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RELEASED

Mr. Martin _____

Mr. Quinn MAR 1 1976

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Congressional _____

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MAR 1 1976

The Honorable Jack Brooks, Chairman
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

As you requested on May 12, 1975, we compared the cost of having Medicare part B claims processed by contractors (carriers) which subcontract data processing with the cost of processing by those which do not.

The enclosure to your letter showed that \$139,587,441 apparently could have been saved in fiscal year 1974 if all Medicare carriers had subcontracted the data processing related to their claims. This savings involved \$7,118,650 in administrative costs and \$132,468,791 in benefit payments.

Our analysis does not show that such savings would have been possible.

We did not request formal comments on our findings from the Department of Health, Education, and Welfare. However, we have discussed our findings with representatives of the Social Security Administration and have incorporated their comments where appropriate.

COMPARATIVE ADMINISTRATIVE COSTS

On the basis of discussions with Social Security Administration officials, we classified Medicare carriers into four categories: (1) carriers which subcontract with Electronic Data Systems, Inc., (2) carriers which subcontract with other private firms, (3) carriers which do their own processing using the Model System which was developed primarily by the Social Security Administration, and (4) carriers which do their own data processing using all other systems.

Cost and other statistics for the Medicare carriers were based on the Social Security Administration's fiscal year 1975 Analysis of Intermediaries' and Carriers' Administrative Costs as shown below. Nonrecurring costs were not included.

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Comparative Cost of Processing
Medicare Claims by Carriers
Fiscal Year 1975

<u>Type of system</u>	<u>Number of carriers using system</u>	<u>Claims processed</u>	<u>Cost</u>	<u>Average cost per claim</u>	<u>Range of costs</u>
Subcontracted data processing:					
Electronic Data Systems	<u>a/11</u>	31,955,218	\$ 97,159,463	\$3.04	\$2.60-4.32
Other contractors	<u>5</u>	<u>4,460,711</u>	<u>15,790,329</u>	<u>3.54</u>	<u>3.39-4.15</u>
Total subcontracted	<u>16</u>	<u>36,415,929</u>	<u>\$112,949,792</u>	\$3.10	\$2.60-4.32
In-house data processing:					
Model System	27	20,086,464	\$ 63,706,925	\$3.17	\$2.23-4.97
Other systems	<u>16</u>	<u>24,111,356</u>	<u>80,852,382</u>	<u>3.35</u>	<u>1.88-4.16</u>
Total in-house	<u>43</u>	<u>44,197,820</u>	<u>\$144,559,307</u>	\$3.27	\$1.88-4.97

a/Includes Pennsylvania Blue Shield, which changed to in-house claims processing in late fiscal year 1975.

The above schedule shows that, on the average, claims processed in-house cost \$0.17 per claim more than those processed by data-processing subcontractors. When the two most widely used systems are compared, claims processed by Electronic Data Systems, Inc., are found to cost \$0.13 less than those processed in-house using the Model System.

It is questionable, however, that the differences in cost can be attributed to the type of processing system selected or to the use of subcontractors. The Advisory Committee on Medicare Administration, Contracting and Subcontracting (Perkins Committee) stated in its June 21, 1974, report to the Secretary of Health, Education, and Welfare and the Commissioner of Social Security that "* * * the EDP system in use by a carrier is not a very important factor in explaining variations in total administrative cost per claim * * *."

The Perkins Committee also considered several variables, such as claims volume and salary levels, that had been suggested as possible reasons for cost differences, but these variables apparently did not account for the significant cost differences among carriers. The Committee concluded that:

"Variations in administrative costs among carriers are at present enormous, if one considers that the Part B carriers contract to produce a standardized, if not essentially identical, service. Analysis suggests that the principal reasons for these variations are (i) differences in efficiency among carriers, and/or (ii) differences in accounting practices. Further work is needed to analyze the cost differential and * * * to give the high cost carriers incentives toward greater efficiency."

