

The following provides a breakdown of calendar year 2011 administrative expenses by natural expense account for Direct Pay products.

Salaries & Wages/Temporary Services

Salaries, bonuses, overtime pay and outside temporary services are included in this natural expense account. The following departments are included in the 2011 Direct Pay budget with the allocation based on the nature of the work performed:

Customer and Provider Services (5.0 FTEs, salaries (\$246,305) staff responds to questions from members and providers regarding benefit coverage, payment status, eligibility and various other issues.

Individual Sales (0.5 FTEs, salaries \$56,118) sells the Direct Pay product to the non-group market. Staff members are responsible for answering all inbound calls as they relate to the Direct Pay product. The process includes a thorough explanation of covered services, plan limitations, enrollment guidelines and benefits associated with the Direct Pay product.

Marketing (1.0 FTEs, salaries \$118,996) includes support staff, which performs the following activities:

- Intake and processing in Individual Sales which require coding for correct processing. Outgoing calls and emails to verify that the provided information is accurate.
- Production of Sales Opportunities through "disenrolls" from groups.
- Support of Spanish telephone line.

Strategic Marketing & Product Innovation (2.9 FTEs, salaries \$214,018) department is responsible for the development, implementation and ongoing management of the Direct Pay products including the following activities:

- Development and implementation of features and/or services that will make the product more enticing to prospective enrollees.
- Development and maintenance of all Direct Pay sales and member materials.
- Regular briefings of internal operating areas on Direct Pay benefits and administration.
- Investigating and resolving any service and/or operational issues related to benefit design.

SGU/Individual Underwriting (3.3 FTEs, salaries \$206,734) reviews health questionnaires for applicants requesting the Preferred rate (Pool II) in one of the Direct Pay products.

The Medical Underwriters in the Small Group Underwriting Department review the health questionnaires and any recent Blue Cross/Blue Shield claims history to determine the health risk of an applicant. The department uses a health insurance medical manual as guidelines for making the risk assessment. If the underwriter does not have sufficient

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information to make the health risk assessment, the applicant may be required to submit additional medical information from their health care provider. The Medical Underwriter notifies the applicant regarding their eligibility for the preferred rate through a letter. If the applicant is denied the preferred rate they are informed of the medical condition(s) that did not meet the underwriting guidelines for acceptable risk. The Medical Underwriter also notifies the Membership Department of applications approved for the preferred rate.

The Underwriting Unit is also responsible for administering the Direct Pay Premium Assistance Program which involves reviewing the premium assistance application and the applicant's prior year's income tax return. A letter of determination for the premium assistance program along with the letter concerning medical review is sent to the applicant. The application is coded according to the appropriate decision and forwarded to the Membership department.

Non-Group Rating (1.2 FTEs, salaries \$93,668) is responsible for activities associated with regulatory (rate) filing, forecasting, and development of claims reserves. Rate filing expenses account for \$81,450 of the total expense, while the remaining \$12,218 is related to claims reserve and forecast activities.

Statistical (0.1 FTEs, salaries \$4,356) is responsible for the pricing of product benefits, providing detailed enrollment analysis as well as trend analysis and other studies.

Cash Receipts (0.6 FTEs, salaries \$25,010) processes the individual premium payments made by subscribers. The process includes opening the mail, scanning the remittance, depositing the checks and posting the payments to the subscriber's account.

The remaining departments in **Finance** (1.2 FTEs, salaries of \$89,767) are responsible for rate filing activities and day to day financial activities necessary to run the business. The rate filing activities include the development of operating expense budgets and responding to Attorney General data requests. Direct Pay is also allocated a share of day to day financial activities such as: Accounts Payable, Payroll, Corporate Accounting, etc.

Information Technology/Governance (2.3 FTE's, salaries \$234,086) encompasses the following functions:

- Project management oversees the assignments that allocate to Direct Pay and limits cost overruns for projects benefiting Direct Pay (e.g. HIPAA 5010, BCBSA system mandates).
- Governance of the Dell outsourcing agreement relating to membership and claims processing functions for Direct Pay, ensuring that members are enrolled accurately and timely and that claims are processed according to standards.
- Web site development and maintenance enhances the BCBSRI web site allowing Direct Pay members access to obtain information relating to specific health and wellness topics.

