

Plan Management Navigator

Analytics for Health Plan Administration



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MEDICAID ADMINISTRATIVE COST TRENDS: THE FULL IMPACT OF THE AFFORDABLE CARE ACT

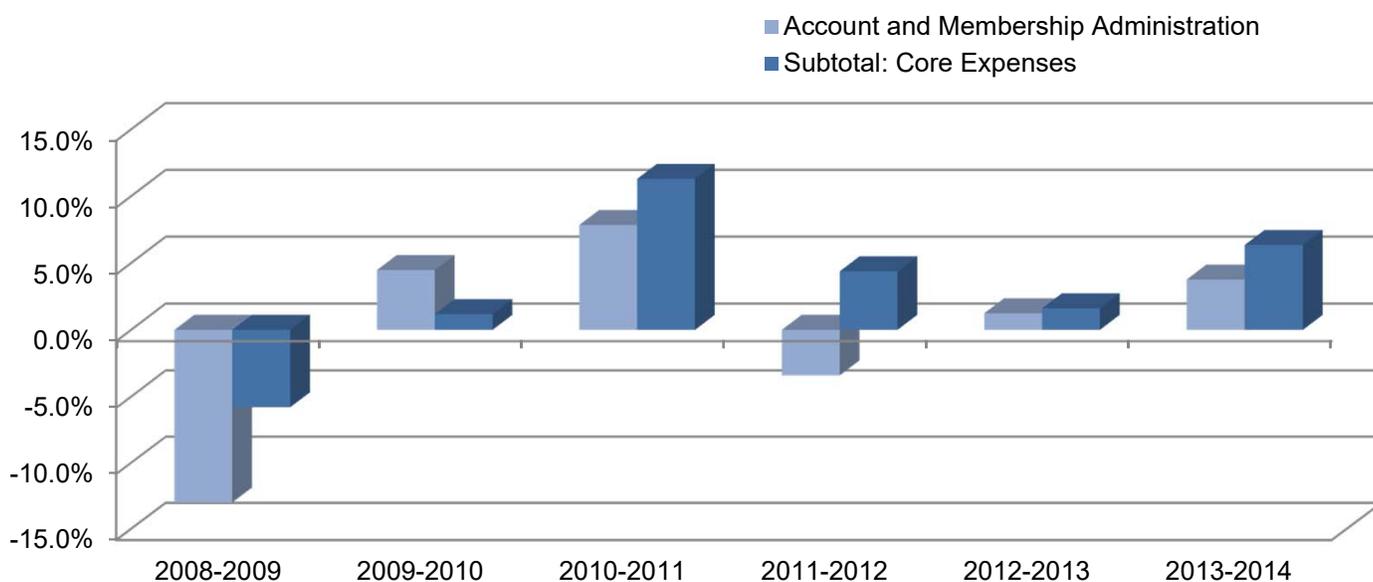
Health plans focused on Medicaid were affected by the changes brought about by the Affordable Care Act. In addition to the membership growth, discussed below, cost trends accelerated. Core administrative expenses PMPM before Miscellaneous Business Taxes, after eliminating the effect of product mix changes, increased at a median rate of 6.3% PMPM. (Core expenses exclude Sales and Marketing.) This is up from an increase of 1.6% in 2013 and is the second highest in the past five years.

Account and Membership Administration was also above recent trend, increasing to 3.8% PMPM growth from 1.2% in the prior year. This rate was greater than three of the prior five years.

Every cluster of Core expenses posted increases in the median rate of growth. Corporate Services' 5.5% increase was the sharpest change from a decline of 0.6% in the prior year. Medical and Provider Management costs also sharply accelerated from 0.2% to 5.6% in the most recent year. Core costs for plans focused on Medicaid was \$27.99 in 2014. Sales and Marketing costs declined by 4.2%, a greater decline than the 1.0% reduction in the prior year.

While the product mix of these organizations changed between years, the trends overall and by cluster varied by largely degrees not direction if the effect of mix is not eliminated. Administrative expenses, excluding Miscellaneous Business Taxes, totaled \$37.69 PMPM.

Figure 1. Sherlock Benchmark Summary
 Medicaid Plans' Rates of Change for Account and Membership Administration and Subtotal: Core, Constant Mix



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 617.7% increase in Miscellaneous Business Taxes, administrative costs overall increased by 15.1%. On an as reported basis, administrative expenses including Miscellaneous Business Taxes increased by 592.3% for a total increase of 11.9%.

