

Plan Management Navigator

Analytics for Health Plan Administration



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BLUE CROSS BLUE SHIELD ADMINISTRATIVE COST TRENDS: THE FULL IMPACT OF THE AFFORDABLE CARE ACT

In 2014, health plans serving the commercial market were fully participating in the post reform environment of Affordable Care Act. The changes on the health plans were momentous.

Administrative expenses before Miscellaneous Business Taxes, after eliminating the effect of product mix changes, had median growth of only 1.1% PMPM. This is down from 6.2% in 2013 and is the lowest at least the last seven years.

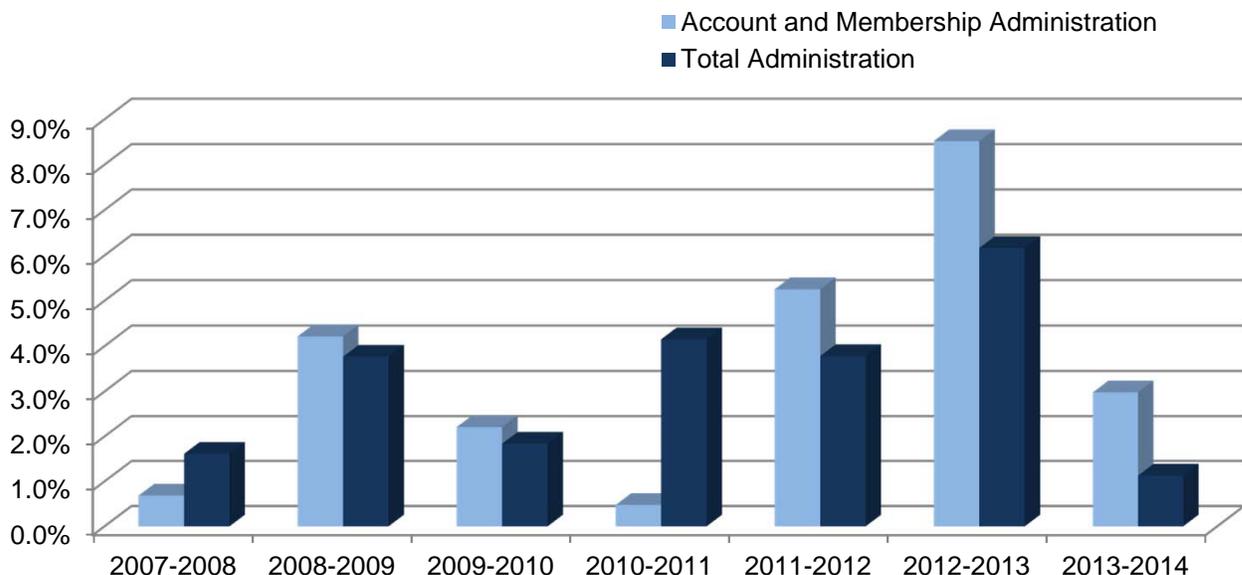
Account and Membership Administration was similarly low, declining to 3.0% growth from 8.5% in the prior year. This rate was the lowest since 2011.

Every cluster of expenses posted declines in the median rate of growth. Sales and Marketing costs grew at their slowest rate since 2009. Medical and Provider Management grew at the slowest rate since 2010. Account and Membership Administration was sharply lower as discussed above. The Corporate Services cluster of expenses posted an actual decline in trend, compared with growth last year.

The decline in the rate of growth is important but, as shown in Figure 1, is not a reversal of trend. Thus the relatively modest growth rate adds to the cost levels produced by higher growth in prior years. While the product mix of these organizations changed, the trends overall and by cluster varied by degrees not direction if the effect of mix is not eliminated. Administrative expenses, excluding Miscellaneous Business Taxes, totaled \$33.37 PMPM.

While not included in the administrative expenses under managerial control that are the central focus of this analysis, Miscellaneous Business Taxes are burdens that must be covered by the premiums and fees charged by health plans. Including the effect of a 369.1% increase in Miscellaneous Business Taxes, administrative costs overall increased by 18.4%.

Figure 1. Sherlock Benchmark Summary
Blue Cross Blue Shield Rates of Change for Account and Membership Administration and Total



Miscellaneous Business Taxes

The explosion in taxes was the result of the first year of taxes associated with the Affordable Care Act. These are Patient Centered Outcome Research Institute Fees (or Comparative Effectiveness Research Fees), Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee and an Annual Fee on Health Insurers.

