

# Plan Management Navigator

## *Analytics for Health Plan Administration*



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## LARGER HEALTH PLANS - INDICATIONS OF SCALE

### *Summary*

This *Plan Management Navigator* is focused on a subset of larger Blue Cross Blue Shield Plans (“Larger Plans”) that are almost three times larger than the other smaller plans in the Blue Cross Blue Shield universe. Larger Plans’ administrative expenses were \$0.60 PMPM lower than the other Blue Cross Blue Shield Plans (“Smaller Plans”), at the Larger Plan mix. At the product-mix of the Smaller Plans, however, Larger Plans were higher by \$1.14 PMPM, or by 3.4%.

The cost similarities masked some differences. In general, Larger Plans had lower Corporate Services expenses and higher Sales and Marketing expenses.

This comparison bears on economies of scale, which we will analyze in depth in the December *Plan Management Navigator*.

### *Background*

This analysis is based on the Larger Plans edition of the 2016 Sherlock Benchmarks, as well as the results from the information populating the Blue Cross Blue Shield edition. Both reflect 2015 fiscal year data. The Larger Plans edition is comprised of the five largest Blue Cross Blue Shield Plans, collectively serving more than 28.6 million people with comprehensive health benefits. Of those 28.6 million in comprehensive products, about 24.3 million people were enrolled in Commercial products with 59%, or 14.3 million served under a self-funded arrangement.

The Larger Plans served over 707,000 Medicare Advantage members, or 3% of the median product-mix, and 1.8 million with Medicare Supplement, or 5%. The median product-mix in Medicaid HMO was less than 1% with over 335,000 members. FEP comprised 5% of the Larger Plan mix with Plans collectively serving about 1.5 million people.

### **Figure 1. Sherlock Benchmark Summary**

Larger Plans 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	\$7.91	\$8.14	\$11.86	53%
Medical and Provider Management	2.71	4.23	4.42	26%
Account and Membership Administration	13.54	15.19	16.64	25%
Corporate Services	4.03	4.99	5.42	21%
<b>Total Expenses</b>	<b>\$28.04</b>	<b>\$33.77</b>	<b>\$36.95</b>	<b>29%</b>

The Larger Plans also served 508,000 Medicare Stand-Alone Part D, 1.4 million in Stand-Alone Dental, and 4.9 million additional Blue Cross Blue Shield members under “host” relationships with other Blue Plans. The five plans in the Larger Plans universe serve members residing in eleven states.

Details on the twelve similar Blue Plans to which the Larger Plans are compared are shown later in this Navigator. The two Blue Plan sets are compared in Figure 7.

### *Costs of Larger Plans by Cluster, PMPM and Percents*

Figure 1, on page 1, displays the administrative expenses for the Larger Plans universe. Compared to the Smaller Plans, seen in Appendix A, Larger Plans’ median PMPM Sales and Marketing costs at \$8.14 were lower by 3.5%. The unadjusted cost advantage, however, disappeared for the Larger Plans in Medical and Provider Management, Account and Membership Administration, Corporate Services, and Total Expenses. For Medical and Provider Management, Larger Plans posted a median at \$4.23 and were \$0.25 PMPM higher, or by 6.2%. Account and Membership Administration expenses were higher by 6.3% at \$15.19 PMPM, while Corporate Services cluster expenses were higher by \$0.33 PMPM, or 7.1% at \$4.99. Total expenses of \$33.77 PMPM for Larger Plans were \$3.36 PMPM higher than their Smaller Plan counterparts. The functions included in each cluster are shown in Appendix C.

Median values are calculated separately (and they are median values after all), the cluster values will not sum to the total. Note that product-mix differences influence administrative cost performance. We’ll touch on this later in Figures 5 and 6.

On a percent of premium and / or premium equivalent basis, Sales and Marketing for Larger Plans was 2.2%, 0.1 percentage points higher than their Smaller Peers, while Medical and Provider Management was 1.0%, 0.1 percentage points lower. Account and Membership Administration was 3.9% and was 0.1 percentage points higher, while Corporate Services cluster equaled the Smaller Plans at 1.3%. Total expenses were 0.4 percentage points higher for Larger Plans at 9.0%.

**Figure 2. Sherlock Benchmark Summary**  
 Larger Plans Costs by Functional Area Cluster, 2015 Data  
 Percent of Premium Equivalents

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Sales and Marketing	2.2%	2.2%	3.6%	48%
Medical and Provider Management	0.8%	1.0%	1.2%	25%
Account and Membership Administration	3.4%	3.9%	4.3%	19%
Corporate Services	1.2%	1.3%	1.6%	21%
<b>Total Expenses</b>	<b>7.3%</b>	<b>9.0%</b>	<b>10.1%</b>	<b>23%</b>

### Costs of Larger Plans by Product, PMPM and Percents

Shown in Figure 3 are product costs values for the Larger Plans universe.

