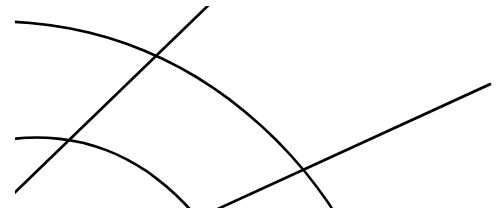


# Plan Management Navigator



Analytics For Health Plan Administration

July 2003

## ADMINISTRATIVE EXPENSE BENCHMARKS FOR HEALTH PLANS PUBLISHED BY SHERLOCK COMPANY

Sherlock Company's recently published benchmarks for health plans report median costs of \$22.46 for all comprehensive products. The reporting firms, seventeen Blue Cross Blue Shield Plans, reported expenses which ranged from \$15.17 for indemnity and PPO (ASO) to a high of \$48.70 for Medicare + Choice. Insured comprehensive products ranged from 7.73% for Medicare + Choice to a high of 15.13% for commercial POS. Account and membership administration comprised the largest component of health plan administrative expenses.

**Marketing** expenses included Rating and Underwriting, Product Development / Market Research, Sales and Marketing, Commissions and Advertising and Promotion. These expenses represented 5.20% of the total administrative costs. At the 75<sup>th</sup> percentile, these costs were \$6.78 but only \$4.61 at the 25<sup>th</sup> percentile. As indicated in a press release circulated on July 1, commissions paid to brokers comprised \$3.03, the lion's share of these expenses.

**Medical & Provider Management** was composed of Provider Network Management and Services and Medical Management (including Quality Assurance, Wellness Programs and Grievance / Appeals). These expenses had a median value of \$2.34. At the 75<sup>th</sup> percentile, these costs were \$2.53, but were as low as \$1.87 at the 25<sup>th</sup> percentile. Expenses for Medical & Provider Management are highly sensitive to the mix of products offered: Managed care products such as HMOs tend to require a higher commitment to this function.

**Account & Membership Administration** represented \$8.64 per member per month of administrative expenses in 2002, the largest share of administrative costs. This category of expenses includes many of the core functions such as Enrollment (including Membership and Billing), Customer Services, Information Systems and Claims (including Encounter Capture and Adjudication). Plans reported \$10.54 at the 75<sup>th</sup> percentile and \$7.68 at the 25<sup>th</sup> percentile. These expenses were more clustered than the other breakouts.

**Corporate Services** represented the final category. It included investments in HIPAA compliance as well as Finance and Accounting, Actuarial,

Corporate Services (including Human Resources, Facilities, Legal and Regulatory, Corporate / Executive and Association Dues and Miscellaneous Business Taxes. These expenses collectively represented \$4.85 in administrative expenses. Fewer than 25% exceeded \$6.02 or were less than \$4.30. These expenses are susceptible to economies of scale, in our view.

**Figure 1. Benchmarks for Blue Cross Blue Shield Plans' Administrative Expenses: 2003**  
Cost Per Member Per Month - By Function, Comprehensive Products

	25th %	75th %	Median	$\sigma$ / Mean
Marketing	\$4.61	\$6.78	\$5.20	31.44%
Medical and Provider Management	\$1.87	\$2.53	\$2.34	26.92%
Account and Membership Administration	\$7.68	\$10.54	\$8.64	18.60%
Corporate Services	\$4.30	\$6.02	\$4.85	33.45%
Total Expenses	\$19.06	\$23.76	\$22.46	18.02%

The data included in Figure 1 are summaries of the expense classifications. Plans provided us with information on forty-two functional areas, detailed in the SEER report itself.

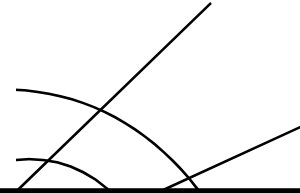
Expenses varied significantly between products. The most expensive product to administer, by far, was Medicare + Choice, which had a median cost of \$48.70. The least expensive was Stand-alone Dental, which had expenses of \$2.34. Among comprehensive products, the lowest cost plan to administer were Indemnity and PPO products, sold on an ASO / ASC basis: The median cost was \$15.17.

Among commercial products, the costs to administer insured products were significantly higher than for comparable products sold on an ASO / ASC basis. Differences ranged from a high of \$10.21 in Indemnity and PPO, to a low of \$6.30 for Commercial HMO.

