

## PROGRESS ON 2003 SEER

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This year's SEER report is proceeding nicely. Surveys, changed to reflect suggested improvements, have been provided to the public and Blue universes. We are on schedule to complete the reports by late July and early August.

The process for completing the SEER studies begins in early December, only a few months after the report for the prior year is completed. We solicit comments from each of the participants of the studies and endeavor to incorporate their thoughts into the following year's edition.

Solicitation methods vary. We called each of the publicly traded firms and spoke with them individually. Since we did not need to worry about complexities stemming from their status as competitors, we were able to convene, in person, the Blue Cross Blue Shield panel. Regardless of universe or the method of receiving comments, we tend to consider them beneficial to other studied universes.

In early December Sherlock Company hosted a teleconference attended by fifteen of the seventeen Blue Cross Blue Shield Plans participating in the 2002 SEER. The purpose of the conference was to identify ways to improve the process and the final product. Quality assurance and clarification of definitions were high priorities.

In addition, there was considerable interest in accelerating the process so that it is more applicable in the current period. Accordingly, we have taken aggressive steps to compress our analysis and production. However, the ability of respondents to submit data to us affects the total duration of the process: Controllers and other respondents are often otherwise occupied with year-end closings and tax matters and cannot begin completing the survey until April.

We spent the early part of the winter incorporating suggestions from the conference call and telephone conversations into the survey materials. We also corrected ambiguities in definitions identified during last year's survey. Draft copies of the updated documents were sent to Blue Cross Blue Shield participants prior to their attendance at our Philadelphia meeting in early March.

The March meeting reviewed these changes and other matters. There were approximately two hundred agenda items ranging from the allocation of particular cost centers to new survey schedules and analyses. Despite the inherent limitations of this collaborative approach, the professionalism and focus of the participants meant that

we were able to address and reach consensus on each item, while concluding at a reasonable hour.

The survey materials and guidelines were revised based on decisions made at the meeting and second drafts were sent out to participants, Blue and Public, for any final comments. After updating for comments we sent the final versions out in the latter half of March.

At this point, we are waiting to receive completed surveys, which we expect in late May. In the meantime, we are building and testing our models in anticipation of a whole lot of number crunching.

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## SHERLOCK COMPANY EXPLORES NEW UNIVERSES

Sherlock Company is now in its sixth year of performing the SEER analysis for two universes of companies, Blue Cross Blue Shield Plans and Public Companies. At the suggestion of one of our corporate finance clients we have been calling on Provider Owned Plans, asking if they would be interested in participating in a new universe for a third SEER report.

We have so far identified approximately twenty Provider Owned Plans, primarily through referrals from those who have agreed to participate. As of this writing no plan has declined to participate, although we are still waiting to hear back from many of them.

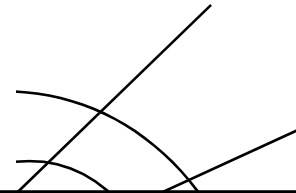
Other possible universes that have been suggested at times have been Medicaid-only plans and Third Party Administrators (TPAs). *Please contact us if your plan would be interested in participating one of the above specialized studies.*

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## ARE THESE FIRMS MY PEERS? 2002 PARTICIPANT CHARACTERISTICS

One of the most important questions asked by managers considering licensing of the Sherlock Expense Evaluation Reports is whether the universe is in fact comparable to their plan. Besides size, organizational form or status as a Blue Cross Blue Shield licensee, the operating characteristics of the plans in the universe are important characteristics.

Figures 1 and 2 contain the characteristics of the plans in each universe for all Commercial Lines plus



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**Figure 1. 2002 Participant Characteristics**  
Blue Cross Blue Shield Plans

	25th Percentile	75th Percentile	Mean
Average Members	606,441	1,993,462	1,527,131
Groups Served	11,761	38,076	25,946
Premiums / Self Funded Fees	\$1,182,385,242	\$3,008,794,936	\$2,239,424,389
Medical and Other Benefit Costs	\$1,128,490,930	\$4,274,253,378	\$2,957,754,011
Group Size (Mem. Mos./Groups Served/12)	46	80	74
Premiums or Self Funded Fees	\$109.40	\$148.73	\$127.99
Medical and Other Benefit Costs PMPM	\$146.27	\$176.12	\$160.75
Health Benefits Ratio (Benefits/Premium)	86.4%	89.1%	88.0%
Operating Margin	-0.5%	1.7%	0.8%

The differences in mix of membership also appear in premiums and health benefits per member per month (PMPM). Premiums PMPM were 30.9% lower for Blue Plans than for public companies. Health benefits, including self-funded benefits, were 11.3% lower

Medicare+Choice and Medicaid. This excludes Medicare Supplemental, Stand Alone Dental, Other Health Lines and Non-Health Lines.

for Blue Plans, reflecting the impact of the larger Medicare membership of health plans.

Blue Cross Blue Shield Plans were smaller on average than their Public Company counterparts. Blue Membership was 21.3% lower than public company membership, while

Public companies had better operating results than Blue Plans. The average health benefits ratio, based on premiums and premium equivalents, was 3.1 percentage points

**Figure 2. 2002 Participant Characteristics**  
Public Companies

	25th Percentile	75th Percentile	Mean
Average Members	1,100,932	2,831,642	1,939,367
Groups Served	6,469	56,459	40,837
Premiums / Self Funded Fees	\$1,628,173,554	\$6,267,937,274	\$4,433,846,511
Medical and Other Benefit Costs	\$2,379,531,313	\$5,268,996,123	\$4,230,451,256
Group Size (Mem. Mos./Groups Served/12)	35	61	58
Premiums PMPM	\$148.64	\$235.61	\$185.20
Medical and Other Benefit Costs PMPM	\$152.06	\$198.60	\$181.26
Health Benefits Ratio (Benefit/Premium)	80.5%	88.2%	84.9%
Operating Margin	-0.4%	5.8%	3.1%

higher for Blue Cross Blue Shield Plans. Operating profits were higher, too. The average operating margin for Blue Plans 2.3 percentage points lower than for public companies.

the number of groups served by Blue Plans was 36.5% lower than for public companies. The disparity in the differential between membership and the number of groups served meant that the average group size served by Blue Plans was 27.0% larger than for public companies.

Average Blue Plan Premium revenues were 49.5% lower than the average for public companies. The explanation lies in mix of membership in high and low revenue products. Blue Plans are more likely to serve members on an ASO/ASC basis, with 39.1% of commercial members in self-funded products, versus 25.5% for public companies. Public companies are more likely to serve Medicare+Choice members, with 13.8% of total members, defined as Commercial plus Medicare+Choice and Medicaid, enrolled in Medicare+Choice products. Blue Plans' average Medicare+Choice membership represented 3.5% of total membership.

## Outsourcing of Administrative Costs

When firms identify variances, one of the strategies that they consider can be outsourcing. In the April edition of PULSE, we explore the competitive strategy of outsourcing certain administrative costs. This analysis focuses on the critical functions of information systems and claims as served by thirteen firms specializing in these activities.

This analysis identifies reasons why firms elect to outsource, the downside, the various arrangements for this strategy, and the process for executing it. In addition, we provide descriptions and contacts for leading firms in this space.

*Please call for further information concerning PULSE and this edition. This study is available to Navigator subscribers for \$100.*

