

# *Health Plan Administrative Costs*

## *A Review of 2007 Results*

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September 17, 2008



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# *Topics*

- What are cost trends in health plan administration?
- Does organization type make a difference?
- What are the effects of scale on costs?
- Do plans of different sizes have different operating styles?

*Execution is king!*



# *Decline in Expense Growth*

## **Benchmark Summary**

### Percent Change in Costs - Total

	2006 Data		2007 Data	
	Percent Change	Percent Change, Mix-Adjusted	Percent Change	Percent Change, Mix-Adjusted
Independent / Provider-Sponsored	11.8%	2.7%	4.9%	3.0%
Blue Cross and Blue Shield	6.1%	6.5%	4.3%	2.5%

Elimination of the effect of heightened focus on Medicare Advantage reveals a much lower trend in 2007 for Blues.



# *Decline in Marketing Cost Growth*

## **Benchmark Summary**

### Percent Change in Costs - Marketing

	2006 Data		2007 Data	
	Percent Change	Percent Change, Mix-Adjusted	Percent Change	Percent Change, Mix-Adjusted
Independent / Provider-Sponsored	22.6%	16.9%	10.3%	5.5%
Blue Cross and Blue Shield	4.5%	9.1%	4.2%	4.9%

**But broker commissions and rating / underwriting grew robustly.  
Evidence of increasing reliance on external distribution systems.**



# *Decline in Growth of Medical and Provider Management*

## **Benchmark Summary**

### Percent Change in Costs - Provider & Medical Management

	2006 Data		2007 Data	
	Percent Change	Percent Change, Mix-Adjusted	Percent Change	Percent Change, Mix-Adjusted
Independent / Provider-Sponsored	15.3%	20.5%	11.3%	-3.2%
Blue Cross and Blue Shield	7.8%	7.7%	10.0%	2.2%

Medicare Advantage has its strongest impact here.



# *Cost Trend Mixed for Account and Membership Administration*

## **Benchmark Summary**

### Percent Change in Costs - Account & Membership Administration

	2006 Data		2007 Data	
	Percent Change	Percent Change, Mix-Adjusted	Percent Change	Percent Change, Mix-Adjusted
Independent / Provider-Sponsored	1.2%	-9.6%	4.8%	14.7%
Blue Cross and Blue Shield	2.9%	5.1%	5.0%	3.9%

Information systems cost growth was significant, especially among larger plans.



# Corporate Services Costs Essentially Declined!

## Benchmark Summary

### Percent Change in Costs - Corporate Services

	2006 Data		2007 Data	
	Percent Change	Percent Change, Mix-Adjusted	Percent Change	Percent Change, Mix-Adjusted
Independent / Provider-Sponsored	11.4%	-6.9%	-3.4%	-8.7%
Blue Cross and Blue Shield	5.2%	5.5%	0.2%	-6.2%

Corporate, Executive & Governance declines explained much of the difference.



# Universes Have Comparable Costs, Regardless of Size and Form

## Benchmark Summary

### Product Mix Adjusted Costs by Functional Area Cluster

*Per Member Per Month*

	Blues Product Mix			IPS Product Mix		
	Blues	IPS	Difference	Blues	IPS	Difference
Marketing	\$7.72	\$9.43	(\$1.70)	\$7.83	\$9.03	(\$1.19)
Provider & Medical Management	3.29	4.02	(0.72)	4.32	\$4.49	(0.17)
Account & Mem. Administration	10.44	8.29	2.15	10.84	\$8.69	2.15
Corporate Services	4.64	5.34	(0.70)	5.02	\$5.65	(0.64)
Total	\$26.95	\$29.30	(\$2.35)	\$29.62	\$29.90	(\$0.28)

Blues outperform in their focused mix, not so much in that of IPSs, but difference is modest in any event.