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 median Miscellaneous Business Taxes of \$6.09 in 2014 equating to approximately \$1.18 PMPM in 2013. The \$4.91 increase in taxes is 63% of the cost of Medical and Provider Management cluster of functions, shown in Figure 5.

These costs vary by product. The median Miscellaneous Business Taxes for Insured Commercial products was \$8.73. For Commercial ASO, the median value was \$0.01. For Medicaid and Medicare it was \$2.67 and \$7.22, respectively.

Background on Medicaid and the Affordable Care Act

One of the central purposes of the Affordable Care Act is to reduce the proportion of people without health insurance. As shown in Figure 2, based on a September 2015 US Census Bureau analysis, Medicaid growth was the second most important factor in the increased coverage among forms of health coverage between 2013 and 2014 after Direct Purchase. Put a different way, the total number of uninsured declined by 8.8 million. Of this 6.7 million, or 76.3%, is attributable to the growth in Medicaid.

Figure 2. Sherlock Benchmark Summary
Health Insurance Coverage in the United States
 (000's)

	2013		2014		Change	Percent Change
Any Health Plan	271,606	86.7%	283,200	89.6%	11,594	4.3%
Any Private Plan	201,038	64.1%	208,600	66.0%	7,562	3.8%
Employment-based	174,418	55.7%	175,027	55.4%	609	0.3%
Direct purchase	35,755	11.4%	46,165	14.6%	10,410	29.1%
Any Government Plan	108,287	34.6%	115,470	36.5%	7,183	6.6%
Medicare	49,020	15.6%	50,546	16.0%	1,526	3.1%
Medicaid	54,919	17.5%	61,650	19.5%	6,731	12.3%
Military health care	14,016	4.5%	14,143	4.5%	127	0.9%
Uninsured	41,795	13.3%	32,968	10.4%	-8,827	-21.1%
Total	313,401		316,168		2,767	0.9%

Source: <https://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-253.pdf>

The US Census Bureau estimates are directionally supported by Gallup. According to Gallup, the percent of people aged 18 and older who say that they are uninsured fell from 21.2% in the second quarter 2013 to 13.8% in the second quarter of 2015. While “Plan Fully Paid for by Self or Family Member” comprised the largest increase, of the 7.4 percentage point decrease, Medicaid comprised 2.7 percentage points of it. Expanded eligibility, simplified enrollment processes and increased outreach are considered responsible.

Kaiser Family Foundation reports that, as of March 2015, 39.3 million people were served with comprehensive services by Medicaid Managed Care Organizations. According to the Commonwealth Fund, “almost 72 percent of people covered by Medicaid now are in some kind of managed care”. More importantly, “about half of Medicaid beneficiaries are in the type of managed care in which plans are paid a preset amount to cover all of a patient's medical needs. In 1995, just 15 percent were in such programs.”

It may be that Medicaid’s contribution to declining uninsurance was limited because of individual state policies. According to Kaiser Family Foundation, 19 states have not adopted the Medicaid expansion as of September 1, 2015. This made a difference. According to the Kaiser Family Foundation, the 22 states that had their Medicaid expansions in effect as of March 2014 and reported data for the same period in the prior year experienced enrollment growth of 12.9% versus 2.6% for states that were not expanding.

There were 11 organizations participating in this year’s benchmarking study, of those, six also participated last year. Of the 11 plans, one is national in scope and 55% of its state plans were in expansion states. Of the remaining four new plans 3 were in expansion states. Of the six plans that continuously participated 4 were in expansion states.

Figure 3. Sherlock Benchmark Summary
Source of Insurance Coverage

	Q2 2013	Q2 2014	Q2 2015	Change
Current or Former Employer	44.4%	43.5%	43.4%	-1.0%
Plan Fully Paid for by Self or Family Mbr.	16.7%	20.7%	20.9%	4.2%
Medicaid	6.8%	8.4%	9.5%	2.7%
Medicare	6.4%	6.9%	7.6%	1.2%
Military / Veterans	4.3%	4.7%	4.9%	0.6%
A Union	2.8%	2.5%	2.5%	-0.3%
(Something Else)	3.8%	3.8%	4.1%	0.3%
No Insurance	21.2%	16.2%	13.8%	-7.4%

Source: <http://www.gallup.com/poll/184064/uninsured-rate-second-quarter.aspx>

“Real” Trends

When we calculate our rates of change, we are careful to include only those plans that participate in both measurement years. These are the "As Reported" trends. Otherwise, we would conflate the effect of the introduction or omission of high or low cost organizations with actual trends.

