

Plan Management Navigator

Analytics for Health Plan Administration



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BLUE CROSS BLUE SHIELD ADMINISTRATIVE COST TRENDS: COST OPTIMIZATION CONTINUES

Summary

Health plans' focus on cost optimization continued apace in 2015 with modest cost increases for the second year in a row. Account and Membership Administration growth was especially modest, though growth in Medical and Provider Management accelerated.

Background

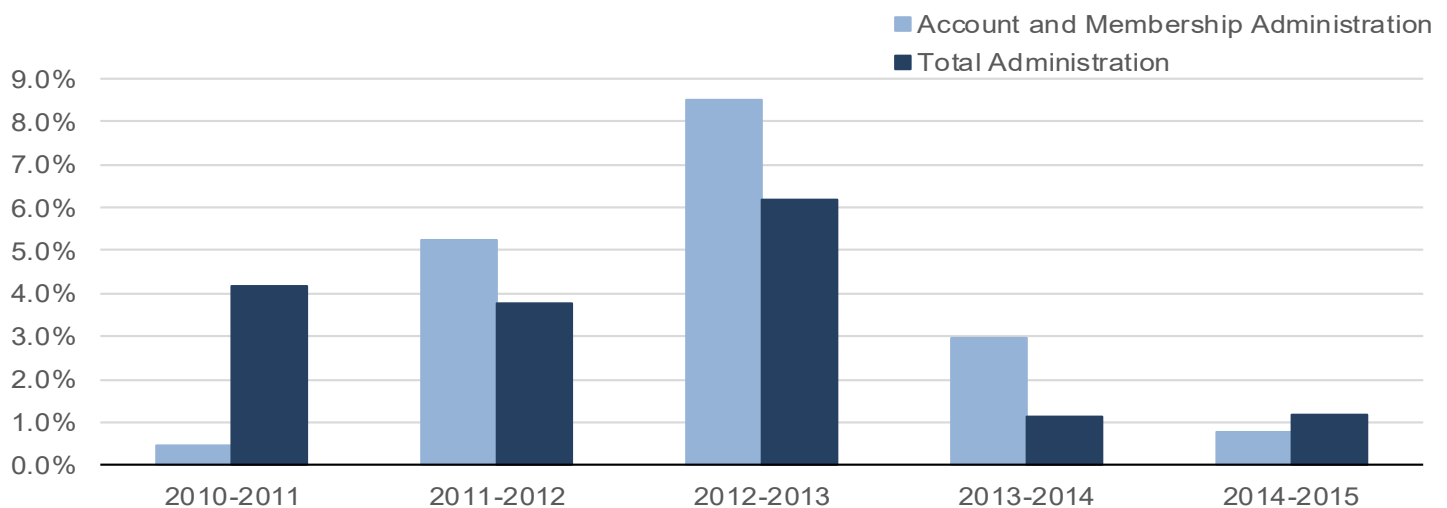
This analysis is based on the nineteenth annual edition of our performance benchmarks for health plans. The Sherlock Benchmarks (*Sherlock Expense Evaluation Report* or *SEER*) represent the cumulative experience of more than 740 health plan years.

Each peer group in the Sherlock Benchmarks was established to be relatively uniform. So, within that constraint, it is open to most Blue Cross Blue Shield plans possessing the ability to compile high-quality, segmented financial and operational data. The peer group universe in this analysis consisted of seventeen Blue Cross Blue Shield Plans, approximately half of all US Primary Licensees of the Blue Cross Blue Shield Association. Thirteen of this year's participants participated in the prior year.

The selected Plans served 45.0 million people with comprehensive health benefits. These Plans also served 27,000 Medicare SNP members, 862,000 members of stand-alone Medicare Part D products and 3.7 million members of Stand-Alone Dental. In

Figure 1. Sherlock Benchmark Summary

Blue Cross Blue Shield Rates of Change for Account and Membership Administration and Total, Constant Mix



addition to these members, collectively, these Plans served 7.4 million additional Blue Cross Blue Shield members through “host” relationships with other Blue Plans.

Within the Comprehensive products, 83.4% was commercial, or 37.5 million. Approximately 21.5 million of the commercial members were served under some form of self-insurance arrangement, comprising approximately 57.3% of the total commercial members.

