

Plan Management Navigator

Analytics for Health Plan Administration



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Please see our invitation to participate in the 2020 Sherlock Benchmarks on Page 6.

COST ALLOCATION FOR THE *SHERLOCK BENCHMARKS*

We believe that health plan interest in managing administrative expenses is high, and may recently have been exacerbated by the recent indications of general economic volatility. The *Sherlock Benchmarks* can be a helpful tool to manage those costs because they are very specific in costs and staffing for each functional area, and can be adapted for changes in health plan product mix and membership trends.

To arrive at practical answers to achieving optimal costs and staffing, each plan’s costs should be harmonized with the classifications employed by the panels that participate in the *Sherlock Benchmarks*, at least at an actionable level in those functions where a health plan’s cost variance is evident.

Normally, users of the *Sherlock Benchmarks* are familiar with their own classifications but not those used by the participants in the Benchmarking panel. Such licensees, representing most Americans with health insurance, map their expense classifications to *Sherlock Benchmarks* classifications.

This edition of *Plan Management Navigator* is based on Sherlock Company’s experience of completing the survey forms of the *Sherlock Benchmarks* on the behalf of Sherlock Company’s clients. (The survey form is the tool Sherlock Company uses to gather data from health plans to populate the benchmarks.) For the most part, our assistance to health plan clients occurs off-cycle, or because the entity may be idiosyncratic, because our engagement may be a solution to internal conflicts, or simply results from bandwidth limitations.

Figure 1. Cost Allocation For the Sherlock Benchmarks
Estimated Timeline to Completion

<i>Major Tasks:</i>	Week 0	Week 4	Week 10	Week 12	Week 14	<i>Approximate Length Until Completion</i>
<i>Initial Data Request</i>	[Bar from Week 0 to Week 0]					0 Weeks
1. Cost Center and Staffing Information Received by Sherlock Company.		[Bar from Week 4 to Week 8]				4 Weeks
2. Sherlock Company Classifies and Populates the Survey Form and Incorporates the Results into <i>Sherlock Benchmarks</i> .		[Bar from Week 4 to Week 10]				6 Weeks
3. Sherlock Company and Health Plan Validate Survey.			[Bar from Week 10 to Week 12]			2 Weeks
4. Submit Final Report					[Bar from Week 14 to Week 16]	2 Weeks

**All dates are approximate*

The process we outline below is similar to the process undertaken by the plans themselves, though the knowledge base is different. While a health plan may be familiar with its own classifications, it may not be familiar with those of the *Sherlock Benchmarks*. By contrast, when Sherlock Company completes the surveys on an organization's behalf, it is familiar with our classifications but not the internal classifications of our client.

The following summarizes the process of harmonizing the classifications and incorporating the client's data into the survey forms. It is expressed in the form of a client engagement since that is the actual context. The activities that we undertake are quite similar to those of participants, especially in complex organizations where the precise activities of the cost center may not be thoroughly understood by the analysts in the Finance and Accounting function tasked to complete the Sherlock survey.

Responsibilities of the Client

While we are tasked to perform the allocations, the organization shares certain responsibilities. These responsibilities include:

- Create a Steering Committee consisting of key executives impacted by the benchmarking project. As a practical matter, this is usually one person, normally a CFO.
- Be responsible for the quality and integrity of input data.
- Be responsible for providing reviews and comments on a timely basis.
- Provide administrative support to assist with the scheduling and coordination of interviews, work sessions, and other meetings.

Typical Timeline

Figure 1 shows the major tasks and estimated length of time to completion. The expected *duration* from receipt of accurate and complete Cost and Staffing information is approximately 2.5 months. The actual time required to allocate cost centers to Sherlock product / expense cells is three man-weeks. This workload is similar to the experience of actual participants in the *Sherlock Benchmarks*. As an aside, participants in the *Sherlock Benchmarks* have told us they experience "Practice Effect" with time required to populate the survey form dropping with greater experience.

