

# Plan Management Navigator

## *Analytics for Health Plan Administration*



Healthcare Analysts

**Douglas B. Sherlock, CFA**  
sherlock@sherlockco.com

**Christopher E. de Garay**  
cgaray@sherlockco.com

**Erin Ottolini**  
erin.ottolini@sherlockco.com

**John Park, CFA**  
jpark@sherlockco.com

**Andrew L. Sherlock**  
asherlock@sherlockco.com

(215) 628-2289

## ESTIMATING HEALTH PLAN PERFORMANCE USING A FREE ON-LINE APPLICATION

Judging by recent expressions of interest in the *Sherlock Benchmarks*, many health plans and their advisors want to assure that their operating costs are competitive.

In weighing the benefit of *efforts* to discover precisely how a health plan is performing, one threshold may be evidence that it is performing sub-optimally. Market responses to proposals to employers by health plans for their services is a signal that is clear and economically significant. While apparently uncompetitive pricing of your products is a vivid indicator, it is imprecise because competitor pricing strategies may not reflect their own costs and the composition of any cost differences between competitors are not evident.

Sherlock Company's Benchmark Calculator provides an alternative comparison of your health plan's relative costs. It is a process that is less economically impactful than the market itself, it focuses on costs rather than prices and it is easier to execute.

This *Plan Management Navigator* describes the use of the Benchmark Calculator. Each value in the Benchmark Calculator is based on our surveys of health plans.

### *How to Use the Benchmark Calculator*

The Benchmark Calculator is easy to use. While it adjusts for your product mix, it does not require that you segment your health plan's costs by product. You need only have a sense of your product mix to develop expected results from the *Sherlock Benchmarks*. Finally, even if you use the Benchmark Calculator in its fullest form the information necessary for its use is readily available to you, even without detailed company financial statements.

#### **Step 1. Locate the Benchmark Calculator.**

The Benchmark Calculator is found [here](#). It is on our website at the *Sherlock Benchmarks* page. Figure 1 is an image of the application. We describe how it is used and some definitions below. An example of its use is the subject of the next section of this *Navigator*.

#### **Step 2. Populate the Average Members.**

Since product costs differ greatly, the Benchmark Calculator is designed to eliminate the effect of product differences between your company and its peers. But rather than adjusting your company to be comparable with other plans, the application weights comparable product cost values to match your product mix. This method corresponds with the reality that health plans generally do not segment their actual operations by product, especially in such areas as information systems and finance and accounting.

There are 16 benchmarked products: populate your average members in the appropriate box. An “average member” is member months divided by 12.

**Step 3. Select the Comparable Universe.**

Sherlock Company benchmarks several different sets of health plans: Blue Cross Blue Shield Plans, Independent / Provider- Sponsored Plans, Medicaid Plans, Medicare Plans, and Larger Plans. (The Larger Plans are a subset of the Blue Cross Blue Shield Plans.) They operate differently as product focus, scale and business approaches differ. It may be appropriate to select the universe for your products that are the best match to your organization.

The column to the right shows the universes for each product so you can select the one most similar to your organization. If a universe does not show a product, it is because too few in that universe offer that product to yield meaningful benchmarks. In that instance, use what you consider the next closest universe.

**Figure 1. Plan Management Navigator**  
 Benchmark Calculator from Sherlock Company Website



## How do you compare to the Sherlock Benchmarks?

Your Total Annual Administrative Expenses	\$ <input type="text"/>	Optional
Total Average Members	0	
Your PMPM Administrative Expenses	N/A	
Variance from Benchmark	N/A	
Percent Variance from Benchmark	N/A	

PRODUCTS	AVERAGE MEMBERS	UNIVERSE
Commercial HMO Insured	<input type="text" value="0"/>	Blue ▾
Commercial HMO ASO/ASC	<input type="text" value="0"/>	Blue ▾
Commercial POS Insured	<input type="text" value="0"/>	Blue ▾

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**Step 4. Note the “Expected PMPM Costs”.**

Figure 2 shows, immediately below the chart where you have populated average members and preferred universes, the expected PMPM costs. This is the median PMPM for each of the products for the universes that you have chosen as comparable, weighted by your health plan’s product mix.

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**Figure 2. Plan Management Navigator**  
Expected PMPM Costs from Sherlock Company Website

Medicare Advantage	<input type="text" value="0"/>	Blue ▾
Medicare SNP	<input type="text" value="0"/>	IPS ▾
Medicare Cost	<input type="text" value="0"/>	IPS Only
Medicare Supplement	<input type="text" value="0"/>	Blue ▾
Medicaid HMO	<input type="text" value="0"/>	Blue ▾
Medicaid CHIP	<input type="text" value="0"/>	IPS ▾
Stand-Alone Part D	<input type="text" value="0"/>	Blue ▾
Stand-Alone Dental	<input type="text" value="0"/>	Blue ▾

**EXPECTED PMPM COSTS: N/A**

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**Step 5. (Optional) Populate your Administrative Cost Value.**

If you wish, you can use this application to compare the Expected PMPM Costs with your actual performance. Put the actual dollar values of Your Total Annual Administrative Expenses where indicated. This is shown in Figure 1, on page 2.

