

# *SHERLOCK EXPENSE EVALUATION REPORT*

## **2009 BLUE CROSS BLUE SHIELD EDITION** **Volume I: Financial Metrics**

*This Report, its content (including data values, definitions and calculation methodologies) and format (collectively, Sherlock information) are the property of Sherlock Company. Its use is governed by a non-exclusive license agreement or a mutual confidentiality agreement between Sherlock Company and its client that restricts the use of the Report to the client's internal purposes. The agreement between the client and Sherlock Company does not convey any right of commercial use, nor effect any transfer of the Sherlock Information or any portion thereof. Any distribution or reproduction, intentional or unintentional, of any materials contained herein without the express written permission of Sherlock Company is prohibited.*

June 2009



*Copyright © 2009 Sherlock Company. All Rights Reserved*

*Photograph of USCGC Atlantic, Copyright © U.S. Naval Institute.*

## TABLE OF CONTENTS

	<u>Tab</u>
Introduction and Background	1
▪ <i>Background, Organization, Conventions, Calculations, and Procedures</i>	
Summary Analyses	2
▪ <i>Summary of Medians for each functional area and product</i>	
▪ <i>Functional Expenses Summarized by Four Functional Area Clusters, by Product</i>	
▪ <i>Historical Expense Trends from 2003 through 2008, as reported and mix adjusted</i>	
Functional Expenses, across Products	3
▪ <i>Identification of Variances due to Product Mix</i>	
▪ <i>PMPM and Percent of Revenue Analyses on Facing Pages</i>	
Functional Expenses of Each Product, PMPM	4
▪ <i>Identification of Cost Variances within Products, expressed PMPM</i>	
Functional Expenses of Each Product, Percent of Revenue	5
▪ <i>Identification of Cost Variances within Products, expressed Percent of Revenues</i>	
Functional Expenses of Individual Products, National Accounts, and Small Groups	6
▪ <i>Identification of Cost Variances within Individual Products, National Accounts, and Small Groups expressed Percent of Revenues and Per Member Per Month</i>	
Expenses of Specialty and Other Self-Contained Services	7
▪ <i>Includes Pharmacy, Mental Health, Provider Audit and Billing Validation, and COB / Subrogation</i>	
▪ <i>Benefit and Administrative Expenses Separately Reported to Reflect Internal or External Management</i>	
▪ <i>PMPM and Percent of Revenue Analyses on Facing Pages</i>	
Stop Loss Metrics	8
▪ <i>Proportion of ASO/ASC membership served with stop loss</i>	
▪ <i>Revenues, expenses and earnings as a stand-alone product</i>	
▪ <i>Revenues, expenses and earnings as integrated with associated ASO/ASC products</i>	
Information Systems Expenses, Allocated by Supported Functional Area	9
▪ <i>IS Allocations Summarized and Allocated to Functional Areas</i>	
▪ <i>Analyzed relative to Functional Area, as allocated.</i>	
▪ <i>Staffing Costs analyzed relative to Functional Area Costs Adjusted for Information Systems Allocations.</i>	
Participant Characteristics	10
▪ <i>Selected Characteristics of Participants</i>	
▪ <i>Membership, Product Mix, Groups Served, Revenues and other Key Ratios</i>	

Sections 2-10 contain directories to locate specific product lines, expense categories or respondent characteristics.

## TAB 2. SUMMARY ANALYSES

This section summarizes the *SEER* financial benchmarks. It includes a summary of median values, a functional area summary and a year-over-year comparison.

The median values for each functional area and product are shown in this section. It is intended to provide an immediate and accessible metric of central tendency for administrative costs in each product / expense cell. If your Plan has submitted data to this survey, median values are printed in black if the Plan has favorable variance and red if it is unfavorable.

<i>Summary of Medians</i>	<i>Page</i>
Per Member Per Month	2
Percent of Revenue	4

The functional area summary provides a high level analysis by four functional area clusters. Data is organized by cluster and is presented on a per member per month and percent of revenue basis. It includes histograms illustrating the distribution of results for each of the product / expense cells. The blue vertical line is the median. If your Plan has submitted data, a red vertical line represents your Plan's value. All of the expense classifications reported by the respondents have been summarized as shown below.

Revenues are defined as premiums or self-funded fees. Premiums and fees exclude those of pharmacy and mental health, as do associated expenses.

