



Plan Management Navigator

Analytics for Health Plan Administration

July 2007

NEW PERFORMANCE BENCHMARKS FOR BLUES RELEASED BY SHERLOCK COMPANY

Median costs of Blue Cross Blue Shield Plans, reported in Sherlock Company's benchmarks, are \$25.90 Per Member Per Month (PMPM) for all comprehensive products in 2006 or 11.9% of premium equivalents. Blues at the 25th percentile reported costs of \$21.50 PMPM (9.9% of premium equivalents), and at the 75th percentile, Blues reported costs of \$31.12 PMPM (14.1% of premium equivalents).

The prior year's median costs were \$26.43. Declines in reported costs reflected increases in Plan participation, as 23 of the Plans participated, compared with 17 last year. Individual Plans also reported moderating administrative expense growth. Blue Cross Blue Shield Plans participating in this year's performance benchmarking study comprised most of the 39 primary licensees of Blue Cross Blue Shield.

We believe that the long-term trend among health plans reflects closer scrutiny of administrative costs, and achieving best practices in operations management. Blue Cross Blue Shield Plans are motivated by consumer demand and increasingly possess the technological ability to both lower costs and enhance the performance of their operations.

Background

Sherlock Company is now distributing its performance benchmarks for Blue Cross Blue Shield Plans to this year's participants, and to Sherlock Company customers who have pre-ordered copies. This is the first release of a series of five universes of benchmarks of performance metrics for health plans, and is the tenth annual performance benchmarks compiled and analyzed by Sherlock Company. Other universes include Medicare Advantage, Medicaid, Provider-Sponsored and Larger Plans.

The twenty-three Plans included in this study serve 30.1 million people under comprehensive health

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RELEASE DATES FOR SUMMARY INFORMATION

It has long been our practice to provide some summary information concerning our performance benchmarks though the Plan Management Navigator. This year will be no exception.

As noted in Updates on the SEER Benchmarks, we expect that to report on a number of our universes in the coming weeks. Many who are not yet participants or purchasers of our benchmarks are nevertheless users of these summaries. The following schedule outlines the release dates.

Universe	Navigator Edition	Publication Date
Blue Cross Blue Shield Edition	July	Today
Provider Sponsored (Indep.) Edition	August	August 1
Larger Plan Edition	Late August	August 15
First Medicaid Edition	September	September 1
Medicare Advantage	Late September	September 15
Second Medicaid Edition	October	October 1

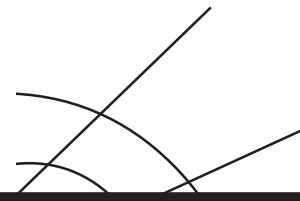
UPDATES ON THE SEER BENCHMARKS

This is Sherlock Company's 10th consecutive year of performance benchmarking of health plans, and our metrics reflect 300 health plan years of experience. This year, benchmarks include thousands of operational and financial performance metrics and compile the results of approximately 50 health plans serving 35 million insured Americans.

This year, our universes will include Provider-Sponsored (Independent) Plans, Larger Plans, Medicaid Plans and Medicare Advantage Plans, in addition to the Blue Cross Blue Shield universe referred to elsewhere. The production schedule is as follows.

- The Blue Cross Blue Shield and Larger Plan editions are immediately available.
- The Provider-Sponsored (Independent) Editions will be available on the week of July 23.

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benefit plans. Approximately 12.8 million of the commercial members were served under some form of self-insurance arrangements, comprising approximately 48.2% of the total commercial members. Commercial members were segmented into six types of health coverage products. In addition, these plans also provided products including Medicare Advantage, Medicare Part D, Stand-Alone Dental, Medicaid HMO and Medicare Supplement.

Of the respondents participating in this year's Blue Cross Blue Shield study, 74% participated with us last year, and 65% of this year's participants have five or more years of experience participating in SEER. This "practice effect" along with the extensive documentation, and data review helps to assure the reliability of our metrics.

The financial metrics summarized here are complemented by extensive operational metrics in comparison volumes, facilitating more in-depth analyses. Typically, expenses are deconstructed into factors of user demand, employee productivity, unit cost, staffing ratios and cost per employee. For instance, Claim and Encounter Capture and Adjudication reports claims per member, productivity of claims processors, cost per claim and per-employee costs of claims. Numerous drivers of costs and quality are also provided. In the claims area, for example, these include metrics of electronic submission, auto-adjudication and factors requiring manual intervention.

