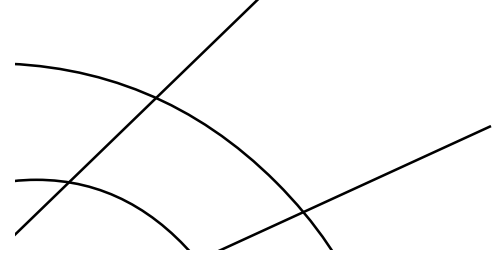


# Plan Management Navigator



## RHODE ISLAND BLUE PLANS TO OUTSOURCE KEY FUNCTIONS TO PEROT SYSTEMS

Blue Cross & Blue Shield of Rhode Island recently signed a letter of intent with Perot Systems to process insurance claims, manage its technology support and run its cash-disbursement operations. According to Perot Systems, this is an "onsite" contract, which will entail the transfer of 600 employees to Perot Systems. The transfer comprises a little over one-third of the 1,742 person staff.

This type of transaction is considered by some to be similar to the EDS transaction with Blue Cross Blue Shield of Texas in the 1970s. H. Ross Perot was the founder of both organizations.

Blue Cross & Blue Shield serves, according to its press release, 650,000 people. Based on SEER benchmarks, the functions identified in the press release (assuming that all employees in the enrollment area, rather than just billing) would be served by 8.43 employees per 10,000 Medicare adjusted members. This equates to approximately 550 employees, loosely corresponding with the number of employees to be transferred to Perot.

The transaction is expected to save \$140 million over the course of its ten year \$450 million contract. Apparently, these savings would be approximately 24% of the cost of Rhode Island's providing these services themselves.

Perot has another significant relationship in New England, an outsourcing arrangement with Harvard Pilgrim Health Care. Richard Pico, MD, Chief Medical Officer and Chief Information Officer of Perot Systems believes that some economies of scale would result from these firms being in the same region.

The transaction is interesting from a strategic perspective as well. In recent years, Blue Cross & Blue Shield of Rhode Island had contemplated mergers with other organizations as a means of achieving efficiencies. Anthem, Inc. and Blue Cross and Blue Shield of Massachusetts were named as potential business partners in these transactions.

## OUTSOURCING ALTERNATIVES

Why do health plans outsource? While little information is available concerning extent to which health plan administrative functions are outsourced, an important part of the business case stems from the fact that in health insurance there are

economies of scale, at we have tried to illustrate in a number of analyses. Thus, as illustrated in the case of Blue Cross & Blue Shield of Rhode Island, there is an important strategic component.

In the April edition of *PULSE*, we are considering outsourcing from a number of perspectives. We discuss some justifications, a few of the steps involved, and some of the firms that provide these services. *Please contact us regarding this edition of PULSE.*

## STAFFING ANALYSES OF SEER PARTICIPANTS

Administrative expenses are commonly standardized as so many dollars per member per month (PMPM). This approach is useful as a simple way to summarize costs for comparability and to identify variances from benchmarks. Administrative dollars PMPM do not, however, answer the question: *Why do these variances exist?*

Through our analysis of SEER data, we have found that staffing costs typically account for about half of all administrative expenses, making staffing levels a key driver of administrative expenses.

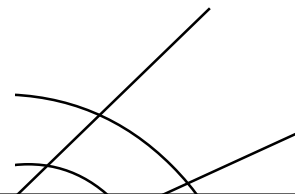
Published within SEER Volume II - Operational Metrics are the results of our survey and analysis of staffing for participant health plans. In part of the survey, we ask that participants provide FTEs and staffing costs by functional area. To achieve comparability among firms, we ask plans to convert temporary help, overtime and outsourcing arrangements to FTEs. The results of our staffing analyses can assist in the drill-down of cost variances.