Medicare Advantage, with 1.1 million members, was offered by 12 Plans. It comprised 2.5% of the combined comprehensive membership and 9.5% of revenues for comprehensive products. With SNP and Stand-Alone Part D, Medicare products comprise 10.8% of total revenues. Medicare Supplement, offered by 16 Plans, comprised 5.6% of members and 4.4% of revenues for comprehensive products. Medicaid HMO, offered by five Plans, comprised 2.6% of membership. FEP comprised 5.9% of total comprehensive members.

We believe the breadth of the universe to be exceptionally strong. Approximately 65% of the Blue members not in publicly-traded Blue Cross Blue Shield Plans are served by Plans in his year’s survey.

Overall Trends

The growth in total administrative expense before Miscellaneous Business was the second lowest in the past eight years. At a 1.2% increase, it is only narrowly higher than last year’s rate of 1.1%. As reported cost trends are sharply lower than last year, 0.3% versus 3.5%. Please see the trends on a constant mix cost trends, shown in Figure 1.

These trends are calculated before the effect of Miscellaneous Business Taxes which includes those related to ACA. On a constant-mix basis, per member Miscellaneous Business Tax costs increased by 17.5% down from the surge of 369.1% last year. These taxes, largely the result of ACA, comprise approximately 17% of total administration. Such costs are essentially nil for ASO/ASC products and range from \$11.00 to \$15.00 for commercial insured products.

Figure 2. Sherlock Benchmark Summary
Blue Cross Blue Shield Median Changes in Per Member Per Month Expenses

Functional Area	2014 Data		2015 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	7.2%	2.0%	-0.6%	1.0%
Medical and Provider Management	3.0%	1.6%	3.6%	3.8%
Account and Membership Administration	1.7%	3.0%	0.4%	0.8%
Corporate Services	-0.7%	-1.4%	0.5%	1.1%
Total Expenses	3.5%	1.1%	0.3%	1.2%

The Account and Membership Administration growth was below average at 0.8% and it is lower than last year's rate of 3.0%, and far lower than the prior year's trends of 8.5%.

References to growth rates hold the universe constant in the comparison years. When we refer to "constant mix" we are calculating rates of change after reweighting to eliminate the effect of product mix differences between the years.

Trends in Expense Clusters

The 2015 costs growth continued to be quite modest. For the 13 continuously participating Plans, per member costs, as reported, grew by 0.3% compared with 3.5% the prior year. Holding the product mix constant, costs grew by 1.2% compared with 1.1% in 2014. Staffing ratios declined – we estimate that, for commercial products, it was 23.3 FTEs per 10,000 members.

The more modest comparison from last year when the change is calculated on a constant mix basis reflects that this universe increasingly emphasized relatively low cost products. Membership in continuous Plans grew at a median rate of 0.4%. But while commercial insured product membership declined by 0.5%, ASO/ASC products increased by 1.6%: ASO products are lower cost to administer. While membership in high cost to administer Medicare Advantage products increased by 13.0% pushing costs higher, membership in low cost to administer Medicaid products increased by 21.8%. (The Medicaid trend is of only one plan: Growth of Medicaid is similar for the universe as a whole, which has five Plans offering this product.) Medicare Supplement also increased, a relatively low cost to administer product. The effect of that mix change in favor of less expensive products is the why the as-reported trends are lower than the constant mix trends. The effect of the mix change is to reduce cost trends by 0.9 percentage points.

A key reason for the more modest growth overall was the increase in the per member costs of Account and Membership Administration. While Information Systems increased at mid-single digit rates, Enrollment costs increased by less than one percent and Claim and Encounter Capture and Adjudication declined. Staffing ratios appeared to have decreased for Information Systems even as they declined for total administration. (All staffing ratios cited in this *Plan Management Navigator* also include imputed outsourced staffing.) Customer Services costs decelerated to a mid-single digit pace, suggesting continued need for Blue Cross Blue Shield Plans to address the dislocations of the Affordable Care Act. Staffing ratios for this function increased.