We go one step further when we calculate Constant Mix trends, still holding the universe constant. 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 submits 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.

Account and Membership Administration

Account and Membership Administration growth was slower than the other core clusters but accelerated over last year. Growth increased from last year's trend of 1.2% to 3.8%. This was the highest rate of growth since 2011. While Information Systems declined on a PMPM basis, Enrollment and Customer Services increased at a double digit rate. Also, Claims increased at a near double digit rate.

Figure 4. Sherlock Benchmark Summary

Medicaid Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2013 Data		2014 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Medical and Provider Management	2.9%	0.2%	4.6%	5.6%
Account and Membership Administration	2.7%	1.2%	3.1%	3.8%
Corporate Services	0.0%	-0.6%	4.3%	5.5%
Subtotal: Core Expenses	3.2%	1.6%	6.1%	6.3%
Sales and Marketing	-1.4%	-1.0%	-4.8%	-4.2%
Total Expenses	0.2%	-1.4%	2.9%	3.3%

The rate of growth in Enrollment / Membership / Billing is unprecedented over the past five years. Customer Service cost growth was its highest level since 2011. It is possible that the Customer Services costs are transitional, that is, a result of the significant changes in health insurance industry stemming from the Affordable Care Act. It is also possible that many first time insured would have questions as well as those for whom insurance changed.

The rate of growth in Claims and Encounter Capture and Adjudication increased, to high single digits from a decline in the prior year. Cost growth in this function was the highest in at least the past five years. We often see Information Systems cost trends and Claims cost trends go in the opposite directions, and 2014 appears to be an example of this. One possible reason for this is that Claims processing, with a given benefit structure, often begins manually and becomes more automated over time. So this too could stem from the Affordable Care Act.

As-reported results had a similar pattern. While Information Systems costs were lower, the three other functions, Enrollment, Customer Services and Claims were each much higher. Enrollment and Claims were the highest during the past five years and Customer Services was the highest since 2011.

Note however that the cost increases for Account and Membership Administration in 2014 ran higher for Constant Mix versus As Reported. That likely results from the fact that Medicaid products cost less to administer than other products and grew faster in 2014. Put a different way, the shift to low cost Medicaid had the effect of reducing ostensible growth in PMPM costs. Once that mix shift is eliminated, the higher cost increases become apparent.

Medical and Provider Management

This cluster's cost growth increased to the highest level since at least 2011. Medical and Provider Management costs grew at a median rate 5.6% versus an increase of 0.2% last year.

There are two functions in this cluster, Medical Management / Quality Assurance / Wellness, and Provider Network Management and Services. The former is self-explanatory and the latter includes such activities as fielding provider inquiries, contracting with providers and provider education. Both were substantially higher than in the previous year and the last time that similar increases occurred was in 2011. While Medical Management is a much larger function, Provider Network Management and Services grew faster.

As might be expected from the shift in favor of Medicaid, health plan administrative costs for this function grew more rapidly on a Constant Mix than an As Reported basis.

Corporate Services

The costs in the cluster of Corporate Services increased by 5.5% PMPM, a sharp increase from the 0.6% decline in the prior year. Actuarial posted the sharpest increase to near double digit growth. However, the growth was somewhat lower than the prior year. Finance and Accounting and Corporate Executive and Governance both accelerated, actually switching from declines to growth. If a plan incurred management consulting that related to the enterprise as a whole, costs would likely have fallen into these functions.

Corporate Services *Function* growth was essentially flat. Association Dues and License / Filing Fees grew by faster than most of the other functions in this cluster.

Again, because of the shift in favor of low administrative cost Medicaid products, Corporate Services increased more slowly on an As Reported basis than on a Constant Mix basis. The 1.2 percentage point difference in growth rates, 4.3% versus 5.5%, was greater than that of the two other clusters.

Core Expenses

The functions that comprise Core Expenses include all of the administrative activities of Medicaid focused health plans, except those of Sales and Marketing. Rules governing Sales and Marketing for Medicaid vary from state to state so we exclude activities like Sales, Marketing, Rating and Underwriting, Advertising and Promotion and Broker Commissions to preserve comparability of the totals.

Because of the shift in favor of Medicaid, health plan administrative costs for this function grew more rapidly on a constant mix than an as-reported basis, 6.3% versus 6.1%.

