

SHERLOCK COMPANY PUBLISHES  
BLUE CROSS BLUE SHIELD  
ADMINISTRATIVE EXPENSE  
BENCHMARKS

Sherlock Company's recently published benchmarks for health plans report median costs of \$25.64 for all comprehensive products in 2005. The reporting firms, seventeen Blue Cross Blue Shield Plans, reported expenses which ranged from \$18.53 for POS (ASO) to a high of \$54.21 for Medicare Advantage. Expressed as a percent of premiums or equivalents, insured comprehensive products ranged from 7.9% for Medicare Advantage to a high of 15.3% for Medicare Supplemental. Account and membership administration comprised the largest component of health plan administrative expenses.

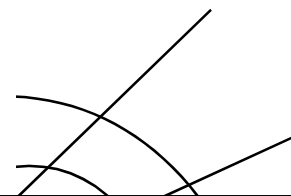
*This is the first release of a series of benchmarks of performance metrics for health plans. Financial metrics for each universe are complemented with operational metrics.*

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 \$6.74 of the total administrative costs. At the 75th percentile, these costs were \$9.36 but only \$5.23 at the 25th percentile. Holding universes constant marketing was the largest increase of the functional areas 5.6% from 2004-2005. Commissions paid to brokers comprised \$4.06, the lion's share of these expenses, but grew slowly which may have reflected a switch to favor internal distribution systems.

**Medical & Provider Management** was composed of Provider Network Management and Services and Medical Management. These expenses had a median value of \$2.87. At the 75th percentile, these costs were \$3.33, but were as low as \$2.01 at the 25th percentile. This is a 5.3% increase when holding all universes constant. 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.

<b>Figure 1. Benchmarks for Blue Plans' Administrative Expenses: 2005</b>				
Cost Per Member Per Month - By Function, Comprehensive Products				
	25th %	75th %	Median	σ/Mean
Marketing	\$5.23	\$9.36	\$6.74	40.75%
Medical and Provider Management	\$2.01	\$3.33	\$2.87	34.91%
Account and Membership Administration	\$7.73	\$11.54	\$9.70	24.90%
Corporate Services	\$4.11	\$7.13	\$5.79	29.04%
<b>Total Expenses</b>	<b>\$20.27</b>	<b>\$30.88</b>	<b>\$25.64</b>	<b>25.82%</b>



**Account & Membership Administration** represented \$9.70 per member per month of administrative expenses in 2005, 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). This functional area increased slightly, by 1.1% holding all universes constant. Plans reported \$11.54 at the 75th percentile and \$7.73 at the 25th percentile. These expenses were more clustered than the other breakouts.

other groups of functional expenses, based on Sherlock Company's economies of scale studies.

**Total Administrative Expenses** increased 2.3%, holding all universes constant, to \$25.64 per member per month. This includes all administrative costs such as Marketing, Medical and Provider Management, Account and Membership Administration, and Corporate Services. Plans reported \$30.88 at the 75<sup>th</sup> percentile and \$20.27 at the 25<sup>th</sup> percentile. Overall, these administrative expenses are slightly higher than last year.

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

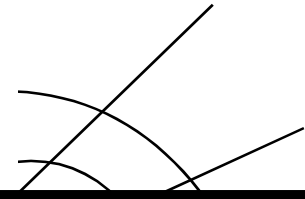
	25th %	75th %	Median	$\sigma$ /Mean
Commercial HMO				
Insured	\$24.06	\$37.78	\$34.59	31.80%
ASO / ASC	\$15.41	\$25.37	\$19.34	41.70%
Commercial POS				
Insured	\$26.70	\$32.89	\$29.95	38.40%
ASO / ASC	\$15.01	\$22.26	\$18.53	28.80%
Indemnity & PPO				
Insured	\$25.68	\$36.73	\$29.99	25.40%
ASO / ASC	\$14.96	\$21.01	\$18.80	31.10%
Medicare Advantage	\$46.79	\$61.81	\$54.21	33.40%
Medicaid HMO	\$20.92	\$23.21	\$22.82	23.60%
Medicare Supplemental	\$20.90	\$32.95	\$24.30	41.50%
Stand-alone Dental	\$3.25	\$4.48	\$3.73	50.00%

**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 \$5.79 in administrative expenses. Fewer than 25% exceeded \$7.13 or were less than \$4.11. Corporate services increased the least, holding all universes constant by 0.4%. These expenses are more susceptible to economies of scale than

### Expenses by Product

The products varied in their costs because they have different functional requests. 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.