Staff time devoted to the transition to a replacement claims system (from LRSP) to claims system development will allocate \$64,603 (0.8 FTEs) to Direct Pay. This

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important system upgrade will benefit all products by providing a state of the art claims processing system.

Communications Services (0.5 FTEs, salaries \$43,826) provides Client Service, Design, Production, Traffic, and Copy support to produce member/sales collateral and open enrollment advertising for the Direct Pay Product.

Quality Assurance & External Audits (0.2 FTEs, salaries \$9,627) performs claims audits, reports on numerous performance measures required by the Blue Cross Blue Shield Association, and coordinates activities for external audits. These audits ensure that Direct Pay members are enrolled on a timely basis and their claims are paid properly and timely.

The **Legal** department (0.6 FTEs, salaries \$68,624) provides guidance on contracts, reviews subscriber agreements and works with outside counsel on Direct Pay rate filings and general litigation.

Human Resources (0.5 FTEs, salaries \$42,609) performs all employee recruitment and is responsible for administering compensation, benefits, and training for all employees. The work in this department impacts all employees who work on Direct Pay activities.

Grievance & Appeals (0.5 FTEs, salaries \$25,920) responded to 646 grievances and appeals from Direct Pay members in a twelve month period (June 2009 – May 2010).

Office Services (0.3 FTEs, salaries \$21,405) is responsible for management of facilities and mail delivery, benefiting those employees who work on Direct Pay.

Internal Audit (0.1 FTEs, salaries \$8,034) is responsible for the review of BCBSRI internal controls, payment processes and systems audits.

Corporate Compliance (0.2 FTEs, salaries \$14,389) develops and enforces the corporate compliance program.

Audit Recovery Services (0.3 FTEs, salaries \$22,850) is responsible for auditing how providers bill BCBSRI relative to American Medical Association (AMA) and plan contractual requirements. The AMA provides current procedural terminology (CPT) codes.

Contracting (0.7 FTEs, salaries \$61,833) is responsible for the negotiation of contracts for all hospitals, physicians, ancillary providers, pharmacies, etc. In addition, this department is responsible for the maintenance of these contracts which includes administration, contract analysis, pricing updates, credentialing providers and maintaining provider databases.

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Health Management Integration (2.0 FTEs, salaries \$144,825) is staffed by clinical and non-clinical staff whose primary responsibilities are detailed below.

- Utilization review functions ensure claims are paid only for services rendered, billed in compliance with acceptable subscriber agreements, and medically necessary.
- Medical Policy department is responsible for reviewing requests for coverage of new technology, changes in benefits, new mandates, and requests for revision to current policy.
- Provider profiling compares individual physicians or groups of physicians to others in their same specialty with regards to total annual claims cost and outpatient service utilization.
- Chronic Illness/Disease Management department develops programs based on claims utilization and cost drivers for inpatient and outpatient services and the likelihood that interventions can reduce costs in the future.
- Catastrophic/Complex Case Management is a collaborative process of working with members who have complex or catastrophic events with the goal of optimizing health, enhancing quality of life and promoting cost effective care.

For additional detail, please see the pre-filed direct testimony of Augustine Manocchia, MD.

Expenses for **Corporate Executives, Government Relations, Community Relations, General Corporate Expenses, and Program Management** are corporate in nature and are allocated to all product lines and market segments resulting in a charge to Direct Pay of \$122,328 (0.4 FTEs).

The succeeding chart provides a comparison for the Full Time Equivalents allocated to Direct Pay with the total staff in each department.

