

# *Administrative Costs of Blue Cross Blue Shield Plans*



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## *A Review of 2008 Results*

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# *Topics*

- Background
- Administrative Cost Levels
- Cost Increases: Sources and Causes.
- Expenses by Product

## *Appendices*

Last Year's Values

Last Year's Ratios

Product Segmentation

Clusters of Functions

Quality Assurance

Business Model



# Conclusions

- PMPM increase of 2.7% versus 4.3% in 2007.
- Holding product mix constant, PMPM costs increased by 4.0% versus 2.5% last year.
- More than 40% of the increase in costs was Medical Management / Quality Assurance / Wellness and Information Systems.
- Comprehensive membership grew by 1.0%.
- Growth focused on ASO / ASC, FEP and MA: Mix in favor of low administrative cost products.



## *Who are Sherlock Company and its Benchmarks?*

- Completing 12<sup>th</sup> annual survey. 396 plan years.
- Four major universes with 50 plans. 22 Blue, 16 Independent/Provider-Sponsored, 10 Medicaid, 10 Medicare Advantage. Cross fertilization. Plans serve 39 million members, or one of every five insured Americans. Users serve more than one in 2.7 insured Americans.
- Internal use: High insight to effort ratio.
- Financial, Operational, thousands of analyses.
- Most Blues participate. Most Board Members of AHIP are participants or users of *SEER*.



## *Who Are The Plans?*

- 22 Plans. 21 Primary licensees of 39 total.
- Serve 31.3 million members.
- All over the nation.
- 1.5 million average members.
- One-third of members ASO/ ASC.
- Medicare Supplemental offered by all plans:  
7% of members 5.6% of revenues.
- Medicare Advantage offered by 11 plans.  
<3% of members, 9.0% of revenues.



## Administrative Cost Levels

# The Median Costs Were \$25.95.

**Figure 1. Benchmark Summary**

Blue Cross Blue Shield Costs by Functional Area Cluster, 2008 Data

Per Member Per Month

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
Marketing	\$5.23	\$9.78	\$7.40	44.9%
Provider & Medical Management	2.23	4.45	3.34	40.5%
Account & Mem. Administration	8.89	12.10	10.78	19.3%
Corporate Services	3.83	5.18	4.46	27.5%
Total	\$23.15	\$29.84	\$25.95	22.9%

Please see Appendix D for which Functions are included in each cluster.



## Cost Increases: Sources and Causes

# Growth Low, though Affected by FEP and ASO/ASC

**Figure 2. Benchmark Summary**

Blue Cross Blue Shield Percent Change in Costs by Functional Area Cluster

	2007 Data		2008 Data	
	Percent Change	Percent Change, Mix-Adjusted	Percent Change	Percent Change, Mix-Adjusted
Marketing	4.2%	4.9%	3.5%	2.8%
Provider & Medical Management	10.0%	2.2%	11.3%	9.1%
Account & Mem. Administration	5.0%	3.9%	2.2%	4.1%
Corporate Services	0.2%	-6.2%	-0.1%	1.6%
Total	4.3%	2.5%	2.7%	4.0%



# *Indicators of Mix Change*

	Percent / Pct. Points
<b>Growth in Members</b>	
FEP	2.3%
ASO / ASC	5.4%
Medicare	17.8%
Total	1.0%
<b>Revenue Mix Change</b>	
FEP	0.7 pct. points
ASO / ASC	0.1 pct. points
Medicare	0.4 pct. points

**Continuous plans only. Median Values**



## Cost Increases: Sources and Causes

# Sources of Increase

	Fastest	Highest Weight
<b>Marketing</b>	Advertising & Promotion	External Commissions
<b>Medical &amp; Provider</b>	Med. Management	Med. Management
<b>Account &amp; Membership</b>	Information Systems	Information Systems
<b>Corporate Services (Declined)</b>	Finance and Accounting	Corporate Services



