Administrative Cost Management and MedInsight in the Affordable Care Act Era

Payers and other healthcare organizations have often encountered difficulty tracking and managing administrative costs (the portion of healthcare expenses dedicated to operations such as employee salaries and other costs of doing business associated with claims adjudication, agent commissions, marketing, call centers, software licenses, and more). These costs, known in the industry as selling, general, and administrative expenses (SG&A), currently represent a significant portion of the overall healthcare expenses in America.

Now, with the introduction of the Patient Protection and Affordable Care Act (the ACA), tracking SG&A has taken on increased importance and scrutiny. Under the ACA, health insurers are required to spend at least 85% of their premium revenue (80% in the small group and individual markets) on either clinical services or certain SG&A costs that the ACA allows to be classified as quality improvement expenses. This metric is referred to as the Medical Loss Ratio (MLR). This requirement leaves 15% or 20% for other SG&A costs and profit. If a payor fails to meet this standard, they are required to provide annual rebated to each enrollee. Thus, to manage their MLR, payors must have a good understanding of their SG&A, including which expenses can be counted along with clinical services in the MLR, and how to manage their overall administrative spending.

This requirement, which insured health plans (but does not apply to self-funded plans) became effective January 1, 2011, with subsequent amendments and final regulations applicable as of January 1, 2012. Many aspects of this rule are still open to debate and further regulation; for example, discussion continues as to what type of expenses can be categorized as quality improvement expenses and thus included in an insurer's MLR. The ACA allows for non-benefit expenditures to be included in the MLR calculation if they fund activities designed to improve health quality or health outcomes in ways that can be measured, or are grounded in evidence-based medicine or widely accepted practices. Besides expenses that obviously would not count based on this definition, such as marketing expenses or insurance agent commissions, the applicability of many other items is still open to debate and interpretation.

Many payers, including some of Milliman's MedInsight clients, have leveraged the power of data warehouses and healthcare analytics to better understand their administrative costs and compare these costs to competitors and peers. One leader in this area is Deseret Mutual Benefit Administrators (DMBA), a health plan and benefits administrator based in Salt Lake City, Utah. Since 2005, DMBA has used MedInsight to develop a comprehensive analysis of administrative expenses. Don Wakefield, Assistant Actuary at DMBA, tracks these costs as part of DMBA's overall strategy to use benchmarks available in MedInsight to measure the company's performance. In the ACA universe, Wakefield's work can serve as a model for many other similar organizations.

To help DMBA understand and manage its SG&A costs, MedInsight produces a customized set of administrative benchmarks against which DMBA can compare its own costs within each functional area. These benchmarks, which are regularly refreshed, include source data from more than 100 payor organizations, and are adjusted to reflect DMBA's unique mix of products, claims volume, customer service all volume, customer service call volume, referral volume, and its administrative approach to caring for its members.

Using the Milliman benchmarks and DMBA's actual administrative cost information, MedInsight is used to generate an administrative cost report customized for DMBA. This report (see sample in Table 1) provides benchmarks for more than 20 functional areas and is used by DMBA executives and managers to monitor administrative cost consumption and generate peer comparisons. In addition to cost data, Milliman's benchmarks include efficiency and staffing metrics such as claims processing turnaround time, auto adjudication rates, and numbers of full-time employees (FTEs) required to optimize transaction processes, among many other measures.

TABLE 1. SAMPLE ADMINISTRATIVE COST REPORT WITH BENCHMARKS (NOT ACTUAL DMBA DATA)

1-Claims	Worst	Median	Best	Actual
FTEs per 1,000 Claims per Day	37.74	17.86	7.39	6.70
FTEs per 1,000 Members	1.66	0.79	0.33	0.32
Members per FTE	602	1,273	3,075	3,103
Salary Cost per Claim	$4.77	$2.26	$0.92	$1.88
PMPM Salary Cost	$4.38	$2.08	$0.85	$1.91
2-Customer Service	**Worst**	**Median**	**Best**	**Actual**
FTEs per 1,000 Members	0.81	0.60	0.39	0.13
Members per FTE	1,232	1,677	2,543	8,005
PMPM Salary Cost	$2.13	$1.57	$1.03	$0.59
3-Membership & Enrollment	**Worst**	**Median**	**Best**	**Actual**
FTEs per 1,000 members	0.42	0.31	0.19	0.08
Members per FTE	2,409	3,245	5,255	12,776
PMPM Salary Cost	$1.01	$0.75	$0.46	$0.42

Starting with the Administrative Cost Report generated using MedInsight's benchmarks, Wakefield identifies potential improvement opportunities, which he then uses to generate a report for DMBA's Board of Directors that "tells a story" using examples of DMBA's performance against the benchmark administrative cost measures. Wakefield converts these data to a percentile format in order to simplify the presentation he makes to DMBA's Board of Directors.

Because of the heightened emphasis on MLR requirements within the ACA, this process can be used as a model for other payor organizations when considering how to manage their own Medical Loss Ratio, in light of the new limitations imposed by Federal law. According to Wakefield, the Administrative Cost Report in DMBA's MedInsight portal, based on Degree of Administrative Management (DoAM) analysis provided by Milliman, is a vital component of his regular analysis of DMBA's performance.

Since 2005, DMBA has addressed several aspects of its administrative expense in an effort to improve efficiency and lower costs, and Wakefield attributes part of this accomplishment to the functionality provided by MedInsight. A few examples include:

- Using the administrative cost functionality and benchmarks, DMBA was able to optimize staffing efficiency in several key departments; in some cases, the analysis recommended a reduction in staffing, in others, the benchmarks called for an increase. Further pathways for improvement were also uncovered, either by identifying opportunities for greater efficiency through automation and avoiding duplicative efforts, or from realizing greater productivity through increased investments where appropriate.

- In multiple cases, DMBA was able to use the administrative functionality in MedInsight to assess the best way to approach key initiatives, resulting in operational changes that lowered costs while providing greater value.

These types of arrangements and tools are available as value added items to other MedInsight customers. While it is still imperative that payors remain focused on traditional key performance indicators such as utilization, provider quality and efficiency, avoidable events, and population health, keeping a close eye on administrative expenses is critical. Milliman MedInsight enables organizations to do both.

For more information, please visit www.medinsight.milliman.com

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