was a decline in the Sales and Marketing internal staffing costs per internal FTE this year.
- The internal staffing costs per internal FTE for the Customer Services and Enrollment functional areas both increased this year.
- There was a decline in the internal staffing costs per internal FTE for the functional area of Information Systems.
- The internal staffing costs per internal FTE of the functional area of Finance and Accounting decreased this year.

Staffing Ratio

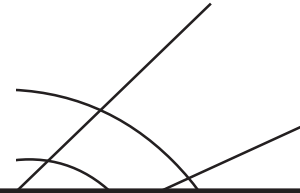
All of the following was adjusted to convert Medicare Advantage Members to commercial equivalents.

- The staffing ratio for Sales and Marketing increased this year.
- There was an increase in the staffing ratio for the functional areas of Enrollment, Provider Network Management and Services, Information Systems, Actuarial and Corporate Executive/Governance.
- The staffing ratios for Customer Services, Medical Management/Quality Assurance/Wellness, Finance and Corporate Services decreased this year.

Propensity to Outsource

- There was an increase in the share of total FTEs that were outsourced this year.
- The share of total FTEs that were outsourced for Information Systems remained level, while Medical Management/Quality Assurance/Wellness increased. 





2010 Performance Benchmarks: *From Page 1*

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 its 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.

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 healthcare costs are provided. C-Section rates are also provided by product.

Health care costs are segmented into unit costs and utilization rates. The following table excerpts commercial utilization rates for maternity. Costs are expressed as a percent of total healthcare costs per member per month (PMPM). Average length of stay, days per thousand and admissions per thousand are also provided, as are cost per day and cost per admission.

Call us at 215-628-2289 or email us at sherlock@sherlockco.com for licensing information.

Figure 1. Plan Management Navigator
Sample of Median Maternity Utilization Metrics

Facility	Cost per Admission	Admissions per 1,000 Members	X ALOS	=	Days or Units per 1,000 Members	X	Cost per Day or Unit	=	Cost PMPM	Cost Pct. of Total Benefits
Maternity	\$4,378.08	10.32	2.56		24.49		\$1,874.85		\$4.29	2.12%