Plan Management Navigator
Analytics for Health Plan Administration

Healthcare Analysts

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The ROI on Medical Management for Medicaid Plans

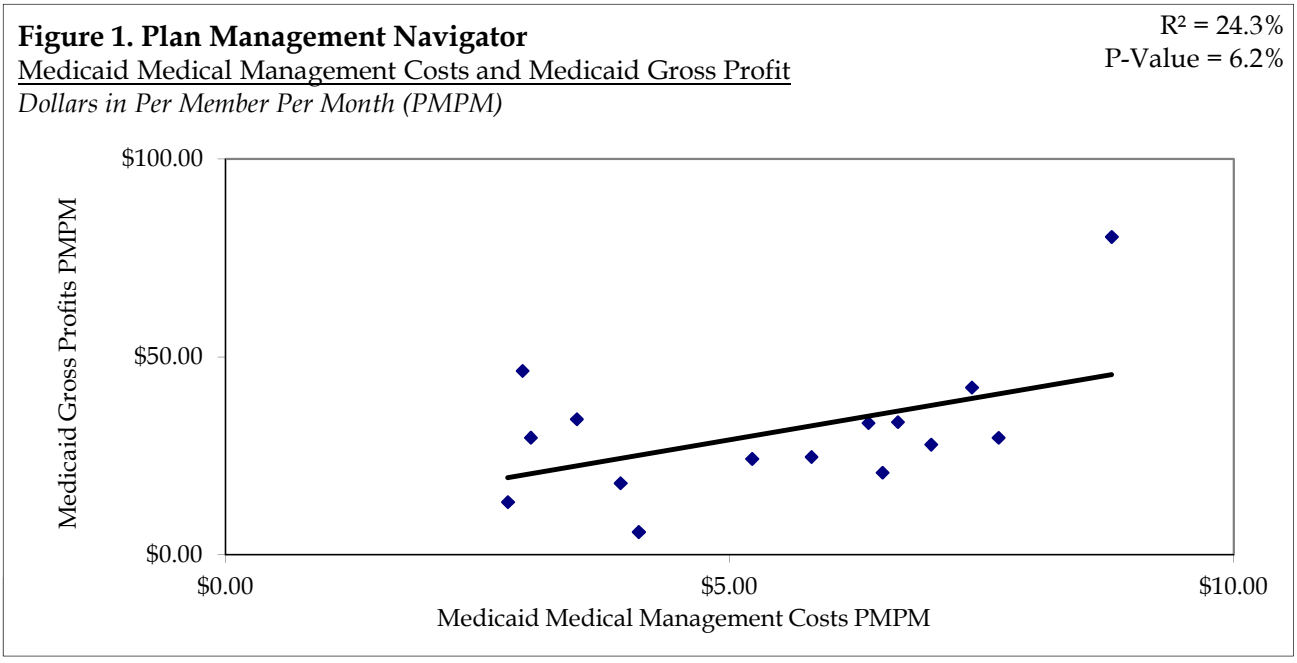
Background: This is the first of a series of Plan Management Navigators focused on Medicaid and Medicare plans. They expand upon presentations made before Independent / Provider-Sponsored and Blue Cross Blue Cross Plans in San Antonio in March in connection with the 18th Annual Sherlock Benchmarking study for health plans. The regression analysis based presentations were intended to draw comments from the participants on the scope of metrics to be included in the Benchmarking Study, and to sharpen the definitions of those metrics.

Medicaid plans are structurally suited to care management. They can elect to have smaller panels, increasing providers' willingness to work cooperatively with their Medicaid plan and facilitating greater health management focus on those providers. Because of their provider networks, there may also be less "free-riding" by plans that do not aggressively manage health care on those that do.

Moreover, under the Affordable Care Act health plans serving this market segment are not subject to federally-mandated Medical Loss Ratio requirements. The Medical Loss Ratio rules are highly controversial, with one of President Obama's advisors calling it a "stupid idea," and that it was "dumb for us to cap anyone's profits," which incentivize care management. According to the Kaiser Family Foundation, eleven states themselves have such requirements though for three of them it is 80%.

The incentive property of regulatory forbearance is shown in the figure. We regressed per member per month gross profits (premiums less health benefits) against Medical Management costs for Medicaid products of 15 health plans that offered Medicaid that participated in the 2014 Benchmarking Study. The slope implies a ROI of $4.34 for every $1.00 of spending on Case Management, Disease Management, Utilization Review and the other aspects of Medical Management for this product.

Figure 1. Plan Management Navigator
Medicaid Medical Management Costs and Medicaid Gross Profit
Dollars in Per Member Per Month (PMPM)



The P-Value of 6.2% suggests that it is unlikely that there is no relationship between costs and returns. The R^2 says that regression line explains 24.3% of the differences between the points. Other factors likely also contribute including perhaps the plans' management of their provider networks or levels of state payments to the plans for the care of the members. But even so qualified, the fact that higher Medicaid Medical Management costs are associated with higher Medicaid Gross Profits provides an illustration of the incentive properties that President Obama's advisor considered so important.

Note that we used gross profits rather than health benefits to measure the efficacy of medical management. We consider this metric to be less susceptible to the effects of differences in local health care cost levels than the actual level of health benefits. When reporting to us, all Medical Management expenses are separately identified, not partially buried in health benefits as is often the case in other reporting contexts. Close readers may also note that our analysis assumes that both health and administrative expenses are segmented by product. This is in fact what we ask of our participants. We do acknowledge that the strength of this relationship varies from year to year.

Sherlock Benchmarks. The Sherlock Benchmarks are considered the "gold standard" for the management of health plan administrative expenses. Health plans serving more than 109 million people are users of the 2014 editions. Most Blue Cross Blue Shield Plans use the benchmarking studies and nearly one-half participate. The 23 participating plans in the Independent / Provider-Sponsored universe serve approximately 10 million members. We circulated the Blue and IPS universe surveys in late March.

Because of the time required by finance and accounting personnel to prepare Medicare Advantage bids, we will distribute our Medicaid and Medicare benchmarking surveys in early June. We are actively recruiting participants for these universes. All functional area costs are segmented by product so it is noteworthy that the 16 so-far committed plans offering Medicaid recruited in other universes serve approximately 1.9 million Medicaid members. The Medicaid results for many of these plans will be included in the 2015 Sherlock Benchmarks.

Please contact Douglas B. Sherlock, CFA if you are interested in considering participation. He can be reached at sherlock@sherlockco.com.