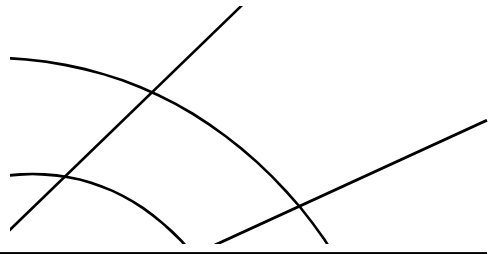


# Plan Management Navigator



Analytics For Health Plan Administration

August 2005

## SHERLOCK COMPANY PUBLISHES PROVIDER-SPONSORED ADMINISTRATIVE EXPENSE BENCHMARKS

Sherlock Company's recently published benchmarks for independent health plans report median costs of \$20.82 for all comprehensive products in 2004. The reporting firms, eighteen Provider-Sponsored Plans, had expenses which ranged from \$14.47 for Commercial ASO to a high of \$48.54 for Medicare Advantage. Expressed as a percent of premiums or equivalents, insured comprehensive products ranged from 6.74% for Medicare Cost to a high of 20.35% for Medicare Supplemental. Account and membership administration comprised the largest component of health plan administrative expenses.

This is the second release of a series of benchmarks of performance metrics for various universes of health plans. Each universe contains extensive financial metrics and 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 \$5.22 of the total administrative costs. At the 75th percentile, these costs were \$6.85 but only \$4.74 at the 25th percentile. Commissions paid to brokers comprised \$2.45, 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 \$3.31. At the 75th percentile, these costs were \$4.01, but were as low as \$2.33 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 \$6.30 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 \$8.36 at the 75th percentile and \$5.08 at the 25th percentile. These expenses were more clustered than the other breakouts.

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

	25th %	75th %	Median	$\sigma$ /Mean
Marketing	\$4.74	\$6.85	\$5.22	52.00%
Medical and Provider	\$2.33	\$4.01	\$3.31	30.36%
Account and Membership	\$5.08	\$8.36	\$6.30	33.29%
Corporate Services	\$5.08	\$6.87	\$5.53	24.46%
Total Expenses	\$19.55	\$24.07	\$20.82	23.93%

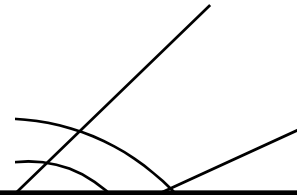
**Corporate Services** represented the final category. It included investments in HIPAA compliance as well as Finance and Accounting, Actuarial, Corporate Services (including Human Resources, Facilities, Legal and Regulatory, Corporate / Executive and Association Dues and Miscellaneous Business Taxes). These expenses collectively represented \$5.53 in administrative expenses. Fewer than 25% exceeded \$6.87 or were less than \$5.08. 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 overall costs than their insured counterparts.

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

	25th %	75th %	Median	$\sigma$ /Mean
Commercial Insured				
HMO	\$20.40	\$27.15	\$21.49	27.32%
POS	\$24.92	\$31.84	\$27.33	19.40%
Indemnity & PPO	\$22.01	\$29.93	\$26.87	23.86%
Commercial ASO	\$11.35	\$20.45	\$14.47	40.73%
Medicare Supplemental	\$29.63	\$36.91	\$35.03	23.11%
Medicare				
Advantage	\$39.52	\$55.14	\$48.54	30.86%
Cost	\$15.76	\$45.39	\$29.92	60.52%
Medicaid HMO	\$12.61	\$21.50	\$16.68	38.45%



Among insured products, Medicare Advantage had the highest costs at \$48.54. The commercial insured products had similar median values of \$21.49, \$27.33 and \$26.87 for HMO, POS and Indemnity / PPO respectively. Medicaid and Medicare Supplemental plans typically cost \$16.68 and \$35.03, respectively, to administer. Medicare Cost had a median value of \$29.92 per member per month.

Interestingly, commercial ASO product often cost approximately \$5.00 to \$10.00 less per member to administer than its insured counterpart. The commercial ASO cost \$14.47 per member per month. 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 Cost and Advantage had the lowest costs, at 6.74% and 7.77% or premium, with the high among comprehensive products of 20.35% for Medicare Supplemental. Among the commercial products, POS had the highest costs at 13.00% of premiums, followed by indemnity / PPO at 12.16% of premium and HMO at 11.72% of premium. Again, the ASO product comprised a lower percent of premium equivalents than its insured counterparts. ASO was 9.57% of premium.

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

	25th %	75th %	Median	$\sigma$ /Mean
Commercial Insured				
HMO	9.74%	13.41%	11.72%	27.43%
POS	11.93%	16.66%	13.00%	21.87%
Indemnity & PPO	9.89%	15.60%	12.16%	25.43%
Commercial ASO	6.37%	11.36%	9.57%	40.46%
Medicare Supplemental	16.06%	25.29%	20.35%	44.44%
Medicare				
Advantage	6.38%	8.43%	7.77%	31.28%
Cost	6.12%	8.83%	6.74%	57.64%
Medicaid HMO	8.15%	11.63%	9.12%	25.67%

## Background on Performance Benchmarks

Volume I (Financial Metrics) of *Sherlock Expense Evaluation Reports (SEER)* of Provider-Sponsored Plans contains more than 2,000 analyses of eight principle product areas and more than 25 functional areas. Separate analyses include outsourced functions such as mental health, disease management, 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, ASO, Medicare Advantage, Medicare Cost, Medicaid HMO and Medicare Supplemental.

The Volume I, financial metrics, of the Provider-Sponsored Plans Edition is second of several Sherlock Company benchmarks for the management of health plan performance. Other universes include Medicaid Plans, Blue Cross Blue Shield 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 Provider-Sponsored Plans edition of these metrics is expected to be published in coming weeks.

*SEER* reports are the definitive benchmarks for health plan administration. They are critical tools to enhance operational performance 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 18 plans included in this study serve over 4.0 million members in Provider-Sponsored Plans. In aggregate, plans included in the *SEER* reports serve approximately one in five insured Americans.

Sherlock Company ([www.sherlockco.com](http://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 2004 *Sherlock Expense Evaluation Reports* is available by contacting Sherlock Company.

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