

VA Insurance Program ACTIVITY BASED COSTING



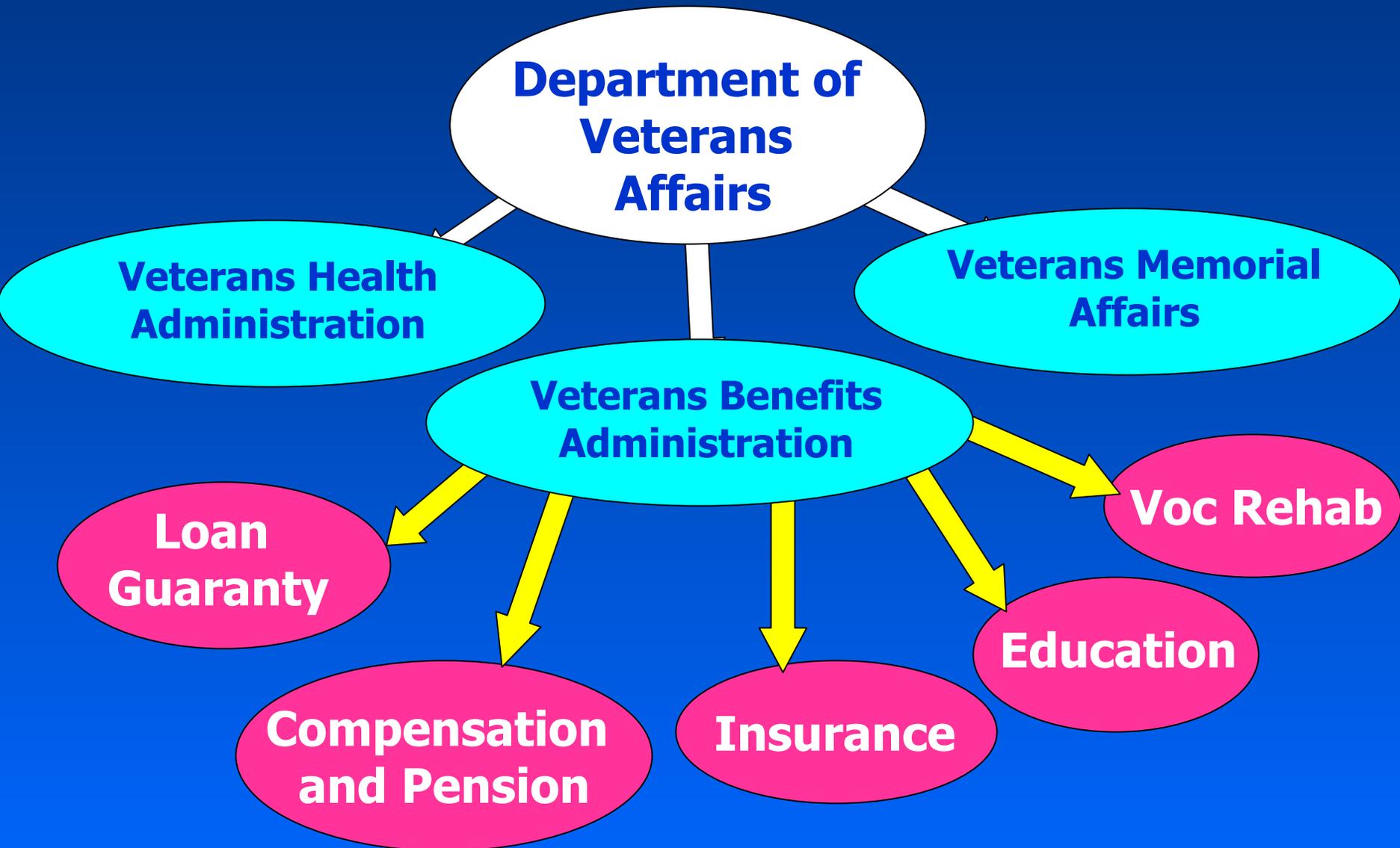
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Presentation Outline

- **Why VA Insurance Got Involved in Activity Based Costing (ABC)**
- **Methodology Used in Insurance ABC Model**
- **How Does Insurance Program Use ABC**
- **Lessons Learned/Personal Observations**

VA Insurance Program



Why Insurance Got Involved in ABC

Supervise Two Programs:

- * **Servicemembers Group Life Insurance**
- * **Veterans Group Life Insurance**

Administer Six Programs:

