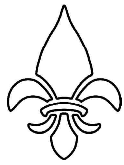
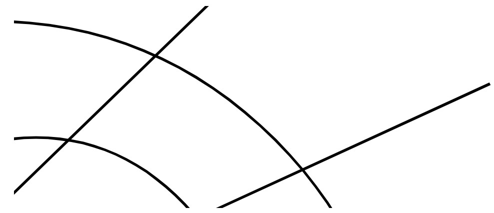


Plan Management Navigator



Analytics For Health Plan Administration **March 2004**

Best Practices for Blue Cross Blue Shield Plans

Sherlock Company recently completed a study of "Best Practices" based on the financial and operational data collected for the *2003 Sherlock Expense Evaluation Report (SEER)*, Blue Cross Blue Shield Edition. This study, which comprises Volumes III A and III B of the *SEER* family of studies, contains the results of 1,733 statistical analyses of the relationships between various operating and financial metrics. A summary containing 296 of the analyses that we considered to be statistically significant comprised Volume III A. All of the analyses are presented in Volume III B.

These analyses were compiled without any preconceptions concerning the reasonableness of the potential relationships. Accordingly, it is free of biases of "industry lore" which may or may not be valid. The ideas for the various analyses were the product of a meeting of 14 representatives of 11 Blue Cross Blue Shield Plans held in Chicago on October 27, 2003. We are grateful for the energy and creativity of the panelists in formulating the studies.

Figure 1. "Best Practices"
Best Performers - Difference

High Perfor. Cat.	Metric	Difference
Mbrshp. Growth Rate *(Highest)*	Advertising & Promotion PMPM	0.91
	Average Group Size	0.53
	Total Marketing PMPM	1.12
	Commissions PMPM	1.24
Local Market Share *(Highest)*	% of Mbrs. Sold through Brokers	0.57
	All Mktg. FTEs / 10k Mbrs.	1.18
	Rating & Unwrtg. PMPM	1.55
Total Costs of Market *(Lowest)*	Customer Satisfaction Rate	1.13
	Prod. Dev. / Mkt. Rsrch.	0.52
	Membership Growth Rate	(1.54)
	Group Growth Rate	(0.13)
	Commissions PMPM	0.51
Enrollment PMPM *(Lowest)*	Enrollment FTE Turnover	0.93
	Product Mix: Percent Indiv.	0.67
	Enroll./Mem./Bill. FTEs / 10K Mbrs.	0.57
Customer Svc. PMP *(Lowest)*	Abandonment Rate	0.81
	ASA Svc. Level, at 30 Seconds	1.18
	Total Inquiries per Member	0.73
	Customer Svc. FTEs / 10k Mbrs.	0.52
Medical Mgmt. PMP *(Lowest)*	Information Systems PMPM	0.69
	% of Mbrs. Sold through Brokers	1.40
	Health Benefit PMPM	0.69

Methodology and Results

For each hypothetical relationship, we performed two statistical analyses. First, for each outcome, we show the associated metrics of the superior performers in that outcome. (We are using the term superior performers exclusively in the narrow sense of high or low performance in that characteristic relative the group as a whole, without regard to whether the *overall* performance is in fact superior or whether the metric employed captures the desired attribute.)

To describe the characteristics of these superior performers, we employed the statistical descriptions used in *SEER*, such as mean, median, standard deviation and so forth. Additionally, we summarize the relationship between the superior performers and other plans by calculating a "difference." This is presented as the ratio of the mean of the top performers to all of the performers as a group. In the example of superior membership growth, such firms also report lower advertising costs, smaller group size, higher total marketing costs and higher commission costs. Examples of the "difference" for superior performers can be found in Figure 1.

The second set of analyses summarizes the statistical relationships between those outcome measures and hypothetically associated metrics. The results of this and other selected analyses are presented in Figure 2. For instance, the relationship between commissions PMPM and membership growth is a slope of 0.0385 or a $1 increase in commissions PMPM is associated with a 3.85 percentage point increase in membership growth. This relationship is 25.51% explained by the regression line. The p-value, which is the probability that there is *no* relationship between the metrics, indicates whether there is a statistically significant relationship between the two metrics. In this case there is only a 6.55% probability that there is no relationship between commissions and membership growth.

Other Notes

It has been remarked that this analysis extends *SEER* from a "descriptive to a prescriptive analysis." We would prefer to underscore that all of these analyses are subject to the mediating judgment of managers who are the users of this analysis. To avoid any bias in these analyses, we have not ruled in or out any relationships that may stem from any potentially faulty preconceptions.