Continuously reporting Plans posted average Miscellaneous Business Taxes of \$6.08 in 2014 versus \$1.30 in 2013, an increase of approximately \$4.79. That increase in taxes exceeds the Corporate Services cluster of functions, shown in Figure 3, and is 22.0% higher than the total cost of the Medical and Provider Management cluster of functions.

Costs vary by product. The median costs for Insured Commercial products ranged from \$8.93 to \$13.25. For Commercial ASO/ASC, the range of medians was \$0.06 to \$0.14.

“Real” Trends

When we calculate our rates of change, we are careful to include only those Plans that participate in both periods. Otherwise, we would conflate the effect of the introduction of high or low cost organizations with actual trends.

We go one step further when we calculate Constant Mix trends. Since each product offered by a health plan has different costs, a change in product mix can also distort the actual trend in costs. For instance, Medicare Advantage members require more customer inquiries, representatives and costs, so a change in product mix in favor of Medicare Advantage would increase total PMPM costs irrespective of the underlying trends in the inputs.

A more realistic way of looking at cost trends eliminates the effect of the change in product mix. Happily, each of the Plans submit all of their costs segmented by product. So it is easy to eliminate this product mix effect - we reweight the continuously participating Plan costs so that the prior year’s product mix matches that of the current year. Unless noted otherwise, this analysis will focus on the Constant Mix rates of change.

Figure 2. Sherlock Benchmark Summary

Blue Cross Blue Shield Median Changes in Per Member Per Month Expenses

Functional Area	2013 Data		2014 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	8.1%	8.9%	7.2%	2.0%
Medical and Provider Management	5.7%	4.5%	3.0%	1.6%
Account and Membership Administration	8.9%	8.5%	1.7%	3.0%
Corporate Services	4.2%	4.5%	-0.7%	-1.4%
Total Expenses	7.3%	6.2%	3.5%	1.1%

Sales and Marketing

This cluster's costs increased at a median rate 2.0% versus 8.9% last year. The median rates of increase for every function in this cluster (Rating and Underwriting, Marketing, External Broker Commissions, Advertising and Promotion) declined.

Both Marketing and Advertising and Promotion declined from double-digit growth to one percent or less. Trends in Advertising and Promotion were the lowest since at least 2009. Marketing expense growth was also the lowest in the past five years. Broker Commissions grew in line with historic trends.

Rating and Underwriting cost growth declined. Sales growth declined on a constant mix basis but increased on an as-reported basis.

Mix Shift

Membership increased in 2014 versus 2013 at a median rate of 4.2% and a mean rate of 4.1%. Products sold to seniors were of central importance with Medicare Advantage growing by approximately 20% and Stand-Alone Part D growing by approximately 4%. Medicare Supplemental also grew.

Commercial grew at an average rate of 2.8%. While Commercial ASO/ASC increased at a median rate of 7.2%, Commercial Insured grew by 2.4%.

While Commercial's share declined (especially the insured share), and FEP, Medicare Supplemental and Medicare Advantage increased.

Implications of Mix Shift

Populations have needs that Plans incur costs to serve. The increased focus on ASO products drives down medical management and Sales and Marketing costs while the increase in products for seniors can increase costs. In general, however, Figure 2 shows that cost trends are lower when the effect of the change of mix is eliminated.

Medical and Provider Management

This cluster's cost growth declined to the lowest level since at least 2010. The trends in both Medical Management and Provider Network Management and Services declined. Provider Network Management and Services decline was especially dramatic, falling from 6.4% to 3.7%. The larger Medical Management function also had declining growth. (In the Sherlock Benchmarks, all medical management costs are included in administrative costs *even if they are classified as Quality Improvement Activities for Medical Loss Ratio calculations*.) Medical Management cost growth was its lowest since at least before 2010. The Disease Management subfunction expenses actually declined, year over year. As might be expected from the shift in favor of Medicare Advantage, health plan administrative costs for this function actually accelerated on an as-reported basis.

Account and Membership Administration

Account and Membership Administration growth declined from last year's levels and was the lowest rate of growth since 2011. This seems to have mainly been powered by a decline in Information Systems growth, from the mid double-digit rate to very low single digits. By contrast, all of the other functions, Enrollment/Membership/Billing, Customer Services and Claims accelerated. As-reported results had a similar pattern.

Other than Information Systems, Claims had the slowest pace for the cluster, continuing a trend for moderate growth. This likely continues a trend towards automation: While PMPM costs for Claims function costs are less than 1% higher since 2009, they are 32% higher for Information Systems. Bouncing back from the heavy development in prior years, the Application Acquisition and Development subfunction costs actually *declined* sharply.

