

SHERLOCK BENCHMARKS

Medicare Edition



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SHERLOCK BENCHMARKS

Medicare Edition - 2018

Volume II: Staffing and Compensation



SHERLOCK COMPANY

August 2018

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INTRODUCTION AND BACKGROUND

Background

This is the “Staffing and Compensation” book of Volume II of the 2018 *Sherlock Benchmarks* for Medicare-focused Plans. (*Sherlock Expense Evaluation Report* or *SEER*). The *Sherlock Benchmarks* provide statistics and analysis summarizing the administrative expenses and operational metrics of eleven Medicare-focused health plans. They are intended to facilitate comparisons for users and to assist in the management of health plan administrative expenses.

The premises of the *Sherlock Benchmarks* and a general description of the Medicare universe is found in Volume I, Financial Metrics. That volume also contains an extensive description of the participating plans.

Organization of Sherlock Benchmarks

The 2018 *Sherlock Benchmarks* for Medicare-focused plans is a carefully compiled and validated summary of the surveyed operational characteristics of leading health plans. Eleven Medicare-focused plans participated this year. We believe that these comprise the overwhelming share of the leading health plans in this sector. Collectively, the plans reflected here serve 5.1 million people with comprehensive products.

The *Sherlock Benchmarks* assists 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. Sherlock Benchmarks are unusually comprehensive and a highly valid analytical tool.

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 thirteen product lines and approximately 65 functions.

Volume II: Operational Metrics complements Volume I by facilitating in-depth analyses of the financial metrics. It is subdivided into four documents.

Staffing and Compensation focuses on the staffing components of operational metrics and includes average compensation, staffing ratios and outsourcing information. This content is described more fully below.

Operational Metrics translates between operational performance and expense performance. 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. All functions are 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.



Medical Management Metrics reports the costs and volumes of key medical management activities.

Health Care Utilization Metrics contains health care utilization and cost metrics for forty health services, segmented by product.

In addition to these documents, a comprehensive set of data definitions and calculation notes, called *Common Guidelines*, is provided normally in PDF form for ease of reference.

This document, Volume II - Staffing, is divided into five sections:

TAB 1. INTRODUCTION AND BACKGROUND

This section describes the organization, conventions, applicability and processes of the *Sherlock Benchmarks*, particularly with respect to staffing and compensation.

TAB 2. STAFFING RATIOS

This section presents analyses of staffing ratios by functional area. The staffing ratios per 10,000 Members include those based on internal FTEs along with staffing ratios to reflect the FTEs stemming from outsourced activities. The “combined” staffing ratios, by incorporating the effect of outsourced staff, is a more accurate representation of staffing norms than the internal staffing ratios since from 2% to 25% of health plan staffing is outsourced.

This section also includes estimates of combined staffing ratios by product (e.g., Commercial Insured, Medicare Advantage) and segment (e.g., Individual, Small Group). These analyses are to provide the user with metrics that enable staffing ratio norms that apply to the product and segment mix of your plan that reflect the differing work requirements of each segment or product. Staffing Ratios for each product or segment are estimated by dividing per member costs by *total* cost per FTE.

TAB 3. STAFF COMPENSATION

This section includes analyses staff compensation including staffing costs per FTE for every function, and health plan estimates of the compensation of employees serving the Plan under outsourcing arrangements. Staffing costs presented here includes benefits as well as wages and salaries.

In addition, this section provides analysis of the forms of compensation paid to health plan employees. Compensation is segmented into various forms of direct pay and various forms of benefits. If your compensation costs vary from the norms, then these exhibits may provide insight to the reason.

TAB 4. LABOR INTENSITY

The mix of labor and non-labor describes labor intensity. We supply analyses of this mix for each functional area. The simplest example is Internal Staffing Costs as a percent of total administrative costs



in each function. We also calculate overall labor intensity, taking into account the effect of outsourcing on each function. Since that which is not labor must be non-labor, these non-labor costs are also calculated for each function.

TAB 5. PROPENSITY TO OUTSOURCE

Detailed metrics relating to the propensity to outsource are included in this section. Outsourced staffing costs as a percent of total staffing costs, outsourced staffing costs as a percent of total costs, outsourced FTEs as a percent of total FTEs, outsourced costs as a percent of total costs and outsourced costs per member per month can be found here.

Conventions Used in this Report

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

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.

Statistical results are unweighted. That is, each metric reflects equally the experience of each Plan that reports a functional area for a product, without regard to the Plan’s size.

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.

Results were carefully validated to identify, and correct if possible, reporting errors.

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 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 - Staffing.

1. The information is received through our contact, typically someone in the finance area, rather than directly from the operational department themselves.
2. Additional discussion about the *Sherlock Benchmarks* survey procedures, data analysis and presentation is found under Tab 1 of Volume I.
3. A complete description of the characteristics of the participating plans is found in Tab 10 of Volume I.

Questions and Comments

We invite questions and comments on the
Sherlock Benchmarks.

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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

Staffing Ratios

This section provides an analysis of staffing ratios by function. Values are presented on a per 10,000 member basis.

Outsource FTEs are estimated by the plans. Combined FTEs are the sum of internal and outsourced FTEs. Combined FTEs are intended to represent the staffing if no activities were outsourced.

Inferred Combined FTEs by product and by segment are estimated by dividing the plan's PMPM costs by the total costs per FTE. This is multiplied by 120,000 to convert monthly costs to annual FTEs and to adjust for the staffing ratio being expressed in per 10,000 members.

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Tab 3

Staff Compensation

This section provides an analysis of staff compensation, by function. Outsourced staffing costs are estimated by the plans.

Staffing Costs for Internal FTEs include all benefits. These correspond to internal staffing costs, except they include accruals for retiree benefits other than pensions. Other Post Employment Benefits (OPEB) are classified in the financial metrics in the Other Corporate Services sub-function of Corporate Services.

Outsourced Staffing Costs are provided by the plans. Depending on the plan, their ultimate source may be their direct knowledge of the compensation of the outsourced FTE or an estimate. If estimated by the plans, it may be based upon local wage levels for the personnel or the typical costs for FTEs in Plans that do not outsource any activities.

Combined Staffing Costs reflect both the internal and outsourced staffing costs. This corresponds with the combined staffing ratio, found in Tab 2, Staffing Ratios.

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Tab 4

Labor Intensity

This section provides an analysis of labor intensity, by function. Non-Labor Costs are inferred as total costs less staffing costs. These ratios are calculated by function.

Comprehensive Total Costs per Combined FTE is calculated as total costs per function divided by the sum of all internal and outsourced FTEs. This metric is useful for estimating staffing requirements across products and segments. Assuming the staffing and non-labor mix is precisely the same for each product or segment served, then this value can be used to estimate staffing in that product. This is done by dividing the PMPM costs for that product or segment by comprehensive total costs per combined FTE. The result is then multiplied by 120,000 to convert month-based calculation of PMPM to annual values and to express the staffing ratio in the more wieldy per 10,000 members.

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