Sales and Marketing

This cluster's costs declined at a median rate 4.2% versus a decline of 1.0% last year. The median rates of increase for most functions in this cluster declined. The exceptions were Sales and Commissions which both increased. Since Sales and Marketing expenses are very small for Medicaid products (broker Commissions are non-existent), the growth rates in this cluster largely pertain to other products offered by these Medicaid focused plans.

Excluding the effect of the shift towards Medicaid, Sales and Marketing declined by 4.8% a faster decline than the 1.4% last year. The percentage point decline in the rate of PMPM growth was relatively similar between the As Reported and Constant Mix changes.

MIX SHIFT

Membership increased in 2014 versus 2013 at a median rate of 1.8% and decreased at a mean rate of 1.9%. Medicaid product growth was particularly robust, increasing at a median rate of 26%. Growth in products sold to seniors were also robust with the Medicare products increasing at median rate of 10.3%.

By contrast, Commercial increased at a median rate of 1.4%. While ASO increased by 6.3%, commercial insured decreased at a median rate of 4.1%.

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

Miscellaneous Business Taxes

As noted previously, the trends for administrative costs within the control of plan managers were higher than last year but low when looked at over the past five years. But their 15.1% growth (Constant Mix) after inclusion of the Miscellaneous Business Taxes was unprecedented since at least before 2010. The reason for the surge is that Miscellaneous Business Taxes increased by 617.7% largely due to the Affordable Care Act.

This surge in taxes loosely comports with 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 Fees. Additionally, plans were subject to Exchange User Fee if they had exchange members.

The median cost of the Transitional Reinsurance Fee was \$5.12 per commercial insured member per month. The cost of the Annual Fee on Health Insurers (excluding ASO members) was approximately 1% of premiums.

Figure 5. Sherlock Benchmark Summary
Medicaid Plans' Costs by Functional Area Cluster, 2014 Data
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	\$4.91	\$7.75	\$8.75	26%
Account and Membership Administration	12.73	13.42	16.26	30%
Corporate Services	5.25	6.32	7.21	22%
Subtotal: Core Expenses	\$25.09	\$27.99	\$31.04	22%
Sales and Marketing	\$7.37	\$9.71	\$11.56	29%
Total Expenses	\$31.98	\$37.69	\$42.73	20%

Administrative Expenses PMPM, by Cluster and in Total

As noted above, we summarize the Core administrative costs of Medicaid plans into three clusters, plus the Sales and Marketing cluster. In Figure 5, however, costs are reported for all of the plans rather than for the continuing plans.

Core administrative expenses, excluding Miscellaneous Business Taxes, totaled \$27.99 PMPM. The costs were 14.3% higher than reported in 2013 in Appendix A. This is a far higher increase than either the As Reported or the Constant Mix growth. Mix likely comprised 8.9 percentage points of this, real growth comprised 6.3 percentage points, the changes in the universe likely offset 4.2 percentage points and 3.1 percentage points remain unexplained.

The addition of the five new plans makes it difficult to map relationships between the rates of change of continuing plans, in Figure 4, and the change from Figure 5 and Appendix A. As noted above, the addition of the five new plans appear to have made this year's universe's costs approximately 4.2% lower than that of the prior year. While other causes are also possible, this is consistent with the aphorism that "you manage what you measure."

In order of size, the Core Clusters are Account and Membership Administration, Medical and Provider Management and Corporate Services.

Account and Membership Administration's high cost weight makes its change especially important to the overall trend. Note that it is nearly the size of Medical and Provider Management and Corporate Services combined. The costs for this cluster had a median value of \$13.42 PMPM and it was 8.1% less than last year.

Medical and Provider Management costs, the second largest cluster, was 7.1% higher than reported last year. The median PMPM costs for this cluster was \$7.75.

The Corporate Services cluster of functions costs, which had a median value of \$6.32 PMPM. It was 25.1% higher than reported for 2013.

Sales and Marketing is not included with the Core expenses and is the second largest cluster of functions. This year's costs for this cluster was \$9.71, 10.3% higher than the values for the prior year.

The values tended to cluster more in 2014 versus 2013. The coefficient of variation for Core Expenses fell from 32% in 2013 to 22% in 2014. Most notably the Corporate Services function increasingly clustered at the coefficient of variation decreased by 38% to 22%.

Costs by Product

We report health plan administrative costs segmented by products as well as by function. For this, we report Total costs rather than Core costs.

Costs segmented by product 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 Medicaid counterparts because of how the state programs work.