- **Veterans Special Life insurance**
- **United States Gov't Life Insurance**
- **National Service Life Insurance**
- * **Veterans Reopened Life Insurance**
- **Service-Disabled Life Insurance**
- **Veterans' Mortgage Life Insurance**



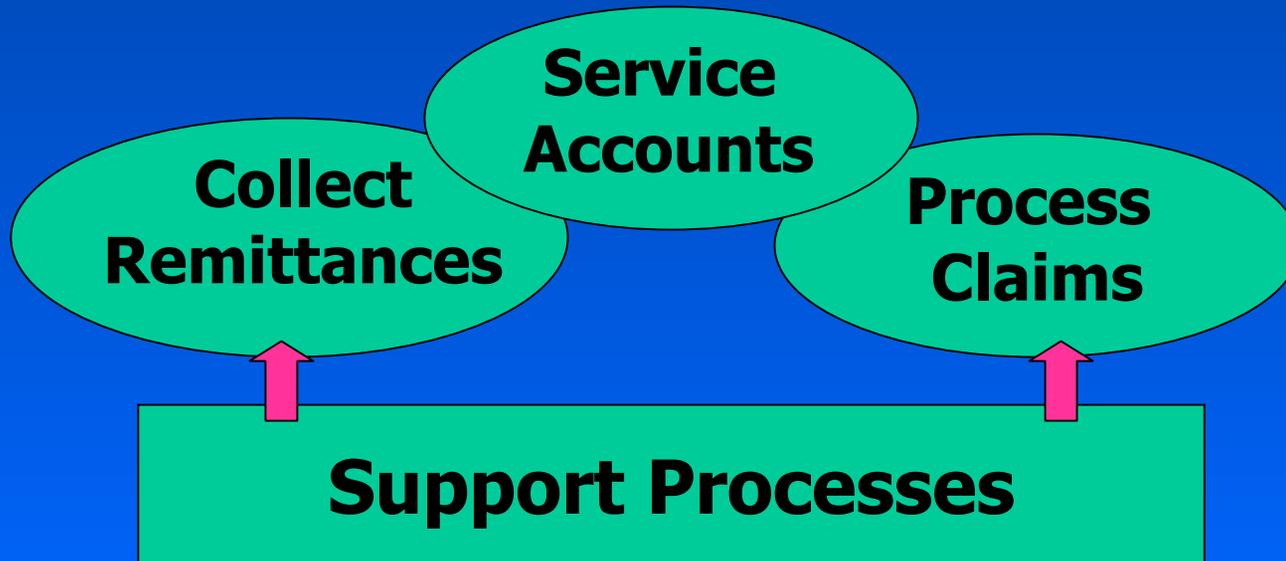
- **In October 1996, VA Insurance Was Charged to Perform a Pilot Study Using ABC Management Principles**
- **We Partnered With a Team of Consultants From Coopers & Lybrand to Perform a 3-Month On-Site Pilot Study**
- **Major Objectives:**
 - * **Determine the Total Program Cost**
 - * **Slice and Dice Cost by Output and by Fund**
 - * **Look for Opportunities for Improvement**

Methodology

1. Perform a Process Analysis

- * Identified the Major Insurance Program Processes

Process View



2. Identify and Define the Activities and Tasks Associated with Each Process (Identified 60 Activities)

Activities Identified to Process Claims:

Receive Mail/Folder

Provide Folder

Maintain Folder

Respond to Phone Inquiries

Update Award Maintenance Actions

Authorize Off-Tape Refunds

Pay Death Awards

Verify Disbursements

Verify Controlled Transactions Award

Collect Processed Work

Perform SQC Review

3. Develop a Cost Model

Labor Costs – Ask Each Division to Complete a “Time Allocation Survey” to Assign the Proper Percentage of Each Employee’s Time to the Activities They Perform in a Typical Year

Non-Labor Cost – Assigned Non-Labor Cost Directly to Activities When Possible. When Cost Were Not Readily Assignable, We Used Allocations Based on FTE.

