

Administrative Expenses of Health Plans

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I. Executive Summary

Health plan administrative expenses often are cited as consuming a significant share of health insurance premiums. Proponents of a public health insurance plan often state that Medicare is more efficient than private insurance companies. However, these statements are based on outdated data and misconceptions about private administrative expenses, especially in the small group and individual markets.

Recent reports claim that health plan administrative expenses in the individual and small employer markets can exceed 30%. However, these estimates are based on data from Hay-Huggins that is more than 20 years old (1988) — a time when most claims were paper-based and many electronic processes were in their infancy — and based on estimated, rather than actual, administrative costs for companies that no longer provide health insurance.

An independent analysis by Sherlock Company of health plan administrative costs finds that prior estimates do not reflect the actual administrative costs for Blue Cross and Blue Shield Plans and other major health plans. Based on our review of actual health plan administrative expenses, we find that:

- ***Private health plan administrative expenses are grossly overstated in previous reports.*** Based on combined data from 36 health plans participating in our performance benchmarking studies in 2008 (2007 data) and other data, administrative expenses for all commercial products represented 9.18% of premiums. Administrative costs are 11.12% of premiums for the small group market and 16.35% of the individual market, amounts that are nearly one-half and in some cases nearly one-third of other estimates.
- ***Traditional Medicare performs only a fraction of the administrative functions of private health plans because it retains its original fee-for-service design and is, therefore, not comparable.*** Private plans use their administrative costs to promote care coordination and wellness, reduce unnecessary utilization and aggressively combat fraud and abuse. No precise, generally accepted measure of Medicare administrative expenses exists that is comparable to private plans. Moreover, Medicare does not need to market its coverage, develop provider networks, negotiate provider rates or maintain capital. If the government were to create a public health option to compete with private plans in a health insurance exchange, it would have to take on many additional functions that are not part of Medicare's administrative costs today, resulting in increased administrative costs.
- ***Private plans perform those administrative functions that Medicare performs at lower costs.*** In comparing only those administrative functions that Medicare performs, private administrative costs are actually lower — \$12.51 per member per month, compared to a \$13.19 per member per month in traditional Medicare. Many of Medicare's administrative functions are, in fact, performed by private administrative contractors.

- *Comparing administrative expenses between Medicare beneficiaries and people under age 65 should consider the unique healthcare needs of seniors.* Medicare beneficiaries have higher costs per claim compared to private plan enrollees. This means that the service requirements are less per dollar of health benefit, and administrative expenses are less for Medicare simply by virtue of the higher cost per claim.
- *Comparing administrative costs as a percentage of claims overstates the difference between plans for small groups or individuals and large groups.* Instead of calculating administrative expenses as a percentage of premiums, which is the most conventional metric used for comparing administrative costs, Hay-Huggins and subsequent reports have expressed the values as a percentage of claims, which is very misleading. Because health insurance premiums pay for both health claim costs and administrative expenses, the Hay-Huggins approach, repeated by Lewin, of dividing administrative expenses by claims costs unrealistically magnifies the differences between administrative expense ratios.

II. Introduction

Administrative expenses in health plans often are cited as consuming a significant share of health insurance premiums. Advocates of a greater role for the U.S. federal government in health insurance, including those who favor a single-payer approach or a public plan option, often cite that Medicare operates at administrative expenses that equate with 2% of claims, compared to much higher rates in private insurance companies. The magnitude of this difference, however, is based on misconceptions about administrative expenses, especially in the small group and individual markets.

This report relies extensively on actual administrative cost data compiled by Sherlock Company through an annual survey of health plans. Health plans voluntarily report their data to Sherlock Company and the results of these surveys are highly detailed administrative expense segmentations that are employed by participating firms and others to manage health plan administrative expenses.

This report particularly addresses the administrative expense estimates used by The Lewin Group (Lewin) in modeling The Commonwealth Fund’s proposal, “The Path to a High Performance U.S. Health System.” Underlying Lewin’s estimates is an analysis published by the Congressional Research Service dated 1988 and performed by Hay-Huggins (now the Hay Group).

Overall level of administrative expenses among private health insurers is not as high as estimates previously modeled. Sherlock Company calculates that in the small group and individual markets, Blue Cross and Blue Shield Plans’ weighted average administrative expense ratios are 11% and 16%, respectively, rather than the 22% to 41% estimated by Lewin (Commonwealth Fund) and Hay-Huggins (CRS).

Figure 1. Administrative Expenses of Health Plans

	Sherlock Survey	Lewin (Commonwealth Fund) Estimate	Hay/Huggins (CRS) Estimated Underwriting Practices (1988)
Individual Market	16.4% of premiums	40.9% of claims/ 29% of premiums**	40% of claims*
Small Group Market (50 or fewer eligible employees)	11.1% of premiums	21.8-35.8% of claims (varies with group size) /17.9-26.4% of premiums**	25%-40% of claims

*The Hay-Huggins estimates do not separate out the individual market; however, their segmentation of the small group market starts with groups of 1-4 lives.

**Sherlock Company converted the estimates from percent of claims to percent of premiums.

Finally, this report shows that administrative costs comparisons relative to Medicare often are overstated. The Congressional Budget Office reports that administrative costs for coverage in the individual market are 30% of premiums, 26% for firms with 25 or fewer employees and that (CBO, 70), “the share of costs in the fee-for-service Medicare program that are devoted to administration (about 1.5%) is lower than the share observed for large employers’ plans, whose administrative costs average about 7% of premiums.” (CBO, 93). However, if estimates for policy proposals were to use actual rates of administrative expenses, projected savings of proposals for a public plan will not be as high as commonly believed.

III. Administrative Expenses of Health Plans

Analysis of Administrative Expenses

Sherlock Company is an independent company that collects, compiles and publishes financial data on administrative costs that is voluntarily submitted by health insurers and has been doing so annually since 1998. The data are used to create benchmarks for the health insurance industry on administrative costs, allowing health insurers to license Sherlock Company reports for assessing their operational performance in order to achieve efficiencies. Cumulatively, Sherlock Company has 346 health plan years of experience. Health plans serving 36 million people are included in Sherlock’s 2008 benchmarks. Sherlock Company collects data from Blue Cross and Blue Shield Plans in addition to data from other health plans. Data are provided from health plans that serve the small group and individual markets, that insure large groups on a fully insured risk basis and provide administrative services to self-insured groups, (Administrative Service Only (ASO) plans).

Based on combined data from health plans participating in our performance benchmarking studies in 2008 (2007 data) and additional data:

Administrative expenses for all commercial insurance products represented 9.18% of premiums.

- Within this overall amount, insured products had administrative expenses that were 11% of premiums
- ASO products had administrative expenses that were 6.98% of premiums.

All values are weighted to capture typical member experience for administrative costs as a percentage of premium.

