



Blue Cross
of Florida



Blue Shield
of Florida

INTER OFFICE MEMO

TO: JIM WILLIAMS, MANAGER

AT: PURCHASING

DATE JANUARY 30, 1974

FROM: H. DOUGLAS

AT: METHODS

SUBJECT: PURCHASE OF PITNEY BOWES INSERTING MACHINE MODEL #3144

PROBLEM

In a memo dated 12-10-73, Brian Herbert (Pitney Bowes representative) brought to your attention the following update to prior conversations you held with him:

1. The presently quoted price on the Pitney Bowes Inserter Model 3144 could be expected to increase after the first of the year (January 1, 1974). The commercial price was quoted at \$13,445 and the Medicare Federal pricing scheme would allow for a discount of \$942.00 (i.e. a quoted price of \$12,503.00).
2. The delivery date could be expected to increase from the standard of 90 days to 120-240 days.

On January 22, 1974, the Methods Department was asked to re-evaluate its earlier studies made, in light of Pitney Bowes proposed changes.

PRESENT SYSTEM

A Bell & Howell Philipsburg Mastermailer Inserting Machine was purchased in April, 1973, with the Medicare B Summary Check in mind (see the following memoes: (1) to you from Ed Keiser dated 11-28-72 -- Subject: Mail Room Inserting Machines, and (2) to Ed Keiser from Dick Warner dated 11-21-72 -- Subject: Capital Equipment Requisitions 4408, 4409). The Philipsburg Mastermailer is the only machine we now have which is capable of inserting the Medicare B Summary Check. Also inserted is the Medicare B Claim Check, Medicare B Explanation of Medical Benefits, and other larger Blue Cross of Florida documents.

The insertion of the above documents did not begin until January 7, 1974, when the Medicare Summary Check System was placed into production. With two (2) weeks of operational experience with new system, Frazier Sinclair said that he is experiencing a two (2) to three (3) day backlog due in part to the reduced speed with the heavier and larger Medicare B Summary Check.

PROPOSED SYSTEM

Frazier Sinclair, Assistant Manager of the Mail Room Operations, has requested the purchase of the Pitney Bowes Model 3144 Mail Inserting Machine.

Mr. Sinclair has emphasized, very sincerely, the need for the additional inserting machine due to the backlog facing him.

The capabilities of the Pitney Bowes Model 3144 are very impressive. Pitney Bowes advertises (see Brochure F2437R) that the Model 3144 is capable of insertions of 7500 envelopes including collating, nesting and inserting, sealing and counting, meter stamping, and stacking. Brian Herbert has mentioned that an on-site application in Jacksonville (there are three: Southern Bell, Family Services, and State Farm) showed 20,000 insertions during a three (3) hour period. The Model 3144 is capable of handling the Medicare B Summary Check as a standard size application. A service contract is available and servicing turnaround is approximately one hour.

ANALYSIS

Early backlog statistics that Mr. Sinclair is experiencing can be isolated to two areas:

1. Medicare B Summary Check System fine tuning. Ruby Dubose of EDP Quality Control explained that the Medicare B Summary Check System was designed to provide a four (4) day cycle time. EDP Quality Control schedules the system for EDP operations. Upon completion the documents are funneled through EDP Quality Control to Accounting. In EDP Quality Control the checks are scanned for amounts and misprints. In accounting the checks are signed and verified as to number of signatures versus number of checks. Upon completion the Mail Room is notified and the documents are picked up and taken to the Mail Room. Frazier Sinclair's estimate of a two (2) to three (3) day backlog is over and above the four (4) day EDP Quality Control's schedules cycle time. A sampling of checks in the Mail Room has shown the following:

<u>Checks Delivered to Mail Room</u>	<u>Date Printed on Checks</u>
January 22	January 15
January 24	January 11
January 25	January 17

2. Expected January claims volumes. The projected volumes of Medicare B mail is based on projected claims receipts for Medicare B (HR-1 increase included) extrapolated from 1973 claims received. Jim Wallace, Manager, Medicare Production Quality and Control, provided the statistics noting that the Social Security Administration has been within $\pm 5\%$ on their projections.

The Methods Department's analysis on the first attached table shows January to be a month with projected claims volumes exceeding the next closest month by 23 percent. This high peak is followed by a decreasing series of fluctuations averaging approximately 310 thousand claims.

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Combining the effects of a non-typical peak month and a sticky system in the throws of being tuned, makes the situation look more dismal than may be the case. Further analysis is needed.

The attached table extrapolates the projected claims for 1974.

