

SHERLOCK BENCHMARKS

Larger Plans Edition



Volume II
Operational Metrics

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SHERLOCK BENCHMARKS

Larger Plans Edition - 2019

Volume II: Operational Metrics



SHERLOCK COMPANY

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This section includes metrics relating to Finance and Accounting and the Corporate Services functions. Corporate Services sub-functions include Human Resources, Legal and Facilities.

INTRODUCTION AND BACKGROUND

Background

This is the Operational Metrics book of Volume II of the 2019 *Sherlock Benchmarks – Larger Plans Edition*. Together, these volumes provide statistics and analysis summarizing the administrative expenses and operational metrics of six Blue Cross Blue Shield Plans. They are intended to facilitate comparisons for users and to assist in the management of health plan administrative expenses. They should be useful to operational and financial managers of health plans, consultants and third-party vendors. The *Sherlock Benchmarks* (or *Sherlock Expense Evaluation Report* or *SEER*) should also be valuable to Boards and persons charged with corporate finance responsibilities including strategic planners and investment bankers.

Organization of the Sherlock Benchmarks

The 2019 *Sherlock Benchmarks – Larger Plans Edition* is a carefully compiled and validated summary of the surveyed operational characteristics of leading health plans. Six Blue Cross Blue Shield Plans participated this year.

Sherlock Benchmarks assist in performance improvements for health plans by facilitating comparisons between plans and their universe as a whole. It quantifies health plans' relative performance and identifies sources of variance at a highly granular level. The *Sherlock Benchmarks* are unparalleled in

their breadth and are a valuable analytical tool for managers and consultants.

The *Sherlock Benchmarks* are produced in two volumes:

Volume I: Financial Metrics includes analyses of administrative expenses through financial ratios such as percent of revenues and per member per month. Data is divided into fourteen product lines and approximately 74 functions. Additional descriptions are found below.

Volume II complements Volume I by facilitating in-depth analyses of the financial metrics. It is subdivided into four books: Operational, Staffing and Compensation, Medical Management and Utilization.

Operational metrics translate operating performance into expense performance, so expenses are often analyzed into factors of user demand, employee productivity, unit cost, staffing ratios and cost per employee. For instance, Claim and Encounter Capture and Adjudication is analyzed into claims per member, productivity of claims processors, cost per claim and per-employee costs of claims. In addition, every function is analyzed by factors of staffing ratios, staffing costs per FTE and non-labor costs. Numerous drivers of costs and quality are also provided. In the claims area, for example, these



include metrics of electronic submission, auto-adjudication and factors requiring manual intervention.

This document, Volume II – Operational Metrics, is divided into nine sections:

TAB 1. INTRODUCTION AND BACKGROUND

This section describes the organization and conventions of the *Sherlock Benchmarks*.

TAB 2. OPERATIONAL METRICS OVERVIEW

This section presents summary analyses of factors of costs in each functional area. These factors are, broadly, demand, unit cost, productivity, and staffing ratios. Costs are also analyzed in terms of labor and non-labor costs per FTE.

TAB 3. SALES AND MARKETING

This section includes analyses related to the entire spectrum of sales and marketing activities including functions of Rating and Underwriting, Marketing, Sales, Commissions (external) and Advertising and Promotion.

TAB 4. PROVIDER NETWORK MANAGEMENT AND SERVICES

Metrics of services provided by this function are found here. Provider Network Management and Services includes activities such as Provider Relations Services

(the initial point of contact (telephonic and written) for provider inquiries), Provider Contracting, Provider Audit / Billing Validation and Other Provider Network Management and Services (including the maintenance of the provider network, orientation, on-going education, and in-services with new and existing providers).

TAB 5. ENROLLMENT / MEMBERSHIP / BILLING

Analyses related to these activities are found here. Enrollment is the processing of installation, recording and maintenance of the relationship between the plan and its members. Membership is the recording of and changes in demographic information. Billing is the process and the execution of the submission of invoices.

TAB 6. CUSTOMER SERVICES

Detailed metrics relating to customer services are included in this section. Customer Services responds to, processes, resolves or provides information for transactions or inquiries of customers based on eligibility, contract language, benefit interpretation, medical management activities, regulatory interpretation, claims process accuracy and historical member communications used to provide and authorize service or payment.



TAB 7. CLAIM AND ENCOUNTER CAPTURE AND ADJUDICATION

Performance metrics of the claims area are found in this section. This function compares claim application and/or provider statement with policy file and other records to evaluate completeness and validity of claim, and settles claims with claimants in accordance with policy provisions and also performs COB functions.

TAB 8. INFORMATION SYSTEMS

This section contains operational metrics of information systems. Information Systems extends and supports the activities of other functional areas. Its own activities are divided into costs to keep it running, costs of software and support, costs to grow the business and the costs to maintain Information Systems security.

TAB 9. CORPORATE SERVICES CLUSTER

Metrics relating to Finance and Accounting and the Corporate Services functions. Corporate Services sub-functions include Human Resources, Legal and Facilities.

Conventions Used in this Report

In the *Sherlock Benchmarks*, we analyzed costs and operations for the health plans as a whole, by functional area and also by product. We have employed a number of reporting conventions, which we discuss below.