Figure 2. Administrative Expenses of Health Plans

Total Administrative Costs as a Percent of Premium Equivalents, 2007 Data¹

Total	Commercial Insured			Commercial ASO ²			Commercial Total ²		
	Mean	Median	Weighted	Mean	Median	Weighted	Mean	Median	Weighted
	10.98%	11.03%	11.00%	7.75%	7.64%	6.98%	9.71%	9.70%	9.18%

¹ Total Administrative Costs include Pharmacy and Mental Health expenses and exclude Miscellaneous Business Taxes.

² One outlying value was excluded from Commercial ASO and Commercial Total.

Small Group and Individual Market Administrative Expenses

Advocates of a public plan option under health reform often point to higher administrative costs in the individual and small group markets as evidence of the need for a public plan option. It's therefore important to evaluate the accuracy of administrative cost estimates for these markets. As illustrated in Figure 1 (p. 5), prior estimates of administrative costs in the small group market range from 22%-40% of claims costs, and at about 40% of claims costs for the individual market.

Our analysis shows that these estimates are grossly overstated. Based on data from a subset of private plans reporting detailed segmentation of administrative costs by functional area for the small group and individual markets, we calculate that:

- Administrative expenses were 11.12% of premiums for the small group market.
- 16.35% of premiums for the individual market.

Sherlock Company does not segment costs by large group, so we have used ASO costs as a proxy for this segment of the market and administrative costs were 6.97%.

Figure 3. Administrative Expenses of Health Plans

Blue Administrative Costs as a Percentage of Premium Equivalents, 2007 Data¹

Total Costs	Small Group ^{2,3}			Individual			Commercial ASO		
	Mean	Median	Weighted	Mean	Median	Weighted	Mean	Median	Weighted
	12.54%	11.05%	11.12%	15.16%	14.06%	16.35%	7.96%	7.67%	6.97%

¹ Total Administrative Costs include Pharmacy and Mental Health expenses and exclude Miscellaneous Business Taxes.

² Small Group business is defined as groups having 2-50 eligible employees.

³ One outlying value was excluded from Small Group.

IV. Earlier Estimates of Private Plan Administrative Costs Revisited

A recent Commonwealth Fund Commission report, *The Path to a High Performance U.S. Health System*, states, “Central to the Commission’s Strategy is establishing a national insurance exchange that offers a choice of private plans and a new public plan, with reforms to make coverage affordable, ensure access and lower administrative costs.” The underlying assumption here is that administrative costs add no value to the healthcare system, and that lowering such administrative expenses is central to the Commission’s “guarantee of affordable coverage for all by 2012.” (Commonwealth, i)

The perception of administrative expenses in the small group and individual markets as a source of needless expense is based in part on the belief that these administrative expenses are much higher than those in large groups. Specifically, the Lewin Group’s estimates for the Commonwealth Fund, Hay-Huggins’ estimates for CRS assume that administrative expenses for private health plans are anywhere from 20% to 41% for the small group market and at the higher end of that range for the individual market. RAND estimates in its “COMPARE Micro simulation Model” are 35%.

However, a closer examination of the underlying data used in the Lewin Group’s estimates to determine the magnitude of the effect of an exchange shows that private administrative expenses are overstated.

Our analysis considers what elements should be considered administrative expense and compares the estimates published to date with data from health plans that we have surveyed. Based on data reported voluntarily by health plans to the Sherlock Company in 2007, private plan administrative expenses are much lower than estimates published to date. (Because the Hay-Huggins’/CRS estimates are the basis for Lewin’s estimates for the Commonwealth Fund, this analysis also addresses the Hay-Huggins estimates.)

There are three key reasons why prior estimates overstate private plans’ administrative expenses: 1) Earlier estimates did not use commonly accepted definitions of administrative costs; 2) Earlier estimates rely on an analysis which is more than 20 years old and based on estimates, rather than actual data; and 3) earlier estimates calculated administrative expenses based on percentage of claims, rather than percentage of premiums, which distorts the estimates.

1) Earlier estimates did not use commonly accepted definitions of administrative costs.

The National Association of Insurance Commissioners (NAIC) identifies two expense items it considers to be administrative: Claims Adjustment Expenses and General Administrative Expenses. To our knowledge, the NAIC’s approach reflects universal understanding among issuers, preparers and users of health plan financial statements. Here is a brief description of these expenses:

- **Claims Adjustment Expenses:** NAIC defines claims adjustment expenses as “all expenses incurred in connection with the recording, adjustment and settlement of claims. This includes the total of the expense classification ‘Other Claim Adjustment Expenses’ and all ‘Cost Containment Expenses.’” This includes network access fees and consumer education costs. (NAICQ, 58)

- **General Administrative Expenses:** NAIC includes 31 costs (as opposed to the activities identified in claims adjustment expenses) in General Administrative Expenses. The largest of these are Rent and Occupancy, Salaries, Wages and Other Benefits, Commissions, Auditing, Actuarial and Other Consulting Services, Marketing and Advertising, Printing and Office Supplies, Outsourced Services including EDP (Electronic Data Processing, e.g. Information Systems), Claims, and Other Services and Taxes, Licenses and Fees.

The NAIC does not include net income, net investment income earned, net realized capital gains, federal and foreign income taxes incurred in its definition of administrative expenses. (NAICQ, 58)

Administrative expense estimates published by Lewin and Hay-Huggins, and assumptions used by RAND are not in accordance with, and lack comparability to customary reporting, including NAIC conventions. These estimates thus overstate private plan administrative expenses.

Specifically, these estimates include the following items, which are not normally considered to be administrative expenses: capital costs (including after-tax profits and any net interest cost), state premium taxes, federal income taxes and additions to reserves. (These items are discussed further in Appendix C). From this assessment, two categories of administrative expenses in Lewin’s report should not be included in its estimate: interest credit and risk/profit.

Although profits are not added into neither our nor NAIC’s computation of administrative costs, Sherlock Company data show that the operating profits of the health plans in our benchmarking survey was 2.35% of premiums in 2007. Regardless, even if profits were included in our definition, it would not substantially change our estimates of private plan administrative costs relative to the high administrative expenses cited in previous estimates.

Figure 4. Administrative Expenses of Health Plans

Operating Profits as a Percentage of Premium Equivalents, 2007 Data¹

Commercial Total		
Mean	Median	Weighted
0.93%	0.93%	2.35%

¹ Operating Profits include Pharmacy and Mental Health expenses and exclude Miscellaneous Business Taxes. Premium Equivalents exclude Miscellaneous Business Taxes.

² Operating Profits are weighted by members.

2) Earlier estimates rely on an analysis that is more than 20 years old and is not based on actual data.

In 1988, Hay Huggins, now Hay Group, estimated administrative expenses by group size for the Congressional Research Service (CRS). A table in the CRS paper entitled “Insurance Company Administrative Expense Breakdown for Conventional Funding” is prominent in the analysis and appears to be the ultimate source of Lewin’s administrative cost analysis for the Commonwealth Fund assumptions. However:

- *The numbers in the table are conjectural, not actual data.* The table’s footnote states that “Adjustments by firm size are based on underwriting practices of major insurance companies.”

