

# Plan Management Navigator

Analytics For Health Plan Administration

August 2003

## ADMINISTRATIVE EXPENSE BENCHMARKS FOR PUBLICLY TRADED COMPANIES PUBLISHED BY SHERLOCK COMPANY

Sherlock Company's recently published benchmarks for publicly traded health plans report median costs of \$24.13 for all comprehensive products. The reporting firms, four publicly traded health plans with an average membership of 2.2 million members, reported expenses which ranged from \$10.93 for Medicaid HMO to \$45.02 for Medicare + Choice. Account and membership administration comprised the largest component of health plan administrative expenses. The complete results are published in the 2003 *Sherlock Expense Evaluation Report (SEER) Public Company Edition*.

**Marketing** expenses included Rating and Underwriting, Product Development / Market Research, Sales and Marketing, Commissions and Advertising and Promotion. These expenses represented \$6.30 of the total administrative costs. At the 75<sup>th</sup> percentile, these costs were \$7.83 but only \$5.26 at the 25<sup>th</sup> percentile. Commissions paid to brokers comprised \$2.71 PMPM, 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 \$2.85. At the 75<sup>th</sup> percentile, these costs were \$3.15, but were as low as \$2.48 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. For those comparing these with Blue Cross Blue Shield Plan results (published in July), it is notable that 41.4% of members served by public companies are in insured HMO products compared with 10.1% of those served by Blue Cross Blue Shield Plans. These expenses were more closely clustered than that of any other functional area.

**Account & Membership Administration** represented \$8.51 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 \$9.46 at the 75<sup>th</sup> percentile and \$7.45 at the 25<sup>th</sup> percentile.

**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

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

	25th %	75th%	Median	σ/Mean
Marketing	\$5.26	\$7.83	\$6.30	46.95%
Medical & Provider Mgmt.	\$2.48	\$3.15	\$2.85	19.86%
Account & Mem. Admin.	\$7.45	\$9.46	\$8.51	24.84%
Corporate Services	\$4.87	\$7.07	\$5.78	37.69%
Total Expenses	\$19.21	\$29.06	\$24.13	25.03%

Taxes. These expenses collectively represented \$5.78 in administrative expenses. Fewer than 25% exceeded \$7.07 or were less than \$4.87.

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 \$45.02. The least expensive was Stand-alone Dental, which had expenses of \$3.13. Among comprehensive products, the lowest cost plan to administer was Medicaid HMO (Note that only one firm provided this information however). The next lowest comprehensive product to manage was Commercial HMO, sold on an ASO / ASC basis: The median cost was \$13.76.

Among commercial products, the costs to administer insured

**Figure 2. Benchmarks for Public Plans' Administrative Expenses: 2003**  
Cost Per Member Per Month - By Product Line

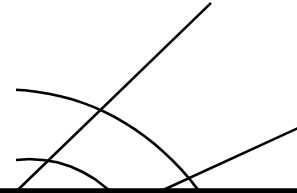
	25th %	75th %	Median	σ/Mean
Commercial HMO				
Insured	\$21.50	\$22.80	\$21.72	9.36%
ASO / ASC	\$13.60	\$16.57	\$13.76	21.54%
Commercial POS				
Insured	\$23.60	\$27.32	\$25.46	20.65%
ASO / ASC	\$19.39	\$19.39	\$19.39	NM
Indemnity & PPO				
Insured	\$21.29	\$27.63	\$23.37	26.01%
ASO / ASC	\$15.24	\$18.01	\$16.62	23.53%
Medicare + Choice	\$42.20	\$47.88	\$45.02	16.23%
Medicaid HMO	\$10.93	\$10.93	\$10.93	NM
Medicare Supplemental	\$19.63	\$19.63	\$19.63	NM
Stand-alone Dental	\$2.79	\$3.48	\$3.13	31.37%

products were significantly higher than for comparable products sold on an ASO / ASC basis. Differences ranged from a high of \$7.96 for Commercial HMO, to a low of \$6.07 for Commercial POS.

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,



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at 7.16% of revenues: Medicare beneficiaries have higher underlying health costs, leading to higher claim processing and customer service calls. Among commercial insured plans, the indemnity and PPO was the highest cost to administer, at \$12.21%, compared to 11.96 for the Commercial POS and 11.57 for Commercial HMO. Medicaid HMO had administrative expenses of 7.94%.

