

# Plan Management Navigator

## *Analytics for Health Plan Administration*



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## INDEPENDENT / PROVIDER - SPONSORED ADMINISTRATIVE COST TRENDS: COST OPTIMIZATION CONTINUES

### *Summary*

Health plans' focus on cost optimization continued apace in 2015 with overall cost declines for the second year in a row. However, unlike in 2014, the focus was a sharp reduction in per member Medical and Provider Management and Corporate Services expenses.

### *Background*

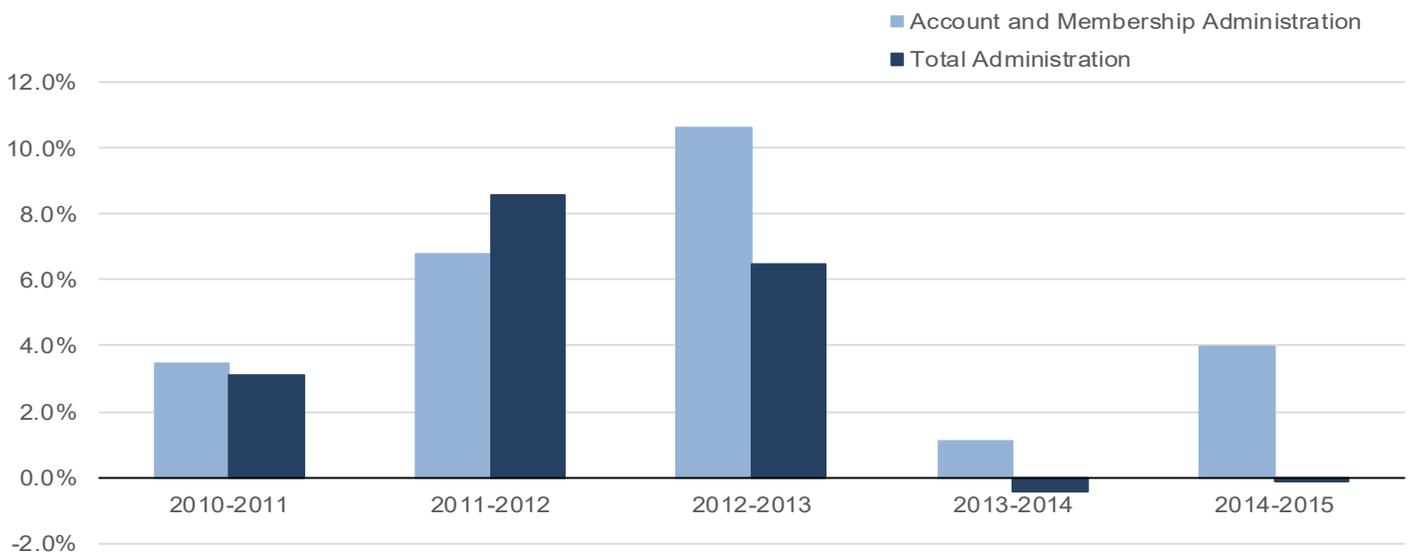
This analysis is based on nineteenth annual edition of the Sherlock Benchmarks for health plans. The Sherlock Benchmarks (*Sherlock Expense Evaluation Report* or *SEER*) represent the cumulative experience of approximately 740 health plan years.

Each peer group in the Sherlock Benchmarks is selected established to be relatively uniform. Within that constraint, it is open to all Independent / Provider-Sponsored plans possessing the ability to compile high-quality segmented financial and operational data. The peer group universe in this analysis consisted of twenty-one Independent / Provider-Sponsored plans, apparently a large proportion. Seventeen of this year's participants participated in the prior year.

The selected plans served 10.9 million people with comprehensive health benefits. These plans also served 103,000 members of stand-alone Medicare Part D products.

**Figure 1. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Rates of Change for Account and Membership Administration and Total, Constant Mix



Within the Comprehensive products, 68.2% of membership was commercial, or 7.4 million. Approximately 2.0 million of the commercial members were served under some form of self-insurance arrangements, comprising approximately 26.9% of the total commercial members.

Medicare Advantage, with 1.3 million members, was offered by 18 Plans. It comprised 12.2% of the combined comprehensive membership and 26.3% of revenues for comprehensive products. Three of the plans offered Medicare Cost to 243,000 members, apparently nearly 40% of this form of health coverage for seniors. Medicare Supplement, offered by 12 plans, comprised 1.7% of members and self-funded fees for comprehensive products. Medicaid HMO, offered by thirteen plans, comprised 17.9% of membership.

