

## LATEST PRIVATE HEALTH PLAN DASHBOARD RESULTS

For the trailing three months ended September 30<sup>th</sup>, 2008, the eleven health plans in our *Health Plan Dashboard* reported health revenue growth of 9.9%, with indemnity growth of 21.5%, ASO/ ASC growth of 9.0%, while managed care revenue increased by 1.6%. Medicare Advantage grew by 32.9% and Medicaid had revenue growth of 17.9%.

Overall, membership increased by 2.5% in health lines. Membership declined by 5.2% for managed care but increased by 27.0% in the indemnity business. The gain was especially large among Provider-Sponsored Plans. Membership in Medicare Advantage products soared by 21.5%.

Managed care and ASO had price increases of 7.2% and 7.5%, respectively, while indemnity posted only a 0.3% increase. Medicare Advantage posted an increase of 9.8% as Medicaid premiums increased by 6.8%.

Health benefits ratios overall grew by 1.0 percentage point, but increased by 7.4 percentage points (as a percent of premium equivalents) for ASO/ASC line and grew by 9.3 percentage points for indemnity. The number of scripts per person increased by 0.5 to 10.3 on an annualized basis, which increase was due to a shift in favor of Medicare Advantage. E/R visits per thousand members increased by 14.0 to an annual rate of 318.3 per thousand and hospital days decreased by 9.6 days to 338.3 days per thousand. All products experienced declines in hospital utilization.

The administrative expense to premium ratio remained at 9.0%. Claims volumes increased by 1.24 to 15.1 per member per year while inquiries per member fell 0.02 to 1.6 per

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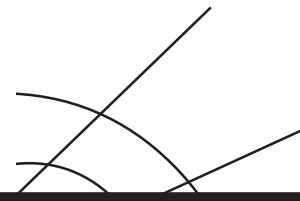
## REFORM AND ADMINISTRATIVE COSTS OF SMALL GROUP AND INDIVIDUALS

The Lewin Group report, *McCain and Obama Health Care Proposals: Cost and Coverage Compared* (Revised October 15, 2008) endeavors to model the effect of President-elect Barack Obama's health care reform proposals. Among the new administration's proposed initiatives are efforts to reduce health plan administrative expenses, which could increase the propensity for small groups and individuals to purchase such policies. However, since it appears that Lewin Group and Congressional Budget Office estimates of health plan administrative expenses for these segments are high, we believe that the effect of reducing them may be overstated.

Lewin Group, as well as the Congressional Budget Office (CBO), models the impact of reduced administrative expenses by applying estimates of price elasticity of demand for health insurance. Administrative expenses feed into this model in that a decline in administrative expenses should result in premium declines thereby increasing the likelihood that health insurance would be more attractive to individuals and employers. The role of administrative expenses is particularly important in considering the small group and individual market, where administrative expenses are relatively high and lack of coverage is more widespread.


The Lewin Group employs estimates of administrative expenses of up to 27.3% of premium for small group and up to 33.3% for individuals. CBO seems to use similar estimates. We believe that these estimates are high, which would suggest that the efficacy of cost reductions to spur employer and individual coverage is more limited than modeled.

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**Dashboard Results:** *Continued from Page 1*

member per year. Staffing ratios increased by 0.58 FTEs to 18.6, though they declined among Blue Plans.

Health plans in our *Dashboard* universe are comprised of a mix of Blue Cross Blue Shield and Independent/Provider-Sponsored Plans. Please let us know if additional information would be of interest to you and your organization. 


**Reform/Administrative Costs:** *Continued from Page 1*

As shown in Figure 1, Blue Cross Blue Shield Plans incur median administrative expenses of 15.3% of premium for individuals and 13.3% for small group. These are higher than, for instance, the administrative expenses of all insured indemnity and PPO sold by Blue Cross Blue Shield Plans, which have a median value of 11.8%. The ASO counterpart to this product has administrative expenses to premium equivalents of 8.0%. So, while products sold to individuals and small groups are in fact higher, they are not nearly so high as assumed by Lewin Group and the CBO. Accordingly, the effect of their reduction is less as well.

We believe that our data is highly reliable. Our sample of eleven plans collectively serve 1.8 million individual members or almost 18% of this market, using CBO's estimate of market size. Our sample of ten plans serves 3.1 million small group members (50 or fewer

employees), and while we are unable to locate precisely comparable totals, we assume that this is a significant share as well. The limited information that we have concerning the Lewin Group and CBO administrative expense estimates suggests that it is far less robust. Finally, Sherlock Company information concerning administrative expenses is from health plans that intend to rely upon the resulting comparative analyses to manage their businesses.

While our results may appear to contradict conventional wisdom, they do comport with the experience of the Medicare Advantage market which is also sold to individuals. The median costs for Blue plans serving this market is 8.7% of premiums. Independent / Provider-Sponsored plans have administrative expenses of 7.8% of premiums for this product. Even Medicare Supplemental, which has many of the same administrative expenses of Medicare Advantage but much lower premiums, operates at 16.4% for Blue Cross Blue Shield Plans, a major force in this market.

Accordingly, if administrative expenses are overestimated, then the efficacy of reductions in the administrative costs of health plans serving the small group and individual markets in increasing insurance coverage is also overstated. Thus, the new Obama administration must either amend its estimates of the reduction of the uninsured under its reform of the small group and individual market or develop alternative solutions. 

**Figure 1. Plan Management Navigator**  
 Sherlock Company Benchmarks and Lewin Group Estimates for Administrative Expenses

	Small Group		Individual	
	Lewin Group	Sherlock Benchmarks*	Lewin Group	Sherlock Benchmarks*
Administrative Expenses to Premiums	27.30%	13.3%	33.30%	15.3%

\* Median values, 2008