Expenses by Functional Area Cluster

In the Blue Cross Blue Shield edition of *Sherlock Expense Evaluation Report*, administrative expenses for each product are segmented into nearly sixty different functional areas. For the purpose of the *Plan Manage*

ment Navigator, we have summarized these functional areas into "clusters" of Marketing, Medical and Provider Management, Account and Membership Administration and Corporate Services.

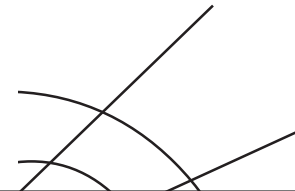
Marketing expenses represented \$7.46 PMPM (3.0% of premium equivalents) of the total administrative costs. At the 75th percentile, these costs were \$9.34 PMPM but only \$5.45 PMPM at the 25th percentile. Commissions paid to brokers comprised \$5.16 PMPM, the lion's share of these expenses. This is especially interesting considering that only 42.3% of Blue Cross Blue Shield members are broker-driven and therefore subject to broker commissions. Other expenses in this cluster include Rating and Underwriting, Product Development / Market Research, Sales and Marketing and Advertising and Promotion.

Medical & Provider Management is the cluster of Provider Network Management and Services and Medical Management. Provider contracting, provider service, case and disease management and precertification are among the activities provided by functions in this cluster. These expenses had a median value of \$2.89 PMPM (1.3% of premium equivalents). At the 75th percentile, these costs were \$3.55 PMPM, but were as low as \$2.06 PMPM 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 \$9.90 per member per month of administrative expenses (4.4% of premium equivalents) in 2006, the largest share of administrative costs. This cluster of expenses includes many of health plans' core functions such as Enrollment (including Membership and Billing), Customer Services, Information Systems and Claims (including Encounter Capture and Adjudica-

	25th PCTL	75th PCTL	Median	σ / Mean
Marketing	\$5.45	\$9.34	\$7.46	40.2%
Provider & Medical Management	2.06	3.55	2.89	32.9%
Account & Mem. Administration	8.70	11.53	9.90	21.3%
Corporate Services	4.43	6.77	6.23	24.6%
Total	\$21.50	\$31.12	\$25.90	23.1%

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tion). Plans reported \$11.53 at the 75th percentile and \$8.70 at the 25th percentile.

Corporate Services represented the final cluster of expenses. It included expenditures for 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 \$6.23 PMPM (2.6% of premium equivalents) in administrative expenses. Fewer than 25% exceeded \$6.77 PMPM or were less than \$4.43 PMPM. These expenses are more susceptible to economies of scale than other groups of functional expenses, based on Sherlock Company's economies of scale studies.

Expenses by Product

The products varied in their costs because they have different functional requirements. 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 marketing and medical management costs than their insured counterparts.

Among insured products, Medicare Advantage had the highest costs at \$59.87 PMPM. For commercial insured products, HMO and POS had median values of \$31.64 PMPM and \$30.95 PMPM. Indemnity & PPO insured products had a median value of \$28.98 PMPM. Medicaid and Medicare Supplemental plans typically cost \$24.60 PMPM and \$29.50 PMPM, respectively, to administer.

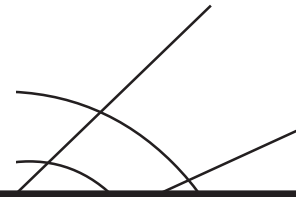
Figure 2. Benchmark Summary
Blue Cross Blue Shield Costs by Functional Area Cluster
Percent of Premium Equivalents

	25th PCTL	75th PCTL	Median	σ / Mean
Marketing	2.5%	4.7%	3.0%	40.2%
Provider & Medical Management	1.1%	1.5%	1.3%	26.8%
Account & Mem. Administration	4.2%	5.5%	4.4%	22.8%
Corporate Services	2.2%	3.0%	2.6%	26.1%
Total	9.9%	14.1%	11.9%	22.9%

Figure 3. Benchmark Summary
Blue Cross Blue Shield Costs by Product
Per Member Per Month

