

SEER PUBLICATION DATES ANNOUNCED

This year's performance benchmarking process is well along and publication is expected shortly. The products reflect improvements such as strengthened medical management and information systems metrics, stronger definitions to promote comparability and others stemming from nine consecutive years of experience. Forty-three plans are participating in this year's studies, including seventeen Blue Cross Blue Shield plans. We expect that the various editions should be available as follows:

Figure 1. SEER Publication Dates

	<u>Volume I Financial Metrics</u>	<u>Volume II Operational Metrics</u>
Blue Cross Blue Shield	Early July	Mid July
Provider-Sponsored	Early July	Late July
Larger Plan	Late July	Late July
Medicaid	Late July	Mid August

In addition to these universes, we are expecting to add several others. They will include at least seven plans in a Medicare Advantage oriented universe, with at least \$5.9 billion in revenues. Another universe is composed of a unique subset of Medicaid oriented plans.

Please contact us if you are interested in purchasing copies of these reports.

BLUE CROSS BLUE SHIELD PLANS REPORT MODEST EXPENSE GROWTH IN 2005

Summary

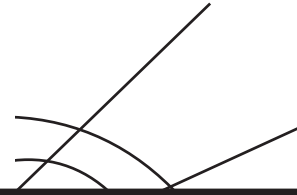
Administrative expenses per member per month (PMPM) for Blue Cross Blue Shield Plans appeared to have increased by a median of 2.3% in 2005 versus 3.0% in 2004. While most costs increased, the largest functional area grouping, account and membership administration, increased at a median rate of 1.1%. Notably, these cost trends reflect the track records of continuous participants in Sherlock Company performance benchmarks who are deeply committed to administrative cost measurement and management.

Background

This is an analysis of the submissions of the seventeen Blue Cross Blue Shield Plans in this universe. All of these health plans were participants last year and accordingly their results are directly comparable to last year's. Except for the increasing prominence of ASO relationships, we believe that the business mixes of these firms changed only modestly. Together, they serve approximately 25 million people.

Membership Results

Total comprehensive membership for 2005 increased 0.3 percent to 25.4 million. The median number of members was 827,456 in 2005, which was a 6.0% increase over the



previous year. There was a notable shift in favor of self-funded relationships. Commercial insured membership saw an overall decrease of 5.2%, while commercial ASO/ASC saw a 6.3% growth in membership for 2005. Similarly, commercial insured membership saw a median increase of 2.0% and commercial ASO / ASC experienced a 15.7% median increase for 2005.

Functional Area Grouping Results

Total costs were \$26.46 PMPM, an increase of 2.3% from last year. Account and membership administration costs, medical and provider management, marketing and corporate services each underwent an increase.

Marketing. Costs in this group of functions increased by 4.9% in 2005, to \$6.74 PMPM. It appears that there was a renewed emphasis on internally controlled distribution systems as advertising and promotion and member communication costs grew especially rapidly. Commission costs also increased, but at a slower pace. Product development and market research also increased: Many Blue Cross Blue Shield Plans are aggressively developing new products including consumer-directed products, Medicare Advantage, and Medicare Part D.

Medical and Provider Management. This, along with marketing, is the fastest growing functional area. Medical and provider management increased by 4.9% to \$2.87 PMPM. Provider network manage-

ment and services increased at a moderate rate, especially in provider relations services. Medical management increased as well and tends to track health care cost trends.

Account and Membership Administration.

These costs increased by 1.1% to \$9.70 PMPM in 2005. Claim and encounter capture and adjudication experienced a slight increase while enrollment posted a larger increase. Customer service costs also saw a modest increase. Information systems saw a slight increase in cost, which can be mostly attributed to strong growth in IT Security Administration and Enforcement and a moderate growth in Internet / eCommerce costs. These transaction-oriented costs comprise approximately 40% of total costs and, as core competencies of health plans, are frequently the focal point of cost management initiatives.

Corporate Services. These costs stayed flat at \$5.79 PMPM. Corporate executive and governance increased greatly, perhaps due to performance based compensation for senior management. By contrast corporate services and finance and accounting had declines in PMPM costs.

The results are summarized below. All of the values are median values derived from the 2005 SEER study.

Figure 2. Blue Cross Blue Shield Results

	Median		
	2004	2005	Pct. Chg.
Marketing	\$6.43	\$6.74	4.90%
Medical and Provider Management	2.74	2.87	4.90%
Account and Membership Administration	9.59	9.70	1.10%
Corporate Services	5.79	5.79	0.00%
Total Expenses	\$25.85	\$26.46	2.30%