Medical and Provider Management costs accelerated, both on an as reported and on a constant mix basis. The greatest difference is that Provider Network Management and Services sharply accelerated to rates not matched since 2012. Staffing appears to have increased as well. Medical Management growth was relatively modest. On an as-reported basis, it was the lowest over the past five years, and second lowest on a constant-mix basis. We have been concerned for a number of years that one effect of the MLR rules was to reduce the return on investment in medical management and this trend is consistent with that concern.

Sales and Marketing expenses increased at the lowest rate in the past five years. The fastest growing functional area was Rating and Underwriting. This is notable because the activities in this function include the risk-adjustment activities for Medicare and Medicaid. Advertising expenses were sharply lower. Marketing expenses grew at high single digit rates, compared with essentially flat trends in 2014. Marketing contains product development activities, which could have been a factor in this growth. The rate of growth in Sales and Broker Commissions diminished in 2015.

Corporate Services costs increased compared to a decline in 2014, but the increase was modest. Association Dues and License and File Fees and Actuarial declined. Corporate Services growth was in low single digits. Notably, the smaller areas of Corporate Executive and Governance and Finance and Accounting both spiked. Median staffing ratios did not change in either case suggesting the possibility of greater expenses in enterprise-wide consulting.

While an actual administrative expense, we have not included the effect of Miscellaneous Business Taxes in the trends noted above. The median PMPM cost of this in 2015 is \$6.96 compared with \$0.84 in 2013. These taxes grew at approximately 5% annually prior to the ACA implementation, by 369.1% in 2014 and 17.5% in 2015. It now comprises approximately 17% of total administrative costs.

Figure 3. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2015 Data

Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$7.75	\$8.22	\$10.80	39%
Medical and Provider Management	3.13	4.07	5.00	26%
Account and Membership Administration	11.81	14.89	16.64	24%
Corporate Services	3.99	4.76	6.22	37%
Total Expenses	\$28.04	\$31.00	\$38.26	26%

Costs of Blue Cross Blue Shield Plans, by Cluster, PMPM

Figure 3 shows the values of administrative expenses for all 17 participating Plans. Bear in mind that this universe of Blue Cross Blue Shield Plans are different from that of last year in product mix and in populations. In this section we'll touch on comparisons with the results reported last year, notwithstanding this limitation. The prior year's values are shown in Appendix A.

The actual total PMPM administrative expenses at \$31.00 were lower than last year's values, shown in Appendix A. But as previously mentioned, this in part reflects an industry product mix shift in favor of Medicaid and ASO products. We can't perform a certain comparison between the plans that participate this year and last year since we don't know how the organizations that participated in 2014 performed in 2015. However, *if* one were to assume that the constant mix cost growth *and* the effect of the mix on trend was exactly the same as for the 17 continuously reporting plans, we could estimate that the PMPM cost of last year's universe was approximately six percent higher than this year's.

Note also that the values appear to cluster more. Coefficients of Variation tend to be less, and the differences between 75th and 25th percentile values tend to be less as well.

Because of product and universe mix differences, strict comparisons between the values of last year's strict comparisons are not possible. Also, since each median value is calculated separately (and they are median values after all), the cluster values will not sum to the total. So, while overall administrative expenses were lower, each cluster's expenses were higher, as was the sum of the individual clusters.

Account and Membership Administration was the single greatest cluster of expenses at a median value of \$14.89 and comprised nearly one-half of the total. This helps to explain its high effect on overall trend. The size of this function includes the core activities Information Systems, Enrollment, Claims and Customer Services. Comparing this with last year, the costs were higher and more clustered.

Corporate Services costs were higher PMPM than last year at \$4.76. Activities include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities like facilities, HR and Legal.

Sales and Marketing costs had a median value of \$8.22. Last year's value was \$8.20 so the change loosely comports with the flat to modest growth trend that we saw in Figure 2. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Medical and Provider Management costs per member per month were \$4.07 and higher than last year. This includes Provider Network Management and Services and Medical Management. The former increased while the latter decreased, as previously noted.

Costs of Blue Cross Blue Shield Plans, PMPM by Product

The importance of considering the product cost values is shown in Figure 4. The products vary greatly in their costs it is important to take product mix into consideration when comparing the results of the health plans.