Each of these relationships should be evaluated critically by the user. It is the intent of these analyses to describe relationships that provide insights for the operations of health plans. We are confident that many of the analyses included in this executive summary fulfill that objective. However,

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some of the analyses included in the full report, while not meeting our test for statistical validity, nevertheless provide useful operating insights. Finally we acknowledge that some of the analyses produce inconsistent, counterintuitive or even spurious results. Such results stem from differences in reporting, factors impacting both cause and effect, as well as chance.

Figure 2. "Best Practices"
Regression Results (All Plans)

Output	Input	Slope	R2	p-Value
Mbrshp. Growth Rate	Advertising & Promotion PMPM	0.327	31.3%	3.76%
	Average Group Size	(0.00027)	30.9%	3.92%
	Total Marketing PMPM	0.051	43.0%	1.09%
	Commissions PMPM	0.038	25.5%	6.55%
Local Market Share	% of Mbrs. Sold through Brokers	(0.31)	45.3%	6.75%
	All Mktg. FTEs / 10k Mbrs.	0.20	56.7%	1.19%
	Rating & Unwrtg. PMPM	0.36	44.9%	3.39%
Total Costs of Mktg.	Customer Satisfaction Rate	(14.73)	46.6%	1.44%
	Prod. Dev. / Mkt. Rsrch.	4.30	36.6%	1.30%
	Membership Growth Rate	8.51	43.0%	1.09%
	Group Growth Rate	6.30	45.6%	1.60%
	Commissions PMPM	0.98	79.5%	0.00%
Enrollment PMPM	Enrollment FTE Turnover	3.39	53.2%	6.29%
	Product Mix: Percent Indiv.	3.84	52.5%	1.16%
	Enroll./Mem./Bill. FTEs / 10K Mbrs.	0.44	71.3%	0.01%
Cust. Svc. PMPM	Abandonment Rate	10.83	28.8%	3.93%
	ASA Svc. Level, at 30 Seconds	(2.81)	46.4%	3.01%
	Total Inquiries per Member	0.14	29.6%	2.93%
	Customer Svc. FTEs / 10K Mbrs.	0.22	28.7%	3.95%
Med. Mgmt. PMPM	Information Systems PMPM	0.22	25.7%	3.76%
	% of Mbrs. Sold through Brokers	(2.61)	54.1%	2.40%
	Health Benefit PMPM	0.015	37.11	1.22%

Accordingly, there are quirks and apparent inconsistencies. For instance, sometimes superior performers will have lower values for operating metrics despite a regression line pointing in the opposite direction. Sometimes extraneous factors will affect both metrics: A higher mix of HMO will probably lead to a higher use of medical management, perhaps cost effectively, but simply regressing the medical management costs with medical costs may imply the opposite relationship. We believe that, notwithstanding these drawbacks, to limit our analyses to those in accordance with industry lore would obscure valuable insights which could not be known in advance. Since the use of the results will be through the mediating factor of the manager, we considered that submitting analyses that are later determined to be unreasonable was worth the risk.

These analyses are available upon request to all purchasers of SEER, including and participants in selected universes of SEER.

New Study on Very Large Health Plans

In the January 2004 edition of *PULSE*, we published a study that attempted to measure whether economies of scale existed in health plan administration. We found that administrative expenses were indeed subject to scale economies, although of a more modest magnitude than is commonly expressed.

However, because health plans are a thin margin business, even modest scalar effects are an item of significant interest by the health plan managements, since a 0.5 percentage point reduction in administrative expenses to premiums may translate to a 25% improvement in earnings on a base 2% operating profit margin. Accordingly, there is substantial interest in the performance of very large health plans.

Sherlock Company is now completing an analysis of the financial and operating performance of very large firms. This universe is comprised of three Blue Cross Blue Shield and three publicly traded health plans. The average membership of firms in this universe is 3.02 million members in comprehensive health benefit products.

We will publish summary information in future editions of *Plan Management Navigator*, on in other forms. *Please call Sherlock Company for information about purchasing these analyses.*

New Benchmarking Cycle Underway

We have recently begun the 2004 cycle of SEER benchmarks, and have distributed the financial metrics survey to the Public and the Blue Cross Blue Shield universes. Operating metric survey forms, currently under review by the participants, will be circulated in the next week.

We believe that we will have approximately five publicly traded firms, of twelve that are not Medicaid oriented. We also expect that we will have at least twenty Blue Cross Blue Shield Plans: We think that it is a strong possibility that we will have most of the licensees in our universe. Other studies for Medicaid-oriented plans and Provider Sponsored Plans, first initiated last year, are planned for this year as well.

SEER *reports in the 2004 cycle should become available beginning in July of 2004.*