We believe that this universe is exceptionally robust because it is comprised of a high proportion of health plans in this sector. Of the 13 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, 11 are participating in this year's Sherlock Benchmarks. Most of the largest members of the Health Plan Alliance that are not focused on public programs are participating in this year's study.

### *Overall Trends*

The growth in total administrative expense before Miscellaneous Business Tax was the second lowest in the past eight years. It is also the second overall decline in a row. This is the case on both an as reported basis and also on a constant mix basis. As shown in Figure 1, total administration declined 0.1% compared to 0.4% last year.

Growth trends are calculated before the effect of Miscellaneous Business Taxes. They are primarily comprised of taxes and fees related to ACA. We omit them because they are not readily manageable by operational managers. On a constant-mix basis, per member costs of these taxes increased by 14.6% down from 922.3% last year.

The Account and Membership Administration was below the historical average at 4.0% but it is also higher than last year's rate of 1.1% on a constant mix basis.

**Figure 2. Sherlock Benchmark Summary**

Independent / Provider-Sponsored 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	-3.3%	-3.4%	1.9%	2.5%
Medical and Provider Management	5.4%	2.3%	-7.2%	-6.1%
Account and Membership Administration	-0.6%	1.1%	5.3%	4.0%
Corporate Services	1.9%	0.6%	-9.5%	-8.0%
<b>Total Expenses</b>	<b>-2.3%</b>	<b>-0.4%</b>	<b>-1.5%</b>	<b>-0.1%</b>

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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. The same health plans are in both comparison years whether on a constant mix or as reported basis.

### *Trends in Expense Clusters*

The 2015 costs continued to decline but at a more modest pace than in 2014. For the 17 continuously participating plans, per member costs as reported declined by 1.5% compared with 2.3% the prior year. Holding the product mix constant, costs declined by 0.1% compared with the 0.4% decline in 2014. Staffing ratios declined – for commercial products we estimate that they were 27.7 FTEs per 10,000 members.

The steeper decline in costs on an as-reported basis versus a constant mix basis is significant. It stems from the fact that this universe increasingly emphasized relatively low cost products. The effect of the mix change is to reduce cost trends by 1.4 percentage points.

Membership in continuous plans grew at a median rate of 4.1%. But while commercial insured product membership declined by 4.0%, ASO products increased by 3.7%: ASO products are lower cost to administer. While membership in high cost to administer Medicare Advantage products increased by 7.9% pushing costs higher, membership in low cost to administer Medicaid products increased by 21.4%.

Notwithstanding the overall declines, there was increase in the per member costs of Account and Membership Administration. While Information Systems spiked at near double digit rates, Claim and Encounter Capture and Adjudication declined. Staffing ratios appeared to have increased 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 grew at a mid-single digit pace, surprising since the chief dislocations of the Affordable Care Act occurred in the prior year.

By contrast, Medical and Provider Management costs were lower, both on an as reported and on a constant mix basis. Medical Management is lower by high single digits while Provider Network Management and Services is higher to a lesser extent. Medical Management is however a much larger function. We have thought for a number of years that one effect of the MLR rules was to reduce the return on investment in medical management and this is consistent with that expected trend. Staffing ratios fell in both functions.

Sales and Marketing expenses increased compared with prior year's results though the growth was still relatively modest compared with most of the prior four years. The fastest growing functional area was Rating and Underwriting. This is notable because this includes the risk-adjustment activities for Medicare and Medicaid. Broker Commissions grew within products that had them but the proportion of those "commissionable" products in the mix declined. All other Sales and Marketing expenses were flat to down.

Corporate Services costs declined, especially in Finance and Accounting and Actuarial. Staffing ratios appeared to decline in both functions.

While an actual administrative expense, we have not included the effect of Miscellaneous Business Taxes in these trends. The median PMPM cost of this in 2015 was \$6.62 compared with \$0.61 in 2013. These taxes grew at a median rate of approximately 7% annually prior to the ACA implementation, by 922.3% in 2014 and 14.6% in 2015. It now comprises approximately 15% of total administrative costs.

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

Figure 3 shows the values of administrative expenses for all 21 participating plans. The values in this figure do not correspond with those in Figure 2 because it includes *all* of the Independent / Provider - Sponsored rather than only the ones participating in both years. 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 \$41.04 were lower than last year's values of \$42.14. 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 cost of last year's universe was less than one percent lower than this year's.