Enrollment / Membership / Billing is at its highest rate of growth since at least 2010. More remarkably, Customer Services had a double-digit increase for the second year in a row after three years of low single-digit growth.

The Affordable Care Act's effects can likely be seen Enrollment and Customer Services trends. Enrollment growth was the fastest since at least 2010, which may have been associated with membership churn and the effect of the new Exchanges. Customer Service cost growth was also the highest since at least 2010. One of our participants calls this surge an example of "bulge" costs: since nearly all commercial members had new products, customer inquiries may have required higher levels of staffing.

Corporate Services

The costs in the cluster of Corporate Services declined by 1.4%, driven in large part by the 1.8% decline in the Corporate Services function. The rate of growth in Finance and Accounting declined. Actuarial growth sharply decelerated from 2013 levels. Corporate Executive accelerated.

Within the Corporate Services function, while not an especially large expense, OPEB expenses declined very sharply – a few of the Plans indicated revisions in benefits, changes in the discount rate and changes in the actuarial assumption. Legal expenses decelerated: Compliance costs grew modestly, from a surge in 2013, though Government Affairs accelerated.

Miscellaneous Business Taxes

As noted previously, the trends for administrative costs within the control of plan managers tended to be very low, matched only in 2008. But their growth after inclusion of the Miscellaneous Business Taxes was unprecedented since at least 2003 at 18.4%. The closest increase was an 11.5% increase in 2006.

The reason for this is that Miscellaneous Business Taxes increased by 369.1% likely due to the Affordable Care Act.

This surge in taxes makes sense after a detailed look at the ACA-related taxes these companies actually paid in 2014. Based on the Plans that reported details, these increased costs are overwhelmingly Transitional Reinsurance Fee and the Annual Fee on Health Insurers. Additionally, Plans were subject to Exchange User Fee if they had exchange members.

The cost of the Transitional Reinsurance Fee was \$5.25 per commercial insured member per month. The cost of the Annual Fee on Health Insurers (excluding ASO members) was at least 2% of premiums PMPM. Assuming premiums of \$400 PMPM this fee would equal \$8.00 PMPM. The Exchange User Fee was approximately \$13.00 PMPM. Of the Plans reporting, a median of 7% of Commercial members were in public exchanges. Since these taxes do not apply to all members, an average of \$6.08 PMPM was incurred.

Average Changes

Cost trends varied between the Plans. Figure 2 shows median changes. We think that medians are a better representation of the central tendencies because they mute the effect of performance outliers. Directionally, averages tell a similar story to median changes – they grew slower.

Medical and Provider Management was an exception. Costs on *average* increased by 9.6% versus a *median* growth of 1.6%. Six of the plans posted declines but four of the plans posted greater than 20% increases.

More broadly, when cost trends differ between medians and mean, identification of differences can be helpful in understanding differences in individual Plans. So the total cost growth *averaged* 4.2% versus 1.1% *median*. Eight of the plans reported cost increases of 1.1% or less. But three of the Plans reported costs of 9.9% PMPM or higher. Note that the total trends compare favorably with the 6.2% median growth or 6.4% average growth in 2013.

Corporate Services trends were also favorable under either approach. The median increase declined from 3.5% to -1.4% while the average increase declined from 3.5% to 2.6%. Nine of the Plans reported declines in Corporate Services. But three reported PMPM increases greater than 20%.

Administrative Expenses PMPM, by Cluster and in Total

As noted above, we summarize the administrative costs of Blue Cross Blue Shield Plans into four clusters. In order of size, they are Account and Membership Administration, Sales and Marketing, Medical and Provider Management and Corporate Services. Overall, administrative expenses, excluding Miscellaneous Business Taxes, totaled \$33.37 PMPM.

Figure 3. Sherlock Benchmark Summary
 Blue Cross Blue Shield Costs by Functional Area Cluster, 2014 Data
 Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$6.53	\$8.20	\$12.22	46%
Medical and Provider Management	3.35	3.93	5.01	26%
Account and Membership Administration	11.72	14.74	17.34	26%
Corporate Services	4.16	4.63	5.53	36%
Total Expenses	\$27.78	\$33.37	\$40.19	28%

Account and Membership Administration's high cost weight, combined with the precipitous decline in the rate of growth, makes its change especially important. Note that it is larger than Provider Network Management and Services, combined, and is 80% larger than Sales and Marketing. The costs for this cluster had a median value of \$14.74 PMPM.

Notably, Medical and Provider Management costs, the smallest cluster, was less than reported last year. This corresponds with the modest growth shown in Figure 2 especially on a constant mix basis. The median PMPM costs for this cluster was \$3.93.

