

Cost Allocation Used in Pricing TPA Services

A large health insurer offering third party administrative services to client organizations wanted to offer its services on an unbundled basis. To do this, they needed to know the underlying cost of the services being offered. Most of the costs associated with the business were spread among various departments and functions. HCH, through another consulting firm, was selected to lead the project to develop a cost allocation methodology that could be used as the basis for pricing services. HCH developed an activity based cost allocation matrix that assigned costs to specific activities and allowed costs to be calculated on a per member per month basis to be used in pricing.