

SHERLOCK BENCHMARKS

Medicare Edition



Volume II
Operational Metrics

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SHERLOCK BENCHMARKS

Medicare Edition - 2019

Volume II: Operational Metrics



SHERLOCK COMPANY

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This section includes metrics relating to Risk Adjustment. Risk Adjustment is the analysis of clinical data in order to match government compensation with the risk factors of members. This includes adjustment for the “three Rs”: permanent risk adjustment, transitional reinsurance and transitional risk corridors.

INTRODUCTION AND BACKGROUND

Background

This is the Operational Metrics part of Volume II of the 2019 *Sherlock Benchmarks – Medicare Edition*. Together, these volumes provide statistics and analysis summarizing the administrative expenses and operational metrics of 11 Medicare 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* 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 – Medicare Edition* is a carefully compiled and verified summary of the surveyed operational characteristics of leading health plans. 11 Medicare-focused 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 ten product lines and approximately 70 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 documents: Operational, Staffing, Medical Management and Utilization.

Operational metrics translate performance into expense performance, and 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. 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 group of sales and marketing activities including those 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 is 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 settle claims with claimants in accordance with policy provisions and also performs COB functions.

“three Rs”: permanent risk adjustment, transitional reinsurance and transitional risk corridors.

Conventions Used in this Report

In the *Sherlock Benchmarks*, we analyzed costs 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.

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.

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

TAB 9. CORPORATE SERVICES CLUSTER

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

TAB 10. RISK ADJUSTMENT

Risk Adjustment is the analysis of clinical data in order to match government compensation with the risk factors of members. This includes adjustment for the



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 is received 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
President
Sherlock Company
sherlock@sherlockco.com
215-628-2289
1180 Welsh Road, Suite 110
North Wales, PA 19454

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 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.

Metric	Page	Definition	Calculation
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Provider Relations Service Metrics:

This sub-function responds to inquiries from providers.

Provider Relations Services Cost Summary
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Manual Inquiries			
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x	Members per FTE.....		99
=	Manual Inquiries per FTE per Year.....		99
x	Provider Relations Services Cost per Manual Inquiry.....		99
=	Provider Relations Services Cost per FTE.....		99
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x	Members per FTE.....		99
=	Total Inquiries per FTE per Year.....		99
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=	Provider Relations Services Cost per FTE.....		99
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=	Provider Relations Services Cost per FTE.....		100
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	Providers per FTE.....		100
	Total Inquiries per FTE per Year.....		100
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Provider Network Management and Services

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Provider Relations Services Total Staffing Cost per Total FTE.....			
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x Provider Relations Services Total FTEs per 10,000 Members.....	100		
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Provider Network Management and Services

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Provider Network Management and Services

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

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Provider Network Management and Services

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

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Enrollment / Membership / Billing processes group and membership transactions, processes invoices and maintains population demographics.

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Enrollment / Membership / Billing

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All Other Manual.....	137		
Total Manual Transactions.....	138		
Automated			
Direct to System.....	138		
Other.....	139		
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Enrollment / Membership / Billing

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Cash.....	152		
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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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= Costs per FTE.....	163		
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Customer Services Total Non-Labor Cost per Total FTE.....	163		
+ Customer Services Total Staffing Costs per Total FTE.....	163		
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Percent of Customer Services Costs that are Staffing.....	163		
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Customer Services

Metric	Page	Definition	Calculation
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Eligibility.....	180		
Claims Status.....	181		
Provider Check.....	181		
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Complaints / Grievances.....	182		
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Customer Services

Metric	Page	Definition	Calculation
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Tab 7

Claim and Encounter Capture and Adjudication

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= Costs per FTE.....	197		
x FTEs Per 10,000 Members.....	197		
= Costs per Member Per Month.....	197		
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x Claims Processed Per Member.....	197		
= Members Per FTE.....	197		
x Claims Processed Per FTE Per Year.....	197		
= Cost per Claims Processed.....	197		
x Costs Per FTE.....	197		
= FTEs Per 10,000 Members.....	197		
Costs Per Member Per Month.....	197		
<u>Staffing vs. Non-Labor</u>			
Claims Processing Total Non-Labor Cost per Total FTE.....	197		
+ Claims Processing Staffing Costs per Total FTE.....	197		
= Claims Processing Total Costs per Total FTE.....	197		
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Claim and Encounter Capture and Adjudication

