Plan Management Navigator
Analytics for Health Plan Administration February 2014

Decisions of Low Cost Blue Cross and Blue Shield Plans

To protect the strength of the Blue Cross Blue Shield brand, the Plan licensees operate according to high standards set by the Blue Cross Blue Shield Association. These include rules governing the use of the name and mark as well as high standards for capital. But their cost structures reflect that these are independent organizations with separate management teams, investment cycles and competitive environments. Accordingly, the Plans operate at differing levels of costs.

In this analysis we identify the characteristics of the 25% lowest cost Blue Cross Blue Shield Plans and how these five organizations are distinguished from their peers. Some conclusions follow.

1. The most important factor in overall low tactical costs was, by far, a low Staffing Ratio. Staffing Ratios were lower by 19%, or by nearly three FTEs, than their higher cost counterparts. Moreover, Staffing Ratios were lower than their higher cost peers in every Tactical area[1] by at least 10%. To paraphrase Alain Enthoven, these Plans have truly established a culture of conservative operations.

2. Low cost Plans operated in low wage markets. In fact, the local market conditions explained nearly all the wage cost advantage. However just over one quarter of the total difference can be explained by this presumably environmental factor. While compensation levels were low in most functional areas they were actually higher in Corporate Executive and Governance. We don't know why this is but we expect that the market for such employees is national, not local. Moreover, perhaps this reflects bonuses for superior performance.

3. Non-Labor Costs per FTE were also low[2], and were the smallest portion of the cost advantage. Corporate Services led those low costs followed by Corporate Executive and Governance and the combination of Information Systems and Claims.

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New Benchmark Universes Being Formed

We are now beginning our 17th consecutive annual year of the Sherlock benchmarks. Our intent is to launch the Blue Cross Blue Shield and Independent/Provider-Sponsored universes in March, publishing their reports beginning in July. The TPA edition is expected to begin in April and report publication is also expected in July. Owing to the Medicare bid process, Medicare and Medicaid universe surveys will go out in the first week in June with Reports to be published beginning in September.

We have been approached by organizations requesting mental health, dental and other universes. In addition, the depth of our metrics makes regional editions possible.

Let us know if you would like to participate in any of our well-established universes, or have ideas of your own. Please keep the above schedules in mind since the reports are time-sensitive as they are used by the health benefit organizations in their budget processes. We can be reached at sherlock@sherlockco.com or (215) 628-2289.

New Applications of Sherlock Benchmarks

There are many common applications of our benchmarks. We're pleased to announce that we are adding to them.

For the most part, over our 17 years of providing the Sherlock Benchmarks, our approach has been to provide to the talented management teams of health benefit organizations the unbiased, high quality, actionable information needed to implement their own changes. In unusual cases, outside of the normal annual survey process, we have assisted the plans in completing the survey forms so that tailored reports can be produced. Sherlock Benchmark applications include budgeting, identification of high return cost

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4. The overwhelming contributor among functions for to overall low tactical costs was Information Systems. The combination of Claims and Information Systems and claims in low cost plans had costs 30% lower than that of their higher cost peers. Every tactical function had expenses lower than average, and the ones other than Claims and IS were lower by at least 22%.

5. Scale likely explained very little of the cost differences since the lower cost plans were, on average, only about 14% larger than their higher cost peers.

6. Plans that were low cost in tactical expenses were also lower cost in Strategic[3] expenses. The Sales and Marketing expenses were more than 15% lower. While all major functions were lower, including Broker Commissions, the low cost Plans appeared (based on somewhat incomplete information) less reliant on brokers. Moreover, they also paid less per broker member. On the other hand, holding mix constant, the lower cost Plans had slower growth.

7. Low cost Plans also had lower Medical Management expenses as well, especially in Disease Management, Case Management, Precertification and Health and Wellness. On the other hand, Health Benefit Ratios ran higher, holding product mix constant.

These conclusions are from the 2013 Sherlock Benchmarking Study, reflecting 2012 experience. These conclusions also reflect that we have carefully to adjusted the results to eliminate the effect of product mix differences.

Additional detail on this is available to licensees and participants of the Blue Cross Blue Shield benchmarking study. The report is 66 pages in length. *Let us know of your interest and we will email the longer report to you.*

[1] Tactical expenses are total expenses excluding Sales and Marketing and Medical Management.
[2] Per FTE Non-Labor can be a perverse metric especially in the cases in which a function is predominantly non-labor. For instance, the effect of low staffing ratios amplifies differences in non-labor costs.

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management targets and facilitating integration of acquisitions, among others.

Of course, the above approach is limited by the time and perspective of the management team. So, for the past five years or so, we have begun to extend the application by facilitating participating plans' sharing of best practices. Central to participation, we objectively rank the plans in order of their cost performance so that peer-to-peer advice is from demonstrably best practice organizations. We do this while still preserving the confidentiality of each plans' actual attributes. After we enable the plans to communicate with each other, our role is completed.

However, there are certain circumstances in which these forms of analyses are impractical. For instance, the band-width of the finance people may be limited, especially in an environment that requires their focus on adapting to PPACA. Similarly, sometimes the nature of a specific transaction is such that the board wishes an assessment independent of the management team.

So we've recently been approached by three organizations to assist in their assessment of their administrative costs. In all cases, this has been in the context of evaluating outsourcing arrangements. In one case, the client is a health benefits organization owned by a government whose members are typically government employees. Another organization is contemplating a restructuring that will entail determining fair market value between administrative activities between two health plan business segments. Finally, we assisted a Medicaid plan in its consideration of alternative outsourcing arrangements.

One of our objectives this year is to extend the usefulness of the Sherlock Benchmarks when organizations in this way. Let us know if our assistance would be helpful to you in evaluating and outsourced activities.

[3] Strategic expenses are considered Sales and Marketing and Medical Management. Investments in Sales and Marketing are often realized in subsequent years, while investments in Medical Management can be realized in lower medical expenses.