Health plan administrative expenses varied by product when measured as a percent of revenues as well. Despite its high per member costs, Medicare + Choice is the lowest cost to administer, at 7.73% of revenues: Medicare beneficiaries have higher

**Figure 2. Benchmarks for Blue Cross Blue Shield Plans' Administrative Expenses: 2003**  
Costs Per Member Per Month - By Product Line

	25th %	75th %	Median	$\sigma$ / Mean
Commercial HMO				
Insured	\$21.49	\$31.78	\$23.22	27.50%
ASO / ASC	\$14.81	\$22.24	\$16.92	43.71%
Commercial POS				
Insured	\$21.25	\$30.25	\$25.55	39.92%
ASO / ASC	\$15.23	\$19.45	\$17.77	24.68%
Indemnity & PPO				
Insured	\$24.53	\$27.01	\$25.38	17.83%
ASO / ASC	\$13.68	\$17.43	\$15.17	25.58%
Medicare + Choice	\$43.41	\$52.08	\$48.70	16.81%
Medicaid HMO	\$20.12	\$26.52	\$20.71	18.28%
Medicare Supplemental	\$14.78	\$24.18	\$19.36	43.85%
Stand-alone Dental	\$2.08	\$3.27	\$2.34	52.07%



**Figure 3. Benchmarks for Blue Cross Blue Shield Plans' Administrative Expenses: 2003**

Costs as a Percent of Revenue - By Product Line				
	25th %	75th %	Median	$\sigma$ / Mean
Commercial HMO				
Insured	10.51%	15.45%	13.30%	22.38%
ASO / ASC	85.87%	121.99%	102.51%	19.35%
Commercial POS				
Insured	11.76%	16.37%	15.13%	34.14%
ASO / ASC	96.20%	156.13%	103.06%	27.42%
Indemnity & PPO				
Insured	11.22%	13.86%	12.47%	17.61%
ASO / ASC	85.98%	113.10%	99.79%	24.91%
Medicare + Choice	7.05%	8.76%	7.73%	20.04%
Medicaid HMO	12.83%	16.85%	14.33%	29.27%
Medicare Supplemental	11.87%	15.85%	13.15%	31.48%
Stand-alone Dental	13.53%	21.77%	13.73%	61.82%

underlying health costs, leading to higher claim processing and customer service calls. Among commercial plans, the POS was the highest cost to administer, at \$15.13%, compared to 13.30% for the HMO and 12.47 for the Indemnity and PPO. Medicaid HMO had administrative expenses of 14.33%.

Blue Cross Blue Shield Plans generally appeared to enjoy very little margin in insurance products provided on an ASO / ASC basis. In two of the products, expenses exceeded revenues and in one costs approximated revenues.

## BACKGROUND ON THE BLUE CROSS BLUE SHIELD REPORTS

The seventeen Blue Cross Blue Shield Plans surveyed comprise 41% of all Plans and serve 26 million individuals, or approximately 30% of all Blue Cross Blue Shield members. The surveyed items, the survey instrument, the definitions and the process are developed through the active participation of the surveyed plans. *SEER* data is provided by the companies who receive copies of the report in return for participation.

Volume I of *SEER* for Blue Plans contains 2,425 analyses of ten principle product areas and sixteen functional areas, plus subcategories. All information is as of December 31, 2002. Separate analyses include individual products and national accounts, outsourced functions such as mental health, pharmacy and COB / Subrogation and information systems allocations. Products offered by the plans include HMO, Point-of-Service, Indemnity and PPO, Medicare HMO, Medicaid HMO and Medicare Supplemental.

Volume II, available in coming weeks, provides over 1,000 operational analyses of eight key functional areas, including marketing, customer service, claims, enrollment and provider relations. Examples include average cost per inquiry, average speed of answer and the average cost, speed and accuracy of processed claims.

## SEER ENHANCEMENTS

The 2003 *SEER* reports will reflect a number of enhancements to improve their usefulness as a management tool. Like last year, *SEER* will be produced in two volumes, allowing us to provide larger number of operational metrics and more detailed analysis of the many of the financial metrics.

Volume I: Financial Metrics will include analyses of administrative expenses through financial ratios such as percent of revenues and per member per month. The information and analysis is extensive, as described in the accompanying summary of the Blue Cross Blue Shield Edition.

Among the enhancements this year included the decision to further divide the study. Last year, we published the financial metrics and the operational metrics as two separate volumes; this year, we are conducting two separate surveys to gather the data so that the study can be completed earlier and be put to use as fast as possible. In Volume I, Provider Services and Sales and Marketing are placed into subcategories. The administrative expenses, revenue and health benefit information for National Accounts will be analyzed. Due to outsourcing, Pharmacy and Mental Health Management will be moved to the administrative expense survey, while COB and Subrogation costs received a schedule in the survey form.

Volume II: Operational Metrics will include analyses of administrative expenses non-financial operational ratios. The newer of the two volumes, Operational Metrics is getting stronger each year. The survey form has been moved to a separate workbook, and FTEs and staffing costs for Pharmacy and Mental Health management have been gathered for analysis.

## PRODUCTION SCHEDULES

We are anticipating an active summer for the production of *SEER* reports. We have three universes at this point, as described below.

Public I	Late July
Public II	?
<b>Blue I</b>	<b>Now Available!</b>
Blue II	Late July
Provider Sponsored I	Early August
Provider Sponsored II	Early August

In addition, we are contemplating the introduction of other universes. We will keep readers informed as these develop.

