Plan Management
Navigator
Analytics for Health Plan Administration November 2013

Measuring Performance Improvements of Long-term Benchmarking Participants

One of the long-term benefits of participation in the Sherlock benchmarking studies is the cumulative effects of continuous improvement. This *Navigator* tracks the arc of three organizations that have been successful at doing so. Two were superior performers who have further improved, and one has significantly improved from the bottom to the middle of the rankings.

The plans were selected based on their improvements in their relative rankings and longevity. Each of the plans has participated for more than a decade. We were attentive to all costs, but particularly interested in the activities unaffected by strategic decisions for aggressive growth or health care cost reductions. Percentage references are of rankings of low costs, adjusted to eliminate the effects of differences in product mix.

The payoff of their continuous improvement efforts has been impressive. In all cases total PMPM costs were lower in 2012 versus 2010, notwithstanding the need to increase to invest in products related to the Affordable Care Act (ACA), and increased sales expenses as the economy showed signs of recovery.

Close readers of this article might sense that the improvement in costs are less dramatic than the improvement in ranking. That intuition would be correct. The organizations that have remained with the Sherlock benchmarking have tended to operate at lower costs.

All of the plans come from the same universe and their identities are confidential. Accordingly, we've employed aliases for them: True North Health Plan, Gibraltar Health Service and Protean Care.

True North Health Plan

True North Health Plan is a substantial organization, though somewhat smaller than average compared to its peers. It grew faster than average in 2012, 2011 and 2010, especially because of its strength in ASO products. It does not offer Medicaid or Medicare. It operated at a significant loss in 2010, which declined in 2011 but, in 2012, True North became profitable.

In 2010, True North operated at approximately the 60th percentile of its peers. In 2011, that improved to the 70th percentile and in 2012 True North approached the 80th percentile. Excluding Sales and Marketing and Medical Management, True North improved from approximately the 80th percentile in 2010 to the 95th percentile in 2012.

The reasons for improvement in performance ranking, in order of the importance of the improvement, was Claims, Commissions, Information System, Marketing and Customer Services.

Costs in the function of Claim and Encounter Capture and Adjudication was sharply lower, chiefly due to decline in Non-Labor costs. Relative Staffing Costs also improved, although the Staffing Ratio was higher.

Commissions also declined, either due to a changed rate structure or propensity to focus on a more internally focused distribution system.

Information Systems costs increased but less than the increase experienced by the rest of its peer group. Its relative performance improvement was due to a sharp decline in Non-Labor costs. Staffing Ratio increased.

Considering the possibility that Information Systems costs could bleed into other functional areas, it is illuminating to look at the combined costs of Claims and IS. Together, they were low and improved over the period. (Please see our comment concerning Gibraltar Health Service with respect to Claims / IS function interactions.)

Marketing costs also posted a sharp decline, and Non-Labor costs were chiefly responsible.

Customer services costs increased but not as rapidly as True North's peers. Superior relative performance in Staffing Costs per FTE and Staffing Ratios were responsible. The Staffing Ratio nudged up slightly, notwithstanding its overall relative improvement.

True North has been among the least inclined to outsource its activities but we believe that it has increased in recent years.

Gibraltar Health Service

Gibraltar defines the median size of health plans in this universe. Its membership declined in 2012 though its margins were higher than average, and these high margins were in most of its products.

Gibraltar's PMPM costs declined somewhat from 2010 to 2012, though its relative performance inched higher in the high 70th percentiles. In order of importance, Claims, Information Systems, Marketing and Sales contributed to Gibraltar's relative performance.

Claim and Encounter Capture and Adjudication costs declined over the period due to a sharply lower Staffing Ratio. Notwithstanding, Non-Labor costs increased. Outsourcing diminished in this function.

Gibraltar's Information Systems costs also improved relative to peers, though its costs increased. This is important in the context of Claims since a plurality of Information Systems expenses are associated with that function. So when both show relative improvement, neither misclassification nor technical substitution between the two functions is sufficient to explain the improvement. Accordingly, we believe the entire process is performing better, a belief shared by Gibraltar's management team. Outsourcing increased in this function.

Marketing costs declined sharply, chiefly due to Non-Labor cost declines. Gibraltar's per FTE Staffing Costs, which are considerably higher than average, also declined. Gibraltar has not outsourced this function over the three-year period.

Sales costs remained the same while Gibraltar's peer organizations' costs increased. While its Staffing Ratio declined, its Staffing Costs per FTE and Non-Labor costs increased. Commissions costs increased but Gibraltar's remained less than average.

While Gibraltar only modestly outsources, outsourcing has nevertheless increased.

According to Gibraltar's management, the cost reduction stems from two important factors. It's membership base increased leading to some economies of scale. Note that Information Systems did not have a decline in its costs, despite Gibraltar's growth. Secondly, the company initiated a multi-year cost improvement project, in part stimulated by price pressures to its self-insured lines. Separately, the company has hired very few sales people in the past decade. Overall, Gibraltar is also among the least likely to outsource, which has not changed over the past several years.

Protean Care

Protean Care had an average profit margins in 2012. Its growth was about average as well. But it was also larger than average, approaching the 75th percentile for its group. Like the previous two companies, it also showed improvements though in this instance from the high 30th percentile in 2010 to almost the 50th percentile in 2012. Costs declined in this plan as well and Protean Care uses the Sherlock benchmarks to set budget targets.

Many functions contributed to Protean's improved performance. In order of the size of their contribution, Information Systems, broker Commissions, Medical Management and Provider Network Management and Services improvements had the greatest impact.

Information Systems costs declined in the past several years. While compensation levels increased, staffing levels and Non-Labor costs fell. While this has been heavily outsourced, the proportion of activities subject to outsourcing has remained the same. Management states that it is emphasizing contract employees while reducing staff that are full-time hires in this functional area. While not a major shift, Claims cost variances also declined.

Broker Commissions for Protean also declined. This compares with this plan's universe's experience which costs were essentially flat over the three-year period. Notably, Protean's costs for the entire cluster of Sales and Marketing also declined, and the decline in broker Commissions comprised three-quarters of the improvement. Accordingly, the decline could not have been solely due to a shift between distribution systems. Protean Care attributes this in part to corporate efforts to reduce payouts to its brokers.

Protean's Medical Management costs PMPM were flat, compared with an increase for the universe. Compensation and Staffing Ratios declined, while Non-Labor costs increased. As with Information Systems, while heavily outsourced, this propensity has not significantly increased.

Provider Network Management and Services costs in Protean also declined, while they increased for the universe as a whole. Staffing Ratios and compensation declined, while Non-Labor costs increased. This function has not changed in its propensity to outsource.

Protean Care is more heavily outsourced than its peers, and this tendency to outsource has increased in recent years. With reference to Information Systems costs, above, we consider contract workers as outsourced.

Common Threads

A few themes are evident from the organizations that we selected because of their continuous improvement.

- Each of the plans declined in costs over the past several years. This was surprising in view of the costs to adapt to the ACA. This was particularly surprising for True North and Gibraltar whose costs were well lower than average in 2010.

- Information Systems cost improvements were central in all cases. This is not entirely surprising since these costs are often the single largest functional area.

- In all cases, Claims costs did not increase in their variance, likely ruling out that a decline in Information Systems was merely a shift in costs to other functional areas.

- Marketing, broker Commissions, Customer Services and other functions improved for various of these organizations, but they are specific to individual circumstances.

- The use of the Sherlock benchmarks to determine cost performance, to identify areas of greatest variance and to prioritize variances by their impact was a constant across all plans.