<i>Functional Area Summary</i>	<i>Page</i>
<b>Marketing</b>	<b>6</b>
Rating and Underwriting	
Product Development / Market Research	
Sales and Marketing (except Advertising and Promotion)	
Commissions (external)	
Advertising and Promotion	
<b>Medical and Provider Management</b>	<b>8</b>
Provider Network Management and Services	
Medical Mgmt. / Quality Assurance / Wellness	
<b>Account and Membership Administration</b>	<b>10</b>
Enrollment / Membership / Billing	
Customer Services	
Claim and Encounter Capture and Adjudication	
Total Information System Expenditures (as expensed)	
<b>Corporate Services</b>	<b>12</b>
Finance and Accounting	
Actuarial	
Corporate Services	
Corporate Executive / Governance	
Association Dues and License/Filing Fees	
Miscellaneous Business Taxes	
<b>Total Expenses</b>	<b>14</b>

A year-over-year comparison is also provided, showing expense trends since 2003. To assure comparability, only respondents reporting in both comparison years are reflected. Note that such plans are a subset of the universe as a whole.

<i>Year-over-Year Comparisons</i>	<i>Page</i>
Year-over-Year Comparisons	16
Year-over-Year Comparisons, Product Mix-Adjusted	

### TAB 3. FUNCTIONAL EXPENSES, ACROSS PRODUCTS

This section provides an analysis of specific functional expenses across product lines. Values for each functional area are presented regardless of whether services are provided internally or outsourced. It is presented on a per member per month and percent of revenue basis. It includes histograms illustrating the distribution of results for each of the product / expense cells. The blue vertical line is the median. If your Plan has submitted data, a red vertical line represents your Plan's value.

Revenues are defined as premiums or self-funded fees. Premiums and fees exclude those of pharmacy and mental health, as do associated expenses.

<i>Functional Area</i>	<i>Page</i>	<i>Functional Area</i>	<i>Page</i>
Rating and Underwriting	20	Total Information System Expenditures (as expensed)	78
(a) Employer Group Reporting	22	(a) Information Systems Operations and Support Services	80
(b) All Other Rating and Underwriting	24	(b) Information System Application and Maintenance	82
Product Development / Market Research	26	(c) Information Systems Applications Acquisition and Devel	84
Sales and Marketing (except Advertising and Promotion)	28	(1) Internet/eCommerce	86
(a) Account Services	30	(2) Stage III Amortization Costs	88
(b) Member and Group Communication	32	(3) Pre-Planning Project Costs	90
(c) All Other Sales and Marketing	34	(d) IT Security Administration and Enforcement	92
Commissions (external)	36	Finance and Accounting	94
Advertising and Promotion	38	Actuarial	96
Enrollment / Membership / Billing	40	Corporate Services	98
Customer Services	42	(a) Human Resources	100
Provider Network Management and Services	44	(b) Legal	102
(a) Provider Relations Services	46	(c) Facilities	104
(b) Provider Contracting	48	(d) OPEB	106
(c) Provider Audit / Billing Validation	50	(e) Audit	108
(d) Other Provider Network Management and Services	52	(f) Purchasing	110
Medical Mgmt. / Quality Assurance / Wellness	54	(g) Imaging	112
(a) Pre-Certification	56	(h) Printing and Mailroom	114
(b) Case Management	58	(i) Other Corporate Services	116
(c) Disease Management	60	Corporate Executive / Governance	118
(d) Nurse-based Counseling	62	Association Dues and License/Filing Fees	120
(e) Health and Wellness	64	SUBTOTAL	122
(f) Other Medical Management	66	Miscellaneous Business Taxes	124
Claim and Encounter Capture and Adjudication	68	TOTAL	126
(a) Coordination of Benefits (COB) and Subrogation	70		
(b) BlueCard Home and Custom Par Fees	72		
(c) Medicare Crossover Fees	74		
(d) Other Claim and Encounter Capture and Adjudication	76		

Confidential

**TAB 4. FUNCTIONAL EXPENSES OF EACH PRODUCT, PMPM**

This section provides an analysis of the expense composition of each product line. All expenses for each product line are included in each table. Data is presented on a per member per month basis. It includes a statistical analysis of expenses and stacked floating bar charts illustrating the distribution of results.

