

Plan Management Navigator

Analytics for Health Plan Administration



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INDEPENDENT/PROVIDER-SPONSORED BENCHMARKS: 2013 IS THE BASELINE YEAR

Costs increase by 6.5% due to Information Systems, Medical Management and Advertising and Promotion

2013 is the Baseline Year

The 2014 Sherlock Benchmarks reflect the first effects of the Affordable Care Act. While no membership had yet enrolled through the state or federal exchanges, Independent/Provider-Sponsored plans nevertheless incurred its costs.

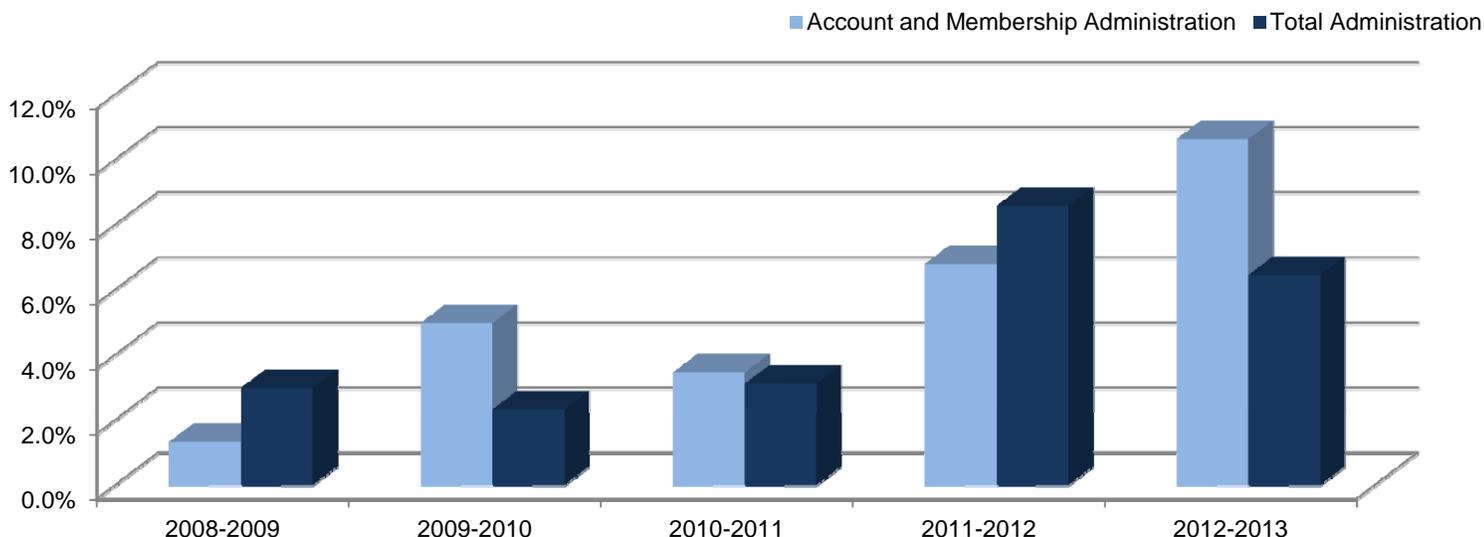
Some of these costs have been characterized by one participating plan as “bulge” costs. That is, they reflected one-time costs to assist customers in understanding products sold through exchanges. Examples may include higher Customer Services costs and Advertising and Promotion costs.

Costs were also higher to develop new products and prepare the infrastructure for the reformed market of the Affordable Care Act. These “adaptation” costs included increases in Actuarial and Information Systems.

Since these drivers are (hopefully) unique, and cost optimization will inevitably be a priority because of market and ACA-related MLR rules, we think that this year’s results may in the future be viewed as an inflection point. Accordingly, the 2013 results will be considered the baseline costs for Independent / Provider-Sponsored health insurers in future comparisons.

Figure 1. Sherlock Benchmark Summary

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



The cost increase is readily apparent. Figure 1 shows that the administrative cost trends for participating Independent/Provider-Sponsored plans as reflected in the 2014 Sherlock Benchmarking Study. Rates of growth were 6.5% PMPM for total expenses (in dark blue). While lower than last year, this is a higher rate of increase compared with the average of the previous four years.

Account and Membership Administration (in light blue) surged by 10.6%, 59% higher than last year and far higher than the three years preceding. Both of these comparisons should be understood as “real” increases. That is, they eliminate the effect of changes in the product mix such as the continuing growth of Medicaid in the product portfolios of these health plans.