1. The terms “high” and “low” mean the average of the *two* highest and *two* lowest values, respectively. The standard deviation is the measure of dispersion. To facilitate comparability of standard deviations, we have expressed standard deviation as a percent of the mean, commonly termed the coefficient of variation.
2. Statistical results are un-weighted. That is, each metric reflects equally the experience of each health plan that reports a functional area for a product, without regard to the plan’s size.
3. Statistical measures for each functional area are calculated independently. Accordingly, the statistical analysis of total expenses is not the sum of the statistical analysis of each component cost.
4. Results were carefully validated to identify, and correct if possible, reporting errors.
5. Within each firm, ratios based on the total scope of products (for instance in the Total and Comprehensive values) are intrinsically weighted by the relative importance of each product to that firm. For instance, a firm with a heavy commitment to Indemnity & PPO ASO will reflect that product’s weighting and its company-wide costs will be lower as a result.



We offer a few additional comments regarding Volume II – Operational Metrics.

1. The information we received is through our contact, typically someone in the finance area, rather than directly from the operational department themselves.
2. The response rate was considerably lower in operational metrics as compared with financial metrics. Operational metrics are largely voluntary to help assure quality of responses.
3. The components may not sum to totals, for example in the case of product line breakouts. That is because response rates varied in each of the component parts and in totals.
4. Turnover metrics supplied by the respondents, as opposed to those calculated by us, are normally calculated as average for the year, as opposed to being based on year-end and total year ratios.
5. Additional discussion about *Sherlock Benchmarks* survey procedures, data analysis and presentation is found under Tab 1 of Volume I – Financial Metrics.
6. A complete description of the characteristics of the participating plans is found in Tab 10 of Volume I – Financial Metrics.

Questions and Comments

We invite questions and comments on the *Sherlock Benchmarks*.

Douglas B. Sherlock, CFA
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In addition, please know that we support your use of the *Sherlock Benchmarks*. We hope that you will not hesitate to contact us if you have any questions concerning classifications, calculation methodologies and the application of the *Sherlock Benchmarks* to improve the performance of your health plan.



Tab 2

Summary of Operational Metrics

This section summarizes analyses of key functional areas. If a quantifiable output is identifiable, per member per month (PMPM) costs are segmented into factors of primary demand, productivity, unit cost, cost per FTE and staffing ratios. In all cases of these functional areas, PMPM costs are segmented into staffing ratios and costs per FTE, which are divided into labor and non-labor components.

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Provider Network Management & Services responds to inquiries from providers, contracts with providers for care delivered to members, is the liaison for provider appeals (whose coordinating responsibility resets with customer services), credentials providers for eligibility for contracts, issues report cards to provider and audits and validates provider activity.

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This sub-function responds to inquiries from providers.

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This sub-function recruits and credentials providers such as physicians and hospitals.

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Enrollment / Membership / Billing

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=		Costs per Member per Month.....	133
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+		Enrollment Total Staffing Costs per Total FTE.....	133
=		Enrollment Total Costs per Total FTE.....	133
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Enrollment / Membership / Billing

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Enrollment / Membership / Billing

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Customer Services

The Customer Services function responds to customer inquiries and coordinates appeals.

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x		Claims Processed Per FTE Per Year.....	195
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Tab 8
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Information Systems

Metric	Page	Definition	Calculation
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(1) Voice and Data Network.....	230		
(2) Data Center.....	230		
(3) Engineering.....	230		
(4) Desktop Services.....	230		
(5) Help Desk.....	230		
(6) Storage and Capacity Management.....	230		
(7) Business Continuity Planning (BCP) and Disaster Recovery (DR).....	230		
(8) Other.....	230		
11 (b) Applications Maintenance.....	230		
11 (c) Applications Acquisition and Development.....	230		
(1) Project Management Office and Support (PMO).....	230		
(2) Other.....	230		
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Information Systems

Metric	Page	Definition	Calculation
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Tab 9

Corporate Services Cluster

The Corporate Services Cluster is comprised of the functions of Finance and Accounting, Actuarial, Corporate Executive and Governance and the Corporate Services function. The Corporate Services function includes subfunctions like Facilities, Mailroom, Legal and Human Resources. This tab includes metrics of these subfunctions plus those of Finance and Accounting.

Metric	Page	Definition	Calculation
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Corporate Services Cluster

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Percent Owned.....	264		
Percent Leased.....	264		
Total Facilities Costs per Square Foot			
Gross.....	264		
Usable.....	264		
<u>Facilities Costs by Type</u>			
<i>Per Member Per Month</i>			
Total.....	264		
(a) Rent.....	264		
(b) Depreciation.....	264		
(c) Heat, Light and Taxes.....	264		
(d) Security.....	264		
(e) Maintenance.....	264		
(f) Leasehold Improvements.....	264		
(g) All Other.....	264		
<i>Percent of Premiums and Equivalentents</i>			
Total.....	264		
(a) Rent.....	264		
(b) Depreciation.....	264		
(c) Heat, Light and Taxes.....	264		
(d) Security.....	264		
(e) Maintenance.....	264		
(f) Leasehold Improvements.....	264		
(g) All Other.....	264		

Corporate Services Cluster

Metric	Page	Definition	Calculation
Printing and Mailroom			
<u>Mail Volume</u>			
Incoming Mail Volume per Member.....	265		
Outgoing Mail Volume per Member.....	265		
Total Mail Volume per Member.....	265		

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