



The reliability of health plan cost allocations



For many health plans, there is a lack of confidence in their cost allocation process, the supporting governance, and methodology or reporting. End users often complain about the proverbial “black-box” and are unable to understand what services are being charged, while Finance often has difficulty explaining and justifying the costs being allocated. This lack of transparency and traceability conceals the real product consumption or service performance, which impacts profitability and marginalizes the performance management process. The result is that accountability and responsibility are quietly sidestepped until the next reporting period and the cycle repeats. The allocation process can motivate certain behaviors, both desirable and undesirable. The importance of a comprehensive and robust change management process with leadership support cannot be understated. The key is to align the allocation process with the organization’s target operating model, strategic goals, governance policy, and technological capabilities to encourage positive behaviors.



How can KPMG help?

We have developed holistic allocation initiatives that have successfully assisted organizations in optimizing their allocation processes by aligning to a Target Operating Model tailored to their organization. Effective Finance organizations align their allocations across the budgeting, recording of actuals, and reporting process of the enterprise. KPMG’s experienced professionals can help you achieve this goal and enhance the product profit-and-loss reporting needed to clearly understand performance and profitability to make better decisions. Following is an overview of selected activities that follow our Guiding Principles to enable leading practices for your organization:

- Simplified scalable allocation methodologies that support a multidimensional organization to meet the enterprise’s strategic intent
- Detailed sensitivity analysis of how costs should be allocated based on a consumption and contribution approach that aligns with how you run your business
- Governance model redesign to be flexible and innovative supporting inevitable change
- Technology and data model assessment and redesign to support allocations with existing and future technology capabilities.



What our health plan clients say about recently completed initiatives:

“KPMG performed an allocation analysis we could not do ourselves. They provided the essential knowledge and leading practices to improve our allocations.”

“The recommendations and deliverables were simple, concise, and actionable. We achieved greater transparency and tractability with our existing tools and a transformative future-state roadmap.”

Guiding Principles
Leading practice allocations are fit for purpose, flexible and achieve the intended benefits following these guiding principles.



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