At best, this table reflects estimated administrative costs or administrative cost targets of firms that Hay-Huggins had polled. Hay-Huggins did not claim that such targets actually were achieved.

- **The table is old.** It is dated more than 20 years ago (1988) and is based on targets of that time. The world it surveys is entirely different from the world that exists today. For example, in 1988, only 32 million Americans were served by managed care plans. The health insurance industry relied on paper claims and did not provide disease management, care coordination and wellness services offered today. The large national insurance carriers of that time included Prudential, New York Life, Travelers, and Metropolitan Life; these companies no longer offer health coverage, and many new competitors have entered the market.

3) Earlier estimates calculated administrative expenses based on percentage of claims, rather than percentage of premiums.

Instead of the more conventional formulation using administrative costs as a percentage of premiums, Hay-Huggins, in the 1988 CRS report, and Lewin, in the Commonwealth Fund report, express administrative expenses as a percentage of health claims, distorting the actual percentage and making the total higher as explained in Appendix D.

Re-calculating Private Administrative Expenses

Figure 5 adjusts the Lewin estimates to address two of the three issues identified above: 1) it expresses administrative costs as a percentage of premium; 2) and it removes costs not commonly included as administrative expenses. It implicitly addresses the third issue because it is more timely. By showing Lewin’s original estimate as well as the Sherlock calculations from our survey, the figure illustrates the extent to which the original Lewin estimate overstates private plan administrative costs.

Figure 5. Administrative Expenses of Private Health Plans

Comparison of Administrative Expenses of Health Plan by Segment

	Individual	Small Group	Large Group	Overall
Original Lewin Estimate	40.9%	21.8-35-8%	4.5-15.3%	12.7%
Lewin Estimate expressed as percent of premium	29.0%	17.9-26.4%	4.3-13.3%	11.3%
Lewin Estimate expressed as a percent of premium with costs not typically considered administrative costs removed*	23.6%	13.6-20.1%	3.8-9.3%	9.7%
Sherlock Survey	16.4%	11.1%	7.0%	9.2%

*Removes risk/profit and interest credit expenses

V. Administrative Costs in Medicare Do Not Compare to Private Health Plans

Having established that earlier estimates grossly overstate private plan administrative expenses, the following section addresses the issue of how private plan administrative costs compare to those of Medicare. Advocates of a greater role for the U.S. federal government in health insurance, including those who favor making a public plan option available to individuals and small employers, often cite CBO's assumption that, "The share of costs in the fee-for-service Medicare program that are devoted to administration (about 1.5%) is lower than the share observed for large employers' plans, whose administrative costs average about 7% of premiums." (CBO, 93) Advocates conclude the direct provision of health insurance by the federal government could significantly reduce the cost of health insurance.

The differences are, however, substantially less than CBO assumes, especially when the types of administrative services being estimated are held constant. According to MedPAC, "One estimate suggests that the gap between private insurance and Medicare narrows significantly after correcting for some differences (Matthews 2006)." (MedPAC, 12)

Issues in Comparing Administrative Costs of Private Plans and Medicare

There are several key issues that must be explored before comparing the administrative costs of Medicare and private plans:

- 1) Information on Medicare administrative expenditures is limited and unclear.
- 2) Medicare incurs administrative costs by agencies outside of CMS.
- 3) Medicare performs only a fraction of the administrative functions performed by private plans.

1) Information on Medicare Administrative Costs is Unclear.

Estimates of administrative expense levels for traditional Medicare differ by 25-30%. For example, MedPAC estimates total Medicare administrative expenses, including costs incurred outside CMS, approximate \$5 billion in 2008. (MedPAC, 11) The Congressional Budget Office estimate for the same year is \$1.5 billion higher (\$6.5 billion), and the Medicare Trustees report estimates the total cost to be \$3.3 billion.

2) It's important to include Medicare administrative costs incurred by agencies outside of CMS.

When comparing private sector administrative costs to Medicare, most people only consider the costs within the Centers for Medicare and Medicaid Services (CMS) budget. However, costs for many of the activities performed by private health insurance plans are not incurred by CMS. These costs are not reported by CMS and to be fully comparable with private health insurers, the expenses incurred by other government agencies need to be added to CMS's.

3) Medicare performs only a fraction of the administrative functions performed by private plans.

One of the most common misperceptions in the discussion about administrative expenses is that Medicare and private plans perform similar administrative functions. However, Medicare performs only a fraction of the administrative functions of private plans because it retains its original fee-for-service design. As shown in Figure 7, examples of administrative functions commonly performed by

private plans but not by Medicare include the following: negotiating with providers, marketing, governance, product development and medical management (including disease management and care coordination). While not administrative expenses, federal income taxes also are not borne by Medicare. While Medicare has capital costs, they are not disclosed. See Appendix E for further discussion of these issues.

Figure 6. Administrative Expenses of Private Health Plans

Comparison of Administrative Expenses of Health Plan by Segment

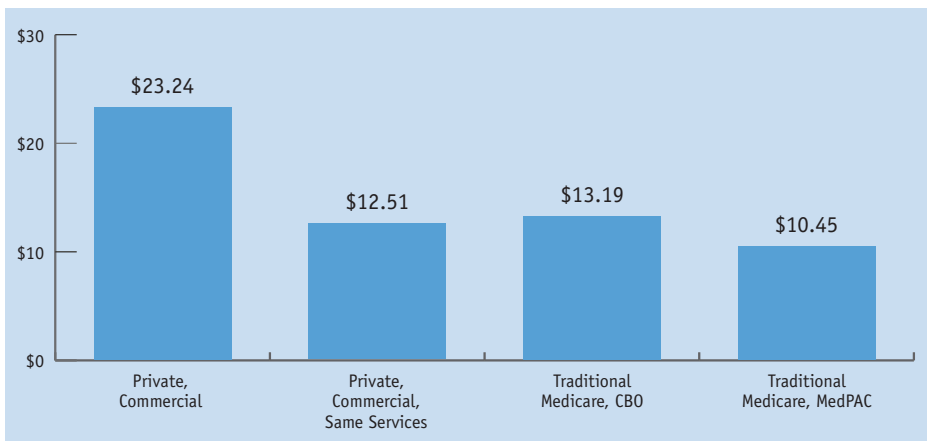
Administrative Function	Private Plans	Medicare
Enrollment/Membership/Billing	✓	✓
Customer Services	✓	✓
Provider Relations Services	✓	✓
Other Provider Network Management and Services	✓	✓
Claim and Encounter Capture and Adjudication	✓	✓
Total IS Expenditures (as expensed)	✓	✓
Actuarial	✓	✓
Audit	✓	✓
Purchasing	✓	✓
Printing, Mailroom, Imaging (Converting Paper to Electronic Files)	✓	✓
Other Corporate Services	✓	✓
Provider Contracting	✓	Limited
Provider Rate Negotiations	✓	X
Legal	✓	Limited
Marketing, Including Advertising and Promotion	✓	X
Medical Management/Quality Assurance/Wellness	✓	X
Care Coordination	✓	X
Disease Management	✓	X
Wellness	✓	X
Finance and Accounting	✓	X
Corporate Services	✓	X
Corporate Executive/Governance	✓	X
Association Dues and License/Filing Fees	✓	X

An Analysis of Comparable Administrative Expenditures in Private Health Plans and Traditional Medicare

As shown in the following figures, without adjusting for comparable services, Sherlock Company estimates that administrative expenses for the traditional Medicare program are approximately \$13.19 or \$10.45 per member per month (PMPM) based on CBO or MedPAC estimates. This compares with \$23.24 for the total for commercial insurance of Blue Cross and Blue Shield Plans. However, when comparing costs for comparable administrative functions (just those functions performed both by Medicare and private plans), the private plan estimate drops to \$12.51 PMPM.