Among insured products, Medicare Advantage had the highest costs at \$54.21. The



commercial insured products had similar median values of \$34.59, \$29.95 and \$29.99 for HMO, POS and indemnity / PPO respectively. Medicaid and Medicare Supplemental plans typically cost \$22.82 and \$24.30, respectively to administer.

Interestingly, ASO/ ASC products typically cost just over \$10.00 less per member to administer than its insured counterpart. While the HMO cost \$19.34 per member per month, the ASO/ASC forms of POS and Indemnity and PPO cost \$18.53 and \$18.80, respectively. Marketing costs are typically much lower, but medical and provider costs were lower as well.

commercial products, HMO had the highest costs at 14.5% of premiums, followed by indemnity/ PPO at 13.9% of premium and POS at 13.5% of premium. Again, the ASO/ASC products comprised a lower percent of premium *equivalents* than their insured counterparts. Indemnity and PPO was 9.1%, POS was 9.1% and HMO was 9.6%.

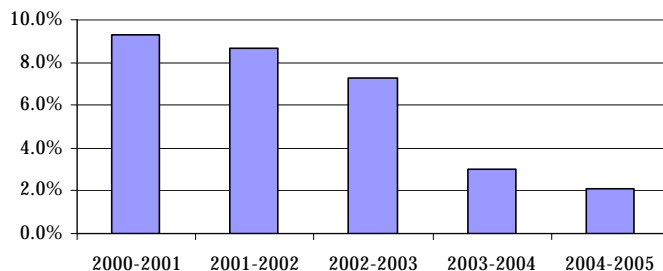
## Background

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 seventeen Plans included in this study serve 25.4 million members.

**Figure 3. Benchmarks for Blue Plans' Administrative Expenses: 2005**

Percent Change in Total Administrative Expenses

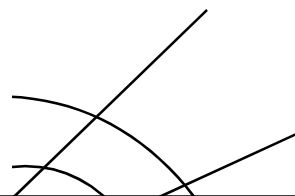


## Percent of Premiums of Equivalents by Product

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 7.9 % or premium, with the high among comprehensive products of 15.3% for Medicare Supplement. Among the com-

Remarkably, the PMPM costs of the functional areas have shown a steady decrease, from 9.3% in 2000 to 2.1% in 2005. Each year has brought successive decline in the rate of growth. We do not know whether this can be extrapolated over all Blue Cross Blue Shield Plans or other health plans generally. In fact, on the grounds that "you manage what you measure," these trends may only be available to firms that benchmark their performance.





**Figure 4. Benchmarks for Blue Plans' Administrative Expenses: 2005**

Costs as a Percent of Premium or Equivalents - By Product Line

	25th %	75th %	Median	$\sigma$ /Mean
Commercial HMO				
Insured	13.06%	17.15%	14.46%	23.10%
ASO / ASC	7.72%	14.63%	9.56%	43.25%
Commercial POS				
Insured	12.22%	15.64%	13.49%	32.60%
ASO / ASC	8.11%	11.64%	9.11%	23.39%
Indemnity & PPO				
Insured	11.42%	16.91%	13.88%	25.00%
ASO / ASC	8.03%	10.38%	9.08%	34.19%
Medicare Advantage	6.59%	8.92%	7.89%	31.40%
Medicaid HMO	9.61%	13.99%	13.04%	22.80%
Medicare Supplemental	13.84%	21.21%	15.33%	32.40%
Stand-alone Dental	15.65%	20.06%	16.24%	121.70%

ployee compensation analyses, and other function-specific measures. Volume II provides thousands of performance benchmarks on eight key functional areas, including marketing, customer service, claims, enrollment, medical management, healthcare utilization, and provider

Volume I (Financial Metrics) of *SEER* Blue Cross Blue Shield Plans contains ten principle product areas and fifty-five functional areas. Separate analyses include individual products, small group and national accounts, outsourced functions such as mental health, pharmacy and COB / Subrogation and function allocated information systems. Products include HMO, Point-of-Service, Indemnity and PPO, Medicare Advantage, Medicaid HMO and Medicare Supplemental.

The Volume I financial metrics volume 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 volumes of operational metrics. These metrics include factors affecting 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 em-

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 is expected to be published in coming weeks.

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 2006 *Sherlock Expense Evaluation Reports* is available by contacting Sherlock Company.

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