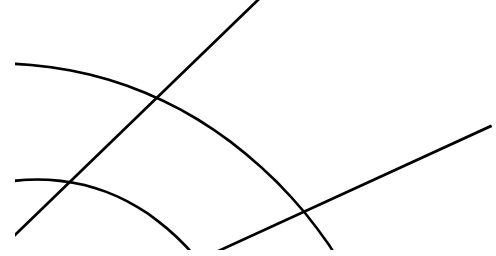


Plan Management Navigator



SHERLOCK COMPANY RELEASES OPERATIONAL BENCHMARKS FOR HEALTH PLANS

Complementing its financial metrics for health plans, Sherlock Company has recently published operational metrics for health plans. This unique 150-page document contains approximately 1,100 charts and graphs permitting managers to identify sources of variances in their performance versus that of peers.

SEER Volume II summarizes the results of seventeen Blue Cross Blue Shield Plans, with an average membership of 1.5 million members. A similar volume (information varies somewhat between editions) is available for ten Provider-Sponsored health plans. It contains highly detailed analyses on the operational norms of specific functional areas plus details on departmental staffing information, including costs, compensation and ratios to membership.

Functional areas included in this analysis include:

- Sales & Marketing (including Broker Commissions)
- Enrollment/ Membership/ Billing
- Customer Services
- Provider Management and Network Services
- Medical Management
- Claims and Encounter Capture & Adjudication
- Information Systems
- Finance & Corporate Services
- Human Resources

Data is organized intuitively to permit analysis of the factors of variance, as shown below. Accordingly, variances in certain major expense categories, such as

customers and claims, is organized to identify whether variances are due to member utilization, productivity, unit costs or compensation (and other) costs per employee.

Employee Compensation, Staffing Costs and Ratios

Information concerning employee costs are segmented in numerous ways. Compensation is divided into percent and absolute terms for salaries, commissions and seven common benefits. Staffing costs are expressed per employee, as a percent of total costs and per member per month, in over 40 functional areas. Staffing ratios are provided for all departments, on an as-reported basis and adjusted for commercial-equivalent Medicare members.

Functional Area Analyses

The analysis of each functional area is highly detailed as described below.

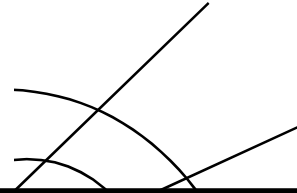
Sales and Marketing. This captures general information on factors affecting the Plan's growth, distribution system and competitive environment. Sources of growth include retention, increases in groups and increases in group size. Distribution system factors detail the role of brokers and internal performance. Detailed analysis of broker performance include the percent of quotes by brokers, percent of groups and members sold by brokers. In addition, we provide a detailed study of commission rates as a percent of premium revenues by product and by segment. We also provide a similar performance analysis of the internal sales force. Information concerning the competitive environment includes change in product mix, and market segment information concerning share, growth, retention and profitability.

Enrollment / Membership / Billing. This analysis identifies enrollment processes, efficiency and quality. This analyses the cost factors of this function including employee productivity, costs per employee, staffing ratio and transac-

Operational Benchmarks for Blue Cross Blue Shield Plans: 2003												
Factors of Costs PMPM												
Claims per Member	x	Members per FTE	=	Claims per FTE Per Year	x	Cost per Claim	=	Cost per FTE	x	FTEs per 10,000	=	Costs PMPM
12.47	x	2,713	=	35,732	x	\$2.13	=	\$73,180	x	3.71	=	\$2.51
Inquiries per Member	x	Members per FTE	=	Inquired per FTE per Year	x	Cost per Inquiry	=	Cost per FTE	x	FTEs per 10,000	=	Costs PMPM
1.51	x	3,224	=	5,119	x	\$10.52	=	\$57,796	x	3.10	=	\$1.40

Data is illustrative only.