1. Column C represents the monthly volume of Explanation of Medical Benefits sent to claimants whose claims have been assigned to doctors. The assignment factor of 35% was established by Jim Wallace.
2. Column D represents the monthly volume of Summary Checks sent to doctors who have accepted assignment. The average of five (5) claims per check is the factor used.
3. Column E represents the monthly volume of Explanation of Medical Benefits and/or checks for claimants whose claims have not been assigned to a doctor.
4. Column F represents the total Medicare Part B mailing.
5. Column G represents the addition of 11,000 documents (Profiles and Blue Cross Bills) which must also be stuffed each month on the Philipsburg Mastermailer.
6. Column H represents the total inserting capacity of the Philipsburg Mastermailer based on three (3) factors over the actual number of working days in each month:
 - (a) A 20 percent maintenance factor composed of set up, downtime, and clean up.
 - (b) A reduced per hour insertion rate of 2160 as compared to the 3240 as previously expected. Frazier Sinclair said that the reduced volume capabilities were due to the size and weight of the documents.
 - (c) The table has been extrapolated twice starting in column H using a 8.5 hour day and a 10.5 hour day.
7. Column I is the difference between the Philipsburg Mastermailer's capacity at the reduced rates and the expected claims volumes.
8. Column J represents the amount of hourly overtime required to match machine capacity against production requirements.

CONCLUSIONS

In a telephone conversation with Brian Herbert on January 25, 1974, Steve Welk learned that the increase in price could not be firmly established until February 1st, 1974. Mr. Herbert estimated that the increase would effectively wipe out any discount (\$900 - \$1100). The delivery date would not be 120 to 240 days but closer to 90 days. Mr. Herbert explained that their branch operations would no longer stock the Model 3144; however, he has two (2) presently in stock. After they are sold the unit would be built upon receipt of order in Stamford, Connecticut, Pitney Bowes home office.

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FUTURE CONSIDERATIONS

Should the four day cycle time originally designed by EDP Quality Control prove unrealistic, then a re-evaluation as to how to best increase the turnaround time to the claimant is warranted. We must keep in mind that service to the community is what we market. However, by keeping our costs to a minimum we also provide an equal service by reducing rates.

If the hard failure (breakdown) of the equipment presents any difficulties not heretofore seen, then there remains one option aside from purchase: lease to purchase. This would effectively freeze the currently quoted price as previously stated. Brian Herbert provided the following lease statistics:

The monthly lease cost is \$660.00 (i.e. \$7920.00 per year.) The decision date to purchase affects the amount of rent to be applied as follows:

<u>Days From Installation</u>	<u>Rent Applied to Purchase (%)</u>
30 or less	100
90 to 30	75
360 to 90*	50*

*Even after 90 days there could be nine weeks of hard failure prior to overtime costs exceeding lost rent. (See second table)

Should this alternative option be taken then the Methods Department would recommend that the Pitney Bowes equipment:

1. Be leased at the non-discounted figure so that the equipment could be utilized for applications outside of government programs, and
2. Be used only to back up the present inserters to augment the 8.5 hour day.

HD:cb

Attachments

CC: B. N. Batie
Frazier Sinclair

TABLE #1

PROJECTED CLAIMS VOLUMES JAN 74 - DEC 74

MONTH	PROJECTED CLAIMS RECEIVED*	CLAIMS AS-	DOCTOR PAY-	UNASSIGNED		TOTAL	TOTAL CAPACITY	DIFFERENCE ² G-H= I	AMOUNT OF
		SIGNED 35% ASSIGNMENT FACTOR - NOTICE OF RE- JECT OR BENE. .35(B) = (C)	MENT (5 CLAIMS PER CHECK) - SUM- MARY CHECK OR REJECT C ÷ 5 = (D)	EITHER CHECK OR REJECT TO BENE. B - C = E (E)	TOTAL C+D+E=F (F)	MAILING TOTAL F+ 11,000 BLUE CROSS DOCUMENTS (G)	PER MONTH BASED ON WORKING DAYS IN MONTH BASED ON 8.5 HOUR DAY ¹ (H)		OVERTIME REQUIRED BASED ON 8.5 HOUR DAY ³ (J)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
Jan.	429,860	150,451	30,090	279,409	459,950	470,950	323,136	+147,814	+68.4324
Feb.	317,813	111,235	22,247	206,578	340,060	351,060	293,760	+ 57,300	+26.5277
Mar.	334,219	116,977	23,395	217,242	357,614	368,614	308,448	+ 60,166	+27.8546
Apr.	342,839	119,994	23,999	222,845	366,838	377,838	308,448	+ 69,390	+32.1250
May	349,255	122,239	24,448	227,016	373,703	384,703	323,136	+ 61,567	+28.5032
June	304,314	106,510	21,302	197,804	325,616	336,616	293,760	+ 42,856	+19.8407
July	274,864	96,202	19,240	178,662	294,104	305,104	323,136	- 18,032	- 8.3481
Aug.	261,800	91,630	18,326	170,170	280,126	291,126	323,136	- 32,010	-14.8194
Sept.	266,007	93,102	18,620	172,905	284,627	295,627	293,760	+ 1,867	+ .8643
Oct.	311,271	108,945	21,789	202,326	333,060	344,060	337,824	+ 6,236	+ 2.8870
Nov.	312,038	109,213	21,843	202,825	333,881	344,881	293,760	+ 51,121	+23.8671
Dec.	332,692	116,442	23,288	216,250	355,980	366,980	308,448	+ 58,532	+27.0981
Total	3,836,972	1,342,940	268,587	2,494,032	4,105,559	4,237,559	3,730,752	506,807	234.6326

Note: Total capacity is based on the standard of 36 inserts/min.; 8.5 available hours per day and the actual number of working days available permanently.