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	<u>Full Time Equivalents</u>	
	<u>Direct Pay</u>	<u>Total</u>
Customer & Provider Services	5.0	202.9
Individual Sales	0.5	20.0
Marketing	1.0	47.1
Strategic Marketing & Product Innovation	2.9	25.0
SGU/Individual Underwriting	3.3	25.9
Small Group, Individual & Sr Products	1.2	11.5
Statistical	0.1	13.2
Cash Receipts	0.6	11.5
Finance	1.2	60.1
Information Technology/Governance	2.3	94.1
Replacement Claims System	0.8	34.0
Communications Services	0.5	16.1
Quality Assurance & External Audits	0.2	13.0
Legal	0.6	32.4
Human Resources	0.5	18.6
Grievance & Appeals	0.5	15.0
Office Services	0.3	10.7
Internal Audit	0.1	7.0
Corporate Compliance	0.2	8.0
Audit Recovery Services	0.3	14.0
Contracting	0.7	55.7
Health Management Integration	2.0	136.3
All Other	0.4	80.9
TOTAL	24.9	953.0

Fringe Benefits

Fringe benefits are generally charged to cost centers based on the costs incurred at the employee level. These costs are then allocated to product lines in the same manner as the employees' salaries and wages. The specific components of fringe benefits are outlined below.

Payroll Taxes

FICA, Federal & State Unemployment, Medicare taxes paid on salaries and wages referenced above. For the purposes of this computation, we assumed that the tax rates will remain constant and maximums will move in relation to the salary increases.

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Health Insurance

The Health Insurance expense includes the companies contribution for:

- Comprehensive group health coverage for individual and families
- Group Dental coverage with an annual \$1,200 maximum
- Basic Life Insurance & Accidental Death & Dismemberment
- Post Retirement Medical Benefits for employees that were hired prior to January 1, 1992 and retire after age 55 after attaining minimum service requirements.

Pension

Expenses within this category include:

- Regular Pension - The Retirement Plan is a Defined Benefit Plan which provides a monthly retirement benefit to eligible participants at normal retirement, age 65 (full benefit) or at early retirement, age 55 to 64 (actuarially reduced benefit.) Vesting occurs in the Retirement Plan upon the completion of five plan years of service. Expenses are calculated in accordance with Financial Accounting Standard (FAS) #87.
- Supplemental Executive Retirement Plan (SERP) provides benefits to employees (vice presidents and above) who have been designated as eligible by the Board of Directors vote. Vesting requirements of at least 5 years at age 55 or 15 years of services at any age prior to 55 are necessary prior to payment of any benefits. Expenses are determined in accordance with FAS #87.

Fringe -Other

This category of expense includes:

- Money Match Employee Savings Plan. The expenses associated with this 401k program reflect the employer match costs (50% on employee pre tax contributions up to 6%) and the costs associated with Massachusetts Mutual's administration of the program. Employees hired after January 1, 2011 will receive 100% match up to 6% but will not participate in the pension plan.
- Employee Long Term Disability Insurance provides the employee with partial disability insurance in the event of total disability.
- Workers Compensation Insurance.

Outside Services

Outside Services are external personnel (excluding lawyers) engaged to provide expertise or services that are not available from the existing staff, or to handle project work. The projected 2011 allocation to Direct Pay is \$607,520. Major expense inclusions are noted below:

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- **Enterprise Project Management Office/Information Technology** – Outside professional services are utilized to assist on various projects including ICD-10 and technical assistance on website development and maintenance. The projected 2011 impact on Direct Pay is \$342,297. The primary methods of allocation for Information Technology are machine utilization, paid claims, contract months, and interplan teleprocessing services
- **Corporate Expense** – This cost reflects the anticipated expenses incurred by Rhode Island Attorney General for the rate hearing (\$30,000).
- **Communications Services** – The cost reflects the services provided by Rivers Doyle & Walsh (\$15,797) for Public Relations and Advertising.
- **Human Resources** – Outside professional services are used for a variety of activities including compensation benchmarking, pension valuation, employee training and support of Human Resource systems. The allocation is estimated to be \$12,255. The primary method of allocation for Human Resources is Full-Time Equivalents (FTEs).
- **Compliance and Audit** functions add \$11,432 to the Outside Services line item. Compliance activities include conforming to Sarbanes-Oxley principles and the BCBSRI compliance program. Audit activities include technical support for internal audits and the annual corporate audit. These activities are corporate in nature and are allocated to all lines of business.
- **Legal** – Consulting dollars of \$25,715 will be utilized to support the Direct Pay rate filing.
- **Post Production Support** - \$149,603 is being utilized for upgrading of Facets for various corporate initiatives (HIPAA 5010, Pharmacy Benefit Manager, ICD-10, Behavioral Health Initiatives and EDR).
- **Other** (\$20,421) is spread across numerous operating departments and is used to support the operations in those areas.