Continued on Page 2



tion costs. Transactions are calculated by Sherlock Company as a standardized measure. Sources of enrollment, electronic and web-based, and turnover (group and membership) are also provided. Metrics of efficiency include frequency with which cards are available to members prior to the effective date and others specific to Blue Cross Blue Shield definitions.

Customer Service. The analysis of this functional area focuses on member utilization, productivity, unit costs and compensation (and other) costs per employee. In addition, we analyze the mix of inquiries, such as manual, automated, paper and various electronic. Finally we tabulate metrics of call quality including average speed of answer, abandonment rate and accuracy, as well as member satisfaction and resolution times for inquiries, grievances and appeals.

Provider Management and Network Services. This functional area is, like other metrics, analyzed through utilization, productivity, unit costs and compensation (and other) costs per employee. Utilization is calculated per member, rather than per provider since the number of members is easier to define than the number of providers and because, when adjusted for the number of providers per member, these metrics are mathematically equivalent. We calculate the number and mix of inquiries, as well as quality metrics such as average speed of answer provider satisfaction and abandonment rate.

Medical Management. This analysis focuses on the process and outcomes of active medical management. It summarizes the tendency to outsource five medical management functions, and the proportion of members in disease or case management. It also captures the costs of these programs. It also reports hospital reimbursement methodologies as well as costs and utilization rates, by product.

Claims and Encounter Capture and Adjudication. Like others, this functional area is analyzed through utilization, productivity, unit costs and compensation (and other) costs per employee. Costs, claims by medium and claims per member are calculated and segmented into ten products. Claims turnaround is calculated and subdivided into days incurred to receipt, receipt to approval and average days approved to pay. Average backlog, first pass rate, rate of medical review and various quality metrics are also provided.

Information Systems. This analysis, unlike some, is oriented primarily to the performance of this critical functional area in and of itself. Costs are segmented into internal personnel, contractors, depreciation and amortization and operating leases and expressed per member

per month and as a percent of revenues. Quality is measured through such metrics as average speed of answer for the help desk, time to resolve critical outage and IT request backlog. System availability metrics for each platform are also tracked. The exception to the essentially internal analysis is calculation of IS costs per FTE, which can be compared with the results of other industries.

Finance and Corporate Services. Reflecting that it is a supporting functional area, the metrics for this area are similar to the internal focus of information systems. Much of the analysis focuses on facilities costs, segmented into rent, depreciation, heat/light/taxes, security, maintenance and leasehold improvements. These are analyzed per FTE, PMPM and percent of revenues. Other analyses touch human resources (turnover and retention) and average age of accounts receivable.

Human Resources. While analyzed as a “stand-alone” function, the analysis of this function bears on all functional areas. In this analysis, we capture the workforce structure, recruiting, separation and work-time for health plans. The workforce is segmented into eight standard classifications and percents are calculated. The “flatness” of the organization is calculated as the ratio of classifications to workforce. Missed days are analyzed relative to total days and by reason (FMLA, short-term disability, workers comp.)

PROVIDER SPONSORED PLANS PERFORM SURPRISINGLY WELL

The *Sherlock Expense Evaluation Report (SEER)* shows that administrative expenses for insured commercial products offered by provider-sponsored health plans were 10.27% of premiums, or \$18.10 per member per month (PMPM) in 2002. ASO / ASC PMPM costs were \$13.88. Administrative expenses varied by insured product, ranging from a low of 7.59% of premium for Medicare + Choice to 14.44% for their Point-of-Service product.

“We were struck by these plans’ strong performance,” said Douglas Sherlock, Senior Health Care Analyst with Sherlock Company. “They generally reported lower costs than larger Blue Cross Blue Shield and Public Companies, despite their relatively small size.” The provider-sponsored plans’ focus on limited panel products, certain marketing advantages and the possible advantages of vertical integration are considered by Sherlock Company to possibly contribute to their success.

Additional information will be available in the October edition of *Navigator*.