Among the comprehensive products, Medicaid products are relatively low cost, at median PMPM values of \$32.88. Medicare products are relatively high cost at \$84.06 and \$198.93 PMPM for MA and SNP respectively. Note that Medicare Supplement is a relatively low cost product at \$28.06 PMPM. We do not include Medicare SNP in our *calculations* of comprehensive costs for this universe.

Commercial products represent on average 82.8% of the membership. They are both higher and lower than the median comprehensive administrative costs, depending on the financing mechanism.

As a sector, Blue Cross Blue Shield Plans have a heavy commitment to ASO/ASC products, comprising on average 42.3% of comprehensive

Figure 4. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2015 Data

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$39.93	\$42.99	\$51.37	20%
ASO / ASC	\$16.75	\$23.12	\$26.69	32%
Commercial POS				
Insured	\$38.95	\$44.09	\$45.45	18%
ASO / ASC	\$18.67	\$21.36	\$29.44	30%
Indemnity & PPO				
Insured	\$35.18	\$41.02	\$47.94	28%
ASO / ASC	\$19.22	\$23.58	\$26.29	24%
FEP				
	\$18.12	\$22.68	\$25.96	22%
Medicare Advantage				
	\$74.66	\$84.06	\$101.75	22%
Medicaid				
	\$32.21	\$32.88	\$37.55	32%
Medicare Supplement				
	\$24.06	\$28.06	\$37.16	38%
Comprehensive Total	\$28.04	\$31.00	\$38.26	26%
Medicare Advantage SNP				
	\$171.72	\$198.93	\$240.49	33%
Stand-Alone Medicare Part D				
	\$12.19	\$13.94	\$17.81	69%
Stand Alone Dental				
	\$2.00	\$3.34	\$5.07	50%



members. The HMO, POS and Indemnity and PPO designs have costs of \$23.12, \$21.36 and \$23.58, respectively.

Commercial insured commercial products are higher than the median for comprehensive products. The single most important product is Indemnity and PPO at \$41.02. HMO costs \$42.99 while POS costs \$44.09.

Medicaid and ASO products were low cost products that became more important in 2015, while the Medicare products, which also become more important, were relatively high cost. The fact that as-reported values declined more sharply than the constant-mix values says that the growth of the low cost products dominated the trends.

Costs of Blue Cross Blue Shield Plans, Percent of Premiums by Product

The ranking of the percents of premiums somewhat correspond with those of the PMPM costs. Commercial insured products range from 8.9% of premiums to 10.9% of premiums, compared with the median of 8.6%. Medicaid HMO was quite low at 7.3% of premiums, as was FEP at 4.6%.

Figure 5. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2015 Data

Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	8.4%	8.9%	10.0%	23%
ASO / ASC	4.9%	5.2%	6.0%	20%
Commercial POS				
Insured	9.7%	10.8%	11.5%	34%
ASO / ASC	6.0%	6.5%	7.2%	32%
Indemnity & PPO				
Insured	9.5%	10.9%	11.6%	18%
ASO / ASC	5.8%	6.2%	6.7%	17%
FEP				
	4.0%	4.6%	6.3%	41%
Medicare Advantage				
	8.2%	9.1%	13.0%	32%
Medicaid				
	7.1%	7.3%	9.2%	27%
Medicare Supplement				
	12.6%	14.2%	19.3%	31%
Comprehensive Total				
	7.3%	8.6%	9.3%	16%
Medicare Advantage SNP				
	7.6%	10.5%	18.1%	80%
Stand-Alone Medicare Part D				
	5.5%	10.0%	17.2%	53%
Stand Alone Dental				
	9.4%	16.5%	23.7%	54%

MA approximated the ratios of the commercial insured products, at 9.1%. Growth and associated marketing expenses has contributed to higher costs than has historically been the case. Medicare Supplement was high at 14.2%, which we believe to relate to only a subset of health care costs being covered.

Medicare SNP, which we did not group with comprehensive in this universe, was 10.5%. Other products that were not comprehensive, Stand-alone Medicare Part D and Stand Alone Dental, had median ratios of 10.0% and 16.5%, respectively.