The expenses should be claims adjustment and cost containment expenses plus general and administrative expenses. Depreciation and Amortization (other than Goodwill amortization) is included here. Quality improving activities should be included here even if your health plan reports them using the MLR convention as health benefits. Sales and Marketing expenses should be included, among them notably are Broker Commissions. Miscellaneous business taxes like premium taxes and ACA-related taxes are excluded. These conventions mirror those reported by the plans whose results create the Benchmarks.

While the most reliable source of information for populating your administrative expenses is detailed internal financial statements that correspond with the audit, NAIC statutory statements or information disseminated to investors in public companies may substitute when this granularity is not readily available to you.

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**Step 6. Note the “Variance from Benchmark” and “Percent Variance from Benchmark”**

With your administrative cost information, the application calculates your relative performance. That is, it compares your plan’s PMPM costs against Benchmarks using the same product mix as your plan and using the Benchmarking universe of your preference. The results are Your PMPM Administrative Expenses, Variance from Benchmarks (expressed PMPM) and Percent Variance from Benchmark.

*Example of Application*

This example may be helpful to clarify the comments above, and also aid in familiarizing you with the Benchmark Calculator. The left column corresponds with the steps above and the right column suggests values you might use. Please refer to page 6 for an illustration of the example below.

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Populate the Average Members.	Assume 50,000 Commercial HMO Insured and 50,000 Medicare Advantage.
Select the Comparable Universe.	Assume that the best comparability to your plan is Independent / Provider – Sponsored universe.
Note the “Expected PMPM Costs”.	At the bottom of the chart, the expected PMPM value is \$85.13.
Populate your Administrative Cost Value. (Optional)	Assume your annual administrative expenses are \$100,000,000. You then populate Your Total Administrative Expenses using that value.
Note the “Variance from Benchmark” and “Percent Variance from Benchmark”	If you have populated Your Total Administrative Expenses, the Benchmark Calculator produces Your PMPM Administrative expenses of \$83.33, Variance from Benchmark of (\$1.80) and Percent Variance from Benchmark of (2.11%)

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## *Conclusion*

We began this *Navigator* by observing that “In weighing the benefit of efforts to discover precisely how a health plan is performing, the threshold may be evidence that it is performing sub-optimally.” The Benchmark Calculator application is intended to help health plans determine their relative costs in a way that is less economically impactful than the market itself, focuses on costs rather than prices and is easier to execute. While low costs are not the same as optimal costs, the Benchmark Calculator can be a starting point for your analysis.

If your health plan concludes that there is merit in developing a deeper understanding of its cost performance, please reach out to us concerning participation in or licensing of the *Sherlock Benchmarks*. Detail available through the Benchmarks includes approximately 70 functional areas, products as described above, sources of variances including functional staffing ratios, compensation and operational metrics. *You will be among good company.*

## *Answers to Questions*

We hope that you will not hesitate to reach out to us with any questions concerning the Benchmark Calculator or the *Sherlock Benchmarks*. Please reach out to Douglas Sherlock at [sherlock@sherlockco.com](mailto:sherlock@sherlockco.com) or 215-628-2289.



## How do you compare to the Sherlock Benchmarks?

Your Total Annual Administrative Expenses	\$ <input type="text" value="100,000,000"/>	Optional
Total Average Members	<input type="text" value="100,000"/>	
Your PMPM Administrative Expenses	<input type="text" value="\$83.33"/>	
Variance from Benchmark	<input type="text" value="(\$1.80)"/>	
Percent Variance from Benchmark	<input type="text" value="(2.11%)"/>	

PRODUCTS	AVERAGE MEMBERS	UNIVERSE
Commercial HMO Insured	<input type="text" value="50,000"/>	IPS ▾
Commercial HMO ASO/ASC	<input type="text" value="0"/>	Blue ▾
Commercial POS Insured	<input type="text" value="0"/>	Blue ▾
Commercial POS ASO/ASC	<input type="text" value="0"/>	Blue ▾
Indemnity & PPO Insured	<input type="text" value="0"/>	Blue ▾
Indemnity & PPO ASO/ASC	<input type="text" value="0"/>	Blue ▾
Commercial ASO Total	<input type="text" value="0"/>	Blue ▾
FEP	<input type="text" value="0"/>	Blue ▾
Medicare Advantage	<input type="text" value="50,000"/>	IPS ▾
Medicare SNP	<input type="text" value="0"/>	IPS ▾
Medicare Cost	<input type="text" value="0"/>	IPS Only
Medicare Supplement	<input type="text" value="0"/>	Blue ▾
Medicaid HMO	<input type="text" value="0"/>	Blue ▾
Medicaid CHIP	<input type="text" value="0"/>	IPS ▾
Stand-Alone Part D	<input type="text" value="0"/>	Blue ▾
Stand-Alone Dental	<input type="text" value="0"/>	Blue ▾

**EXPECTED PMPM COSTS: \$85.13**