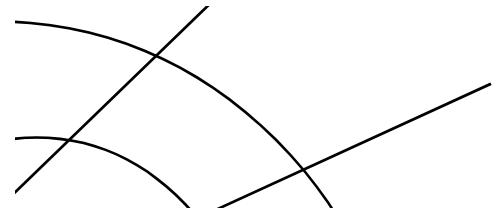


Plan Management Navigator



Analytics For Health Plan Administration

July 2004

SHERLOCK COMPANY PUBLISHES ADMINISTRATIVE EXPENSE BENCHMARKS

Sherlock Company's recently published benchmarks for health plans report median costs of \$24.30 for all comprehensive products in 2003. The reporting firms, eighteen Blue Cross Blue Shield Plans, reported expenses which ranged from \$18.80 for POS (ASO) to a high of \$42.26 for Medicare Advantage. Expressed as a percent of premiums or equivalents, insured comprehensive products ranged from 7.41% for Medicare Advantage to a high of 16.52% for Medicare Supplemental. 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 \$5.83 of the total administrative costs. At the 75th percentile, these costs were \$7.25 but only \$4.84 at the 25th percentile. Commissions paid to brokers comprised \$3.34, the lion's share of these expenses.

Medical & Provider Management was composed of Provider Network Management and Services and Medical Management (including Quality Assurance and Wellness Programs). These expenses had a median value of \$2.52. At the 75th percentile, these costs were \$2.98, but were as low as \$1.94 at the 25th 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 \$9.61 per member per month of administrative expenses in 2003, 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 75th percentile and \$8.13 at the 25th 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 \$5.24 in administrative expenses. Fewer than 25% exceeded \$7.86 or were less than \$4.28. These expenses are susceptible to economies of scale, in our view.

Companion volumes of operational metrics, including staffing ratios, employee compensation analyses, and numerous productivity measures are expected to be published in coming weeks.

Additional information concerning the 2004 *Sherlock Expense Evaluation Reports* is available by contacting Sherlock Company.

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Figure 1. Benchmarks for Blue Plans' Administrative Expenses: 2004
Cost Per Member Per Month - By Function, Comprehensive Products

	25th %	75th %	Median	σ/Mean
Marketing	\$4.84	\$7.25	\$5.83	33.38%
Medical and Provider Mgmt.	\$1.94	\$2.98	\$2.52	26.35%
Account and Membership Admin.	\$8.13	\$10.54	\$9.61	17.89%
Corporate Services	\$4.28	\$7.86	\$5.24	37.75%
Total Expenses	\$20.40	\$28.09	\$24.30	19.72%

Figure 2. Benchmarks for Blue Plans' Administrative Expenses: 2004
Cost Per Member Per Month - By Product Line

	25th %	75th %	Median	σ/Mean
Commercial HMO				
Insured	\$23.37	\$35.82	\$29.69	30.45%
ASO / ASC	\$16.63	\$24.58	\$19.73	65.37%
Commercial POS				
Insured	\$21.13	\$33.42	\$26.96	31.75%
ASO / ASC	\$15.36	\$22.57	\$18.80	35.10%
Indemnity & PPO				
Insured	\$25.64	\$31.66	\$26.91	20.52%
ASO / ASC	\$17.00	\$21.28	\$18.99	17.68%
Medicare Advantage	\$40.77	\$48.85	\$42.26	34.25%
Medicaid HMO	\$18.99	\$24.39	\$21.38	18.42%
Medicare Supplemental	\$14.14	\$27.76	\$19.87	46.25%
Stand-alone Dental	\$2.71	\$5.25	\$4.20	37.84%

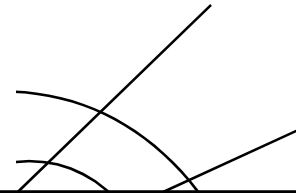


Figure 3. Benchmarks for Blue Plans' Administrative Expenses: 2004
 Costs as a Percent of Premium or Equivalents - By Product Line

	25th %	75th %	Median	σ /Mean
Commercial HMO				
Insured	13.63%	18.76%	15.23%	25.80%
ASO / ASC	9.41%	13.70%	12.41%	60.03%
Commercial POS				
Insured	11.25%	18.32%	14.29%	32.27%
ASO / ASC	8.75%	15.32%	9.97%	40.48%
Indemnity & PPO				
Insured	12.32%	15.70%	14.43%	23.35%
ASO / ASC	9.36%	11.75%	10.39%	21.63%
Medicare Advantage	7.03%	8.98%	7.41%	25.00%
Medicaid HMO	12.01%	18.06%	15.60%	29.12%
Medicare Supplemental	11.77%	20.04%	16.52%	36.84%
Stand-alone Dental	18.18%	26.36%	19.66%	27.20%

IMPROVED SHERLOCK COMPANY WEBSITE

Over the past several months, we completed a series of significant upgrades, designed to enhance the look and usability of the website. We invite your comments and suggestions. Among the changes are:

1. Cleaner look through the use of sans serif font. While our calligrapher friends swear to the value of serifs for readability, we have found that sans serifs work better for on-line presentations.
2. SEER Healthdesk. Exclusively for the participants in our benchmarking studies, this page contains the most updated copies of various survey forms, guidelines for their completion, a search engine and a forum to memorialize consensus definitions. It also contains a search engine to facilitate more rapid capture of definitions.
3. A new Tools section provides a dashboard, based on public company results, Definitions of terms used in *PULSE*, Health Plan Investor Relations Contact Information (including links) and Health Plan Sell-side Analysts. Some of this material will soon be subscription only, but for now it is free.
4. Easier browsing through publications. We maintain an inventory of *PULSE* and *Health Plan Navigator* on line and .pdfs are available to subscribers. Of course *Navigator* is still free of charge.

NEW DASHBOARD

In recent months, at the request of a number of health plans, as well as the HMO Alliance, we have been experimenting with a new dashboard for Blue and Provider Sponsored health plans. The "dashboard" is intended to provide an immediate high-level summary of plans' performance.

The dashboard is provided in a form immediately available for distribution to your management team. Information is provided in both trailing three months and monthly formats. While is designed to take only to one-half hour to complete, it is intended to be useful at the most cursory glance, but permit a modest ability to "drill-down" to identify sources of variance. Accordingly the dashboards complement our existing *SEER* benchmarking materials, which are more oriented to implementing major changes in operations.

The reports are available both to participants and to other interested parties. Participants' editions are cost less than editions for other parties, and they are tailored to the plan as well. Please let us know if your organization would like to consider participation or purchase of the analysis.

Please visit us at www.sherlockco.com.

