



Plan Management Navigator

Analytics For Health Plan Administration

July 2005

SHERLOCK COMPANY PUBLISHES BLUE CROSS BLUE SHIELD ADMINISTRATIVE EXPENSE BENCHMARKS

Sherlock Company's recently published benchmarks for Blue Cross Blue Shield Plans report median costs of \$24.95 for all comprehensive products in 2004. The reporting firms, twenty-one Blue Cross Blue Shield Plans, reported expenses which ranged from \$19.30 for POS (ASO) to a high of \$47.60 for Medicare Advantage. Expressed as a percent of premiums or equivalents, insured comprehensive products ranged from 7.31% for Medicare Advantage to a high of 17.77% for Medicare Supplemental. Account and membership administration comprised the largest component of health plan administrative expenses.

This is the first release of a series of benchmarks of performance metrics for health plans. Financial metrics for each universe are complemented with operational metrics.

Expenses by Major Functional Category

Marketing expenses included Rating and Underwriting, Product Development / Market Research, Sales and Marketing, Commissions and Advertising and Promotion. These expenses represented \$6.03 of the total administrative costs. At the 75th percentile, these costs were \$7.57 but only \$4.52 at the 25th percentile. Commissions paid to brokers comprised \$3.69, 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 \$2.83. At the 75th percentile, these costs were \$3.41, but were as low as \$1.92 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 \$9.62 per member per month of administrative expenses in 2004, 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 \$10.93 at the 75th percentile and \$8.26 at the 25th percentile. These expenses were more clustered than the other breakouts.

Figure 1. Benchmarks for Blue Plans' Administrative Expenses: 2005
Cost Per Member Per Month - By Function, Comprehensive Products

	25th %	75th %	Median	σ /Mean
Marketing	\$4.52	\$7.57	\$6.03	45.70%
Medical and Provider Mgmt.	\$1.92	\$3.41	\$2.83	35.96%
Account and Membership Admin.	\$8.26	\$10.93	\$9.62	21.79%
Corporate Services	\$4.38	\$6.78	\$5.21	30.09%
Total Expenses	\$19.86	\$29.30	\$24.95	24.75%

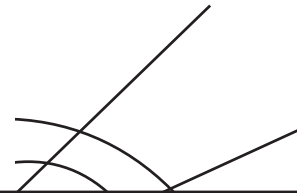
Corporate Services represented the final category. It included investments in HIPAA compliance as well as Finance and Accounting, Actuarial, Corporate Services (including Human Resources, Facilities, Legal and Regulatory, Corporate / Executive and Association Dues and Miscellaneous Business Taxes). These expenses collectively represented \$5.21 in administrative expenses. Fewer than 25% exceeded \$6.78 or were less than \$4.38. These expenses are more susceptible to economies of scale than other groups of functional expenses, in our view.

Expenses by Product

The products varied in their costs because they have different functional needs. For instance, HMO products of all kinds tend to have a much greater commitment to medical management, and the various ASO products operate with lower costs than their insured counterparts.

Figure 2. Benchmarks for Blue Plans' Administrative Expenses: 2005
Cost Per Member Per Month - By Product Line

	25th %	75th %	Median	σ /Mean
Commercial HMO				
Insured	\$23.98	\$45.48	\$29.76	30.40%
ASO / ASC	\$17.56	\$28.03	\$20.45	52.93%
Commercial POS				
Insured	\$24.47	\$33.70	\$29.29	30.03%
ASO / ASC	\$13.10	\$21.25	\$19.30	28.97%
Indemnity & PPO				
Insured	\$25.21	\$33.35	\$28.73	22.72%
ASO / ASC	\$15.98	\$20.21	\$19.41	39.21%
Medicare Advantage	\$38.32	\$58.53	\$47.60	48.21%
Medicaid HMO	\$17.58	\$24.90	\$20.27	36.43%
Medicare Supplemental	\$17.02	\$33.14	\$21.16	44.12%
Stand-alone Dental	\$3.50	\$5.26	\$3.88	46.20%



Among insured products, Medicare Advantage had the highest costs at \$47.60. The commercial insured products were had similar median values of \$29.76, \$29.29 and \$28.73 for HMO, POS and Indemnity / PPO respectively. Medicaid and Medicare Supplemental plans typically cost \$20.27 and \$21.16, respectively, to administer.