Medicaid products were relatively low cost at \$29.09 PMPM. Medicaid HMO was slightly higher at \$29.57 but CHIP was much lower at \$14.52.

Indemnity and PPO Insured, at \$41.74 PMPM, costs nearly double that of the \$23.26 PMPM for ASO products. Similarly, Medicare Advantage costs, at \$99.74 PMPM tend to be higher than Commercial HMO Insured of \$37.49 since administrative activities are driven in part by the underlying health care cost requirements of the enrolled seniors versus the under 65 population.

Medicare SNP is the most expensive product at \$139.03 PMPM, followed by Medicare Advantage. (We believe that this is overwhelmingly Dual Eligibles.) The commercial ASO product was the lowest cost followed by Medicaid among comprehensive products.

Figure 6. Sherlock Benchmark Summary
Medicaid Plans' Costs by Product, 2014 Data
 Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	\$23.32	\$29.09	\$34.35	26%
HMO	\$23.73	\$29.57	\$34.35	25%
CHIP	\$12.06	\$14.52	\$22.63	55%
Medicare	\$79.42	\$104.74	\$108.64	31%
Advantage	\$72.22	\$99.72	\$104.50	39%
SNP	\$135.81	\$139.03	\$139.84	16%
Commercial Insured Total	\$35.80	\$38.78	\$44.72	19%
HMO	\$36.38	\$37.49	\$44.93	14%
POS	\$37.53	\$41.74	\$44.63	16%
Indemnity & PPO	\$32.96	\$41.74	\$47.24	27%
Commercial ASO	\$18.46	\$23.26	\$25.63	20%
Comprehensive Total	\$31.98	\$37.69	\$42.73	20%

To aid readers in the use of this analysis, we have also posted this content in the form of an application on our website, <http://www.sherlockco.com/seer/calculator.shtml>. While few organizations actually operate with entirely separate staff and other costs for each product, by using this model, you can actually apply the values in Figure 6 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

Administrative expenses comprised 9.6% of premiums for Medicaid plans in 2014. While Medicare SNP is the highest cost product on a PMPM basis, it is below average, at 9.5%, compared with all comprehensive products. Medicare Advantage is higher than average, with administrative expenses at 12.0%.

ASO product costs are low at 6.5%. (We employ “premium equivalents” as the denominator of these products sold to self-insured groups.) Commercial Insured products were typically 10.1%. Both HMO and POS were in the 9% range but Indemnity and PPO had a median value of 12.7%.

Medicaid plans had a median value of 8.6% with total Medicaid HMO at the same value and CHIP at 9.7%.

Figure 7. Sherlock Benchmark Summary
Medicaid Plans' Costs by Product, 2014 Data
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	7.0%	8.6%	9.7%	24.9%
HMO	7.1%	8.6%	9.3%	24.7%
CHIP	9.3%	9.7%	10.6%	30.7%
Medicare	7.7%	8.7%	12.1%	26.6%
Advantage	7.8%	12.0%	12.7%	52.9%
SNP	8.4%	9.5%	11.5%	27.9%
Commercial Insured Total	9.3%	10.1%	11.6%	12.9%
HMO	8.7%	9.1%	10.0%	9.6%
POS	8.6%	9.3%	10.2%	19.9%
Indemnity & PPO	11.5%	12.7%	13.9%	21.1%
Commercial ASO	5.8%	6.5%	7.5%	22.9%
Comprehensive Total	8.5%	9.6%	10.0%	13.8%

Cluster Costs in Percent, by Cluster and in Total

Administrative costs comprise 9.6% of the premiums, calculated on a premium equivalent basis. This is lower than the 10.5% reported last year. While Medical Management increased as a percent of premiums, all other clusters of functions declined. It appears that the values were more likely to cluster as well.

The order of importance of the clusters is similar to the PMPM medians in Figure 5, with Account and Membership Administration highest and Medical and Provider Management and Corporate Services together being the lowest. Sales and Marketing expenses were slightly higher than those two.

Comparison with Plans in IPS Universe.

Health plans in other Sherlock Company benchmark universes also offer Medicaid products. In this section we compare the results of the Medicaid products offered in Independent / Provider-Sponsored plans to that of the plans in our Medicaid universe. Together, these two universes serve 4.2 million Medicaid members.

The PMPM costs comparisons show Medicaid plans being higher than their Independent / Provider-Sponsored peers. Notably, Medicaid Provider and Medical Management on average is 23% higher than their Independent / Provider-Sponsored peers, while spending less on average on Account and Membership Administration. They spend about the same on Corporate Services cluster.

