



SHERLOCK COMPANY RESOURCES AND HEALTH CARE REFORM

The new health care environment will lead to significant changes in health plan operations. The medical loss ratio rules, rate review and exchanges will force plans to operate at lower administrative costs.

Paradoxically, these same changes will also require significant investments. Increasingly, insurance will be sold through exchanges, increasing the need to serve the individual market, and Medicaid expansion. Thus, selling costs, the costs of product development and enrollment will be especially affected. This also occurs as firms are implementing ICD-10, enhancing the performance of information systems in the context of functions that it supports and investing in medical informatics.

Accordingly, health care reform entails *complementary* changes in budget priorities. Over the intermediate term, administrative costs will be redeployed, not merely reduced. Expenses otherwise incurred in service to the historic model will be reduced as expenses increase to meet the needs of plans' future models.

The magnitude of the potential cost reductions are larger than conventional wisdom might indicate. The lowest cost quartile of the Blue Cross Blue Shield universe had tactical costs that were \$6.51 PMPM below its peers, or lower by 32%. More remarkably, the low quartile's costs declined by 3.8%, compared with PMPM growth of 4.8% among their higher cost peers in 2011. The same pattern was also true for Independent/Provider-Sponsored plans: the low cost plans were \$8.58 below their peers, or by 40%, and costs grew more slowly than their higher cost peers. Thus, there is a surprisingly large payoff to firms that compare their performance to their peers and then take the indicated steps to improve their performance.

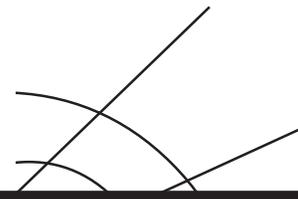
Sherlock Company has numerous resources that help organizations improve their performance. They include participation or licensing the benchmarking studies, as well as other tools. Health plans serving well more than 100 million insured people are currently users of our benchmarks. The Sherlock Benchmarks are the focal point of this *Navigator*.

Benchmarking Universes

Through the Sherlock Benchmarks, your organization can readily compare itself with organizations that are similar to yours in business model and product mix. Universes include Blue Cross Blue Shield (Blue) plans, Independent/Provider-Sponsored (IPS) plans, TPAs, Medicare plans and Medicaid plans. **We are meeting with the first two universes during the week of March 11.**

Blue Cross Blue Shield Plans. Most organizations licensed by the BlueCross BlueShield Association participate in our benchmarking studies. Many Blue Cross Blue Shield plans that do not participate gain access to the results by licensing the results when they become available in mid-July. Participation requires weeks of effort but costs less than licensing. Also, the end product includes comparisons with your results. We will launch the study in late March.

Independent/Provider-Sponsored Plans. We estimate that there are approximately 80 health benefit organizations that are either sponsored by health systems or are regional, independent plans with a managed care focus. These organizations are prominent in their markets and often were originally formed as HMOs. The largest of these organizations participate in our benchmarking studies and accordingly Sherlock benchmark participants serve most of the members belonging to plans in this segment of the market. As with the Blue Cross Blue Shield universe, participation



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Third Party Administrators. This universe is comprised of an elite subset of the TPA industry. TPAs differ from insurers in their flexibility and are known for a remarkably modest cost structure. A new business line for some TPAs is providing the infrastructure to Accountable Care Organizations and similar firms. Last year, all but one of the participants were in the largest 10% of TPAs as measured by the Society for Professional Benefits Administration. This study launches in late April and is also available for license.

Medicare Universe. The Medicare universe is comprised of health plans that are focused on Medicare Advantage products. Collectively, they served approximately 1 million people with this product. We also include exhibits from other universes, like Blues and IPS, showing their cost performance as well. In all, the benchmarks reflect the results of organizations serving nearly 18% of all Medicare Advantage members. Because the plans are required to submit bids for 2014 by June 3, 2013, we begin the study immediately after that date. The results are available to participants and licensees beginning in late September.

Medicaid Universe. Plans participating in this universe are, similar to the Medicare Universe, focused on this product. Collectively, they served

3.5 million Medicaid beneficiaries along with 1.7 million members in other products. Also, some results from other universes with comparable products are included. Accordingly, the Medicaid benchmarks include the results of 4.9 million Medicaid MCO beneficiaries or roughly 19% of the total. Since many of these organizations also offer Medicare, and are hence involved with the bid process, we begin their survey right after June 3 as well.

Please bear in mind that all participants segment their costs by product as well as function so, for instance, the Blue and IPS reports will report both Medicare and Medicaid costs.

Calendar for 2013 Benchmarking

The following shows our intended schedule for surveys and reports. If you are considering participation, the efforts are significant. If your organization has never participated before, you may want to soon take the necessary investigatory and planning steps to make participation feasible.

Contact Us to Participate

These are times of great change, and health plans that succeed will be those that adapt quickly and thoughtfully. The Sherlock Benchmarks provide a uniquely powerful way of planning redeployment of administrative costs. Please call Doug Sherlock at 215-628-2289 or email him at sherlock@sherlockco.com.

	Survey Out	Survey Returned	Report Publication Begins
Blue Cross Blue Shield	March	May	July
Independent/Provider-Sponsored TPA	March	May	July
Medicare	April	June	August
Medicaid	June	August	September