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Claim and Encounter Capture and Adjudication

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Claim and Encounter Capture and Adjudication

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Tab 8
Information Systems

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x IS FTEs per 10,000 Members.....	235		
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Effect of IS Allocated by Supported Functional Area			
IS After Allocation as a Percent of Total IS.....	235		
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= IS Costs PMPM, After Allocation.....	235		
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Staffing vs. Non-Labor			
Information Systems Total Non-Labor Cost per Total FTE.....	236		
+ Information Systems Total Staffing Costs per Total FTE.....	236		
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x Information Systems Total FTEs per 10,000 Members.....	236		
= Information Systems Cost per Member per Month.....	236		
Percent of Information Systems Costs that are Non-Labor.....	236		
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Total Information Systems Expenses.....	237		
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(a) Internal Personnel, Including Travel and Training.....	237		
(b) Consultants / Contractors.....	237		
(c) Hardware Depreciation and Maintenance.....	237		
(d) Software Amortization and Maintenance.....	237		
(e) All Other, Including Office Supplies.....	237		
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Information Systems

Metric	Page	Definition	Calculation
Total Information Systems Costs, Natural Accounting Categories (continued)			
<u>Percent of Total Information Systems Costs</u>			
(a) Internal Personnel, Including Travel and Training.....	237		
(b) Consultants / Contractors.....	237		
(c) Hardware Depreciation and Maintenance.....	237		
(d) Software Amortization and Maintenance.....	237		
(e) All Other, Including Office Supplies.....	237		
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(1) Voice and Data Network.....	238		
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(3) Engineering.....	238		
(4) Desktop Services.....	238		
(5) Help Desk.....	238		
(6) Storage and Capacity Management.....	238		
(7) Business Continuity Planning (BCP) and Disaster Recovery (DR).....	238		
(8) Other.....	238		
11 (b) Applications Maintenance.....	238		
11 (c) Applications Acquisition and Development.....	238		
(1) Project Management Office and Support (PMO).....	238		
(2) Other.....	238		
11 (d) Security Administration and Enforcement.....	238		
Total Information Systems Expenses.....	238		
<u>Percent of Premium Equivalents</u>			
11 (a) Operations and Support.....	238		
(1) Voice and Data Network.....	238		
(2) Data Center.....	238		
(3) Engineering.....	238		
(4) Desktop Services.....	238		
(5) Help Desk.....	238		
(6) Storage and Capacity Management.....	238		
(7) Business Continuity Planning (BCP) and Disaster Recovery (DR).....	238		
(8) Other.....	238		
11 (b) Applications Maintenance.....	238		
11 (c) Applications Acquisition and Development.....	238		
(1) Project Management Office and Support (PMO).....	238		
(2) Other.....	238		
11 (d) Security Administration and Enforcement.....	238		
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Information Systems