So, what happened?

The 2014 Sherlock Benchmarks for Independent/Provider-Sponsored Plans (also called *Sherlock Expense Evaluation Report* or *SEER*) reflect the "bulge" and "adaptation" drivers noted above. These increases, summarized in this section, reflect PMPM increases and costs stemming from membership whose care and administrative needs changed over the periods. Overall as-reported costs increased by 6.8% down from 7.1% last year. Pharmacy, Mental Health and ICD-10 expenses are included as part of the total expenses in this article's presentation.

For convenience of analysis, we group various functional areas into clusters, and standardize for the size of the health plans by expressing expenses on a per member basis. Clusters are comprised of functions listed, without subcategories, in Appendix C. All rate of change are calculated using plans that have participated during both comparison years. All values exclude investment and non-operating income and expense, income taxes and miscellaneous business taxes.

Figure 2. Sherlock Benchmark Summary
Independent/Provider-Sponsored Median Changes in Per Member Per Month Expenses

Functional Area	2012 Percent Change		2013 Percent Change	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales & Marketing	5.5%	8.2%	2.8%	4.4%
Provider & Medical Management	1.9%	5.1%	7.0%	3.3%
Account & Membership Administration	7.6%	6.8%	7.5%	10.6%
Corporate Services	8.8%	9.7%	-0.3%	0.6%
Total Expenses	7.1%	8.6%	6.8%	6.5%

Account and Membership Administration increased by 7.5%. This was approximately the same as last year, as well as the year before. Every functional area in this cluster except Information Systems had a higher rate of growth. Information Systems cost growth was below last year and the year before, though its growth was in double-digits in each of the past three years. Customer Service cost growth and Claims processing cost growth were each the fastest in the past five years. Enrollment declined, but it was a smaller decline than last year. Decline in rate of growth in mental health, pharmacy, and ICD-10 expenses muted growth trends.

Provider and Medical Management cost trends were much higher than last year, 7.0% versus 1.9% in the prior year. This sharp acceleration stemmed from growth rates higher than the overall trend for Medical Management. By contrast, there was nearly no growth in Provider Network Management and Services.

Corporate Services costs declined by 0.3 percent with Corporate Executive and Governance, which posted a double-digit decline in costs, responsible for most of the change. This function includes management consulting expenses that are not specific to any particular function. The Corporate Services function also declined. However, both Finance and Actuarial grew at double-digit rates.

Sales and Marketing increased by only 2.8%, approximately one-half of the rate of increase of the prior year. This was largely due to trends in Commissions and Advertising, the first and fourth largest functions respectively, which had very modest single digit growth. However, Rating and Underwriting and Marketing soared at double digit rates. Sales growth was below the overall trend.

Most Plans grew and, while several of the Plans had sharp declines, the mean membership growth rate for continuously participating plans was 6.4%. While membership in commercial products was effectively flat, it grew in ASO as insured membership declined. Medicare continued to grow and Medicaid growth was especially strong.

Setting aside mix, what happened?

On a constant mix basis, total administrative costs grew by 6.5%, a decline from 8.6% last year. We consider the constant mix increase to be the “real” increase in costs. (We calculate this as the differences between last year’s costs weighted by this year’s product mix for continuously participating plans. This procedure eliminates mix differences from trends.) All cluster growth declined except for Account and Membership administration which sharply accelerated.

As previously noted, the plans enjoyed membership growth particularly in Medicaid. Also, commercial shifted towards ASO.

Because the mix of resource requirements for each product differs, the overall similarity in cost trends, 6.5% compared with 6.8% as reported, obscures sharply different trends in cluster expenses.

Commercial membership was effectively flat. While ASO membership increased by 3.5%, Insured membership was essentially unchanged. The bellwether HMO product posted a decline in membership. As a result, the proportion of membership in continuous plans that was commercial declined by 4.7 percentage point to 69.8%. Medicare Advantage increased at an average rate of 9.0% and while only a few plans offered Medicare SNP, membership grew by 18.7%. Medicaid growth was the most significant factor in the changing mix of these organizations. Among continuously participating plans, mean membership in this product increased from 12.4% of the total in 2012 to 16.5% in 2013.

Accordingly, Sales and Marketing expenses are much higher 4.4% versus 2.8% on an as reported basis since the effect of Medicaid, whose marketing is often restricted, is backed out of the trend. While on an as-reported basis Advertising and Promotion was flat, assuming the same product mix in both years reveals a growth in high double-digits.

