



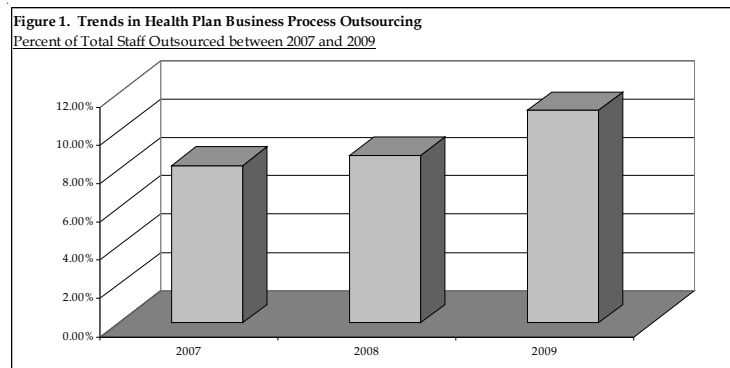
## TRENDS IN HEALTH PLAN BUSINESS PROCESS OUTSOURCING

As financial pressures on health plans have increased, they have increasingly looked outside of their organizations to execute activities in service to their customers. This trend is evident overall, where outsourced FTEs comprise approximately 11% of the total, but especially for information systems, where they now comprise 23% of total FTEs.

Blue Cross Blue Shield Plans provide estimates of outsourced activities, measured in full-time equivalent employees. Outsourced staff may be contract workers, consultants or the outsourcing of an entire function, so this term is broadly applied. Depending upon the context and the Plan, the number of consultants known to be assigned to the Plan are reported to us, otherwise the Plan makes estimates based on inferences from vendor billings and normal ratios of total cost per FTE. The universes are not constant and there may be measurement quirks in individual submissions, but we consider this representative of broad industry trends. In this edition of *Navigator* we explore outsourcing trends and how they vary by function.

While overall, there has been an increased tendency towards business process outsourcing, but it has varied by function. Information systems has tended to increase while medical management has tended to decrease. Between 2007 and 2009, the total number of staff that were outsourced increased from 8% to 11%, as shown in Figure 1.

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## TPAs: A NEW UNIVERSE FOR SEER

We are pleased to announce a new universe of Third Party Administrators that are participating in our SEER benchmarks. These firms are known for the flexibility of their offerings which, for many health benefit plan sponsors, translates into lower costs.

This analysis is, we believe, unprecedented for the TPA segment of the market in its granularity of functions, cost segmentation by product, the quality of the responses and the depth of treatment of opera-

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## DASHBOARD SUMMARY:

### THREE MONTHS ENDED JULY 2010

In health lines of Blue and Independent/Provider-Sponsored Plans, operating income increased slightly overall. While revenues grew by approximately 4%, margins increased modestly. Operating margins were approximately 4%.

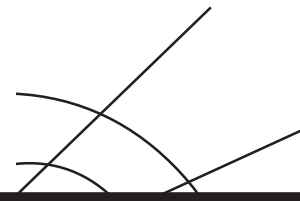
Revenue growth trends for commercial products increased in the single digits for both Blues and Independent/Provider-Sponsored Plans. Indemnity product trends declined slightly for Blue plans as Independent/Provider-Sponsored plans experienced double digit increases. ASO revenue growth was the highest growth commercial products for the Blues and increased modestly for the Independent/Provider-Sponsored plans. Medicaid products increased for both

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## SEER PUBLICATION SCHEDULE

For many organizations, September is when the budget season begins in earnest. Many firms use our benchmarks to make the most appropriate budget decisions, and to defend them to their colleagues, in an unprecedentedly challenging environment. Nearly 60 health plans participated in our various benchmarking studies in 2010, up from approximately 50 in 2009. All survey forms have been completed and we are now in the process of scrubbing, compiling and reporting the data. The following is our schedule and progress so far.

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**Outsourcing:** From Page 1

Information Systems is the most important area of outsourcing because it is both large and heavily outsourced.

Total Information Systems outsourcing increased from 20% in 2007 to 23% in 2009. Note, as shown in Figure 2, that each of the sub-functions increased their outsourcing over that period, except for Application Acquisition and Development, which remained constant at a high level in the low 30% range. Operations and Support increased from 10% to 14% during that period as Application and Maintenance increased from 17% of FTEs to 23%. Security Administration and Enforcement doubled from 5% of FTEs to 11%.