Figure 7. Administrative Expenses of Health Plans

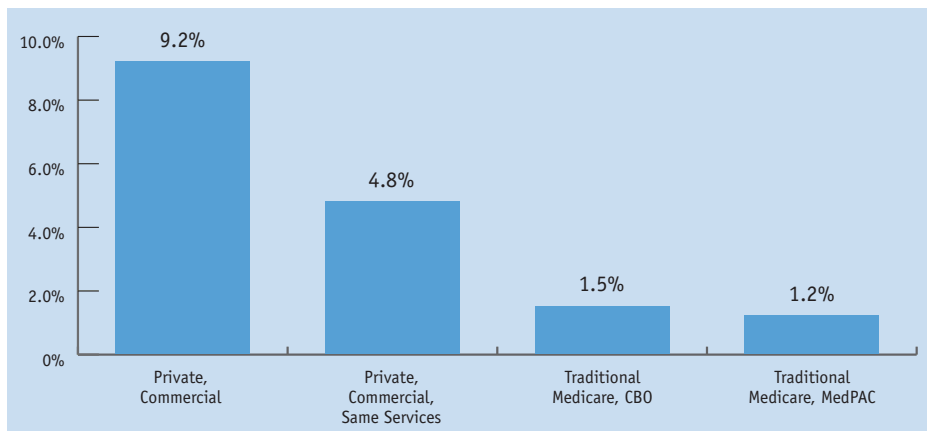
Costs per Member per Month



Represented as a percentage of premiums, the unadjusted comparisons are 1.5% for CBO, 1.2% for MedPAC, and 9.2% for commercial insurance provided by Blue Cross and Blue Shield Plans. Adjusted to compare costs for comparable administrative functions, the rate for private plans drops to 4.8% of premiums.

Figure 8. Administrative Expenses of Health Plans

Costs as a Percent of Premiums



This narrowing of differences that occur between private insurers and Medicare by making the scope of services comparable is not original with us. According to MedPAC, “One estimate suggests that the gap between private insurance and Medicare narrows significantly after correcting for some differences (Matthews 2006).” (MedPAC, 12)

High Healthcare Claims in Medicare Lower Administrative Expenses Relative to Premium

Medicare beneficiaries have higher claim amounts compared to private plan enrollees. Also, the costs of administering health insurance for seniors appears lower than for private plans since the service requirements are the same for each claim, but Medicare claim costs are so much higher. Medicare’s higher costs per claim has an important implication for any analysis examining administrative expenses as a percent-of-premium. Simply by virtue of the higher cost per claim, Medicare would be expected to display lower administrative expenses relative to revenues because the higher cost expands the denominator (premiums) more than it expands the numerator (expenses). A useful comparison takes the differences in these relationships into account.

To fairly compare the costs of private plan administration expenses with that of Medicare, several adjustments must be made. As discussed earlier, administrative expenses should include only those activities that both private plans and Medicare share. An additional adjustment is necessary to take into account Medicare’s high healthcare costs per claim and how such higher costs affect similar administrative expense relationships. As noted previously, the effect of the higher denominator relative to the numerator has the effect of driving the percentage of administrative expenses lower.

Impact of Capital Costs on Comparing Medicare Administrative Costs to Private Plans

Capital costs have been excluded from comparisons between traditional Medicare and private health plans because they are not included in the CMS budget. MedPAC believes that other activities also are not included, but capital costs are notable for their prominence. While we do not consider capital costs to be administrative expenses, often comparisons between traditional Medicare and private insurance include capital costs for only private insurers. A fair analysis should examine alternative in a comparable way.

Capital costs include both interest expense and profits in private health plans, and since the government does not need to make a profit, capital costs solely include interest expenses for Medicare. Again, citing the Congressional Budget Office, “the economic costs of (bearing risks similar to that of private firms) are not reflected in the federal budget under current accounting practices.” (CBO, 94)

If capital costs are included as administrative costs for private plans, then a similar fair comparison would consider similar net interest costs of traditional Medicare. Medicare does incur capital costs in terms of interest on the debt to fund current payments for services for beneficiaries. Federal interest payments, net of interest income, on the national debt are \$240.6 billion. When one considers that Medicare composes 17.0% of federal expenses excluding net interest, the program’s allocation of federal interest payments would be an additional \$40.8 billion, with more than \$31 billion of it attributable to traditional Medicare.

VI. Low Administrative Costs Are Not Necessarily Beneficial

The Medicare Payment Advisory Commission observes that administrative expenses can come with significant benefits. It cites its experience with billions of dollars in erroneous payments under traditional Medicare and how that compares with its underlying administrative expenses.

“Any analysis that considers administrative expenses must also consider the efficiency and effectiveness of the benefit expenditures they oversee. Administrative activities contribute to the value of health benefits in a variety of ways, but it is not always clear how Medicare and the private sector compare under various metrics. For example, CMS estimates that about \$9.8 billion in erroneous payments were made in the fee-for-service program in 2007, a figure more than double what CMS spent for claims processing and review activities (CMS 2008a).”
(MedPAC, 12)

As noted earlier, private insurers engage in a range of activities that Medicare does not. These include initiatives that many well-run health plans consider prudent, such as promoting wellness and prevention, offering care coordination and disease management services and providing access to health information. Arguably, Medicare would benefit by spending more on administration to reduce unnecessary utilization and control fraud.

VII. Conclusion

Administrative expenses for health plans play a pivotal role in various facets of healthcare reform. Discussions about changes in healthcare policy would benefit from information on administrative costs that is comparable and up to date.

Because the differences in administrative costs between Medicare and private plans are not as high as some advocates claim, the effect of the potential administrative savings from the creation of a new government-run insurance plan are likely to be limited.

This paper addressed comparisons between private insurance and traditional Medicare. This has important policy implications on the merits of a new Medicare-like program that would serve the population below 65 years of age.

A precise comparison is impossible since Medicare's disclosure is much less robust than the private sector, some services are not performed within the traditional Medicare program and Medicare performs only a fraction of the services performed by private plans.