Legal

Projected costs for outside legal services are \$104,318 including \$95,833 for costs associated with the rate filing and related work. The budget also includes \$8,485 for Direct Pay's share of corporate litigation and other legal services. The rate filing expenses are charged directly to Direct Pay and the remainder of the expenses is corporate in nature, and is charged based on total cost ratio.

Facilities & Occupancy

This expense category includes all costs related to the operation of the facilities occupied by BCBSRI employees. The \$315,274 allocation reflects 2.6% of the anticipated facilities costs for the corporation and is related to the departments whose activities allocate to Direct Pay as mentioned in the Salaries and Wages portion of this exhibit as well as the computer operations area.

Equipment

The allocation of equipment expenses are expected to be \$152,223 for Direct Pay in 2011.

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Depreciation, property taxes, rental and maintenance associated with computer hardware and employee workstations accounts for \$146,326 of the budget. The budget also includes \$5,897 for the purchase of equipment costing less than \$1,500 per item, by the departments listed in the salaries and wages section.

Software

Software charges are anticipated to be \$258,976 for Direct Pay. The largest single expense inclusion (\$95,849) is license maintenance and hosting fees associated with BlueTransIT. The balance of this expense is associated with amortization and maintenance agreements for Information Technology (IT) systems (\$86,117), the Broker system software (\$5,162), PEGA amortization (\$9,378) and other (\$62,470).

The IT systems include E-business (BCBSRI.com), HIPAA and license agreements used by the Data Center. The BCBSRI website is accessible by Direct Pay subscribers to review benefits, claims activity and wellness tips.

Insurance

The Insurance account includes the following coverages as a prudent risk strategy:

- Directors & Officers
- e- Business Liability
- Employment Practices Liability
- Errors & Omission
- Managed Care Liability

The Direct Pay allocation of these corporate expenses is anticipated to be \$31,049.

Travel

Travel expenses (\$22,596) are allocated to product lines based on the reasons and benefits derived from the travel. Employee travel that is beneficial to the overall performance of the employee is allocated to product lines based on the allocation of salaries and wages for the employees department. Most travel falls into this category and includes educational conferences, training seminars on new systems and/or processes, and Blue Cross Blue Shield Association events.

If the travel benefits a specific product line or market segment other than Direct Pay then the travel will be charged to that product/segment directly and there will be no charge to Direct Pay.

Printing, Stationery and Office Supplies

The \$76,402 printing budget for Direct Pay includes materials such as welcome letters, applications, benefit summaries, and premium assistance program literature.

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Also Included is the allocation of Office Supplies to Direct Pay (\$16,027) which is directly related to the activities of the departments mentioned in the salaries and wages narrative. This category of expense includes toner cartridges for laser printers, paper, pens, folders, etc.

Postage

The \$180,951 expense reflects the allocation of postage paid to mail the following items to Direct Pay subscribers:

- rate filing notification and rate decision,
- enrollment kits,
- provider directories,
- premium billings,
- claims correspondence, and
- premium assistance program.

Telephone

Telephone expenses are expected to be \$88,830 in 2011 and include the following:

- line charges for Customer/Provider Service,
- data lines and web hosting fees for BCBSRI.com, and
- line charges necessary for all other employees to conduct business.

Advertising and Public Relations

Advertising is used to build brand awareness and understanding, sell products and services and provide important information to the community. BCBSRI uses a number of diverse media to communicate consistent messages regarding our competitive differentials, superior services and product offerings, and our brand position.

Direct Pay is charged directly for messages that pertain only to this product and is allocated a pro rata share of the costs of general advertising resulting in a total expense of \$161,590. No cost is allocated to Direct Pay for advertisements that relate specifically to any other products (e.g. Healthmate, Blue Cross Dental).

Corporate & Civic Dues

Corporate and Civic Dues add \$48,020 to the 2011 expense budget and are divided between two sub-categories: Dues and Contributions.