Sales and Marketing is the second largest cluster of functions. The increase over last year's costs was modest, as shown in the sharp decline in the rate of growth shown in Figure 2. This cluster had PMPM costs of \$8.20.

The Corporate Services cluster of functions costs, which had a median value of \$4.63 PMPM, were small compared with most other clusters. They were approximately 4% higher than reported for 2013.

The dispersions of values increases in 2014 versus 2013. One possible reason for this is the increasing differences in the product mixes of the participating Plans. For instance, the coefficients of variation of the share of membership that was Commercial increased from 6.7% to 7.5%.

The results in Figure 3 are loosely comparable with those in Appendix A since participant turnover was relatively modest. But there are some limitations. Figure 2 indicates that the effect of mix increased the costs of continuously participating Plans: this is the truest measure of trend. When comparing the two figures, note the panels are very similar but not the same. By the way, the organizations that did not participate in 2015 were evenly split between those that were higher and were lower than average in administrative expenses.

Costs by Product

All health plan administrative costs are segmented by products as well as by function. This is important since the products' costs are very different. For instance, the PMPM Sales and Marketing costs for Insured Commercial Products greatly exceed that of their Insured counterparts because the group size is typically much greater. In other words, distribution systems costs are spread over a larger population, explaining why Indemnity and PPO Insured, at \$43.82 PMPM, costs nearly double that of the \$23.81 PMPM for its ASO/ASC counterpart. Similarly, Medicare Advantage costs, at \$80.06 PMPM tend to be higher than Commercial HMO Insured of \$44.39 since administrative activities are driven in part by the underlying health care cost requirements of the enrolled seniors versus the under 65 population.

Medicare Advantage is the most expensive product, followed by the various commercial insured products while ASO/ASC products cost least among comprehensive products.

Note that the coefficients of variation tend to be a little lower for the products shown in Figure 4 versus the PMPM expenses shown in Figure 3. Product mix differences between the Plans may explain the greater distribution of values in Figure 3.

To aid readers in the use of this analysis, we have also posted this content in the form of an application on our website, www.sherlockco.com/seer/calculator.shtml. While few organizations operate with entirely separate staff and other costs for each product, by using this model, you can actually apply the values in Figure 4 to your membership to estimate what your enterprise administrative costs would be if you operated at the median values for each of your products. If you insert your actual administrative costs, the model also provides a PMPM and percent comparison.

Costs by Product, in Percent

While Medicare Advantage costs are the highest cost products on a PMPM basis, they are slightly below average on a percent basis, 8.9% versus 9.0% for all comprehensive products. Again ASO/ASC product costs are low ranging from 5.5% to 6.7%. (We employ “premium equivalents” as the denominator of these products sold to self-insured groups.) All of the Commercial Insured products are more expensive than average by this metric.

Figure 4. Sherlock Benchmark Summary
 Blue Cross Blue Shield Costs by Product, 2014 Data
 Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$42.13	\$44.39	\$49.77	17%
ASO / ASC	\$20.20	\$22.63	\$26.74	28%
Commercial POS				
Insured	\$33.66	\$41.13	\$44.68	26%
ASO / ASC	\$19.53	\$19.68	\$22.93	28%
Indemnity & PPO				
Insured	\$32.54	\$43.82	\$47.37	30%
ASO / ASC	\$18.20	\$23.81	\$26.99	30%
FEP	\$17.57	\$20.00	\$26.45	31%
Medicare Advantage	\$71.88	\$80.06	\$101.38	20%
Medicaid	\$22.35	\$22.35	\$22.35	NM
Medicare Supplemental	\$24.73	\$31.38	\$45.86	39%
Comprehensive Total	\$27.78	\$33.37	\$40.19	28%
Stand-Alone Medicare Part D	\$12.44	\$16.33	\$19.51	41%
Stand Alone Dental	\$2.41	\$3.88	\$5.14	49%

By far the highest cost product, expressed in percent, is the Medicare Supplemental product at 16.7%. While many of the activities incurred in providing this product are similar to those of other products sold to seniors, the revenue denominator does not include a build-up from all their health benefits - after all, regular Medicare is primary.

Cluster Costs in Percent, by Cluster and in Total

Administrative costs comprise 9.0% of the premiums, calculated on a premium equivalent basis. The order of importance of the clusters is similar to the PMPM medians in Figure 3, with Account and Membership Administration highest and Medical and Provider Management lowest.

The coefficients of variation are, in total and in each cluster, lower than their PMPM counterparts. Our participation is throughout the United States so it is possible that differences in costs of living between the Plans are muted by the percent of premiums approach.