4. Identify Our Outputs

- **We Decided to Use Our Traditional End Products As Outputs**

Some Examples:

Policy Service Mail

Telephone Calls

Insurance Remittances

Death Awards

5. Allocated Activity Cost to Outputs

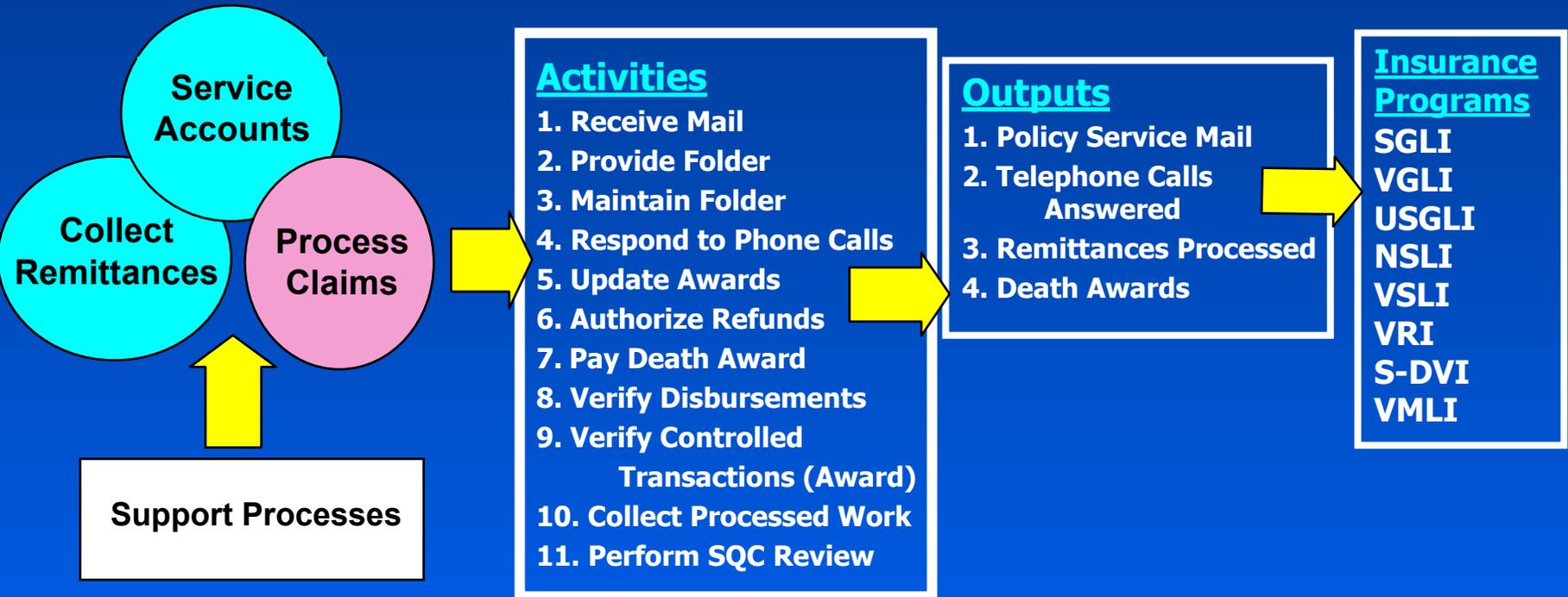
- We Allocated Each Activity Cost to the Proper Outputs Based on Data Previously Gathered and on Interviews With Subject Matter Experts**

6. Allocated Output Cost to Insurance Programs

- Finally, Based on the Same Methodology, We Determined the Proper Percentage of Each Output to Our Individual Insurance Programs**

Process to Output View

Core Business Systems

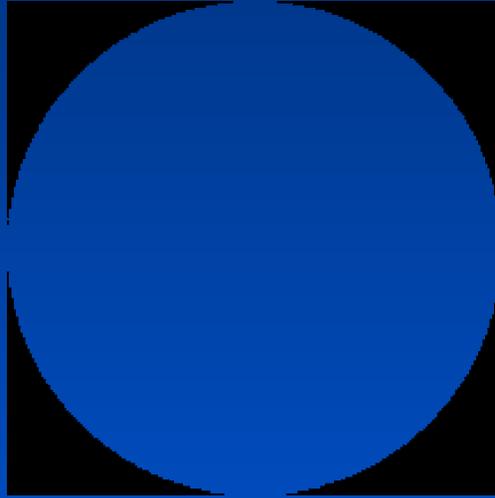


How Insurance Uses ABC

- **Use ABC to Help Us Determine the Total VBA Cost of the Insurance Program**
 - * **Regional Office Support**
 - * **Central Office Support**
 - * **Information Technology Support**
- **Use ABC to Validate Cost Per Program**

Lessons Learned/Personal Observations

- **Knowing How Much Activities and Outputs Cost, Can Be Powerful Information**
- **Also Useful in Cost/Benefit Studies**
- **The Most Difficult, But One of the Most Important Tasks in ABC, is Allocating Overhead and Indirect Non-Payroll Cost**
- **Limit the Number of Activities Whenever Possible**



Questions ?