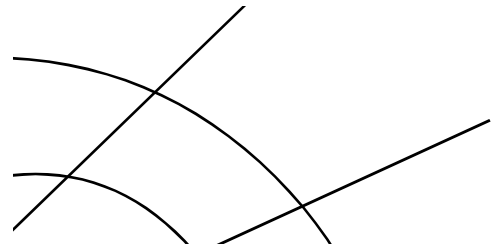


Plan Management **Navigator**



Analytics For Health Plan Administration

May 2005

SHERLOCK COMPANY'S HEALTH PLAN DASHBOARD ENTERS SECOND YEAR

This month marks the beginning of the second year of Sherlock Company's *Dashboard*, which allows for health plans' ongoing comparisons of financial performance in complementation to *SEER* benchmarks. The *Dashboard* includes numerous financial analyses including:

- Common-size income statements and margin analysis.
- Revenue growth analysis, segmented by enrollment and pricing factors.
- Health care cost ratios and selected utilization metrics including Rx Scripts per Member per year, E/R Visits per 1,000 Members per year, and Hospital Days per 1,000 Members per year.
- Administrative expense ratios and selected administrative volume metrics including Claims per Member per year, Inquiries per Member per year, and FTEs per 10,000 Members.
- Mix of products offered including Insured Managed Care, Insured Indemnity, ASO/ASC, Medicaid, and Medicare Advantage.

Data is provided for both Blue Cross Blue Shield and Provider-Sponsored health plans. Reports are printable in a form readily available to management and are available monthly for the most recent trailing three month period. Currently, Sherlock Company has two Blue participants and ten Provider-Sponsored firms.

According to Sherlock Company's most recent *Dashboard*, the plans as whole have seen an operating margin contraction of 1.2 percentage points to 2.8% for the trailing three month

period ended January 31, 2005. These plans had revenue growth of 10.7% and an operating income decline of 13.3%. Membership growth for the plans as whole was 1.4%, aided by increases in Insured Indemnity and Medicare Advantage membership of 85.7% and 59.3% respectively. With price increases of 9.2%, revenues per member per month were \$207.83.

Provider-Sponsored plans posted an average operating margin of 2.4%, which is 1.6 percentage points smaller than compared to the same period one year prior. Even though revenue grew 10.5% for these plans, operating income fell 27.6%. Revenues per member per month were \$212.57, fueled by price increases of 9.5%. Membership grew 0.9% for the Provider-Sponsored plans.

New participants are welcome. Subscriptions to the reports are also available. Please contact Sherlock Company at (215) 628-2289 or sherlock@sherlockco.com for further information.

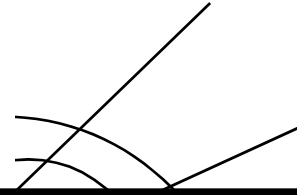
ADVERTISE IN *SEER*?

Sherlock Company is considering accepting advertising in its Sherlock Expense Evaluation Reports. The full-page ads would provide your firm with the opportunity to reach an audience that are active, repeated users, and probably decision makers. In addition, the package includes a copy of the Sherlock Expense Evaluation Report.

If this interests you, kindly contact us at 215-628-2289, or sherlock@sherlockco.com. Our deadline for receipt of artwork is May 31.

***SEER* Calendar**

	Drafts Returned		
	Surveys Due	to Participants	Completion
Blue	18-May	8-Jun	Late June
Public	18-May	8-Jun	Late June
Provider-Sponsored	25-May	24-Jun	Early July
Medicaid Oriented	20-Jun	12-Jul	Early August



ADMINISTRATIVE EXPENSE BENCHMARKS FOR MEDICARE-ORIENTED PLANS PUBLISHED BY SHERLOCK COMPANY

Sherlock Company recently published benchmarks for Medicare-Oriented Plans. Median costs were \$49.87 for the Medicare HMO product.

Compiled within our study were five selected Medicare-Oriented plans. These firms included plans from the Blue Cross Blue Shield, Public Company, Medicaid-Oriented, and Provider-Sponsored universes. We estimate that these plans comprise approximately 17% of all Medicare Advantage members. The plans' commitment to Medicare Advantage ranged from 7% to 22% as measured in members, while the percent of revenues from Medicare Advantage in this universe ranged from 23% to 49%. These reporting firms have an average Medicare HMO membership of 160,000. Comprehensive total average membership for these plans is approximately 792,800. The complete results are published in the *2004 Sherlock Expense Evaluation Report (SEER) Medicare-Oriented Plans Edition*.

For the Volume II Operational Metrics, the operating metrics in this study were estimated as though the respondents' business was entirely composed of Medicare Advantage when applicable. To do this, we adjusted some of the operational metrics to reflect the greater costs of serving the Medicare Advantage population.

For example, suppose a firm has 18.3 Manual Inquiries per Member, and its membership is composed of 20% Medicare Advantage and 80% Commercial. Suppose also that we calculate that Medicare Advantage PMPM costs tend to run 2.5 times higher than those of other members. The first step to adjusting this metric would be to estimate the inquiries per member for the non-Medicare Advantage population. This is done with the following steps:

a. $18.3 \text{ Manual Inquiries per Member} = 0.80 \text{ Non-Medicare Inquiries per Member} + 0.20 \text{ Medicare Advantage Inquiries per Member}$

b. $18.3 = 0.80x + 0.20 (2.5)x$

Where 2.5 is the relative costs of Medicare Advantage as against other members. Medicare Advantage Inquiries per Member are assumed to be 2.5 times non Medicare Advantage Inquiries per Member.

c. $18.3 = 1.3x$

d. $x = 14.08$, the Non-Medicare Advantage Inquiries per Member

The final step is to apply the ratio of the relative costs of Medicare Advantage to the value of the Non-Medicare Advantage Inquiries per Member. In other words, 14.08 is multiplied by 2.5 to arrive at 35.19, the estimated median Medicare Advantage inquiries per member. *Please note that this is a hypothetical example, and the values are not the ones found in SEER.*

These estimates of metrics were made for the following functional areas: Sales & Marketing, Customer Services, Provider Network Management and Service, Medical Management, Claim & Encounter Capture & Adjudication, Information Systems and Corporate Services. Estimates were developed only in the instance that we believed the metric to be sensitive to product mix.

Volume I of *SEER* for Medicare-Oriented Plans contains over 1,500 statistical analyses of data divided into fourteen product lines and eighteen major administrative functions. All information is as of December 31, 2003. Separate analyses include outsourced functions such as mental health, pharmacy and COB / Subrogation. In addition to Medicare HMO and Medicare Supplement, other products that are included in this analysis are Commercial HMO, Commercial POS, and Indemnity and PPO, each divided into the sub-categories of Insured and ASO/ASC. Also included are Medicaid HMO and Stand Alone Dental.