### Results

As can be seen in Figure 1, which illustrates high-level functional group staffing ratios, Account and Membership Administration has the greatest concentration of employees, with a mean of 13.54 FTEs per 10,000 members. Medical and Provider Management and Corporate Services were virtually tied for second, at 3.15 and 3.05, respectively. The four functional groups presented here are further subdivided into thirty-five categories and subcategories in SEER. The

**Figure 1. Benchmarks for Blue Cross Blue Shield Plans' Staffing: 2002**  
Employees per 10,000 Members - By Function, All Products

	25th Percentile	75th Percentile	Mean
Marketing	1.66	2.77	2.22
Medical and Provider Management	1.95	4.11	3.15
Account and Membership Administratio	9.11	16.56	13.54
Corporate Services	1.90	3.72	3.05
Theoretical Total	14.63	27.16	21.96
Actual Total	18.06	25.01	21.33



Continued from Page 1

Account and Membership Administration functional group itself consists of twelve different categories and subcategories.

labor-intensive functional group was Corporate Services which had a mean staffing costs / administrative expenses of 51.9%.

**Figure 2. Benchmarks for Blue Cross Blue Shield Plans' Staffing: 2002**

Staffing Costs Per Member Per Month

	25th Percentile	75th Percentile	Mean
Marketing	\$1.02	\$1.69	\$1.34
Medical and Provider Management	\$1.01	\$2.05	\$1.53
Account and Membership Administration	\$3.54	\$6.45	\$5.37
Corporate Services	\$1.20	\$2.60	\$1.97
Theoretical Total	\$6.78	\$12.77	\$10.21
Actual Total	\$9.12	\$11.86	\$9.97

Staffing Costs, expressed on a PMPM basis, are shown in Figure 2. As with staffing per 10,000 members, Account and Member Administration came in the highest, with a mean of \$5.37 PMPM. However, Corporate Services, at \$1.97, was much higher than Medical and Provider Management, which had a mean of \$1.53.

not have staffing associated with them and are excluded from the functional groups. These categories are, however included in total administrative expenses.

Careful readers may note that the mean ratio of total staffing costs to total administrative expenses is 50.0%, lower than any of the functional groups. The reason is that there are three functional areas, external commissions, association dues and license / filing fees and miscellaneous business taxes that do

### *What it Means*

**Figure 3. Benchmarks for Blue Cross Blue Shield Plans' Staffing: 2002**

Staffing Costs Per Employee

	25th Percentile	75th Percentile	Mean
Marketing	\$64,213	\$83,771	\$73,221
Medical and Provider Management	\$51,450	\$65,682	\$59,736
Account and Membership Administration	\$45,373	\$53,599	\$48,458
Corporate Services	\$63,025	\$99,529	\$80,478
Actual Total	\$48,883	\$63,522	\$56,686

A look at staffing costs per employee, Figure 3, illuminates the disparity in the PMPM costs of Corporate Services and Medical and Provider Management. Apparently the folks in Corporate Services are paid more, with mean staffing costs per employee of \$80,478, versus average staffing costs of \$59,736 in Medical and Provider Management. It is also interesting to note that Account and Member Administration, which had the highest level of staffing, has the lowest mean staffing cost per employee of \$48,458.

costs for a particular functional area higher than is typical? How does the ratio of staffing costs to administrative expenses compare to other plans?

The Financial Metrics, Volume I of SEER, help to identify cost variances but do little to explain them. An analysis of a plan's staffing may help to explain such variances, or suggest follow-up questions. Given that expenses in a particular functional area are high, is the number of employees similarly high? Are staffing

**Figure 4. Benchmarks for Blue Cross Blue Shield Plans' Staffing: 2002**

Staffing Costs / Administrative Expenses

	25th Percentile	75th Percentile	Mean
Marketing	53.9%	69.0%	59.8%
Medical and Provider Management	62.3%	82.4%	74.0%
Account and Membership Administration	49.8%	67.0%	57.9%
Corporate Services	39.8%	60.2%	51.9%
Actual Total	46.9%	55.9%	50.0%

In order to gain an understanding of which functions have the highest labor component in total cost, Figure 4 shows staffing costs as a percent of administrative expenses. Medical and Provider Management is the most labor intensive functional group, with mean staffing costs / administrative expenses of 74.0%. The least

A staffing analysis is one important step toward solving the variance puzzle. Volume II contains a variety of other operational metrics that expand the analytical toolbox, including productivity measures and unit cost measures, such as cost per claim or customer service inquiry.

