

## SHERLOCK EXPENSE EVALUATION STATUS REPORT

### *Participation Growth*

This is our tenth consecutive year of performance benchmarking, collectively comprising more than 300 health plan years of data. In 2007, we have 45 plans so far participating in universes of Blue Cross Blue Shield Plans, Independent (Provider-Sponsored) Plans, Medicare Advantage Plans and Medicaid Plans. Collectively, our participants insure approximately 35 million Americans with comprehensive health benefit plans. Our participants also provide specialty care such as stand-alone dental and Medicare Part D to people not served through the comprehensive products.

Overall, the number plans participating have increased by 7% so far in 2007. This is net of the effect of plans that elected not to participate this year, and excludes a possible second round of additional Medicaid focused plans. The most common reason for not participating is being acquired, followed by being unable to participate due to the constraints stemming from the implementation of a new information system.

<sup>a</sup> Availability refers to Financial Metrics. Operational metrics are released a few weeks later.

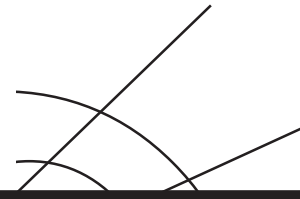
### *Enhanced Metrics*

Operational metrics in all functional areas have been strengthened, especially in information systems, marketing and claims. We have also added Medicare SNP and Medicare Part D to the ten or so other products in our cost segmentation. Segmentation of costs by product is necessary to assure comparability between health plans with differing product mixes. There were also some modest increases in segmentation of costs by functional area but, as there are up to 57 identifiable functions, granularity may be approaching the optimality between effort and insight. The breadth of our participation in various universes leads to a “cross fertilization” of insights between the plans in the measurement of health plan performance. Building on our past analyses, this year’s identifies the relative performance of variances to the plan, show what functional areas are responsible for variances, and identify a plan’s performance characteristics that may contribute to particular variances.

### *Enhanced Quality Assurance*

This year’s edition contains new procedures to increase the reliability of the submitted data and the resulting reports. We have strengthened the *Guidelines* (our guidelines for participants to report data and users to compare with their own numbers), which now total 225 pages of definitions, activity descriptions, cost

<b>Universe / Edition</b>	<b>Participants</b>	<b>Median Membership</b>	<b>Availability <sup>a</sup></b>
Blue Cross Blue Shield	23	716,596	July 2
Provider-Sponsored (Independent)	12	221,360	July 11
Medicaid-Focused	8	97,961	August 1
Medicare Advantage Focused	6	140,695	September 14
Larger Plan	6	2,677,308	July 2



centers, operational outputs and ratio calculation notes. These *Guidelines* are searchable by the users, enhancing the likelihood of compliance. Emerging issues are resolved through an on-line Forum in which all plans participate. Using statistical methods, we have also enhanced our ability to identify responses to our survey that appear to vary from the actual economics of the participating plans, and we have improved communication to the participants concerning what we think may be their incorrect responses. Finally, our longevity has led to a practice effect in the accuracy of submissions. For instance, two-thirds of our Blue Cross Blue Shield plans have participated in our performance benchmarking studies for five or more years.

## *Performance Improvement*

We believe that health plans benefit from their participation in our performance benchmarking studies. Participants as a group have reported declines in the rate of growth in administrative costs in the past five years. While our analysis is encyclopedic in scope, our summary letters target product or functional areas which yield the highest rate of return on management investment.

## *Use in Process Improvement*

After ten consecutive years of benchmarking studies, many plans are using the *SEER* performance benchmarking studies at the functional area levels as well as at the strategic levels of their organizations. In addition, we are establishing relationships with leading consulting firms who assist health plans in the improvements of their business processes.

## *Special Reports*

The large population of nearly 50 participating health plans permits regional versions of *SEER*

results to be employed in situations in which clients regard geographic characteristics to be important drivers. In addition to tailored reports commissioned by particular groups of health plans, we publish annual *Chartbooks* for health plans operating in selected geographic areas. We also supply special reports for a variety of advocacy activities, based on the requests of the users.

## *Organizational Advantages*

We continue to operate independently. We do not sell products or services that create conflicts of interest, and we are organized to avoid the fallacy of the commons. Despite this, we operate at very low costs.

## *Conclusion*

After ten consecutive years Sherlock Company's performance benchmarks have increased in their value in the management health plan administrative costs. *SEER* both contributes to operating improvements and is an accurate and unbiased gauge of health plan performance to health plans, firms contemplating business combinations and consultants. Because of the strength of our panel, and our record of reliability, we expect continued growth in participation and other application. Our business model is sound and also assures that users that our analyses are free of bias. To support and increase the use of the benchmarking studies, we are considering a number of other supporting initiatives, ranging from support of consulting relationships to application-oriented seminars.

This is intended to be a brief update. Sherlock Company would welcome the opportunity to provide further information. Additional information is available at [www.sherlockco.com/seer.shtml](http://www.sherlockco.com/seer.shtml). Please contact us at 215-628-2289 or [sherlock@sherlockco.com](mailto:sherlock@sherlockco.com).