Metric	Page	Definition	Calculation
Total Information Systems Costs, Functional Areas (continued)			
<u>Percent of Total Information Systems Costs</u>			
11 (a) Operations and Support.....	239		
(1) Voice and Data Network.....	239		
(2) Data Center.....	239		
(3) Engineering.....	239		
(4) Desktop Services.....	239		
(5) Help Desk.....	239		
(6) Storage and Capacity Management.....	239		
(7) Business Continuity Planning (BCP) and Disaster Recovery (DR).....	239		
(8) Other.....	239		
11 (b) Applications Maintenance.....	239		
11 (c) Applications Acquisition and Development.....	239		
(1) Project Management Office and Support (PMO).....	239		
(2) Other.....	239		
11 (d) Security Administration and Enforcement.....	239		
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Number of Calls per Helpdesk FTE per Year.....	240		
Number of Calls per Total FTE per Year.....	240		
Number of Calls as a Percent of All Inquiries (Calls plus Online).....	240		
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Helpdesk FTEs per 10,000 Members.....	240		
Percentage of plans with the option for employees to generate tickets online.....	240		
Number of Tickets Opened Online per Helpdesk FTE per Year.....	240		
Number of Tickets Opened Online per Total FTE per Year.....	240		
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Metric	Page	Definition	Calculation
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Production Jobs per 1,000 Members.....	245		
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= Daily Production Jobs per IS FTE.....	245		
x IS Cost per Production Job.....	245		
= IS Cost per IS FTE.....	245		
x IS FTEs per 10,000 Members.....	245		
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<u>Production and Test Jobs</u>			
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Yearly Claims Processed per Daily Production Job.....	246		
Yearly Enrollment Transactions Processed per Daily Production Job.....	246		
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Percent of Total Production Jobs Run Daily.....	247		
Production Jobs as a Percent of Total Jobs.....	247		
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Percent of Total Test Jobs Run Daily.....	248		
Test Jobs as a Percent of Total Jobs.....	249		
Projects			
Percent of Number of Total Projects.....	250		
Percent of Total Project Dollars Spent.....	250		
Percent of Total Project Hours.....	251		
Projects per FTE.....	251		
Spend per Project.....	252		
Spend per FTE.....	252		
FTEs per 10,000 Members.....	253		
Spend PMPM.....	253		
<i>Each of the above metrics are provided for the following types of projects:</i>			
Strategic Projects			
Infrastructure Projects			
Process Improvement Projects			
Support Projects			
Other Projects			
Total			

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, Legal and Human Resources. This tab includes metrics of those subfunctions.

Metric	Page	Definition	Calculation
Corporate Services Function			
<u>Corporate Services Function Cost Summary</u>			
Total FTEs per Corporate Services FTE.....	259		
x Corporate Services Costs per Total FTE.....	259		
= Cost of Corporate Services per FTE.....	259		
x FTEs per 10,000 Members.....	259		
= Cost per Member per Month.....	259		
<u>Staffing vs. Non-Labor</u>			
Corporate Services Function Total Non-Labor Cost per Total FTE.....	259		
+ Corporate Services Function Total Staffing Costs per Total FTE.....	259		
= Corporate Services Function Total Costs per Total FTE.....	259		
x Corporate Services Function Total FTEs per 10,000 Members.....	259		
= Corporate Services Function Cost per Member per Month.....	259		
Percent of Corporate Services Function Costs that are Staffing.....	259		
Percent of Corporate Services Function Costs that are Non-Labor.....	259		
Percent of Corporate Services Function Costs that are Outsourced.....	259		
Percent of Corporate Services Function Staffing that is Outsourced.....	259		

Corporate Services Cluster

Metric	Page	Definition	Calculation
Human Resources			
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Supervisors to Managers.....	260		
Staff to Supervisors.....	260		
Total Employees to Top Management.....	260		
Employees Other than Top Management to Top Management.....	260		
Middle Management, Managers and Supervisors to Top.....	260		
Staff to Middle Management, Managers and Supervisors.....	260		
<u>EEO-1 Job Categories as a Percent of Total Employees</u>			
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Professional.....	260		
Clerical.....	260		
Technical.....	260		
Sales Worker.....	260		
Service Worker.....	260		
Laborer.....	260		
Craft Worker.....	260		
Operatives Worker.....	260		
Total Employees.....	260		
<u>Human Resources Cost Summary</u>			
HR Costs per Total FTE.....	261		
x Total FTEs per HR FTE.....	261		
= HR Costs per HR FTE.....	261		
x HR FTEs per 10,000 Members.....	261		
= HR Cost per Member per Month.....	261		
<u>Staffing vs. Non-Labor</u>			
Human Resources Non-Labor Costs per Human Resources FTE.....	261		
+ Human Resources Staffing Costs per Human Resources FTE.....	261		
= Human Resources Costs per Human Resources FTE.....	261		
x Human Resources FTEs per 10,000 Members.....	261		
= Cost per Member per Month.....	261		
Percent of Human Resources Costs that are Non-Labor.....	261		
Percent of Human Resources Costs that are Staffing.....	261		
Percent of Human Resources Costs that are Outsourced.....	261		
Percent of Staff that is Outsourced.....	261		