36 inserts/min x 60 min = 2160 inserts/hour

* Week ending projections adjusted to month ending projections

1 includes 20% adjustment/per hour for maintenance a. set up
b. down time
c. clean up

2 (+) number of documents which cannot be processed without overtime.
(-) number of additional documents which could be processed with existing capacity.

3 Extra hours denoted by (-) to be used in other mailroom operations.

TABLE #1 SUPPLEMENT

PROJECTED CLAIMS VOLUMES JAN 74 - DEC 74

MONTH	PROJECTED CLAIMS RECEIVED*	CLAIMS AS-SIGNED 35% ASSIGNMENT FACTOR - NOTICE OF REJECT OR BENE. .35 (B) = (C)	DOCTOR PAY-MENT (5 CLAIMS PER CHECK) - SUMMARY CHECK OR REJECT C + 5 = (D)	UNASSIGNED EITHER CHECK OR REJECT TO BENE. B - C = E	TOTAL UNASSIGNED CHECK OR REJECT TO BENE. C+D+E=F (F)	TOTAL MAILING TOTAL F+ 11,000 BLUE CROSS DOCUMENTS (G)	TOTAL CAPACITY PER MONTH BASED ON WORKING DAYS IN MONTH BASED ON 10.5 HOUR DAY ¹ (H)	DIFFERENCE ² G-H = I (I)	AMOUNT OF OVERTIME REQUIRED BASED ON 10.5 HOUR DAY ³ (J)
Jan.	429,860	150,451	30,090	279,409	459,950	470,950	399,168	+71,782	+33.2324
Feb.	317,813	111,235	22,247	206,578	340,060	351,060	362,880	-11,820	- 5.4722
Mar.	334,219	116,977	23,395	217,242	357,614	368,614	381,024	-12,410	- 5.7454
Apr.	342,839	119,994	23,999	222,845	366,838	377,838	381,024	- 3,186	- 1.4750
May	349,255	122,239	24,448	227,016	373,703	384,703	399,168	-14,465	- 6.6968
June	304,314	106,510	21,302	197,804	325,616	336,616	362,880	-26,264	-12.1593
July	274,864	96,202	19,240	178,662	294,104	305,104	399,168	-94,064	-43.5481
Aug.	261,800	91,630	18,326	170,170	280,126	291,126	399,168	-108,042	-50.0194
Sept.	266,007	93,102	18,620	172,905	284,627	295,627	362,880	-67,253	-31.1356
Oct.	311,271	108,945	21,789	202,326	333,060	344,060	417,312	-73,252	-33.9130
Nov.	312,038	109,213	21,843	202,825	333,881	344,881	362,880	-17,999	- 8.3329
Dec.	332,692	116,442	23,288	216,250	355,980	366,980	381,024	-14,044	- 6.5019
Total	3,836,972	1,342,940	268,587	2,494,032	4,105,559	4,237,559	4,608,576	-371,017	-171.7672

Note: Total capacity is based on the standard of 36 inserts/min.; 10.5 available hours per day and the actual number of working days available permanently.

36 inserts/min x 60 min = 2160 inserts/hour

* Week ending projections adjusted to month ending projections

1 includes 20% adjustment/per hour for maintenance
 a. set up
 b. down time
 c. clean up

2 (+) number of documents which cannot be processed without overtime.
 (-) number of additional documents which could be processed with existing capacity.

3 Extra hours denoted by (-) to be used in other mailroom operations.

TABLE #2

MAJOR BREAKDOWN DATA

Days Out	Unprocessed Mail Documents	Overtime Hours* Needed to Process Mail Documents	Cost Involved' in Overtime
1	16,683	7.7236	\$ 31.86
2	33,366	15.4472	63.72
3	50,049	23.1708	95.58
4	66,732	30.8944	127.44
5	83,415	38.6181	159.30
6	100,098	46.3417	191.16
7	116,781	54.0653	223.02
8	133,464	61.7889	254.88
9	150,147	69.5125	286.74
10	166,830	77.2361	318.60

*Figured at 2,160 Documents/hr.

'Straight Hourly Salary for "E" Clerk midrange