Since Information Systems is used to perform functions otherwise executed manually, there can be a link between trends in Information Systems and other account and membership administrative functional areas. While the tasks performed in information systems may replace analogous ones in other functional areas, sometimes outsourcers assume responsibilities of both.

The other account and membership functions remained far less likely to be outsourced than other functional areas. Customer Services were essentially flat over this period. But it is notable that outsourcing of Claims and Encounter Capture and Adjudication increased from 5% in 2007 to 8% in 2009. Similarly, Enrollment / Membership / Billing outsourcing increased from 4% to 7%.

Corporate Services includes sub-functions like Human Resources, Legal, Facilities and Imaging. As shown in Figure 4, overall the proportion of FTEs that are outsourced has

**Figure 2. Trends in Health Plan Business Process Outsourcing**  
Percent of Staff Outsourced for Total Information Systems Expenditures between 2007 and 2009

	2007	2008	2009
Total Information Systems Expenditures (as expensed)	20%	20%	23%
(a) Information Systems Operations and Support Services	10%	16%	14%
(b) Information Systems Application and Maintenance	17%	21%	23%
(c) Information Systems Applications Acquisition and Development	32%	34%	33%
(d) IT Security Administration and Enforcement	5%	6%	11%

**Figure 3. Trends in Health Plan Business Process Outsourcing**  
Percent of Staff Outsourced for Other Account and Membership Administration Between 2007 and 2009

	2007	2008	2009
Claim and Encounter Capture and Adjudication	5%	4%	8%
Customer Service	5%	4%	4%
Enrollment / Membership / Billing	4%	5%	7%

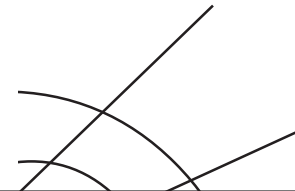
remained fairly steady between 2007 and 2009. Imaging is the most important sub-function that is outsourced and outsourced FTEs increased from 15% to 18%. While Imaging supports functions other than Claims (which is why it is included here rather than as a subcategory to Claims) we suppose that much of its activity is related to Claims. There is perhaps a link between this increasing propensity to outsource and similar changes in Information Systems and Claims.

Unlike many of the above functions, the Medical Management functions are increasingly less inclined to be outsourced, declining from 21% to 16%. Several

**Figure 4. Trends in Health Plan Business Process Outsourcing**  
Percent of Staff Outsourced for Corporate Services Between 2007 and 2009

	2007	2008	2009
Corporate Services	6%	8%	7%
(a) Human Resources	4%	4%	4%
(b) Legal	3%	3%	3%
(c) Facilities	13%	11%	14%
(e) Audit	10%	4%	2%
(f) Purchasing	5%	9%	9%
(g) Imaging	15%	17%	18%
(h) Printing and Mailroom	17%	13%	13%
(i) Other Corporate Services	7%	9%	5%

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**Outsourcing:** *From Page 2*

of the declines were very sharp, such as Disease Management which fell from 85% outsourced to 29%. Nurse-based Counseling and Disease Management also declined. Case Management was the only sub-function to have increased, rising from 10% to 13% over the period.

**Figure 5. Trends in Health Plan Business Process Outsourcing**  
Percent of Staff Outsourced for Medical Management  
Between 2007 and 2009

	2007	2008	2009
Medical Management	21%	21%	16%
(a) Pre-Certification	7%	5%	3%
(b) Case Management	10%	18%	13%
(c) Disease Management	85%	66%	29%
(d) Nurse-based Counseling	100%	99%	81%
(e) Health and Wellness	50%	51%	31%
(g) Other Medical Management	10%	10%	7%

To improve comparability of core functional areas, Sherlock Company segments self-contained activities like Pharmacy and Mental Health since they are often outsourced and may also be sold as riders. While Mental Health has been volatile, ultimately coming to levels in 2009 similar to 2007, Pharmacy is increasingly not outsourced. The percent of FTEs that are outsourced declined from 33% in 2007 to 6% in 2009.

**Figure 6. Trends in Health Plan Business Process Outsourcing**  
Percent of Staff Outsourced for Self-Contained Functions  
Between 2007 and 2009

	2007	2008	2009
Pharmacy	33%	15%	6%
Mental Health	35%	59%	36%

There are some important qualifiers to this analysis. We don't know how representative it is since it reflected only those who participated in our benchmarking study and provided this outsourced information. Also rather than using a consistent metric of central tendency, the way that we normally do, we reported the average of the mean and median values for each year. Having said this we consider this analysis to be a good gauge of industry trends.