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 Public Companies contains over 2,000 analyses of ten principle product areas and sixteen functional areas, plus subcategories. All information is as of December 31, 2002. Separate analyses include outsourced functions such as mental health, pharmacy and COB / Subrogation.

Products offered by the plans include HMO, Point-of-Service, Indemnity and PPO, Medicare HMO, Medicaid HMO and Medicare Supplemental.

**Figure 3. Benchmarks for Public Plans' Administrative Expenses: 2003**  
Costs as a Percent of Revenue - By Product Line

	25th %	75th%	Median	σ/Mean
Commercial HMO				
Insured	10.85%	12.14%	11.57%	13.24%
ASO / ASC	72.73%	87.16%	85.13%	19.98%
Commercial POS				
Insured	11.94%	11.98%	11.96%	0.48%
ASO / ASC	60.90%	60.90%	60.90%	NM
Indemnity & PPO				
Insured	10.71%	12.27%	12.21%	15.69%
ASO / ASC	66.84%	78.77%	72.80%	23.18%
Medicare + Choice	6.43%	7.81%	7.16%	22.34%
Medicaid HMO	7.94%	7.94%	7.94%	NM
Medicare Supplemental	12.36%	12.36%	12.36%	NM
Stand-alone Dental	36.49%	46.73%	41.61%	34.81%

Publicly traded health plans appeared to enjoy healthy margins in insurance products provided on an ASO / ASC basis. Revenues generally exceeded expenses in these product areas.

### BACKGROUND ON THE PUBLIC COMPANIES AND SEER

There are 14 publicly traded plans focused on commercial members with approximately 44.4 million insured members. The four plans in our universe serve 7.8 million such insured members, or approximately 18% of the membership and 29% of the plans themselves, based on recent *PULSE* data. Because of confidentiality agreements we are not able to disclose the identities of the participants. There is no overlap between the companies in this universe and a similar study of Blue Cross Blue Shield Plans.

Information contained in *SEER* is from extensive surveys of the participants, who report to us administrative costs as well as certain operational metrics. This is the sixth year that we have been performing benchmarking studies. In addition to these universes, we have recently completed one comprised of Provider-sponsored plans and we are contemplating one with Medicaid oriented health plans.

### WHAT'S NEXT FOR SEER

To date we have distributed to participants four SEER volumes, including financial metrics (Volume I) for public, Blue and provider sponsored universes, as well as operating metrics (Volume II) for provider-sponsored universe. Summaries for the Volumes I are above and in *Navigator* for July 2003.

**Volume II Blue Cross Blue Shield Edition.** This volume does not lend itself to easy summarization, but suffice to say that the approximately 1,500 charts and graphs permit the reader to drill down to identify sources of financial variances. It contains 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.

In the exhibit below, we show how variances can be sourced to utilization, productivity, unit costs or employee costs. All exhibits are organized in an intuitive way to permit analysis.

**Figure 4. Benchmarks for Blue Cross Blue Shield Plan Expenses: 2003**  
Factors of Costs PMPM

Claims	Members	Claims	Cost	Cost	FTEs
Per	Per	Per FTE	Per	Per	Per
x	=	x	=	x	=
<u>Member</u>	<u>FTE</u>	<u>Per Year</u>	<u>Claim</u>	<u>FTE</u>	<u>10,000</u>
12.47	2,713	35,732	2.13	\$73,180	3.71
x	=	x	=	x	=
					Costs
					PMPM
					\$2.51

(This data is preliminary and illustrative. Also, because it is based on medians, values will not precisely multiply to products.)

**Volume I Provider Sponsored Plans Edition.** This is similar to the Blue Cross Blue Shield and Public Volumes I. The results are interesting in that these firms appear to have surprisingly low costs, especially considering that they are significantly smaller than typical companies in other universes. We will touch on this in future editions of *Navigator*.

**Other Pending Analyses.** Other documents in the works include a Volume II for Provider Sponsored plans. This will likely be complete in the next month or so. We are currently contemplating analyses of financial and operating metrics for Medicaid oriented plans as well.