Medicare Supplement is a low cost product at \$24.28 PMPM. Conversely, Medicare Advantage is a relatively high cost product at \$77.54 PMPM.

Among Commercial Insured products, Commercial POS Insured was highest at \$50.90 PMPM, while Indemnity and PPO followed at \$47.71 PMPM and Commercial HMO was \$42.99 PMPM. Under Commercial ASO / ASC products, Indemnity and PPO ASO / ASC was \$21.42 PMPM, Commercial POS ASO / ASC was \$21.36 PMPM, and Commercial HMO ASO / ASC was \$17.99 PMPM. Median FEP administrative expenses were \$20.59 PMPM. Comprehensive total expenses for Larger Plans was \$33.77 PMPM.

While not included in comprehensive products, Medicare Advantage SNP is a high cost product at \$198.93 PMPM. Stand-Alone Medicare Part D was \$20.32 PMPM, while Stand Alone Dental products had a median of \$4.14 PMPM. Both products are also excluded from Comprehensive Total.

**Figure 3. Sherlock Benchmark Summary**  
Larger Plans Costs by Product, 2015 Data  
Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
<b>Commercial HMO</b>				
Insured	\$36.45	\$42.99	\$46.61	25%
ASO / ASC	\$15.43	\$17.99	\$20.56	40%
<b>Commercial POS</b>				
Insured	\$46.17	\$50.90	\$55.63	26%
ASO / ASC	\$21.36	\$21.36	\$21.36	NM
<b>Indemnity &amp; PPO</b>				
Insured	\$41.02	\$47.71	\$47.94	26%
ASO / ASC	\$21.29	\$21.42	\$26.29	18%
FEP	\$20.41	\$20.59	\$26.07	29%
Medicare Advantage	\$66.02	\$77.54	\$102.05	25%
Medicaid HMO	\$50.93	\$50.93	\$50.93	NM
Medicare Supplement	\$23.41	\$24.28	\$36.01	42%
<b>Comprehensive Total</b>	<b>\$28.04</b>	<b>\$33.77</b>	<b>\$36.95</b>	<b>29%</b>
Medicare Advantage SNP	\$198.93	\$198.93	\$198.93	NM
Stand-Alone Medicare Part D	\$17.00	\$20.32	\$29.69	68%
Stand Alone Dental	\$2.87	\$4.14	\$5.41	61%

Comprehensive total administrative expenses on a percent of premium basis was 9.0%. Contrasting to PMPM results, Medicare Advantage at 8.7% of premiums was lower than Medicare Supplement at 18.2%. Administration for Medicaid HMO was 12.3% of premium.

Commercial Insured products ranged from 8.1% of premiums for Commercial Insured HMO to 14.5% for Commercial Insured POS with Indemnity and PPO Insured at 11.7%. Meanwhile, commercial self-insured products on a premium equivalents basis ranged from 4.3% for Commercial HMO ASO / ASC to 11.2% for Commercial POS ASO / ASC. Indemnity and PPO ASO / ASC was 6.0%. Meanwhile, FEP was at 4.5% of premiums. (Our calculation of premium equivalents are fees plus health benefit costs. Converting self-funded products to a premium equivalents basis makes ratios across self-insured and fully-insured products comparable.)

For products not included in Comprehensive total, Medicare SNP was 10.5% of premiums, while Stand-Alone Medicare Part D was 10.3% and Stand Alone Dental was 15.5%.

**Figure 4. Sherlock Benchmark Summary**  
Larger Plans Costs by Product, 2015 Data  
*Percent of Premium Equivalents*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
<b>Commercial HMO</b>				
Insured	7.6%	8.1%	9.6%	24%
ASO / ASC	3.9%	4.3%	4.6%	22%
<b>Commercial POS</b>				
Insured	12.2%	14.5%	16.8%	45%
ASO / ASC	11.2%	11.2%	11.2%	NM
<b>Indemnity &amp; PPO</b>				
Insured	9.9%	11.7%	12.1%	22%
ASO / ASC	5.4%	6.0%	7.7%	27%
FEP	4.0%	4.5%	6.5%	40%
Medicare Advantage	8.3%	8.7%	14.0%	34%
Medicaid HMO	12.3%	12.3%	12.3%	NM
Medicare Supplement	12.5%	18.2%	19.4%	33%
<b>Comprehensive Total</b>	7.3%	9.0%	10.1%	23%
Medicare Advantage SNP	10.5%	10.5%	10.5%	NM
Stand-Alone Medicare Part D	5.3%	10.3%	17.1%	70%
Stand Alone Dental	12.6%	15.5%	18.3%	37%