On the grounds that "you manage what you measure" skepticism is in order on the relative performance of Medicare's management of its administrative expenses. Private plans use their administrative costs to promote care coordination and wellness, reduce unnecessary utilization and aggressively combat fraud and abuse. Medicare is fragmented with many core services such as fraud detection and beneficiary call centers carved out to separate contractors that are not accountable for the overall program. Moreover, Medicare does not need to market its coverage, hold down costs while negotiating with providers to form networks, maintain capital or pay taxes like private health plans.

If the government were to create a public health option to compete with private plans in a health insurance exchange, it would have to take on many additional functions that are not part of Medicare's administrative costs today in order to compete on a level playing field.

This paper also addressed comparisons between the large group market and individual and small group markets. The differences are not as great as some, such as Lewin and Hay-Huggins have assumed. Thus, if the government were to establish an insurance exchange, it would not reduce administrative expenses as greatly as some assume.

Appendix A: Background on Sherlock Company Benchmarks

Sherlock Company's benchmarks were published in 2008, based on 2007 data and include the results of 37 million insured Americans. In our various universes of peer groups, 30.7 million of the insured were members of 23 Blue Cross and Blue Shield Plans. 22 of these Plans were primary Licensees. There are 39 Blue Cross Blue Shield primary licensees in 2009. Our universe of Independent/Provider-Sponsored plans were comprised of 13 plans serving 4.0 million members. The balance were members of Medicare or Medicaid plans. In connection with this analysis, health plan data was subsequently added to the metrics for comparison and modeling purposes.

Sherlock Company benchmarks (Sherlock Expense Evaluation Reports or SEER) are employed by Blue Cross and Blue Shield Plans and other plans to find efficiencies in their internal management. The SEER reports do not supply any individually identifiable information and are not intended for any external audience. Accordingly, no firm has any incentive to report information other than what would be relevant for its internal purposes.

Among our quality assurance features are strong definitions, effective identification of outliers and pursuit and reconciliation of outlying results. The voluntary character of our benchmark program may be its most important feature in that only those firms that are capable of completing our benchmarks in accordance with our standards participate. We do not risk a firm's "going through the motions" in its submission of the information. Likewise, we sometimes reject plans' submissions if we believe that their information is unreliable.

Sherlock Company is an independent financial analysis firm. We do not offer business process outsourcing that could be perceived as a source of conflicts of interest. We also are not associated with any association of health plans.

Appendix B: Methodology

The administrative expense levels developed here are based on surveys of Blue Cross and Blue Shield Plans and Independent / Provider-Sponsored Health Plans. Each of the Blue Cross and Blue Shield Plans are separate organizations and do not have centralized administrative operations.

To participate in our benchmarking studies, all firms are required to submit detailed information concerning their costs and a limited amount of other information. Appendix A discusses our quality assurance procedures.

Under Administrative Service Only (ASO) arrangements, the plan sponsor bears the risk of health benefit costs while employing the health plan to provide all administrative functions normally associated with insured products. (This is distinguished from TPA arrangements, which often only provide claims processing and perhaps repricing services.)

Under Generally Accepted Accounting Principles only the ASO fees are reflected as revenues for health plans. From a managerial perspective, this appropriately reflects the responsibilities that the health plan bears in return for its revenues. A ratio of administrative expenses to fees tells analysts what proportion of fees earned by the plan is represented by administrative expenses.

Calculation of Premium Equivalents for ASO Arrangements

The Blue Cross and Blue Shield Association defines premium equivalents as the sum of health benefit expenses plus administrative expenses plus profits earned on the administrative service relationship. Sherlock Company's approach is equivalent; we add health benefits to fees paid by the benefit plan sponsors. Because revenue less expense equals profits, our addition to health benefits of fee revenues exactly equals BCBSA's addition of profits plus expenses.

Appendix C: Definition of Administrative Expenses

As discussed in the body of the paper, administrative expense estimates published by Lewin and Hay-Huggins, and assumptions used by RAND are not in accordance with, and lack comparability to customary reporting, including NAIC conventions. Specifically, these estimates include the following items, which are not normally considered to be administrative expenses:

- **Capital Costs.** Lewin, Hay-Huggins, and RAND include health plan capital costs for private health insurers. These consist of after-tax profits and any net interest cost. After-tax profits are a source of return to equity shareholders and to the public benefit in the case of nonprofit organizations. Debt costs are a source of return to investors in the health plan's long-term debt. These costs relate not to the operations of the firm but to factors irrelevant to those operations, for instance as exemplified by the Modigliani-Miller theorem. In addition, by common usage and NAIC definitions, capital costs are not administration.
- **Taxes.** Most U.S. citizens are covered by insurance plans that are taxable. This is true even for nonprofit and mutual plans, such as most Blue Cross and Blue Shield plans. Premium and income taxes contribute to federal and state revenues. If such administrative expenses were eliminated then revenues would decline accordingly. Income taxes are specifically not included as NAIC administrative expenses. Also from a comparability perspective, taxes are a matter of public policy not efficiency.
- **Additions to Reserves.** With respect to why it is inappropriate to consider required reserve additions as administration, reserve additions represent a cross between tax and profits. They are reported as profits in accordance with the standards that companies follow when preparing financial statements under Generally Accepted Accounting Principles in accordance with the Federal Accounting Standards Board and for state reporting in accordance with NAIC statements, but, unlike most profits, they are by law unavailable for purposes in which profits are normally employed.

For instance, additions to reserves to meet minimum reserve requirements are unavailable by state law for distribution to shareholders through dividends. Thus, there is no value for shareholders or for public benefit purposes in such profits.

Even when profits subject to statutory reserve limitations are retained, they may not all be redeployed according to what management determines is in the best interest of members or owners. For instance, information systems is the most significant operations investment for most health plans. Any profits that must be retained for statutory purposes must be retained as highly liquid investments and not used for information systems. Thus, profits, in the common usage of the word, should exclude amounts required by state law to be retained.

Appendix D: Technical Analysis of Administrative Expense Estimates Used by the Commonwealth Fund

A. Hay-Huggins Estimates

Hay-Huggins, now the Hay Group, provided the Congressional Research Service (CRS) administrative expenses segmented by group size. This information was intended as an input to model the effect of administrative changes on the “potentially insured population.” A table entitled Insurance Company Administrative Expense Breakdown for Conventional Funding is prominent in this analysis and appears to be the ultimate source of Lewin and Commonwealth Fund assumptions. There are many problems with this approach.

- *The table is conjectural not actual.* The footnote states that “Adjustments by firm size are based on underwriting practices of major insurance companies.” At best, this table reflects targets of firms that Hay-Huggins had polled. Hay-Huggins did not claim that such targets actually were achieved.
- *The table is old.* It is dated more than 20 years ago (1988) and is based on targets of that time. The world it surveys is entirely different from the world that exists today. In 1988, large national insurance carriers included Prudential, New York Life, Travelers, and Metropolitan Life. Maxicare Health Plans was second only to Kaiser Permanente in its managed care enrollment. Only 32 million Americans were served by managed care plans in 1988.

Since 1988, administration processes also have changed dramatically. Technology, regulations (such as HIPAA), and the role of care management all have increased since then.