The effect of changing mix on Medical and Provider Management trend goes the other way since this is a higher priority for Medicaid products. So growth in this cluster of expenses is much slower. Costs increased by 3.3% in 2013 versus 5.1% in 2012. Provider and Network Management posted the slowest growth in five years, half of 2012 rate of increase. Medical Management growth was lower than either 2011 and 2012.

The trend in Account and Membership Administration is considerably higher when the effects of product mix are removed. The increase was 10.6% compared with 6.8% last year. Also, the rate of growth was the highest in the past five years. Since the Affordable Care Act affected commercial insured products in particular, many of the budget and adaptation costs are more visible once the effect of mix change is removed. Information Systems and Claims grew at approximately the same double-digit rates and Customer Services increased at slightly less than the overall trend. This is the third consecutive year of double-digit increases in IS. Enrollment costs declined for the second year in a row.

The effect of mix on the growth of Corporate Services was less significant. Growth of 0.6% was sharply lower in 2013 than 2012's rate of 9.7%. Sharp decline in the rate of growth was mainly due to actual decline in Corporate Executive and Governance costs. Every functional area, including the function of Corporate Services, declined in its rate of growth, except Finance and Accounting. Finance and Accounting increased by high double-digit rates and Actuarial increased at a pace similar to that of Account and Membership Administration.

Administrative Expenses for Independent/Provider-Sponsored Plans were \$38.59

The costs to administer comprehensive products for Independent/Provider-Sponsored Plans was \$38.59, essentially the same as last year's reported costs of \$38.42. Last year's values are shown in Appendix A.

The two sets of numbers are not perfectly comparable. In the first place, while both

universes contain 16 plans, four of the Plans turned over, so that 66% of the plans were the same as last year. Second, the shift in favor of Medicaid in the product portfolios of these plans reduced their average reported total costs. When comparing the same plans in the same year, the plans that participated this year typically had lower costs than those participating last year.

Because of some comparability exists, some of the earlier comments are paralleled when the comparing the values over the two years. Most notably, Account and Membership costs were much higher, corresponding with the high rate of increase in constant-mix changes. Corporate Services, which had effectively no increase in cost PMPM, was substantially the same as last year's values for that cluster. The clusters of Provider and Medical Management and Sales and Marketing both grew relatively modestly in 2013 on a constant mix basis, and their values for 2013 are lower than reported last year.

Unlike the Blue Cross Blue Shield plans, the Independent / Provider - Sponsored plan universe had slightly greater dispersion in cost values. So, while the Coefficient of Variation was 25.7% in 2012, it was 27.7% in 2013. Sales and Marketing and Account and Membership Administration expanded, though Provider and Medical Management contracted.

Similarly, the differences between the 75th percentile and the 25th percentile

Figure 3. Sherlock Sherlock Benchmark Summary
Independent/Provider-Sponsored Costs by Functional Area Cluster, 2013 Data
Per Member Per Month

Functional Area	25th Percentile	75th Percentile	Median	Coefficient of Variation
Sales & Marketing	\$8.78	\$12.87	\$10.80	31.5%
Provider & Medical Management	5.37	7.84	6.38	31.1%
Account & Membership Administration	11.23	18.32	15.29	43.7%
Corporate Services	4.87	8.22	6.16	32.1%
Total Expenses	\$32.12	\$48.58	\$38.59	27.7%

values also increased slightly. The difference in these percentiles for Total costs increased by \$1.00. Sales and Marketing increased by \$0.57 and Corporate Services increased by \$0.67. By contrast, the Account and Membership Administration difference in percentiles declined by \$0.78 and those of Provider and Medical Management diminished by \$1.20.

Administrative Costs in Each Product Maintained Their Relative Relationships

The Independent/Provider-Sponsored plans that participated in the Sherlock Benchmarking study offered products in 2013 that maintained, directionally, their historic cost relationships with one another. Insured products were more expensive to administer than ASO products, Medicaid cost less than commercial insured products and Medicare cost twice the per member costs of the closest commercial equivalent, Commercial HMO Insured. By far the most expensive product was Medicare SNP which was nearly double the costs of the Medicare Advantage product.