### **Figure 3. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2015 Data

*Per Member Per Month*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Sales and Marketing	\$8.54	\$10.83	\$12.38	36%
Medical and Provider Management	5.51	7.09	7.68	63%
Account and Membership Administration	14.77	17.80	20.00	27%
Corporate Services	5.13	6.58	8.38	32%
<b>Total Expenses</b>	<b>\$37.05</b>	<b>\$41.04</b>	<b>\$50.31</b>	<b>24%</b>

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The only conclusion that can be decisively drawn about the clustering of values is that they became more dispersed in the Medical and Provider Management cluster of expenses. The coefficient of variation expanded by nearly 30 percentage points. This may reveal some differences between the organizations on how to optimize these costs. The heightened dispersions do not appear explainable by being more diverse in their product offerings or by being less focused on managed care products.

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, some of the clusters' 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 \$17.80 and comprised over 40% of the total. This helps to explain its overall effect on trend, overcoming declines in other clusters. 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.

Both Sales and Marketing costs and Corporate Services Costs were lower, PMPM. This year's values were \$10.83 and \$6.58, respectively.

The effect of mix and universe changes are especially notable in Medical Management. While the per member per month value of \$7.09 is higher than last year. But what we know is that, among continuous plans, there is a sharp decline in these expenses.

### *Costs of Independent / Provider – Sponsored Plans, PMPM by Product*

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

Medicare Advantage comprised on average 13.9% of membership in the Independent / Provider – Sponsored health plan universe, and its costs at \$81.21 PMPM, were the second highest. Medicare SNP is the highest cost product at \$132.88 – it comprises 0.3% of comprehensive membership compared. As an aside, Medicare SNP is excluded from the Blue Cross Blue Shield universe. This fact, and Blue's much smaller commitment to Medicare Advantage, makes comparisons between the universe of Independent / Provider – Sponsored health plans and Blue appear more unfavorable.

Medicare Cost comprised 2.4% of membership, on average, and its cost were \$36.71, lower than average.

Medicaid products are relatively low cost, at median PMPM values of \$29.59 and \$29.10 for HMO and CHIP respectively.

Commercial insured products, representing one-half of the membership, are slightly higher than the median total values for the products. The single most important product is HMO at \$47.64. Indemnity and PPO costs about the same while POS costs less. Commercial ASO was the low cost product in plans' portfolio at \$24.14 PMPM.

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 is a reflection of the fact that the growth of the low cost products dominated the trends.

**Figure 4. Sherlock Benchmark Summary**  
Independent / Provider-Sponsored Costs by Product, 2015 Data  
*Per Member Per Month*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
<b>Commercial Insured</b>				
HMO	\$38.61	\$47.64	\$57.64	26%
POS	\$38.21	\$43.20	\$50.33	38%
Indemnity & PPO	\$37.90	\$47.05	\$50.58	29%
Commercial ASO	\$20.32	\$24.14	\$30.20	44%
<b>Medicare</b>				
Advantage	\$73.29	\$81.21	\$87.66	30%
SNP	\$127.35	\$132.88	\$146.32	74%
Cost	\$35.73	\$36.71	\$48.63	33%
<b>Medicaid</b>				
HMO	\$17.97	\$29.59	\$32.78	36%
CHIP	\$18.06	\$29.10	\$36.07	43%
Medicare Supplemental	\$25.33	\$42.55	\$53.50	41%
<b>Comprehensive Total</b>	<b>\$37.05</b>	<b>\$41.04</b>	<b>\$50.31</b>	<b>24%</b>
Stand-Alone Medicare Part D	\$12.53	\$29.57	\$48.67	77%

## *Costs of Independent / Provider-Sponsored Plans, Percent of Premiums by Product*

Rankings of the percents of premium and/or equivalents somewhat correspond with those of the PMPM costs. In the case of ASO products, we have added health benefit expenses to fees for this product's denominator. While this is not a reflection of GAAP, this approach makes these ratios comparable across all the products. Commercial insured products range from 9.2% of premiums to 10.8% of premiums, above average. Medicaid HMO was quite low at 7.5% of premiums.

Medicare SNP and Medicare Cost are higher than average by 10.8% of premiums and 14.1%, respectively. MA approximated the ratios of the commercial insured products, was 9.6%. This was a higher value than last year, due to increased marketing expenses in that product.

**Figure 5. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Costs by Product, 2015 Data  
*Percent of Premium and/or Equivalents*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
<b>Commercial Insured</b>				
HMO	10.1%	10.7%	11.6%	26%
POS	8.3%	9.2%	12.3%	30%
Indemnity & PPO	10.0%	10.8%	13.8%	28%
Commercial ASO	5.3%	5.8%	7.7%	42%
<b>Medicare</b>				
Advantage	7.9%	9.6%	10.6%	35%
SNP	9.7%	10.8%	17.4%	50%
Cost	11.3%	14.1%	14.8%	30%
<b>Medicaid</b>				
HMO	6.9%	7.5%	9.9%	24%
CHIP	11.7%	14.1%	14.7%	31%
Medicare Supplemental	11.6%	17.6%	22.3%	44%
<b>Comprehensive Total</b>	<b>8.6%</b>	<b>8.9%</b>	<b>10.5%</b>	<b>17%</b>
Stand-Alone Medicare Part D	12.3%	15.0%	41.8%	139%