## *Cost Increases: Sources and Causes*

# *Sources: Constant Product Mix*

	<b>Fastest</b>	<b>Highest Weight</b>
<b>Marketing</b>	Advertising & Promotion	Internal Sales and Marketing
<b>Medical &amp; Provider</b>	Med. Management	Med. Management
<b>Account &amp; Membership</b>	Information Systems	Information Systems
<b>Corporate Services</b>	Corporate Exec. & Governance	Corporate Exec. & Governance



# Costs as Percent of Premium Equivalents

**Figure 3. Benchmark Summary**

Blue Cross Blue Shield Costs by Functional Area Cluster, as a Percent Premiums or Equivalents, 2008 Data

*Percent of Premium Equivalents*

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
Marketing	1.7%	3.5%	2.4%	45.2%
Provider & Medical Management	0.9%	1.5%	1.2%	38.5%
Account & Mem. Administration	3.2%	4.5%	3.9%	23.1%
Corporate Services	1.3%	1.9%	1.6%	29.6%
Total	7.8%	10.5%	9.9%	23.7%

Premium equivalents = Fees + Health benefit expenses of self-insured.

Expenses are more modest than many would assume and declined in 2008 versus 2007. FEP and ASO / ASC were contributing factors.



## Expenses by Product

# Expense Ratios Vary by Product

**Figure 5. Benchmark Summary**  
 Blue Cross Blue Shield Costs by Product, 2008 Data  
 Percent of Premium Equivalents

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
<b>Commercial HMO</b>				
Insured	10.3%	11.6%	10.5%	15.8%
ASO / ASC	5.6%	9.9%	7.3%	29.9%
<b>Commercial POS</b>				
Insured	9.2%	12.4%	11.3%	26.1%
ASO / ASC	5.7%	9.4%	6.7%	32.1%
<b>Indemnity &amp; PPO</b>				
Insured	10.0%	12.8%	11.6%	30.2%
ASO / ASC	6.8%	9.2%	7.5%	29.6%
Medicare Advantage	6.8%	10.2%	7.8%	30.9%
Medicaid	7.6%	9.9%	8.6%	25.9%
FEP	4.3%	5.9%	5.4%	27.3%
Medicare Supplemental	13.1%	22.7%	16.8%	33.9%
Comprehensive Total	7.8%	10.5%	9.9%	23.7%
Stand Alone Dental	13.8%	27.7%	15.9%	66.3%
Medicare Part D	13.6%	19.9%	16.1%	55.1%



## Expenses by Product

# Values Vary by Product, but Differently from Percents

**Figure 4. Benchmark Summary**

Blue Cross Blue Shield Costs by Product, 2008 Data

*Per Member Per Month*

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
<b>Commercial HMO</b>				
Insured	\$25.76	\$36.45	\$30.81	26.3%
ASO / ASC	\$18.80	\$26.56	\$21.73	25.9%
<b>Commercial POS</b>				
Insured	\$26.66	\$35.89	\$29.84	24.3%
ASO / ASC	\$14.34	\$22.08	\$20.13	32.0%
<b>Indemnity &amp; PPO</b>				
Insured	\$29.90	\$38.86	\$32.30	26.1%
ASO / ASC	\$16.64	\$23.49	\$20.02	27.5%
Medicare Advantage	\$58.72	\$82.16	\$78.05	19.5%
Medicaid	\$19.97	\$23.12	\$20.67	15.2%
FEP	\$13.78	\$18.81	\$17.49	30.4%
Medicare Supplemental	\$23.09	\$37.62	\$30.04	36.9%
Comprehensive Total	\$23.15	\$29.84	\$25.95	22.9%
Stand Alone Dental	\$2.38	\$3.60	\$3.32	72.8%
Medicare Part D	\$13.02	\$23.62	\$17.52	50.4%



# *Administrative Costs of Blue Cross Blue Shield Plans in 2008*



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## Questions?