Financial Metrics Data Elements Request

The following data elements are required for Sherlock Company to have sufficient information to complete the survey form. They include:

- Member months or average members by product.
- Premium revenues and health care costs by product.
- Cost center data and possibly some general ledger information.
- Descriptions of activities for cost centers.
- Audited Financial Statements, to assure completeness.
- FTE Months or FTEs, with a description of their responsibilities. For FTEs that perform activities across multiple functional areas, we need to know how much time is spent on each activity.
- Fully-loaded staffing costs by FTEs, in each function.
- Outsourced costs and description of outsourced activities.

Cost Center Example

Figure 2 and 3 shows an example of allocating cost center information into the functional areas of the *Sherlock Benchmarks*. (The information in Figures 2 and 3 is not actual, and is for illustrative purposes only.)

Beginning in Figure 2, our first objective is to figure out which *Sherlock Benchmark* functional area each cost center would reside (See Figure 4 for a listing of benchmark functional areas). For our example, Cost Center 355 Accounting / Finance would reside in the Finance and Accounting Benchmark functional area, while 950 Claims Administration would reside in the Claims benchmark functional area.

Figure 2. Cost Allocation For the Sherlock Benchmarks
Cost Center Example

Cost Center	Description	Sherlock Functional Area	FTE Months	Non-Labor Costs	Facilities and Other	Outsourcing	Fully-Loaded Staffing Costs	Total Costs
355 Accounting / Finance	Finance and Accounting	12.(b) Other Fin. and Acct.	187	\$750,000	-10,000	0	2,500,000	\$3,240,000
950 Claims Administration	Manual Claims Processing	10.(d) Other Claim & Enc. Cap. & Adjud.	926	\$6,000,000	-1,000,000	0	6,000,000	\$11,000,000
555 Center of Excellence	Enterprise-wide Business Process Improvement with 2 FTEs focused on Provider Education related activities		144	\$9,000,000	-500,000	-1,250,000	2,200,000	\$9,450,000
		15. Corp. Exec. & Gov.	120	\$7,500,000	-250,000	-1,250,000	2,000,000	\$8,000,000
		6.(d) Other Prov. Net. Mgmt. & Svcs.	24	\$1,500,000	-250,000	0	200,000	\$1,450,000
010 Human Resources	HR with 1 FTE processing payroll		48	\$150,000	-60,000	0	375,000	\$465,000
		14.(a) HR	36	\$99,999	-15,000	0	310,000	\$394,999
		12.(b) Other Fin. and Acct.	12	\$50,001	-45,000	0	65,000	\$70,001
125 Clinical Programs and Healthcare Management	Need more info.	Need more info.	2,650	\$12,000,000	-3,500,000	0	25,000,000	\$33,500,000
001 Corporate Services	Rent, Facilities, Security, and etc...	14.(c) Facilities	60	\$2,000,000	5,070,000	0	450,000	\$7,520,000

Some cost centers must be split between two or more functional areas. In our example, Cost Center 555 Center of Excellence, must be divided. According to the description, the activities within this cost center include, “Enterprise-wide Business Process Improvement with 2 FTEs focused on Provider Education related activities.” So, these activities would be divided between the functional areas of Corporate Executive and Governance and Other Provider Network Management and Services.

Participants in the *Sherlock Benchmarks* have reported to us that they have had to adjust, segment, and move cost center information. But the classifications in the *Sherlock Benchmarks* are developed with the panels of health plans. The effect of this is that the classifications reflect the least aggregate burden to the *Sherlock Benchmarks* participants and also the most common practice in internal reporting.

In addition to the classification of expenses and the division of expenses between Sherlock functional areas, certain expenses need to be carved out of each cost center and allocated to a functional area of their own. Please refer to the Cost Center 001 Corporate Services in Figure 2. This cost center is comprised of all of the organization’s facilities-related activities such as rent, security, etc. Note in the sixth column of Figure 2, we are carving any facilities-related expenses out from each cost center and moving them to the Benchmarking functional area of Facilities.