- *Scale assertions are out-of-date, if ever true.* Lewin Group’s figures reflect doubtful assumptions. Hay-Huggins’ analysis, the basis for Commonwealth and Lewin’s analysis, states: “Claims administration charges have some economies of scale since most claims for a large (health benefit) plan are processed in a similar manner.” (CRS, 46) This suggests that claims are processed by methods unique to each health benefit plan sponsor, no matter how small, and that the cumulative effect of a group of smaller health benefit plans entails higher costs for adapting to those unique designs. While reflecting specific benefit designs chosen by medium and small group markets, for the most part, such plans select from a preloaded menu of available benefit designs. Indeed, small and medium firms have less bargaining power with which to force health insurers to tailor benefit designs to fit their desires than their larger counterparts.

Similarly, the CRS report states: “However, since each claim has to be examined and a separate payment made ... implies a manual process that ‘does not fall below 3% for even the largest plans.’” (CRS, 46) However, modern claims systems are highly automated: the median autoadjudication rate for surveyed Blue Cross and Blue Shield Plans was 79.8% in 2007.

- *Additional savings are suspect.* “Self-funding would lower the administrative expenses by 3%.” (We interpret this to be percentage points.) This would imply that administrative expenses would be 2.5% of claims for groups of 10,000 or more employees.

This model is the basis for Lewin and Commonwealth Fund, yet there are significant issues with it. Of importance, the footnote to the most relevant chart identifies these as “underwriting practices”(CRS, 46), as opposed to realized results, especially if used to inform current policy decisions.

B. Rand Corporation

RAND Corporation recently published a model called RAND COMPARE intended to capture the effect of various reform proposals on the health economy. It notes that the Exchange proposal has had no noticeable effect on health coverage. (RAND)

Notwithstanding that, the model also holds that administrative expenses in the individual and small group markets are 35%. (Bertko, 11) This is surprising because, if the Exchange were able to sharply reduce administrative costs, from these high levels then competition should drive costs down, leading to higher participation in health insurance.

According to the footnote associated with the estimate for the individual markets, the assumption is based on the “minimum medical loss ratios set by certain states.” Since RAND’s definition of administrative expenses includes all costs that are not medical (including profits, premium taxes, income taxes and net investment income), RAND’s estimated average costs represent the statutory maximum. It is hard to see why the statutory maximum should be the typical experience in a competitive environment.

C. Adjustments to Lewin / Commonwealth / Hay-Huggins Assumptions

The assumptions used by Lewin / Commonwealth and Hay-Huggins before them, in addition to being targeted underwriting practices, also are presented in a highly unusual manner.

Administrative expenses should be expressed as a percentage of premiums, not as a percentage of claims.

The NAIC assumes knowledge of the administrative expense ratio and does not define it as such. But the reference to the denominator is highly specific. “The medical loss ratio measures the direct cost of business related to premiums earned... while the administrative expense ratio...measures indirect expenses as related to premiums.” (NAICF, 78) The NAIC goes on to define the numerator as well. “The administrative expense ratio includes administrative expenses as well as claims adjustment expenses.” (NAICF, 78) Wall Street analysts, other users of financial statements and health plan managers use a similar approach.

The reason for calculating administrative expenses in this fashion is because health plan financial analysts are interested in what proportion of the healthcare dollar is going into administration. Accordingly, CMS’s estimation of National Health Expenditures includes Administration and the Net Cost of Private Insurance as a subset of total expenses. The most global metric of the healthcare dollar is insurance premiums.

Instead of this more conventional formulation, Hay-Huggins, in the CRS report, expresses administrative expenses as a percentage of one of the other expenses, namely health claims. The problem with calculating administrative expenses as a percentage of claims is that one subset of a total is being divided by another subset of a total. Expressing administrative expenses as a percentage of claims costs is so counterintuitive as to be deeply misleading.

The strangeness of calculating administrative expenses as a percentage of claims can best be understood if one applies that formulation to other commonplace situations. For instance, using this formulation one would say that women compose 100% of the percentage of men. Or the corporate tax rate, commonly described as 35%, equals 53.8% of net profits. Or the right front wheel on a car equals one-third of the other wheels. These examples also show that, computationally, the distortion grows with the size of the numerator.

The following table shows the administrative expenses assumed by Lewin Group for the Commonwealth Fund. (Although not radically different, these numbers differ from the original table by Hay-Huggins entitled “Insurance Company Administrative Expense Breakdown for Conventional Funding” in the Congressional Research Service Report).

Also, unlike the Hay-Huggins table, the administrative expenses do not sum up precisely. We want to emphasize that we do not agree with these numbers. A comparison between the Lewin numbers and ours is found on page 10.

Appendix Figure 1. Administrative Expenses of Health Plans

Lewin/Commonwealth Fund Estimates of Administrative Expenses

Size of Group	Claims Administration	General Administration	Interest Credit	Risk / Profit	Commissions	Total Administrative
	Current	Current	Current	Current	Current	Current
Individuals	10.90%	19.00%	-1.10%	8.70%	3.40%	40.90%
2 to 4	9.50%	14.70%	-1.10%	6.40%	3.10%	35.80%
5 to 9	8.80%	13.20%	-1.10%	6.00%	2.20%	31.10%
10 to 19	7.40%	10.80%	-1.10%	5.96%	1.90%	26.50%
20 to 49	6.50%	8.90%	-1.10%	5.10%	1.20%	21.80%
50 to 99	4.40%	5.60%	-1.10%	4.50%	0.70%	15.30%
100 to 499	4.20%	4.70%	-1.10%	4.10%	0.60%	13.50%
500 to 2,499	4.00%	4.60%	-1.10%	2.60%	0.30%	10.40%
2,500 to 9,999	3.90%	2.00%	-1.10%	1.40%	\$6.00 ¹	6.70%
10,000+	3.10%	0.90%	-1.10%	0.80%	\$6.00 ¹	4.50%
Total	4.80%	5.00%	-1.10%	3.00%	1.10%	12.70%

Note: Only small firms are permitted to enter the Exchange, which we assume includes firms with fewer than 25 workers.

¹ Self-funded plans pay a fee of about \$6 per worker per month. Assumes that all firms with 2,500 or more workers are self-funded.

Data: Estimates by The Lewin Group for The Commonwealth Fund. Analysis of the Effect of Creating a Mandatory Insurance Pool developed by the Hay Group, “Cost and Effects of Extending Health Insurance Coverage,” Congressional Research Service 1990.

Source: The Lewin Group, The Path to a High Performance U.S. Health System: Technical Documentation, February 2009, p. 13–14.

In the following table we have recast the Lewin/Commonwealth Fund values, expressing them as a percentage of premium. These are equivalent to their presentation and, subject to the footing qualification, substantially similar to the 1988 Hay Huggins chart in the Congressional Research Service analysis. Note that the difference between large group and small group administrative expense ratios diminishes markedly with this adjustment.