The calculations of percents of premiums are based on premium equivalents, that is, fees plus health benefits costs. While this is not in accordance with GAAP, this approach makes these ratios comparable across all the products.

Costs of Blue Cross Blue Shield Plans, by Percents Cluster

Figure 6 shows the ratios of administrative expenses to premiums. As with Figure 5, in the case of ASO/ASC products, we have added health benefit expenses to fees for this product's denominator. Administrative expenses were 8.6% of premiums while last year's equivalent value was 9.0%.

Key products to which this universe shifted were had relatively low administrative costs relative to premiums: Medicaid and ASO.

The declines in the administrative expense ratio was distributed across the cluster values. Sales and Marketing, Medical and Provider Management and Account and Membership Administration were all lower by slightly more than 0.1 percentage point each. Only Corporate Executive and Governance was unchanged.

Figure 6. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2015 Data

Median Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.9%	2.2%	2.4%	35%
Medical and Provider Management	0.9%	1.0%	1.2%	23%
Account and Membership Administration	3.4%	3.6%	4.0%	16%
Corporate Services	1.1%	1.3%	1.7%	23%
Total Expenses	7.3%	8.6%	9.3%	16%

Note on the Sherlock Benchmarks

These results are excerpted from the Blue Cross Blue Shield edition of the 2016 *Sherlock Expense Evaluation Report*. The results are based on our detailed surveys of 2015 operating parameters of 17 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 *Plan Management Navigator*.

Including all of Sherlock Benchmarks, those published in 2015 will comprise the experience of more than 740 health plan years. In addition to the Blue Cross Blue Shield universe, we also survey and report on universes of Independent / Provider – Sponsored Plans, Larger Health Plans, Medicare Advantage Plans and Medicaid Plans. We will be reporting on the results of the other universes in the months that follow.

Appendix A. 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%

Appendix B. 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 C. Sherlock Benchmark Summary

Major Functions Included in Each Administrative Expense Cluster

Sales & Marketing

1. Rating and Underwriting
 - (a) Employer Group Reporting
 - (b) Risk Adjustment
 - (c) All Other Rating and Underwriting
2. Marketing
 - (a) Product Development and Market Research
 - (b) Member and Group Communication
 - (c) Other Marketing
3. Sales
 - (a) Account Services
 - (c) Other Sales
4. External Broker Commissions
5. Advertising and Promotion
 - (a) Media and Advertising
 - (b) Charitable Contributions

Provider & Medical Management

6. Provider Network Management and Services
 - (a) Provider Relations Services
 - (b) Provider Contracting
 - (c) Provider Audit / Billing Validation
 - (d) Other Provider Network Management and Services
7. Medical Management / Quality Assurance / Wellness
 - (a) Precertification
 - (b) Case Management
 - (c) Disease Management
 - (d) Nurse Information Line
 - (e) Health and Wellness
 - (f) Quality Components
 - (g) Medical Informatics
 - (h) Utilization Review
 - (i) Other Medical Management

Account & Membership Administration

8. Enrollment / Membership / Billing
9. Customer Services
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (b) BlueCard Home and Custom Par Fees
 - (c) Medicare Crossover Fees
 - (e) Other Claim and Encounter Capture and Adjudication
11. Information Systems Expenses
 - (a) Operations and Support Services
 - (b) Applications Maintenance
 - (1) Benefit Configuration
 - (2) All Other Applications Maintenance
 - (c) Applications Acquisition and Development
 - (1) Amortization of Developed Software
 - (2) Pre-Planning and Project Costs
 - (d) Security Administration and Enforcement

Corporate Services

12. Finance and Accounting
 - (a) Credit Card Fees
 - (b) All Other Finance and Accounting
13. Actuarial
14. Corporate Services Function
 - (a) Human Resources
 - (b) Legal
 - (1) Compliance
 - (2) Government Affairs
 - (3) All Other Legal
 - (c) Facilities
 - (d) OPEB
 - (e) Audit
 - (f) Purchasing
 - (g) Imaging
 - (h) Printing and Mailroom
 - (i) Other Corporate Services Function
15. Corporate Executive and Governance
16. Association Dues and License/Filing Fees