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## Comparing Larger Plans and Smaller Blue Cross Blue Shield Plans

### Adjusting for Product-Mix

As shown in Figure 3, differences in cost can be quite pronounced between products. For example, PMPM administrative costs for self-funded Commercial ASO / ASC products are about a quarter of the administrative costs for Medicare Advantage. This difference between the administration of products can lead to significant differences in apparent cost performance. Health plans (or in this case, universes) with a greater emphasis in Medicare Advantage would expect higher PMPM costs compared to a health plan with a concentration in Commercial or Medicaid products. Therefore, in Figure 5 we adjust the Smaller Plans by multiplying the product mean by the proportion of the Larger Plan product-mix that each product represents and summing up the values for a weighted average. For Figure 6, we use the same methodology to adjust the Larger Plans by the Smaller Plans' product-mix. The differences in average product-mix can be seen in Figure 7.

Note that Larger Plans in Figure 5 are averages while Figure 1 shows medians. Medians have the beneficial effect of excluding outliers. But averages can be directly and un-controversially used for calculations purposes, which is why they are used in Figure 5.

### Mix-Adjusted Means at Larger Plan Mix

Reweighting the Smaller Plans to match the mix in the Larger Plan set, the total expenses of Larger Plans of \$32.32 PMPM was lower than their smaller counterparts by \$0.60 PMPM. This is shown in Figure 5. The Corporate Services cluster of \$4.86 PMPM for Larger Plans was lower by \$0.62 PMPM. This cluster contains the functions such as Finance and Accounting and Corporate Executive and Governance that have proven subject to economies of scale.

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#### Figure 5. Sherlock Benchmark Summary

##### Larger Plans Vs. Smaller Plans

Mean Cost Values at Larger Plan Product-Mix

Functional Area	Larger	Smaller	PMPM Dif.	Pct. Dif.
Sales and Marketing	\$9.06	\$8.12	\$0.94	11.6%
Medical and Provider Management	3.67	4.08	(0.41)	-10.1%
Account and Membership Administration	14.72	15.23	(0.51)	-3.3%
Corporate Services	4.86	5.48	(0.62)	-11.3%
<b>Total Expenses</b>	<b>\$32.32</b>	<b>\$32.92</b>	<b>(\$0.60)</b>	<b>-1.8%</b>

Larger Plans had \$3.67 PMPM in Medical and Provider Management and \$14.72 PMPM in Account and Membership Administration, lower by \$0.41 PMPM and \$0.51 PMPM, respectively. Account and Membership includes the core administrative activities of health plans, as outlined in Appendix C. But the Sales and Marketing costs for Larger Plans of \$9.06 PMPM was higher than the Smaller peers by \$0.94 PMPM.

### Mix-Adjusted Means at Smaller Plan Mix

In Figure 6, Larger Plans' product cost values were reweighted at the Smaller Plans' mix. The pattern was similar in important ways. Larger Plans' Corporate Services cluster of \$4.98 held onto its \$0.62 PMPM advantage. Sales and Marketing costs for Larger Plans of \$9.84 was higher than the Smaller Plans at \$8.51.

However, Medical and Provider Management costs for Larger Plans was \$4.33 PMPM and higher by \$0.03, or 0.8%, while Account and Membership Administration of \$15.43 for Larger Plans was \$0.40 greater than their Smaller peers.

The Corporate Services area, however, is one area we generally see health plans benefit from economies of scale. We've performed analyses on Economies of Scale in the health plan industry and have found that the benefits from scale are real but less than commonly perceived. Total expenses for Larger Plans, at \$34.57 PMPM, was higher by \$1.14 PMPM, or 3.4%.

In considering the differences between the results of the Larger Plan product weightings versus the Smaller Plan product weighting, we recognize that we are dealing with average values and there is individual variability in the Plans. The general trend appears to be that lower Corporate Services costs among Larger Plans were redeployed into higher Sales and Marketing costs.

### Figure 6. Sherlock Benchmark Summary

#### Larger Plans Vs. Smaller Plans

Mean Cost Values at Smaller Plan Product-Mix

Functional Area	Larger	Smaller	PMPM Dif.	Pct. Dif.
Sales and Marketing	\$9.84	\$8.51	\$1.33	15.6%
Medical and Provider Management	4.33	4.29	0.03	0.8%
Account and Membership Administration	15.43	15.02	0.40	2.7%
Corporate Services	4.98	5.60	(0.62)	-11.2%
<b>Total Expenses</b>	<b>\$34.57</b>	<b>\$33.43</b>	<b>\$1.14</b>	<b>3.4%</b>

## Characteristics

Figure 7 shows the average product-mix for Larger Plans and Smaller Plans. Larger Plans had a higher concentration in Indemnity and PPO ASO / ASC with 46% compared to Smaller Plans at 35%. Smaller Plans held a slight edge in Indemnity and PPO Insured of 33% versus 32%. Commercial POS Insured favored Smaller Plans at 4% compared to 1%, while Commercial POS ASO / ASC was also heavier for Smaller Plans at 3% with Larger Plans at less than 1%. Both Insured and ASO / ASC for Commercial HMO were higher for Smaller Plans at 6% compared to 4% and 1% compared to less than 1%, respectively.