Appendix Figure 2. Administrative Expenses of Health Plans

Lewin/Commonwealth Fund Estimates of Administrative Expenses, Revised to Express Expenses as Percent of Premium

Size of Group	Claims Administration	General Administration	Interest Credit	Risk / Profit	Commissions	Total Administrative
	Current	Current	Current	Current	Current	Current
Individuals	7.74%	13.48%	-0.78%	6.17%	2.41%	29.03%
2 to 4	7.00%	10.82%	-0.81%	4.71%	2.28%	26.36%
5 to 9	6.71%	10.07%	-0.84%	4.58%	1.68%	23.72%
10 to 19	5.85%	8.54%	-0.87%	4.43%	1.50%	20.95%
20 to 49	5.34%	7.31%	-0.90%	4.19%	0.99%	17.90%
50 to 99	3.82%	4.86%	-0.95%	3.90%	0.61%	13.27%
100 to 499	3.70%	4.14%	-0.97%	3.61%	0.53%	11.89%
500 to 2,499	3.62%	4.17%	-1.00%	2.36%	0.27%	9.42%
2,500 to 9,999	3.66%	1.87%	-1.03%	1.31%	¹	6.28%
10,000+	2.97%	0.86%	-1.05%	0.77%	¹	4.31%
Total	4.26%	4.44%	-0.98%	2.66%	0.98%	11.27%

¹ Omits fees per worker per month on ASO contracts.

True Administrative Expenses in the Lewin and Commonwealth Fund Analyses

From the expense classification in the Lewin/Commonwealth Fund analysis, only claims administration, general administration and commissions are true administrative expenses. They compose the vast proportion of administrative expenses cited by Lewin/Commonwealth Fund but are directly comparable to the common place presentation. Notwithstanding, as we develop in the body of this report, we believe that these figures based on Hay-Huggins targets in 1988 are high.

Appendix Figure 3. Administrative Expenses of Health Plans

Lewin/Commonwealth Fund Estimates of Administrative Expenses, Revised to Express Expenses as a Percentage of Premium, With Costs Not Typically Considered Administrative Costs Removed

Size of Group	Claims Administration	General Administration	Commissions	Total ¹
	Current	Current	Current	Current
Individuals	7.74%	13.48%	2.41%	23.63%
2 to 4	7.00%	10.82%	2.28%	20.10%
5 to 9	6.71%	10.07%	1.68%	18.46%
10 to 19	5.85%	8.54%	1.50%	15.89%
20 to 49	5.34%	7.31%	0.99%	13.63%
50 to 99	3.82%	4.86%	0.61%	9.28%
100 to 499	3.70%	4.14%	0.53%	8.37%
500 to 2,499	3.62%	4.17%	0.27%	8.06%
2,500 to 9,999	3.66%	1.87%	²	5.53% ²
10,000+	2.97%	0.86%	²	3.83% ²
Total	4.26%	4.44%	0.98%	9.67%

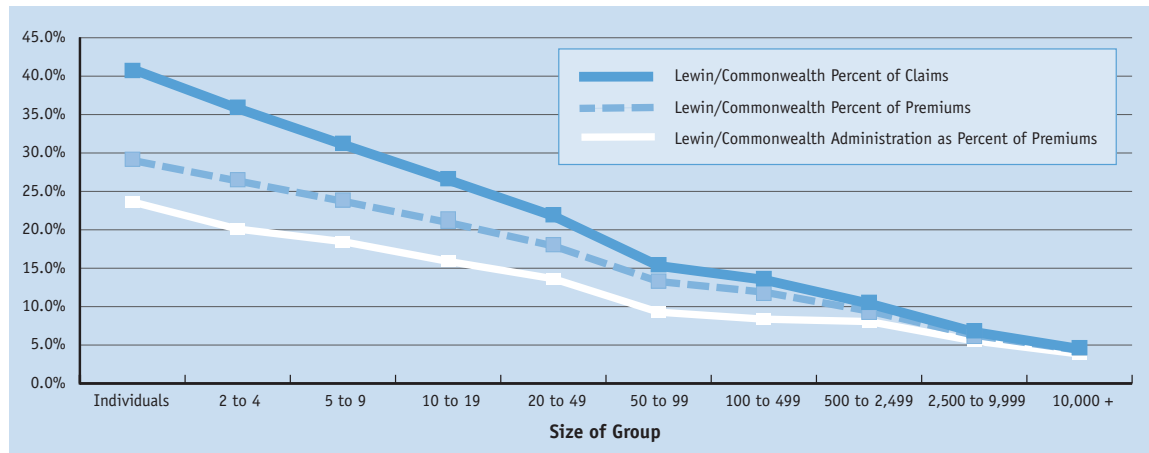
¹ Total is the sum of Claims Administration, General Administration, and Commissions.

² Omits fees per worker per month on ASO contracts.

Appendix Figure 4 illustrates the effects of our adjustments. Again, we have first standardized the Lewin/Commonwealth costs in the industry practice of percentage of premiums. Then we have included only true, comparable administrative expenses. Differences between large groups and small groups and individuals are more muted than originally displayed by Lewin/Commonwealth.

Appendix Figure 4. Administrative Expenses of Health Plans

“Administration” Percents



Appendix E: Medicare Administrative Costs

Calculating Medicare Administrative Costs

Our calculations of Medicare administrative costs reflect costs incurred by the Centers for Medicare and Medicaid Services (CMS) plus agencies outside of CMS, if the amounts are disclosed. We started with 2008 cost estimates prepared by MedPAC and CBO and then adjusted those figures to reflect costs for traditional Medicare only. To perform this calculation, we assumed that certain activities applied solely to traditional Medicare, and others were allocated over all Medicare members, including those enrolled in Medicare Advantage. Using this approach, we estimate that administrative costs for traditional Medicare were \$5.6 billion in 2008, based on CBO figures.

Appendix Figure 5. Administrative Expenses of Health Plans

Estimates of Medicare Administrative Costs (\$ in Millions)

	2008 Estimates		2008 Estimates, Adjusted to Reflect Traditional Medicare Only	
	MedPAC	CBO	MedPAC	CBO
CMS Appropriation for Medicare	\$3,516	\$3,516	\$3,226	\$3,226
o Medicare operations	\$2,197	\$2,197	\$2,197	\$2,197
o Other Medicare	\$1,319	\$1,319	\$1,029 ²	\$1,029
Activities by other areas in support of Medicare ¹	\$1,506	\$2,984	\$1,175 ²	\$2,238
Total	\$5,022	\$6,500	\$4,401	\$5,554

¹ Chiefly, SSA for eligibility. IRS collections of FICA is not included, according to MedPAC.

² The adjusted estimates reduce the 2008 estimates in the “other Medicare” and “activities by other areas in support of Medicare” by 22% -- the percentage of Medicare eligibles enrolled in Medicare Advantage plans, in an effort to reflect administrative costs for traditional Medicare only.

Activities Commonly Performed by Private Plans that are not Performed by Medicare

A number of activities commonly engaged in by insurers are not provided by CMS through Medicare itself. (Matthews, 3-4).