# *Neither Size Nor Organizational Form Determine Ranking*

<b>Rank</b>	<b>Type of Plan</b>
1	<b>Independent / Provider - Sponsored</b>
2	<b>Blue Cross Blue Shield</b>
3	<b>Blue Cross Blue Shield</b>
4	<b>Independent / Provider - Sponsored</b>
5	<b>Independent / Provider - Sponsored</b>
6	<b>Independent / Provider - Sponsored</b>
7	<b>Blue Cross Blue Shield</b>
8	<b>Blue Cross Blue Shield</b>
9	<b>Independent / Provider - Sponsored</b>
10	<b>Blue Cross Blue Shield</b>

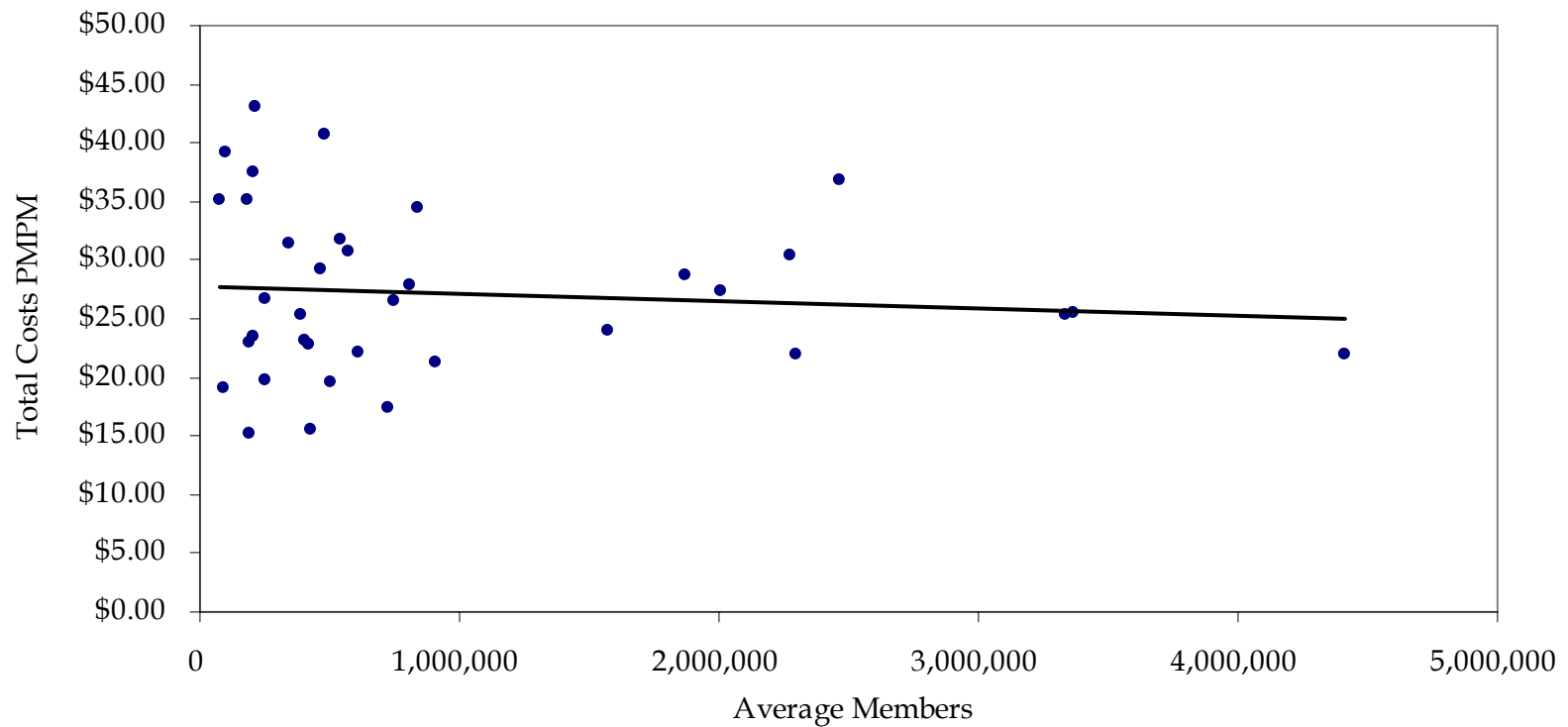


# Very Modest Scalability

## Benchmark Summary

$R^2 = 0.9\%$

### Economies of Scale in Total Costs PMPM

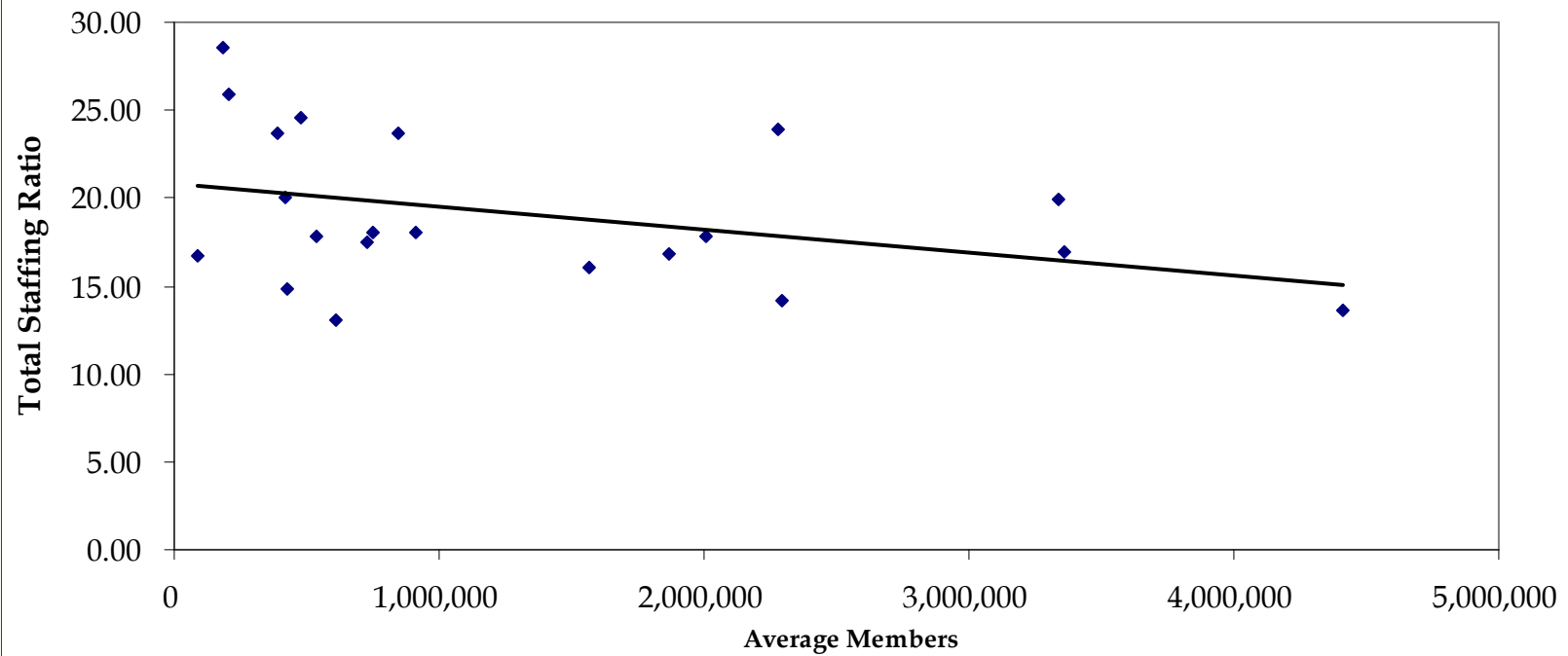


# *But Style of Operating Seems to Vary by Size*

## Benchmark Summary

### Effect of Scale on Reported Staffing Ratio

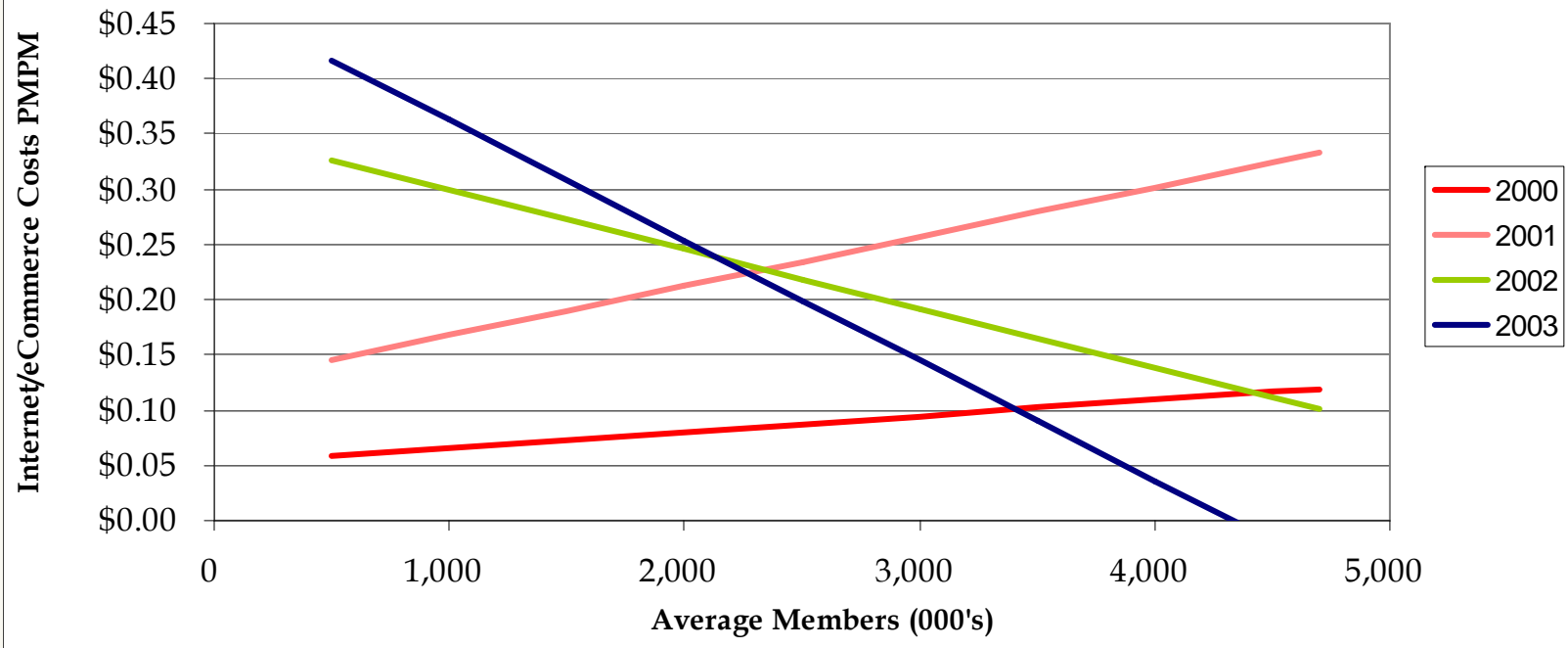
$R^2 = 13.7\%$



# *And Larger Plans Can Be Early Adopters of Technologies*

## Benchmark Summary

Internet/eCommerce Costs PMPM, 2000-2003



# *Review of Health Plan Administrative Expenses in 2007*



## Questions?

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## *Appendix: Definition of Clusters*

# *Functional Area Clusters*

- **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