Figure 3 illustrates an example of when we need additional information for our allocation. Allocations of these expenses generally require interviews with department leaders. We ask for estimates of how much time is spent on an activity or a resource and use it as a driver between functions. Job descriptions and resumes help to illuminate the appropriate classification.

Figure 3. Cost Allocation For the Sherlock Benchmarks
Cost Center Example, Continued

Cost Center	Job Title	FTE Months	Fully-Loaded Salaries	Sherlock Benchmark Functions
125 Clinical Programs and Healthcare Management	5550 Chief Medical Officer	12	\$300,000	7.(j) Other Medical Management
	5100 Clinical Pharmacist	120	\$1,200,000	18. Pharmacy
	5000 Care Manager	958	\$9,500,000	Split between 7.(b) Case Management and 7(c) Disease Management
	5010 Care Manager Social Worker	958	\$8,550,000	Split between 7.(b) Case Management and 7(c) Disease Management
	5200 Referral Coordinator	250	\$2,000,000	7.(a) Precertification
	5210 Utilization Coordinator	208	\$2,000,000	7.(h) Utilization Review
	5551 Admin Assistant	24	\$150,000	Split between 7.(i) Other Medical Management and 18. Pharmacy
	5900 Business Analyst	48	\$400,000	11.(a) Operations and Support Services
	5551 Medical Director	36	\$450,000	7.(i) Other Medical Management
	5552 Chief Pharmacy Dir.	36	\$450,000	18. Pharmacy

An example of allocating between functional areas using a resource as a driver is the number of case management cases versus the number of disease management cases. Similarly, the number cases could be an acceptable driver for 5000 Care Managers and 5010 Care Manager Social Worker positions in our example. Certain costs or positions will need to be carved out of the Cost Center, see the circled 5900 Business Analyst position in Figure 3 where we reallocate this cost to 11.(a) Operations and Support Services.

Allocation of Costs by Product

The examples found in Figures 2 and 3 show how we allocate cost center information into Benchmark functional area classifications. We also require that functional area costs be segmented by product. To do this, first, we allocate any product or resource specific costs directly. For example, a Medicare Provider Contracting Specialist would reside under our Medicare product in the Provider Contracting functional area.

Next, if operational metrics are provided by product, we will use these to allocate by product. As discussed below, if the number of claims processed are given by product, we'll weight the claims processing costs by the proportion of claims processed by product to total claims processed. We can also apply this approach to costs that are indirect. For instance, if 40% of Information Systems costs are associated with claims processing, and 30% of claims are in Medicare Advantage then 12% of Information Systems must relate to claims processing for Medicare Advantage.

Lastly, in the absence good drivers based on resource consumption, we will use a percent of premiums (or premium equivalent) method. This is the method we use for pure overhead costs such as in Finance and Accounting and believe it is a better indicator of resource consumption rather than a percent of members methodology.

Operational Metrics Data Elements Request

We ask for a limited number of Operational Metrics, which reflect same requirements of our participants. These operational metrics may help to explain variances. In this context, they are especially important in cost allocation across products. Inquiries by product can serve as drivers for allocating Customer Services and Provider Services costs. The required operational metrics include:

Total Manual Inquiries for **Customer Services** and **Provider Services**. Manual inquiries include:

- Manual Calls
- Paper/Written Inquiries
- Manual Electronic Inquiries

Manual **Enrollment** Transactions which is comprised of:

- Electronic Transactions Requiring Manual Intervention
- All Other Manual Transactions

Total Number of **Claims** Processed

SHERLOCK BENCHMARKS: PARTICIPATION AND LICENSING

The above comments concern the harmonization of your expenses with those employed in the *Sherlock Benchmarks*. There are a number of ways to gain access to the Benchmarks themselves. The first is to determine whether you already have access to the *Sherlock Benchmarks*. Since health plans serving more than 180 million insured Americans have licensed or participated since 2017, whether your health plan has a license is worth investigating.