- **Company Policies and Management.** By our classifications, this category appears to be a combination of Corporate Executive, Governance and Product Development.
- **Marketing Costs.** These encompass Rating and Underwriting, including risk adjustment expenses, Advertising and Promotion, internal Sales and Marketing and broker Commissions. As the Congressional Budget Office puts it:
“Medicare has little need to advertise or seek out enrollees because eligible individuals are usually enrolled by default on the basis of Social Security records, which determine their eligibility.” (CBO, 93)
- **Claims Processing and Fraud.** Dr. Matthews also states that claims processing accuracy and fraud identification are given short shrift. Insurers include these services in areas of Legal and Claim and Encounter Capture and Adjudication. He characterizes U.S. government efforts under Medicare as more of a “policing effort” than “responsible stewardship.”
- **Raising Capital.** No capital costs, such as interest expense or profit, are included in Medicare costs even though they may be appropriate. As the Congressional Budget Office states it:
“The federal government bears financial risk for operating the program, but the economic costs of doing so are not reflected in the federal budget under current accounting practices.” (CBO, 94)
- **Collection Costs.** Matthews cites the IRS role in collecting FICA taxes and federal income taxes contributed to Part B. In addition, because FICA Medicare contributions are collected by employers from their employees, and because employers only infrequently employ Medicare-eligible staff, some collections costs are effectively shifted to employers from Medicare.
- **Premium and Income Taxes.** Both sorts of taxes are normally borne by private health plans but not by Medicare. A hypothetical switch from private insurance to traditional Medicare would therefore result in lower revenues to state and federal governments. Because traditional Medicare does not yield federal or state taxes, any fair comparison would either impute an amount for such taxes (as they would have to be made up somewhere), or they should be excluded entirely.

Also, Medical Management is not provided to a significant degree.

“Further, Medicare does not employ many of the cost-management techniques used in the private sector, such as conducting utilization reviews or requiring prior administrative authorization for tests or procedures.” (CBO, 93)

Accordingly, No One Knows Whether Medicare is Efficient, Even Within Its Narrow Scope

Because the administrative expenses of Medicare are incompletely disclosed and have a smaller scope than those provided by private insurers, it is impossible to definitively say whether the private sector or CMS and other governmental entities are more efficient in their administration of these health benefits. According to MedPAC:

“Because the administrative operations of Medicare and the private sector differ significantly, it is difficult to determine which program administers health care benefits more efficiently. For example, the private sector has a greater need to market its offerings. Conversely, Medicare may not have to market itself to attract beneficiaries, but it does have an obligation to educate beneficiaries about their obligations and options under the benefit. On the other hand, there are some costs, such as taxes and the need to earn profits, that are clearly not borne by CMS or Medicare. (MedPAC, 12)

Calculating Administrative Cost Comparisons Medicare as per Member per Month Costs or Percent of Premium Costs

Supporting calculations for the administrative expenses for traditional Medicare on page 13 of the report are shown in the following figure. We have used MedPAC’s assumption that 78% of Medicare eligibles are enrolled in traditional Medicare. Note also that we have developed premiums for Medicare to achieve comparability with the private plan presentations. As with premium-equivalents for ASO products offered by Blue Cross and Blue Shield Plans, Medicare premiums are calculated as the sum of health benefits and administration. No capital costs, including profits, were attributed to Medicare although as CBO notes, they likely exist.

Appendix Figure 6. Administrative Expenses of Health Plans

Key Expense Ratios of Traditional Medicare
(\$ in Millions)

	MedPAC		CBO	
	Members	Dollars	Members	Dollars
Total	45.0	\$459,144	45.0	\$459,144
Total Medicare Share	0.78	0.78	0.78	0.78
Total Medicare	35.1	\$358,132	35.1	\$358,132
Base Administration	\$4,401	\$4,401	\$5,554	\$5,554
Traditional Medicare				
	Member Months	Revenue	Member Months	Revenue
Traditional Medicare Volume	421,200,000	\$362,533	421,200,000	\$363,686
	Costs PMPM	Costs as % of Premiums	Costs PMPM	Costs as % of Premiums
	\$10.45	1.2%	\$13.19	1.5%

Source CMS' FY 2009 CJ Final

In the figure that follows, we calculate the amount of administrative expense that traditional Medicare would incur if its administrative costs included capital costs. Capital costs are calculated as the traditional Medicare’s proportional share of net interest on the national debt. Capital costs would total \$31.8 billion. Administrative expenses would equal 9.2% of “premiums” including such capital costs.

Appendix Figure 7. Administrative Expenses of Health Plans

Administrative Expense of Traditional Medicare Including Capital Costs
(\$ in Millions)

1	Total 2008 Federal Budget	\$ 2,978,500
2	Net Interest on National Debt	240,600
1 - 2 = 3	2008 Budget Excluding Net Interest	\$ \$2,737,900
4	Medicare Administration	\$ 5,022
5	Medicare Benefits	459,144
4 + 5 = 6	Total Medicare Premiums Before Interest	\$ 464,166
6 / 3 = 7	Medicare Percent of Budget, Excluding Net Interest	17.0%
2 * 7 = 8	Medicare Share of Interest Expense	\$ 40,790
8 * 78% = 9	Proportion of Interest Attributable to Trad. Medicare	\$ 31,816
10	Base Administration (MedPAC)	4,401
9 + 10 = 11	Total Administration and Capital Costs of Trad. Medicare	\$ 36,217
See Appendix Figure 6 12	Traditional Medicare Revenue Before Interest	\$ 362,533
13	Traditional Medicare Share of Interest	31,816
12 + 13 = 14	Traditional Medicare Revenues, Incl. Interest	\$ 394,349
11 / 14 = 15	Administration to “Premium” After Capital Costs	9.2%

Source: CMS’ FY 2009 CJ Final; Congressional Budget Office & MedPAC

As discussed previously, many of the services that must be provided by private insurers are either not provided by Medicare directly or indirectly through any other government body. To fairly compare administrative expenses between private vendors and traditional Medicare, we compared the major administrative function categories as shown in the figure that follows.

Appendix Figure 8. Administrative Expenses of Health Plans
Functional Areas Comprising Same Services as Traditional Medicare

	Weighting
Enrollment / Membership / Billing	100%
Customer Services	100%
Provider Relations Services	100%
Provider Contracting and Rate Negotiations	10%
Other Provider Network Mgt. and Svcs.	100%
Claim and Encounter Capture and Adjudication	100%
Total IS Expenditures (as expensed)	100%
Actuarial	100%
Legal	10%
Audit	100%
Purchasing	100%
Imaging	100%
Printing and Mailroom	100%
Other Corporate Services	100%

All Marketing, Medical Management, Finance and Accounting, Corporate Executive / Governance, Association Dues and License / Filing Fees, Miscellaneous Business Taxes and certain Corporate Services expenses have been excluded to achieve comparability with Traditional Medicare expenses.

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