Figure 5. Sherlock Benchmark Summary
Blue Cross Blue Shield Costs by Product, 2014 Data
 Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	9.5%	10.8%	12.4%	34%
ASO / ASC	5.3%	6.7%	7.4%	23%
Commercial POS				
Insured	8.0%	10.2%	11.2%	27%
ASO / ASC	5.4%	5.5%	6.0%	9%
Indemnity & PPO				
Insured	9.0%	11.7%	12.5%	22%
ASO / ASC	5.4%	6.4%	7.6%	23%
FEP				
Medicare Advantage	7.9%	8.9%	12.4%	28%
Medicaid	7.8%	7.8%	7.8%	NM
Medicare Supplemental	13.9%	16.7%	20.8%	29%
Comprehensive Total	7.9%	9.0%	9.9%	19%
Stand-Alone Medicare Part D				
Stand Alone Dental	9.1%	16.3%	18.9%	45%

About the Sherlock Benchmarks and the Blue Cross Blue Shield Universe

These results are excerpted from the Blue Cross Blue Shield edition of the 2015 *Sherlock Expense Evaluation Report*. They are based on our detailed surveys of 2014 operating parameters of 16 Blue Cross Blue Shield Plans. Accordingly, much more information is available by licensing the Sherlock Benchmarks. We hope you will not hesitate to contact us (sherlock@sherlockco.com) if you are interested in licensing these materials or if we can answer any further questions about them or this *Navigator*.

Including all of Sherlock Benchmarks, those published in 2015 will comprise the experience of approximately 700 health plan years. We also have universes of Independent / Provider-Sponsored Plans, Larger Health Plans, Medicare Advantage Plans and Medicaid Plans. Later this month, we will publish results on the Independent / Provider-Sponsored Plans and we will be reporting on the results of other universes in the months that follow.

The Blue universe consists of 47% of all primary licensees of U.S. Blue Cross Blue Shield plans. They represent approximately 55-60% of the membership of single state Blue Cross Blue Shield Plans. Plans participating in Sherlock Benchmarking studies for the Blues served more than 29.2 million people with comprehensive insurance. These Plans also served 6.0 million people under Host relationships, 3.4 million people in Stand-Alone Dental and 447,000 people with Stand-Alone Part D. Of the Comprehensive Members, 23.7 million or 81.4% were commercial, and of those, 51.7% were served under some form of self-insurance arrangement.

Medicare Advantage, offered by 11 Plans, on average comprised 10.5% of their total comprehensive revenues. In five of the Plans, Medicare Advantage comprised 18% or more their total revenues, and in 10 of these Plans, their Medicare Advantage revenues exceeded their historically important Medicare Supplemental revenues. Combining all of this universe's revenues, those from Medicare Advantage are more than twice that of Medicare Supplemental.

Figure 6. Sherlock Benchmark Summary
Blue Cross Blue Shield Costs by Functional Area Cluster, 2014 Data
Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.8%	2.3%	3.4%	41%
Medical and Provider Management	1.0%	1.2%	1.3%	21%
Account and Membership Administration	3.2%	3.7%	4.3%	18%
Corporate Services	1.2%	1.3%	1.6%	28%
Total Expenses	7.9%	9.0%	9.9%	19%

Appendix A. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2013 Data

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$7.29	\$8.09	\$10.15	36%
Medical and Provider Management	3.42	4.05	4.99	27%
Account and Membership Administration	11.02	13.94	15.60	25%
Corporate Services	4.03	4.44	5.85	31%
Total Expenses	\$27.44	\$30.53	\$36.14	24%

Appendix B. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2013 Data

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.8%	2.4%	2.8%	37%
Medical and Provider Management	1.0%	1.1%	1.3%	23%
Account and Membership Administration	3.5%	3.9%	4.5%	19%
Corporate Services	1.2%	1.3%	1.7%	26%
Total Expenses	7.7%	8.7%	10.2%	18%

Appendix C. Sherlock Benchmark Summary

Major Functions Included in Each Administrative Expense Cluster

Sales & Marketing

Rating and Underwriting
Marketing
Sales
External Broker Commissions
Advertising and Promotion

Provider & Medical Management

Provider Network Management and Services
Medical Management / Quality Assurance / Wellness

Account & Membership Administration

Enrollment / Membership / Billing
Customer Services
Claim and Encounter Capture and Adjudication
Information Systems Expenses

Corporate Services

Finance and Accounting
Actuarial
Corporate Services Function
Corporate Executive and Governance
Association Dues and License/Filing Fees