<i>Product</i>	<i>Page</i>
1. All Products	130
2. Insured Commercial	134
3. ASO / ASC Commercial	138
4. Total Commercial	142
5. Comprehensive Total	146
6. Commercial HMO, Insured	150
7. Commercial HMO, ASO/ASC	154
8. Commercial POS, Insured	158
9. Commercial POS, ASO/ASC	162
10. Indemnity & PPO, Insured	166
11. Indemnity & PPO, ASO/ASC	170
12. FEP	174
13. Medicare Advantage	178
14. Medicaid HMO	182
15. Medicare Supplemental	186
16. Stand Alone Medicare Part D	190
17. Stand Alone Dental	194

Confidential

## TAB 5. FUNCTIONAL EXPENSES OF EACH PRODUCT, PERCENT OF REVENUE

This section provides an analysis of the expense composition of each product line. All expenses for each product line are included in each table. Data is presented on a per member per month basis. It includes a statistical analysis of expenses and stacked floating bar charts illustrating the distribution of results.

Revenues are defined as premiums or self-funded fees. Premiums and fees exclude those of pharmacy and mental health, as do associated expenses.

<i>Product</i>	<i>Page</i>
1. All Products	200
2. Insured Commercial	204
3. ASO / ASC Commercial	208
4. Total Commercial	212
5. Comprehensive Total	216
6. Commercial HMO, Insured	220
7. Commercial HMO, ASO/ASC	224
8. Commercial POS, Insured	228
9. Commercial POS, ASO/ASC	232
10. Indemnity & PPO, Insured	236
11. Indemnity & PPO, ASO/ASC	240
12. FEP	244
13. Medicare Advantage	248
14. Medicaid HMO	252
15. Medicare Supplemental	256
16. Stand Alone Medicare Part D	260
17. Stand Alone Dental	264

Confidential

## TAB 6. FUNCTIONAL EXPENSES OF INDIVIDUAL PRODUCTS, NATIONAL ACCOUNTS AND SMALL GROUPS

This provides an analysis of the expense composition of all products sold to individuals, national accounts, and small groups regardless of the products sold to them. Data is presented on a per member per month and percent of revenue basis. It includes floating stacked bar graphs illustrating the distribution of results.

Here, revenues are defined as premiums or premium-equivalents. Premiums and fees exclude those of pharmacy and mental health, as do associated expenses.

<i>Analysis</i>	<i>Page</i>
1. Individual Products, Per Member Per Month	270
2. Individual Products, Percent of Revenues	274
3. National Accounts, Per Member Per Month	278
4. National Accounts, Percent of Revenues	282
5. Small Groups, Per Member Per Month	286
6. Small Groups, Percent of Revenues	290

Confidential

**TAB 7. EXPENSES OF SPECIALTY AND OTHER SELF-CONTAINED SERVICES**

This section provides an analysis of specialty and other self-contained net or total expenses across product lines. Data is presented to distinguish between whether services are provided internally or outsourced. Values are presented on a per member per month and percent of revenue basis. It includes histograms illustrating the distribution of results for each of the product / expense cells. The blue vertical line is the median. If your Plan has submitted data, a red vertical line represents your Plan's value.

*Pharmacy and Mental Health Metrics* : Revenues are defined as premiums or premium equivalents. Premiums and equivalents include pharmacy and mental health.

*COB and Subrogation and Provider Audit / Billing Validation Metrics* : Revenues are defined as premiums or premium equivalents excluding pharmacy and mental health.

	<i>Pharmacy</i>	<i>Page</i>	<i>Mental Health</i>	<i>Page</i>
<b>Internal</b>				
Administration	Administration	296	Administration	306
Benefits	Gross Benefits	298	Benefits	308
Rebates	Rebates	300		
Total (or Net)	Total Internally Managed	302	Total Internally Managed	310
<b>Outsourced</b>				
Administration	Internal Contract Management	NA	Internal Contract Management	NA
Benefits	Capitation	NA	Capitation	312
Total (or Net)	Total Outsourced	NA	Total Outsourced	314
<b>Total</b>	<b>Combined Total</b>	<b>304</b>	<b>Combined Total</b>	<b>316</b>
	<i>COB and Subrogation</i>		<i>Prov. Audit / Bill. Validation</i>	
<b>Internal</b>				
Administration	Recoveries	318	Recoveries	326
Benefits	Administration	320	Administration	328
Total (or Net)	Total (Net Recoveries), Internally Mgd.	322	Total (Net Recoveries), Internally Mgd.	330
<b>Outsourced</b>				
Administration	Recoveries Received	NA	Recoveries Received	NA
Benefits	Internal Contract Management	NA	Internal Contract Management	NA
Total (or Net)	Total (Net Recoveries), Outsourced	NA	Total (Net Recoveries), Outsourced	NA
<b>Total</b>	<b>Total Combined Net Recoveries</b>	<b>324</b>	<b>Total Combined Net Recoveries</b>	<b>332</b>

## TAB 8. STOP LOSS METRICS

Stop Loss insurance is often sold to self-insured (ASO/ASC) customers of health plans. Since stop-loss has different economic characteristics than ASO/ASC but they are often sold together, it can be illuminating to look at stop-loss and ASO/ASC products as though they were combined.