Medicare Supplemental, at 17.6%, Medicare Cost, at 14.1% and Medicaid CHIP expenses at 14.1% are all examples of where the nature of the product is such that health benefit costs are intrinsically low relative to administrative requirements. In the cases of the two senior products, some health services are beyond the scope of their responsibilities. CHIP, by contrast, serves a population that tends to be low cost per service provided, reflecting that there are many children served by this product.

### *Costs of Independent / Provider - Sponsored Plans, by Percents Cluster*

Figure 6 shows the ratios of administrative expenses to premium and/or equivalents. Administrative expenses were 8.9% of premiums and last year's equivalent values were 9.2%.

Mix shift did not appear to have a significant effect on the total percents. But the shift in favor of Medicare Advantage diminished Sales and Marketing expenses as a percent of premiums. The increase in the percent of premiums in Medical and Provider Management arises in part from the commitment to the Medicare Advantage and Medicare SNP.

The decline in the percent of premiums and/or equivalents in Corporate Services follows from the sharp decline in their costs, shown in Figure 2.

#### **Figure 6. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2015 Data  
*Percent of Premium and/or Equivalents*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Sales and Marketing	2.0%	2.3%	3.0%	34%
Medical and Provider Management	1.3%	1.5%	1.7%	52%
Account and Membership Administration	3.3%	3.8%	4.8%	24%
Corporate Services	1.7%	2.1%	2.4%	28%
<b>Total Expenses</b>	<b>8.6%</b>	<b>8.9%</b>	<b>10.5%</b>	<b>17%</b>

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## *Note on the Sherlock Benchmarks*

These results are excerpted from the Independent / Provider - Sponsored edition of the 2016 *Sherlock Expense Evaluation Report*. The results are based on our detailed surveys of 2015 operating parameters of 21 Independent / Provider - Sponsored plans. Accordingly much more information is available by licensing the Sherlock Benchmarks. We hope you will not hesitate to contact us ([sherlock@sherlockco.com](mailto: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 2016 will comprise the experience of more than 740 health plan years. In addition to the Independent / Provider-Sponsored universe, we also survey and report on universes of Larger Health Plans, Medicare Advantage Plans and Medicaid Plans. We summarized the results of the Blue Cross Blue Shield universe two weeks ago. We will be reporting on the results of the other universes in the months that follow.

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### **Appendix A. Sherlock Benchmark Summary**

#### Independent / Provider-Sponsored Costs by Functional Area Cluster, 2014 Data

*Per Member Per Month*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Sales and Marketing	\$9.08	\$11.49	\$11.92	34%
Medical and Provider Management	5.34	6.48	8.85	34%
Account and Membership Administration	13.39	16.03	18.77	39%
Corporate Services	5.23	6.70	8.01	31%
<b>Total Expenses</b>	<b>\$33.82</b>	<b>\$42.14</b>	<b>\$45.81</b>	<b>27%</b>

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### **Appendix B. Sherlock Benchmark Summary**

#### Independent / Provider-Sponsored Costs by Functional Area Cluster, 2014 Data

*Percent of Premium and/or Equivalent*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Sales and Marketing	2.2%	2.5%	2.9%	34%
Medical and Provider Management	1.3%	1.4%	2.0%	29%
Account and Membership Administration	3.1%	3.7%	4.5%	30%
Corporate Services	2.0%	2.3%	2.7%	28%
<b>Total Expenses</b>	<b>8.4%</b>	<b>9.2%</b>	<b>10.5%</b>	<b>20%</b>

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## **Appendix C. Sherlock Benchmark Summary**

### **Major Functions Included in Each Administrative Expense Cluster**

#### **Sales & Marketing**

1. Rating and Underwriting
  - (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
  - (b) Internal Sales Commissions
  - (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
  - (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
  - (a) Enrollment and Membership
  - (b) Billing
9. Customer Services
  - (a) Member Services
  - (b) Printed Materials and Other
10. Claim and Encounter Capture and Adjudication
  - (a) Coordination of Benefits (COB) and Subrogation
  - (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
  - (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
    - (3) All Other Legal
  - (c) Facilities
  - (e) Audit
  - (f) Purchasing
  - (g) Imaging
  - (h) Printing and Mailroom
  - (i) Risk Management
  - (j) Other Corporate Services Function
15. Corporate Executive and Governance
16. Association Dues and License/Filing Fees