Differences narrowed between ASO and Insured Commercial products. The average cost of insured products was \$20.03 higher than ASO, compared with \$25.10. The ratio of ASO to the costs of the average insured product was 52%, down from 57% last year. This compression was largely due to the median cost of the ASO product increasing by nearly 20% between the two measurement years. The percent of members served by this product declined by 4.4 percentage points to 19.5%.

Figure 4. Sherlock Benchmark Summary
Independent/Provider-Sponsored Costs by Product, 2013 Data
Per Member Per Month

Product	25th Percentile	75th Percentile	Median	Coefficient of Variation
Commercial Insured				
HMO	\$33.13	\$46.71	\$38.86	22.9%
POS	\$30.33	\$48.34	\$39.05	35.4%
Indemnity & PPO	\$37.96	\$52.39	\$47.08	26.1%
Commercial ASO	\$18.47	\$21.95	\$21.63	25.4%
Medicare Supplemental	\$27.95	\$53.82	\$37.59	48.2%
Medicare				
Advantage	\$70.47	\$104.06	\$75.40	64.1%
SNP	\$118.53	\$144.80	\$139.35	33.4%
Cost	\$38.02	\$49.45	\$43.73	37.0%
Medicaid				
HMO	\$18.67	\$36.74	\$32.56	42.0%
Child Buy-In	\$14.84	\$59.72	\$23.29	79.7%
Comprehensive Total	\$32.12	\$48.58	\$38.59	27.7%
Stand-Alone Medicare Part D	\$10.57	\$25.87	\$13.21	82.3%

Other significant product mix changes included a 1.3 percentage point increase in Medicaid to 14.2%, and a remarkable 2.2 percentage point increase in Medicare Supplemental products to 2.8%. Total Medicare remained approximately the same. Insured commercial membership share increased as ASO declined.

Administrative Expense for Independent/Provider-Sponsored plans was 9.7% of Premiums

Overall the administrative expenses increased by 1.0 percentage points as a percent of premiums and equivalents to 9.7%, compared with 8.7% last year. Of the total difference, we estimate that 0.7 percentage points related to changes in business mix. Much of the shift was in favor of high administrative expense ratio products. There was a nearly 7 percentage point increase in the proportion of membership that is Indemnity and PPO to 23.0%. Medicare Supplemental increased by 2.4 percentage points to 2.8%, and Child Buy-in, a product we did not capture last year, comprised 0.4% of members.

All of these products had higher than average administrative expense ratios. The Administrative Expense ratios for commercial insured had a weighted average ratio of 11.7%, Medicare Supplemental was 20.9%, Child Buy-in had administrative expenses of 16.2% of premiums.

The balance of the change in administrative expense ratios was due to changes in ratios within products. In particular, Commercial Insured increased by 0.4

Figure 5. Sherlock Benchmark Summary
 Independent/Provider-Sponsored Costs by Product, 2013 Data
 Percent of Premium Equivalents

Product	25th Percentile	75th Percentile	Median	Coefficient of Variation
Commercial Insured				
HMO	9.1%	11.0%	10.3%	14.1%
POS	8.6%	12.1%	9.2%	30.5%
Indemnity & PPO	12.3%	15.2%	13.8%	22.2%
Commercial ASO	5.4%	6.6%	5.9%	22.6%
Medicare Supplemental	14.8%	27.6%	20.9%	69.5%
Medicare				
Advantage	7.7%	10.8%	8.5%	87.8%
SNP	7.4%	10.0%	9.2%	39.1%
Cost	11.7%	11.9%	11.8%	2.9%
Medicaid				
HMO	7.2%	10.0%	8.8%	25.3%
Child Buy-In	10.9%	33.4%	16.2%	61.5%
Comprehensive Total	8.5%	10.6%	9.7%	21.7%
Stand-Alone Medicare Part D	9.4%	15.5%	14.2%	54.2%

percentage points, ASO increased by 0.7 percentage points, and Medicare SNP increased by 0.3 percentage points.

Of the twelve continuously participating plans, five had administrative expense ratios that worsened in most products and overall, while five had ratios that improved in most products and overall. Two were flat in most products but worse overall.

The Composition of Expenses also Shifted

As previously noted, administrative expenses increased one percentage point relative to premiums to 9.7%. (Last year's results are in Appendix B.) The largest factor in plans' sharp increase was the percent of premiums devoted to Sales and Marketing, followed by Provider and Medical Management. Account and Membership also increased sharply as a percent and Corporate Services also did to a slight degree.