Direct Pay will be charged \$44,992 for Dues expense in 2011 with \$26,424 of this amount for corporate dues assessed by the Blue Cross Blue Shield Association. The Association calculates the dues each plan must pay based on the number of contracts and

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revenue that plan has. Direct Pay is allocated its share of these expenses based on a percentage of revenue. The remaining \$18,568 is for health savings investments, corporate or professional dues which are allocated based on the departmental activities as mentioned in the salaries and wages section of this exhibit.

Charitable contributions represent \$3,028 with the majority of this allocation for contributions to the United Way. BCBSRI provides contributions to various causes that are in alignment with our mission and these organizations are dedicated to improving the health and quality of life of all Rhode Island residents (e.g. Rhode Island Quality Institute).

Vendor Fees

Vendor Fees contribute \$1,440,003 to the 2011 expense budget and are divided among four major sub-categories: Dell (Perot Systems) Corporation (\$1,282,733), Health & Wellness Institute (\$33,149), Post Production support (\$107,505) and other (\$16,616).

Blue Cross has outsourced the following functions to Dell Corporation with a cost of \$1,282,733 to Direct Pay:

- \$506,663 - Data Center Operations.
- \$228,021 - Claims Processing including Claims Disbursements.
- \$293,048 - Application Development and Maintenance.
- \$124,312 - Membership Services.
- \$109,230- Network & Telecommunication Services.
- \$ 21,459 - Desk Side Services.

Data Center Operations (\$506,663) – Services necessary for the operation, administration, management and support of all, mainframe, printing and mailing applications area provided in this area. This process includes, but is not limited to:

- performing master console functions, including automation, centralization and consolidation of console functions and use of automation tools,
- managing, maintaining, monitoring, and controlling scheduled and unscheduled on-line batch processing,
- completing BCBSRI-defined processing and backups in correct sequence and within the time periods designated by BCBSRI,
- performing load balancing and where applicable perform as much scheduled batch work with automated tools,
- monitoring, verifying, and making appropriate adjustments to support proper executions of applications,
- identifying job and schedule dependencies, creating and maintaining job information dependencies on the master scheduling database, and prioritizing/scheduling batch jobs,
- supporting, maintaining and coordinating all on-line print/imaging/insertion activities,

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- preparing reports for distribution and distributing them,
- developing, maintaining, ordering and storing print/image/insertion output forms libraries, inventories, and supplies,
- coordinating with external print/image/insertion third party vendors, and coordinating ad hoc mailing requests in the same manner as mail insertion services.
- assuring that midrange servers are kept in working order and that procedures are developed with reasonably adequate controls and audit trails.
- scheduling, coordinating, and overseeing all activities requiring the physical presence of third party vendors.
- coordinating rollouts and upgrades of equipment and applications, including responsibility for coordinating any testing, scheduling and installation of such equipment or application.
- managing Direct Access Storage Devices (DASD) by monitoring and controlling storage performance, assigning and initializing DASD volumes, determining data set and volume placement, and setting and maintaining DASD resource efficiency/standards.
- providing performance monitoring, system performance tuning, and making recommendations based on system performance review.
- monitoring system utilization and capacity and advising BCBSRI of the need for additional capacity.
- providing daily monitoring and support for all servers, including, but not limited to: loading operating system software, installing back-up software and maintaining backups, performing restoration of data upon request, providing systems level support to the Application Development and Maintenance (ADM) team, providing data storage management, implementing and adhering to change control procedures, and administering clustered servers on different hardware platforms.

The primary method of allocation for Data Center Operations is machine utilization.

Claims Processing (\$228,021) – Dell is responsible for all aspects of Direct Pay Claims Administration including Claims Receipt and Imaging, Claims Entry, Suspense Relief, and Correspondence and Adjustment processing. The primary method of allocation is based on paid claims.

Applications Development & Maintenance (\$293,048) – Provide programming support for all systems applications used by Blue Cross & Blue Shield of Rhode Island. Direct Pay is charged directly for programming efforts that are specifically related to Direct Pay and the program is charged a pro rata share for generic applications (e.g. LRSP maintenance, Financial Systems, etc.).