In this section, we report the proportion of ASO/ASC membership that purchases stop-loss coverage and the costs and revenues of the product on a stand-alone basis. We also report the combined economics of the ASO/ASC plus the stop loss insurance to get a complete view of these complementary products. These analyses are performed with and without prescription drug and mental health benefits, expenses and associated revenues.

<i>Metric</i>	<i>Page</i>
Stop-Loss Sold Members as a Percent of Total Self-Insured Members	336
<b>Stop-Loss</b>	
Including Pharmacy and Mental Health	336
Excluding Pharmacy and Mental Health	336
<b>Self-Insured Fees Plus Stop-Loss</b>	
Including Pharmacy and Mental Health	337
Excluding Pharmacy and Mental Health	337
<b>Self-Insured Premium-Equivalents Plus Stop-Loss</b>	
Including Pharmacy and Mental Health	338
Excluding Pharmacy and Mental Health	338

Confidential

## TAB 9. INFORMATION SYSTEMS EXPENSES, ALLOCATED BY SUPPORTED FUNCTIONAL AREA

This section provides an analysis of functional expenses, allocating Information Systems to the functional areas that it supports. These allocations are then analyzed to determine the impact on each functional area, how it varies between functional areas and the importance of staffing costs relative to the reallocated expenses.

This analysis is based on Comprehensive Total data. Revenues are defined as premiums and self-funded fees. Premiums and fees exclude those of pharmacy and mental health, as do associated expenses. "Loaded" means that the information systems allocations have been added to the reported functional area costs.

Analysis	Page
1. Information Systems Allocations, Per Member Per Month	340
2. Information Systems Allocations, Percent of Revenue	344
3. Percent of Information Systems Costs Allocated by Functional Area	348
4. Information Systems Loaded Functional Area Expenses, Per Member Per Month	352
5. Information Systems Allocations as a Percent of Loaded Functional Area Costs	356
6. Staffing Costs as a Percent of Loaded Functional Area Costs	360

Confidential

## TAB 10. PARTICIPANT CHARACTERISTICS

This section provides a profile of the respondents. We summarize membership, groups served, revenues, medical expenses, profit margin and other key attributes.

<i>Characteristic</i>	<i>Page</i>
2008 Member Months - Individual and Group	366
2008 Average Members - Individual and Group	367
2008 Average Members - Individual	368
2008 Average Members - Group	369
2008 Average Number of Groups Served	370
2008 Average Group Size (Group Members / Groups)	371
Change in Average Membership	372
Change in Average Number of Groups Served	373
Mix - Member Months as a Percent of Comprehensive Total Member Months	374
Mix - Premiums and Self-Funded Fees as a Percent of Overall Total Premiums and Self-Funded Fees	375
Mix - Premiums and Premium Equivalents as a Percent of Overall Total Premiums and Premium Equivalents	376
Premiums/Self Funded Fees	377
Premium Equivalents	378
Premiums/Self Funded Fees (excluding Rx and M.H.)	379
Premiums/Premium Equivalents (excluding Rx and M.H.)	380
Premiums or Self Funded Fees PMPM	381
Premium & Premium Equivalents PMPM	382
Premiums/Self Funded Fees PMPM (excluding Rx and M.H.)	383
Premiums/Premium Equivalents PMPM (excluding Rx and M.H.)	384
Health and Other Benefit Costs PMPM	385
Health and Other Benefit Costs PMPM (excluding Rx and M.H.)	386
Health Benefits Ratio (Benefits / Premiums & Premium Equivalents)	387
Health Benefits Ratio (Benefits / Premiums & Premium Equivalents) (excluding Rx and M.H.)	388
Administrative Costs PMPM (excluding Rx and M.H.)	389
Administrative Expense Ratio (Premiums and Fees excluding Rx and M.H.)	390
Administrative Expense Ratio (Premium and Fees including Rx and M.H.)	391
Administrative Expense Ratio (Premium Equivalents excluding Rx and M.H.)	392
Administrative Expense Ratio (Premium Equivalents including Rx and M.H.)	393
Operating Earnings PMPM	394
Operating Margin	395
Characteristics by Segment, Individual	396
Characteristics by Segment, National Accounts	397
Characteristics by Segment, Small Group	398