Interestingly, ASO/ ASC products often cost approximately \$10.00 less per member to administer than its insured counterpart. While the HMO cost \$20.45 per member per month, the ASO/ ASC forms of POS and Indemnity and PPO cost \$19.30 and \$19.41, respectively. Marketing costs are typically much lower, but medical and provider costs were lower as well.

Expressed as a percent of premium or equivalent, administration also varied by product. Excluding the effect of services that are commonly capitated such as behavioral health and prescription drugs, Medicare Advantage had the lowest costs, at 7.31% of premium, with the high among comprehensive products of 17.77% for Medicare Supplemental. Among the commercial products, HMO had the highest costs at 14.29% of premiums, followed by indemnity/PPO at 13.89% of premium and POS at 13.41% of premium. Again, the ASO/ ASC products comprised a lower percent of premium equivalents than their insured counterparts. Indemnity and PPO were 9.29%, POS was 9.70% and HMO was 11.71%.

Background on Performance Benchmarks

Volume I (Financial Metrics) of *Sherlock Expense Evaluation Reports (SEER)* of Blue Plans contains more than 2,000 analyses of ten principle product areas and more than fifty functional areas. Separate analyses include individual products, small group and national accounts, outsourced functions such as mental health, pharmacy and COB / Subrogation and information systems as allocated to the functional areas that they support. Products include HMO, Point-of-Service, Indemnity and PPO, Medicare Advantage, Medicaid HMO and Medicare Supplemental.

The Volume I, financial metrics, of the Blue Cross Blue Shield Edition is first of several Sherlock Company benchmarks for the management of health plan performance. Other universes include Medicaid Plans, Independent (mainly provider-sponsored) plans and larger plans.

In addition to the financial metrics, other performance metrics are included in a companion volume of operational metrics. These metrics include factors affecting functional area costs

such as member use of the function, employee productivity, unit cost and staffing ratios. This volume also includes various drivers of such metrics as the extent to which these functions are performed electronically, quality measures, employee compensation analyses, and other function-specific measures. Volume II provides thousands of performance benchmarks on nine 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. The Blue Cross Blue Shield edition of these metrics will be published shortly.

SEER reports are the definitive benchmarks for health plan performance. They are critical tools to enhance operations and support strategic initiatives ranging from management of the product portfolio, vendor negotiations, outsourcing and business combinations. Health plans participating in Sherlock Company's benchmarking studies include Larger Plans, Blue Cross Blue Shield, Provider-sponsored and Medicaid-oriented plans. The 21 Plans included in this study serve 29.4 million members or 31.8% of the membership served by Blue Cross Blue Shield Plans. In aggregate, plans included in the *SEER* reports serve approximately one in five insured Americans.

Figure 3. Benchmarks for Blue Plans' Administrative Expenses: 2005
Costs as a Percent of Premium or Equivalents - By Product Line

	25th %	75th %	Median	σ /Mean
Commercial HMO				
Insured	12.12%	16.15%	14.29%	23.30%
ASO / ASC	8.20%	13.59%	11.71%	53.57%
Commercial POS				
Insured	12.07%	16.60%	13.41%	26.74%
ASO / ASC	8.46%	13.75%	9.70%	32.97%
Indemnity & PPO				
Insured	11.57%	16.52%	13.89%	25.72%
ASO / ASC	8.48%	10.91%	9.29%	42.05%
Medicare Advantage	5.93%	9.45%	7.31%	44.02%
Medicaid HMO	10.94%	17.80%	11.82%	41.13%
Medicare Supplemental	13.94%	22.07%	17.77%	30.82%
Stand-alone Dental	14.08%	20.78%	17.89%	52.46%

Sherlock Company (www.sherlockco.com), based in Gwynedd, Pennsylvania, provides informed solutions for health plan financial management. Since its founding in 1987, Sherlock Company has been known for its impartiality and technical competence in service to its clients.

Additional information concerning the 2005 *Sherlock Expense Evaluation Reports* is available by contacting Sherlock Company.

Contact:
Douglas B. Sherlock, CFA
Sherlock Company
215-628-2289
sherlock@sherlockco.com