Membership Services (\$124,312) – Dell is responsible for all Direct Pay Membership functions and is required to:

- add new Direct Pay members to our membership files and update any membership changes to existing members,

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- issue ID cards and Welcome Kits to subscribers,
- develop and mail premium bills.

The primary method of allocation for Membership Services is member months.

Network & Telecommunication Services (\$109,230)

- Manage the Wide Area Network (WAN) and Local Area Network (LAN) at BCBSRI sites.
- Perform the design, installation, termination, maintenance, and documentation of all intra-building copper and fiber optic cabling for Ethernet, FDDI, SONET, ATM and WAN environments.
- Install and maintain WAN connections and upgrades.
- Monitor WAN and leveraged LAN bandwidth, report on Internet access and usage, and maintain adequate Internet access bandwidth in accordance with business needs.
- Support all BCBSRI internal and external audits for regulatory or business function purposes.
- Perform all functions required in order to support telecommunication services of the BCBSRI user community (order, install, remove, upgrade, replace, manage, and maintain equipment and software).

The primary method of allocation for Network & Telecommunication Services is Full-Time Equivalents (FTEs).

Desk Side Services (\$21,459)

- Perform maintenance on desk side equipment and software as necessary.
- Order, build and deploy desk side equipment as requested by BCBSRI users.
- Provide break-fix field service to all BCBSRI equipment.
- Improve the efficiency and reliability of desk side equipment. This process shall include correction of all desk side equipment problems that require software and/or desk side maintenance, switching devices, and encryption/security devices.
- Recommend solutions and implement mutually agreed upon processes and procedures to optimize the overall infrastructure.
- Provide Help Desk services including: providing a single point of contact for reported problems, questions or requests. Provide first call problem resolution and route problems to the proper technical area.

The primary method of allocation for Desk Side Services is Full-Time Equivalents (FTEs).

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Health & Wellness Institute (\$33,149)

Blue Cross has contracted with the Health & Wellness Institute to provide programs, such as Weight Watchers, smoking cessation, blood pressure and cholesterol screening, to Blue Cross members both in state and out of state.

Post Production (\$107,505)

Hosting Fees for the Facets application are supported in this area. Also, support of corporate initiatives such as HIPAA 5010, Pharmacy Benefit Manager, ICD-10, Behavioral Health Initiatives and EDR has created this placeholder.

Other Processing Fees (\$16,616)

Other fees are included in the Finance and Human Resources divisions related to the Payroll System and the hosting of the fraud and abuse application in the Special Investigative Unit.

Miscellaneous

Payments for out of area fees relating to Direct Pay claims account for \$49,810 of the budget. These fees are paid to other Blue Cross and Blue Shield plans when BCBSRI members obtain covered services outside the State of Rhode Island. The fees enable BCBSRI to utilize the discounts negotiated by other plans.

Insurance license, employee education and fees and other miscellaneous items account for the remaining \$84,915. These expenses are allocated to Direct Pay based on the department activities as noted in the salaries and wages narrative.

Change in Claims Handling

The estimated liability to process outstanding Direct Pay claims is expected to increase by \$4,500 in 2011.

Radiology Vendor Fee

BCBSRI has contracted with a vendor (MedSolutions) to perform specific radiology management services, which includes privileging (determining whether each radiology provider (both high-end and low-end) uses appropriate equipment and has the appropriate credentials to perform radiology services. In addition, MedSolutions obtains preauthorization for certain high-end radiology services (such as CT, MRI, Pet Scans and Nuclear Cardiology). The administrative expense for this service is \$45,256.

Pharmacy Benefit Management Fee

Direct administrative cost (\$17,046) pertaining to the outsourcing of drug claims processing by Wellpoint.

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Beacon MHSA

Blue Cross & Blue Shield of Rhode Island out sources the management of mental health and substance abuse through Beacon Health Strategies.

Corporate Budget Reduction

At the time of the filing Blue Cross & Blue Shield of Rhode Island had not finalized all elements of the corporate budget. The plan is to identify \$11 million of additional reductions that will lower the actual Direct Pay cost.