The average number of claims handled by carriers using subcontracted data processing was about 2.3 million. The average volume for those not subcontracting was about 1 million. Of the carriers not subcontracting, 14 had a claims volume of more than 1 million and 7 of these 14 had costs below the average cost of the carriers using subcontracting. Thus, the larger carriers which processed their own data had costs comparable to those which subcontracted.

The enclosure to your letter shows that, if all carriers had used subcontractors, \$0.23 a claim could have been saved, on the average, in fiscal year 1974. This would have resulted in an overall administrative cost savings of more than \$7 million. The average unit cost for all carriers was \$3.19. Since several carriers using subcontractors incurred higher-than-average costs and several carriers not using subcontractors incurred lower-than-average costs, we believe that converting from in-house to subcontract data processing would not necessarily have resulted in the estimated cost savings.

As noted earlier, Pennsylvania Blue Shield converted from subcontract to in-house data processing in late fiscal year 1975. Texas Blue Shield converted to in-house on November 1, 1975. Both carriers anticipate considerable savings from doing their own data processing.

SAVINGS THROUGH REDUCED BENEFIT PAYMENTS

The cost comparison attached to your request shows that about \$132 million of the \$140 million estimated savings would have resulted from the lower benefits paid by the carriers which subcontracted.

The "average" Medicare claim varies widely from carrier to carrier for several reasons, such as different charges and different service-utilization levels. These factors are outside the carrier's control. However, the carrier is required to make decisions which may result in the denial of claims in whole or in part for such reasons as duplicate claims, overuse of services, noncovered services, or ineligibility of claimant. The carrier also must make decisions on paying the "reasonable charges" for the covered services as required by Medicare regulations; this may result, however, in payment of less than the amounts claimed.

The Social Security Administration requires its carriers to report on denied claims and reasonable-charge reductions. On the basis of these reports for fiscal year 1974, we compared denials (full and partial) and reductions by type of carrier.

Denials and Reductions as a Percentage
of Claims and Charges

<u>Type of system</u>	<u>Claims denied</u>	<u>Charges denied</u>	<u>Claims reduced</u>	<u>Charges reduced</u>
Subcontracted data processing:				
Electronic Data Systems	13	11	62	14
Other subcontractors	17	10	68	13
Total subcontracted	14	11	62	14
In-house data processing:				
Model System	18	12	58	11
Other systems	17	12	60	13
Total in-house	18	12	59	13

As shown above, no significant difference exists in reasonable charge reductions or denials between carriers which subcontract and those which do not. Therefore, we believe that converting to data-processing subcontractors would not necessarily result in lower Medicare benefit payments.

RECENT AGENCY ACTIONS REGARDING CARRIERS

The Perkins Committee reported:

--Criteria for evaluating overall carrier performance need much improvement.

--Cost accounting information on carriers is not standardized to the point where reliable comparisons can be made.

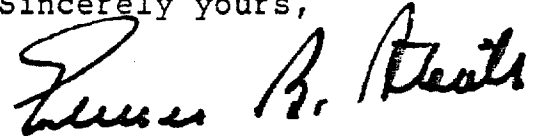
The Perkins Committee made a number of recommendations on administering carrier contracts.

On August 19, 1975, the Commissioner of Social Security reported to the Chairman, Subcommittee on Labor; Health, Education, and Welfare, Senate Committee on Appropriations, the actions taken and planned on the Perkins Committee's report.

The Commissioner said he plans to award a contract in fiscal year 1976 to a private management firm to help design improved standards for carrier performance. He also said (1) recently negotiated carrier contracts incorporate appropriate accounting principles issued by the Cost Accounting Standards Board and (2) the Social Security Administration plans to study the extent of variation in cost reporting among contractors to standardize cost reporting to the extent possible.

These actions should permit a better evaluation of carrier performance and should pinpoint differences in costs for similar functions.

Sincerely yours,



Comptroller General
of the United States