However, the median percent of premiums are much higher for Independent / Provider-Sponsored plans, at 12.3% versus 10.8%. This seems to result from the revenues PMPM being 5-10% lower for the Independent / Provider-Sponsored organizations that over Medicaid products. A possible explanation, which we have not confirmed, is that on average, Medicaid-focused plans' members have higher health care needs.

Figure 8. Sherlock Benchmark Summary
 Medicaid Plans' Costs by Functional Area Cluster, 2014 Data
 Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	1.4%	2.0%	2.1%	25%
Account and Membership Administration	3.2%	3.7%	3.9%	27%
Corporate Services	1.8%	2.0%	2.4%	22%
Subtotal: Core Expenses	5.8%	6.7%	7.2%	19%
Sales and Marketing	1.9%	2.3%	18.5%	19%
Total Expenses	8.5%	9.6%	10.0%	13.8%

Figure 9. Sherlock Benchmark Summary

Medicaid HMO Product Characteristics by Universe, 2014 Data

	Medicaid	IPS	Combined
Core Costs			
<i>Per Member Per Month</i>			
25th Percentile	\$21.29	\$16.42	\$18.56
Median	26.43	17.91	24.21
75th Percentile	32.07	39.45	32.91
Coefficient of Variation	29%	50%	35%
<i>Percent of Premiums and Equivalentents</i>			
25th Percentile	7.4%	9.0%	7.5%
Median	8.9%	11.6%	9.9%
75th Percentile	11.0%	12.2%	11.8%
Coefficient of Variation	32%	23%	29%
Total Costs			
<i>Per Member Per Month</i>			
25th Percentile	\$23.73	\$17.60	\$21.27
Median	29.57	18.90	28.33
75th Percentile	34.35	39.88	36.29
Coefficient of Variation	25%	58%	37%
<i>Percent of Premiums and Equivalentents</i>			
25th Percentile	8.1%	9.9%	8.1%
Median	10.8%	12.3%	11.2%
75th Percentile	12.5%	12.3%	12.4%
Coefficient of Variation	28%	29%	28%
Plans Offering Medicaid	11	5	16
Medicaid Members (millions)	3.65	0.51	4.16
Comprehensive Total Members (millions)	6.92	3.60	10.51

About The Sherlock Benchmarks and the Medicaid Universe

These results are excerpted from the Medicaid edition of the 2015 *Sherlock Expense Evaluation Report*. The results are based on our detailed surveys of 2014 operating parameters of 11 Medicaid-focused 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 Blue Cross Blue Shield Plans, Larger Health Plans, Medicare Advantage Plans and Independent/ Provider-Sponsored Plans. Collectively, the 40 participating plans serve 41.5 million people with comprehensive products.

The 11 Medicaid health plans collectively serve 6.9 million members with comprehensive products. They also served 1.3 million under stand-alone Part D. Because they have a median membership of 461,000 members, we believe that they are mature plans from an administrative cost perspective.

Collectively Medicaid comprised 48.3% of plan revenue. Medicare SNP was 9.4% and Medicare Advantage comprised 20.1%. Commercial Insured was responsible for 21.4% of collective plan revenues and commercial ASO was responsible for 0.6%.

Appendix A. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2013 Data

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	\$5.53	\$7.24	\$8.44	31%
Account and Membership Administration	9.46	14.61	16.51	40%
Corporate Services	4.25	5.05	6.66	38%
Subtotal: Core Expenses	\$20.71	\$24.48	\$28.10	32%
Sales and Marketing	\$5.79	\$8.80	\$12.22	54%
Total Expenses	\$24.53	\$33.57	\$41.27	28%

Appendix B. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2013 Data
Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	1.5%	1.8%	2.5%	37%
Account and Membership Administration	3.4%	3.9%	4.8%	40%
Corporate Services	2.0%	2.2%	2.8%	22%
Subtotal: Core Expenses	5.2%	6.8%	9.0%	32%
Sales and Marketing	2.4%	2.8%	3.1%	46%
Total Expenses	8.8%	10.5%	11.0%	20%

Appendix C. Sherlock Benchmark Summary

Functions Included in Each Administrative Expense Cluster

Core Functions:

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

Non-Core Functions:

Sales & Marketing

Rating and Underwriting
Marketing
Sales
Commissions (external)
Advertising and Promotion