In all, there is an increasing tendency for Blue Cross Blue Shield Plans to outsource certain activities. It is especially notable in Information Systems and this may be linked to increases in both Claims and Imaging. By contrast, the smaller Medical Management activities are less likely to be outsourced.

**Dashboard Summary:** *From Page 1*

groups, especially for the Blues. Conversely, Medicare products declined for the Blues, while growing for Independent/Provider Sponsored Plans.

Membership increased on average but typically declined in insured commercial products. It grew in ASO and Medicaid products for both peer groups. Membership trends in Medicare Advantage were mixed as the Blue Cross Blue Shield Plans experienced declines, while Independent/Provider-Sponsored plans increased. ASO membership for Independent/Provider-Sponsored plans had the greatest percent growth and Medicare

Advantage products sold by Blue plans experienced the greatest percent declines.

Revenue yields declined slightly for products as a whole. Overall, Medicare revenues per member declined while revenues per member per month in commercial products and Medicaid generally increased at low-to-mid single digit rates.

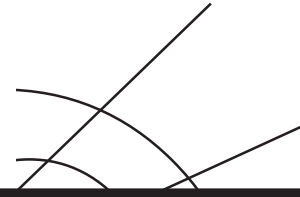
Health benefit ratios generally improved, more so for Independent/Provider-Sponsored plans than for Blues. Blues experienced improvements in the Managed Care product and Independent Provider-Sponsored plans had significant improvements in the Indemnity and Medicaid products.

For the three months ended in July, prescription trends declined. This was a consistent pattern across all products with the exception of Managed Care and Medicaid products, which experienced increases.

E/R visits declined for the entire population served by these plans, and the declines were typically in double digits. The exception to this was Managed Care products for the Blues, whose per capita E/R visits

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**SEER Publication Schedule:** *From Page 1*

**Blue Cross Blue Shield Edition.** Volume I is now available. Volume II.A will be available imminently. Volumes II.B and II.C will be available in one month.

**Independent/Provider-Sponsored Edition.** Volume I is now available. Volume II.A will be available imminently. Volumes II.B and II.C will be available in one month.


**Larger Plan Edition.** Volume I is now available. Volume II.A will be available imminently. This universe does not have Volumes II.B and II.C.

**Medicare Edition.** Volume I will be available in one month. Volume II.A will be available in late October. Volumes II.B and II.C will be available in late November.

**Medicaid Edition.** Volume I will be available in one month. Volume II.A will be available in late October. Volumes II.B and II.C will be available in late November.

**TPA Edition.** This has only one volume, which will be available in two weeks.

**All Universe Utilization Edition.** This is for no charge exclusively to licensees or participants of other editions. It will be available in late November.


**Description of Volumes.** The scope of these metrics cannot be comprehensively summarized so for further information, we encourage you to reference our web site. Volume I contains all financial metrics, such as PMPMs and percents of revenue. Volume II.A contains all operational metrics ranging from staffing ratios and compensation to such specific metrics as cost per processed claim and average speed of answer. Volume II.B contains operational metrics of medical management such as the use, cost and application of case management, disease management and precertification. Volume II.C contains health care utilization and cost metrics by product and by type of service. Data is unweighted for management purposes and weighted for population purposes. 

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**TPAs:** *From Page 1*

tional metrics. We believe that the end result is data that is uniquely actionable and reliable.

The TPA benchmarks also reports function-by-function cost comparisons between the activities of TPAs and similar products sold by Independent/Provider-Sponsored plans and Blue Cross Blue Shield Plans to self-insured groups under Administrative Service Only arrangements.

Understanding the TPA universe may be especially important in the current tight-credit economic environment and under health care reform. The benchmarks will be available for license by September 20<sup>th</sup>. Please contact us directly for further information. 


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**Dashboard Summary:** *From Page 3*

climbed. Hospital utilization rates were also down for plan members of these peer groups.

Administrative expenses slightly declined as a percent of premiums and PMPM costs grew at low single digit rates. Claims processed per member declined as did the number of customer service inquiries. Staffing ratios declined overall and for each peer group.

*Sherlock Company polls privately held health plans for value and trend information on their operations. The metrics collected are intended to be easily compiled and indicative of broad trends within health plans. Subscriptions and participant opportunities are available.*

*While the Dashboard itself is highly quantitative, the following is a verbal summary of this month's edition. Percent changes are based on the same period last year. Thirteen plans submitted data so we cannot assure that this is representative of industry trends. The peer groups are Blue Cross Blue Shield plans and Independent / Provider-Sponsored plans. *

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