Corporate Services Cluster

Metric	Page	Definition	Calculation
Facilities			
<u>Facilities Cost Summary</u>			
			262
x			262
=			262
x			262
=			262
			262
x			262
=			262
x			262
=			262
x			262
=			262
<u>Staffing vs. Non-Labor</u>			
			262
+			262
=			262
x			262
=			262
			262
			262
			262
			262
<u>Facilities Management</u>			
			263
			263
			263
			263
			263
			263
			263
			263
			263
			263
			263
			263

Corporate Services Cluster

Metric	Page	Definition	Calculation
Facilities, continued			
<u>Facilities Management, continued</u>			
Gross Square Footage by Type			
Percent Owned.....	263		
Percent Leased.....	263		
Total Facilities Costs per Square Foot			
Gross.....	263		
Usable.....	263		
Legal			
<u>Normal Business Legal Costs vs. Litigation Legal Costs</u>			
PMPM			
Normal Business Legal Costs.....	264		
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Total Legal Costs.....	264		
Percent of Total Legal Costs			
Normal Business Legal Costs.....	264		
Litigation Legal Costs.....	264		
Total Legal Costs.....	264		
<u>Staffing vs. Non-Labor</u>			
Legal Non-Labor Cost per Legal FTE.....	264		
Legal Staffing Costs per Legal FTE.....	264		
+ Legal Costs per Legal FTE.....	264		
= Legal FTEs per 10,000 Members.....	264		
x Cost per Member per Month.....	264		
=	264		
Percent of Legal Costs that are Non-Labor.....	264		
Percent of Legal Costs that are Staffing.....	264		
Percent of Legal Costs that are Outsourced.....	264		
Percent of Staff that is Outsourced.....	264		

Tab 10

Risk Adjustment

Risk Adjustment is the analysis of clinical data in order to match government compensation with the risk factors of members. This includes adjustment for the “three Rs”: permanent risk adjustment, transitional reinsurance and transitional risk corridors.

Metric	Page	Definition	Calculation
Risk Adjustment Cost Summary			
Chart Reviews per 1,000 Members.....	267		
x Members per FTE.....	267		
= Chart Reviews per FTE per Year.....	267		
x Cost per Chart Review.....	267		
= Costs per FTE.....	267		
FTEs per 10,000 Members.....	267		
Costs per Member per Month.....	267		
Staffing vs. Non-Labor - Risk Adjustment			
Risk Adjustment Non-Labor Cost per Total FTE.....	267		
+ Risk Adjustment Total Staffing Costs per Total FTE.....	267		
= Risk Adjustment Total Costs per Total FTE.....	267		
x Risk Adjustment Total FTEs per 10,000 Members.....	267		
= Risk Adjustment Cost per Member per Month.....	267		
Percent of Risk Adjustment Costs that are Staffing.....	267		
Percent of Risk Adjustment Costs that are Non-Labor.....	267		
Percent of Risk Adjustment Costs that are Outsourced.....	267		
Percent of Risk Adjustment Staffing that is Outsourced.....	267		
Number of Chart Reviews			
Per 1,000 Members			
Internal.....	268		
Outsourced.....	268		
Total.....	269		
Percent of Charts Subject to Multiple Passes			
Internal.....	269		
Outsourced.....	270		
Total.....	270		
Percent of Charts Reviews: Internal vs. Outsourced			
Internal.....	271		
Outsourced.....	271		
Total.....	272		
Internal Charts Reviewed per Risk Adjustment FTE Reviewing Charts.....	272		

Risk Adjustment

Metric	Page	Definition	Calculation
Risk Adjustment Staffing			
Risk Adjustment Staffing FTEs per 10,000 Members			
Employees Reviewing Charts.....	273		
Other Risk Adjustment Employees.....	273		
Total.....	274		
Percent of Risk Adjustment Staffing			
Employees Reviewing Charts.....	274		
Other Risk Adjustment Employees.....	275		
Total.....	275		
Revenue Yields and Returns			
Risk Score Improvement Percentage			
Internal.....	276		
Outsourced.....	276		
Dollar Reimbursement Yield			
PMPY			
Internal.....	277		
Outsourced.....	277		
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Internal.....	278		
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Total.....	279		
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Internal.....	280		
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Total.....	281		
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