You can also become a participant in one of our universes. We have recently launched our Blue Cross Blue Shield and Independent / Provider – Sponsored universes of the *Sherlock Benchmarks*. We anticipate that for these two universes we will collect survey forms in April, validated in May and publish beginning in June.

We welcome your plan to the Blue or IPS universes, but time is running out since the surveys are now being distributed. We believe that interest is strong: for instance, the Blue Cross Blue Shield universe has 20 participants of what are effectively 34 Primary Licensees. We are also developing our Medicare and Medicaid Benchmark panels. We are planning on launching surveys for these universes in June.

Alternately, you can license the *Sherlock Benchmarks*. This provides your health plan with immediate access to the 2019 editions.

If your plan does elect to license, if it is more convenient you may wish to consider engaging Sherlock Company to perform the cost mapping. While the cost mapping takes much of the effort out of your hands, there is a cost, it will still require time to schedule interviews, answer our questions, and validate our work. If you have any questions please do not hesitate on reaching out to us.

Additional information on our various universes can be found at <https://sherlockco.com/peers/>. Products offered among our various universes can be found at <https://sherlockco.com/products/>. A list of benchmark functional areas can be found in the Appendix, while a sample of what the output reports look like can be found [here](#). Please see <https://sherlockco.com/sherlock-benchmarks/> for additional information on the *Sherlock Benchmarks*.

Contact

Please do not hesitate to contact us with questions concerning participation of licensing the *Sherlock Benchmarks*.

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Appendix A. Cost Allocation

Major Functions Included in Each Administrative Expense Cluster

Sales & Marketing

1. Rating and Underwriting
 - (b) Risk Adjustment
 - (c) Other Rating and Underwriting
2. Marketing
 - (a) Product Development and Market Research
 - (b) Member and Group Communication
 - (c) Other Marketing
3. Sales
 - (a) Account Services
 - (b) Internal Sales Commissions
 - (c) Other Sales
4. External Broker Commissions
5. Advertising and Promotion
 - (a) Media and Advertising
 - (b) Charitable Contributions

Provider & Medical Management

6. Provider Network Management and Services
 - (a) Provider Relations Services
 - (b) Provider Contracting
 - (1) Provider Configuration
 - (2) Other Provider Contracting
 - (d) Other Provider Network Management and Services
7. Medical Management / Quality Assurance / Wellness
 - (a) Precertification
 - (b) Case Management
 - (c) Disease Management
 - (d) Nurse Information Line
 - (e) Health and Wellness
 - (f) Quality Components
 - (g) Medical Informatics
 - (h) Utilization Review
 - (i) Other Medical Management

Account & Membership Administration

8. Enrollment / Membership / Billing
 - (a) Enrollment and Membership
 - (b) Billing
9. Customer Services
 - (a) Member Services
 - (b) Printed Materials and Other
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (d) Other Claim and Encounter Capture and Adjudication
11. Information Systems Expenses
 - (a) Operations and Support Services
 - (b) Applications Maintenance
 - (1) Benefit Configuration
 - (2) Other Applications Maintenance
 - (c) Applications Acquisition and Development
 - (d) Security Administration and Enforcement

Corporate Services

12. Finance and Accounting
 - (a) Credit Card Fees
 - (b) Other Finance and Accounting
13. Actuarial
14. Corporate Services Function
 - (a) Human Resources
 - (b) Legal
 - (1) Compliance
 - (2) Government Affairs
 - (3) Outside Litigation
 - (4) Fraud, Waste and Abuse
 - (5) All Other Legal
 - (c) Facilities
 - (e) Audit
 - (f) Purchasing
 - (g) Imaging
 - (h) Printing and Mailroom
 - (i) Risk Management
 - (j) Other Corporate Services Function
15. Corporate Executive & Governance
16. Association Dues and License/Filing Fees