Smaller Plans held a slight advantage in FEP at 6% versus 5%. Larger Plans, meanwhile, had 4% of their mix in Medicare Advantage versus 3% for Smaller Plans. Larger Plans had less than 1% in Medicaid compared to 4% for Smaller Plans and Medicare Supplement was higher for Larger Plans at 7% with Smaller Plans at 4%.

**Figure 7. Sherlock Benchmark Summary**

Characteristics, 2015 Data

*Blue Cross Blue Shield Larger and Smaller Plans*

<b>Average Product Mix</b>	<b>Larger</b>	<b>Smaller</b>
<b>Commercial HMO</b>		
Insured	4%	6%
ASO / ASC	0%	1%
<b>Commercial POS</b>		
Insured	1%	4%
ASO / ASC	0%	3%
<b>Indemnity &amp; PPO</b>		
Insured	32%	33%
ASO / ASC	46%	35%
<b>FEP</b>		
FEP	5%	6%
<b>Medicare Advantage</b>		
Medicare Advantage	4%	3%
<b>Medicaid HMO</b>		
Medicaid HMO	0%	4%
<b>Medicare Supplement</b>		
Medicare Supplement	7%	4%
<b>Comprehensive Total</b>	<b>100%</b>	<b>100%</b>
<b>Number of Plans</b>		
Number of Plans	5	12
<b>Participant Members (000)</b>		
Participant Members (000)	28,628	16,198
<b>Median Membership (000)</b>		
Median Membership (000)	3,513	1,295
<b>Mean Membership (000)</b>		
Mean Membership (000)	5,726	1,350
<b>CMS Hospital Wage Index, Avg</b>		
CMS Hospital Wage Index, Avg	1.080	0.972



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The five Larger Plans collectively served 28.6 million members in comprehensive products compared to the twelve Smaller Plans, at 16.2 million. Median and mean membership for Larger Plans was 3.5 million and 5.7 million, respectively. Smaller Plans' median and average membership was 1.3 million and 1.4 million, respectively.

Lastly, while we don't adjust for cost of living in our plan comparisons, we observe that the average CMS Hospital Wage Index for the headquarters of the Larger Plans was 1.080 compared to the headquarters of the Smaller Plans at 0.972. However, the headquarters indices are not the same as where the activities are actually performed. Many plans select service center locations based on the costs of living in their states and sometimes outside of them, and outsourcing comprised more than 10% of Blue Cross Blue Shield FTEs.

### *About the Sherlock Benchmarks and the Larger Plan Universe*

These results are excerpted from the Larger Plans edition and 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 the 17 Blue Cross Blue Shield Plans and the subset of 5 Larger Plans within the Blue universe. Much more information is available by licensing the Sherlock Benchmarks.

Including all of Sherlock Benchmarks, those published in 2016 will be the culmination of the experience of approximately 741 health plan years. We also have universes of Independent / Provider-Sponsored Plans, Medicare-focused plans and Medicaid-focused plans.

Sherlock Benchmarks are often referred to as the gold standard for operational and financial metrics for health plans. Health plans serving most insured Americans are users of 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 *Plan Management Navigator*.



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### Appendix A. Sherlock Benchmark Summary

#### Smaller Plans 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	\$7.41	\$8.44	\$10.53	32%
Medical and Provider Management	3.62	3.98	5.07	24%
Account and Membership Administration	11.84	14.30	17.06	23%
Corporate Services	4.03	4.66	6.92	39%
<b>Total Expenses</b>	<b>\$28.27</b>	<b>\$30.41</b>	<b>\$38.81</b>	<b>23%</b>

### Appendix B. Sherlock Benchmark Summary

#### Smaller Plans Costs by Functional Area Cluster, 2015 Data

Percent of Premium Equivalents

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Sales and Marketing	1.8%	2.2%	2.3%	28%
Medical and Provider Management	0.9%	1.1%	1.2%	23%
Account and Membership Administration	3.5%	3.8%	4.0%	14%
Corporate Services	1.1%	1.3%	1.7%	25%
<b>Total Expenses</b>	<b>7.9%</b>	<b>8.6%</b>	<b>9.2%</b>	<b>12%</b>

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## 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