	25th PCTL	75th PCTL	Median	σ / Mean
Commercial HMO				
Insured	\$25.02	\$39.05	\$31.64	28.4%
ASO / ASC	\$17.24	\$25.39	\$20.75	47.9%
Commercial POS				
Insured	\$27.06	\$33.21	\$30.95	38.7%
ASO / ASC	\$15.91	\$20.68	\$19.53	33.4%
Indemnity & PPO				
Insured	\$26.70	\$36.85	\$28.98	27.0%
ASO / ASC	\$16.78	\$24.25	\$19.27	27.6%
Medicare Advantage	\$54.14	\$75.39	\$59.87	26.2%
Medicaid	\$21.83	\$26.03	\$24.60	28.4%
Medicare Supplemental	\$21.92	\$37.01	\$29.50	34.7%
Comprehensive Total	\$21.50	\$31.12	\$25.90	23.1%
Stand Alone Dental	\$2.26	\$4.05	\$3.15	66.8%
Medicare Part D	\$16.94	\$22.99	\$20.55	57.7%

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Interestingly, ASO/ ASC products typically cost just over \$10.00 less per member to administer than their insured counterparts. While the ASO/ ASC HMO cost \$20.75 per member per month, the ASO/ ASC forms of POS and Indemnity & PPO cost \$19.53 PMPM and \$19.27 PMPM, respectively. Marketing costs are typically much lower, but medical and provider costs were lower as well.

Percent of Premiums or Equivalents by Product

Expressing administration as a percent of premium is controversial since both the numerator and the denominator can be subject to factors other than efficiency.

Business mix and differences between the relative cost of health care and the relative cost of administrative services can limit the usefulness of such calculations. However, such ratios are a common and intuitively appealing shorthand. In making this presentation, for similar reasons, we have also used the convention of premium equivalents, that is, for the ASO/ ASC arrangements, employing as a denominator, the sum of the ASO/ ASC fees and the medical costs associated with this product.

Expressed as a percent of premiums or equivalents, administration also varied by product. Excluding the effect of services that are commonly capitated or outsourced, such as behavioral health and prescription drugs, Medicare Advantage had the lowest costs, at 8.1% of premiums, with the high among Comprehensive products of 17.2% for Medicare Supplemental. Among the commercial products, Indemnity & PPO had the highest costs at 15.0% of premiums, followed by HMO at 14.3% of premiums and POS at 13.9% of premiums. Again, the ASO/ ASC products comprised a lower percent of premium equivalents than their insured counterparts. Indemnity and PPO were 8.6%, POS was 8.9% and HMO was 8.5% of premium equivalents.


Further information concerning the results of our benchmarking studies are available from Sherlock Company. Other summaries will be published in coming editions of *Plan Management Navigator*. 

Figure 4. Benchmark Summary
Blue Cross Blue Shield Costs by Product
Percent Premiums or Equivalents

	25th PCTL	75th PCTL	Median	σ / Mean
Commercial HMO				
Insured	11.6%	15.8%	14.3%	20.9%
ASO / ASC	8.0%	11.3%	8.5%	63.9%
Commercial POS				
Insured	11.3%	15.0%	13.9%	46.7%
ASO / ASC	7.5%	9.8%	8.9%	20.0%
Indemnity & PPO				
Insured	11.1%	16.7%	15.0%	25.1%
ASO / ASC	7.9%	10.7%	8.6%	70.6%
Medicare Advantage	6.8%	9.7%	8.1%	24.5%
Medicaid	10.8%	15.7%	13.8%	23.7%
Medicare Supplemental	14.7%	21.0%	17.2%	31.8%
Comprehensive Total	9.9%	14.1%	11.9%	22.9%
Stand Alone Dental	14.5%	19.9%	18.5%	57.6%
Medicare Part D	17.2%	25.5%	20.4%	57.8%

SEER Benchmarks: *From Page 1*

- The first Medicaid edition will be available on the week of August 6. Unique among the universes this will arrive in an early and late update. The efforts that many of the plans in this universe committed to participation in Medicare SNP products has delayed some submissions so that a later update should be available on the week of September 24.
- The Medicare Advantage edition will be available during the week of September 17.

These dates refer to the financial metrics volume. The more complex operational metrics will take up to a month longer because of the unique challenges of the form of responses, the special data verification requirements and the complexity of organizing the metrics in the most intuitive and useful ways. 