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# Appendix A: Last Year's Costs

## Appendix A. Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2007 Data

Per Member Per Month

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
Marketing	\$5.36	\$9.89	\$7.46	43.6%
Provider & Medical Management	2.08	3.87	3.12	38.6%
Account & Mem. Administration	8.90	12.16	10.23	20.6%
Corporate Services	3.85	5.49	4.40	36.9%
Total	\$22.02	\$30.54	\$25.36	24.0%



# Appendix B: Last Year's Ratios

<b>Appendix B. Benchmark Summary</b>				
<u>Blue Cross Blue Shield Costs by Functional Area Cluster, as a Percent Premiums or Equivalents, 2007 Data</u>				
<i>Percent of Premium Equivalents</i>				
	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
Marketing	1.9%	4.0%	3.0%	44.3%
Provider & Medical Management	0.8%	1.4%	1.1%	44.1%
Account & Mem. Administration	3.5%	5.2%	3.8%	24.5%
Corporate Services	1.4%	2.2%	1.9%	36.4%
Total	8.3%	12.4%	10.4%	25.9%



## *Appendix C. Product Lines In Which Costs are Segmented*

- HMO - Insured
- HMO - ASO
- POS - Insured
- POS - ASO
- Medicare HMO
- Medicare Cost
- Medicare SNP
- FEP
- Ind./PPO - Ins.
- Ind./PPO - ASO
- Medicaid HMO
- Child Buy-In
- Family Buy In
- Medicare Sup.
- Dental
- Stand-Alone Part D



# Appendix D: Clusters of Functions

- **Marketing**
  - Rating and Underwriting
  - Product Development / Market Research
  - Sales and Marketing (except Advertising and Promotion)
  - Commissions (external)
  - Advertising and Promotion
- **Medical and Provider Management**
  - Provider Network Management and Services
  - Medical Mgmt. / Quality Assurance / Wellness
- **Account & Membership Admin.**
  - Enrollment / Membership / Billing
  - Customer Services
  - Claim and Encounter Capture and Adjudication
  - Total Information System Expenditures (as expensed)
- **Corporate Services**
  - HIPAA
  - Finance and Accounting
  - Actuarial
  - Corporate Services
  - Corporate Executive / Governance
  - Association Dues and License/Filing Fees
  - Miscellaneous Business Taxes



## Appendix E: Quality Assurance

- *Voluntary* – Since providers are users, have stake in the metrics. Scope is also participatory.
- *Strong definitions* – Participatory. Activities and cost centers listed, supported by ongoing clarifying discussions.
- *Highly granular* - Ready identification of outliers, as well as drill-down capabilities.
- *Practice effect* – High percent of repeaters: 89% of two largest universes in 2008 participated again in 2009. 77% of Blues have 6 or more years of participation.
- *Checks* - In survey instrument and in analytical module; Anomalies investigated.
- *Review* - Preliminary results provided for proofing.
- *Business model* - No conflicts of interest, no “Tragedy of the Commons.”



## *Appendix F: Business Model*

- No individually identifiable results.
- Low cost to participants.
- No conflicts of interest. We are not an association of plans or a business process outsourcer.
- No “Tragedy of the Commons.” Only users who supply adequate information are included with our benchmarks and who qualify for discount.



# Appendix G: Benchmark Release Schedule

	Financial	Operational	Medical Management	Health Care Utilization	Total Pages
Blue Cross Blue Shield	June 29	Early August	Late-August	Late-August	1,300
Larger Plan	July 30	Early August	Late-August	Late-August	1,100
Independent / Provider-Sponsored	June 29	Early August	Late-August	Late-August	800
Medicare	Early September	Mid- October	Mid- October	Mid- October	800
Medicaid	Early September	Mid- October	Mid- October	Mid- October	1,100

Projected dates are subject to change. Page values are estimates and exclude Common Guidelines (270 pages) and Utilization metrics for all universes (400 pages).