Besides the obvious role of the change in the universe of one-third of the plans, part of the difference stems from mix changes. That greater mix of Medicare and Medicaid is a factor in the higher Provider and Medical Management is also indicated relatively high growth on an as reported basis as compared with the constant mix changes. The essentially flat Corporate Services somewhat meshes with the modest role that it plays in the overall increase in the administrative expense ratio. The sharp increase in Account and Membership Administration costs, to 3.7% of premiums, reflects its rapid growth.

About the Sherlock Benchmarks and the Independent/Provider-Sponsored Universe

These results are excerpted from the Independent/Provider-Sponsored edition of the 2014 *Sherlock Expense Evaluation Report*.

Figure 6. Sherlock Benchmark Summary
 Independent/Provider-Sponsored Costs by Functional Area Cluster, 2013 Data
 Percent of Premium Equivalents

Functional Area	25th Percentile	75th Percentile	Median	Coefficient of Variation
Sales & Marketing	3.1%	4.6%	4.0%	40.6%
Provider & Medical Management	2.1%	2.5%	2.2%	13.8%
Account & Membership Administration	3.0%	4.9%	3.7%	35.7%
Corporate Services	1.2%	1.9%	1.6%	28.1%
Total Expenses	8.5%	10.6%	9.7%	21.7%

The results are based on our detailed surveys of 2013 operating parameters of 16 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) if you are interested in licensing these materials or if we can answer any further questions.

Including all of our benchmarks, those published in 2014 will comprise the experience of approximately 660 health plan years. In addition to the Independent / Provider - Sponsored plans, we also have universes of Blue Cross Blue Shield Plans, Larger Health Plans, Medicare Advantage Plans and Medicaid Plans. Earlier this month, we published results on the Blue Cross Blue Shield Plans and we will be reporting on the results of other universes in the months that follow.

The Independent/Provider-Sponsored universe consists of 16 plans with an average membership of 473,000 members. There are probably in the neighborhood of 100 provider-sponsored health plans, but most are small, so we believe that we enjoy the participation of a high proportion of the members served by such organizations. Nine of the 16 are owned by health systems. Four more have a strong provider presence such as board membership or as founders. The remaining three are community based. All of the plans are local and, for the most part, their focus has been on managed care products.

Independent/Provider-Sponsored health plans are especially interesting in today's environment because of initiatives through health care reform to encourage, in the words of CMS "coordinated high quality care." Media accounts suggest a recent acceleration of growth in this sector of the health plan industry. A parallel non-insurance model involving similar administrative activities and incentives are Accountable Care Organizations. Coordination of care is uniquely feasible for health plans that integrate doctors and hospitals because of their close relationship with the member.

Plans participating in this universe of the Sherlock Benchmarking studies served 7.6 million people with comprehensive insurance, of which approximately 1.1 million or 71% were commercial. Of the commercial members, 20% were served under a self-insurance arrangement. Medicare products, offered by 8 Plans, comprised 12% of their total comprehensive membership. Medicaid comprised 16% of total membership.

Appendix A. Sherlock Benchmark Summary

Independent/Provider-Sponsored Costs by Functional Area Cluster, 2012 Data

Per Member Per Month

Functional Area	25th Percentile	75th Percentile	Median	Coefficient of Variation
Sales & Marketing	\$8.95	\$12.48	\$11.33	29.7%
Provider & Medical Management	4.72	8.39	6.41	32.9%
Account & Membership Administration	9.83	17.70	12.49	40.9%
Corporate Services	4.77	7.45	6.14	39.5%
Total Expenses	\$28.76	\$44.21	\$38.42	25.7%

Appendix B. Sherlock Benchmark Summary

Independent/Provider-Sponsored Costs by Functional Area Cluster, 2012 Data

Percent of Premium Equivalents

Functional Area	25th Percentile	75th Percentile	Median	Coefficient of Variation
Sales & Marketing	2.3%	3.1%	2.6%	27.7%
Provider & Medical Management	1.2%	1.8%	1.6%	23.3%
Account & Membership Administration	2.6%	4.0%	3.3%	32.8%
Corporate Services	1.2%	1.8%	1.5%	33.7%
Total Expenses	8.3%	10.0%	8.7%	16.5%

Appendix C. Sherlock Benchmark Summary

Functions Included in Each Administrative Expense Cluster

Sales & Marketing

Rating and Underwriting
Marketing
Sales
Commissions (external)
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
Total Information System Expenditures (as expensed)

Corporate Services

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