



Photograph by A. Aubrey Bodine • Copyright © Jennifer B. Bodine

ADMINISTRATIVE COST TRENDS OF INDEPENDENT/ PROVIDER-SPONSORED PLANS IN 2016

SHERLOCK BENCHMARKS

Douglas B. Sherlock, CFA
President, Sherlock Company

sherlock@sherlockco.com

July 12, 2017



TOPICS

- Long term cost trends
- Changes in cluster costs
- Reasons for cost increases
- Taxes
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM

APPENDICES

- Last year's values
- Functions in each cluster of expenses
- About the Sherlock Benchmarks

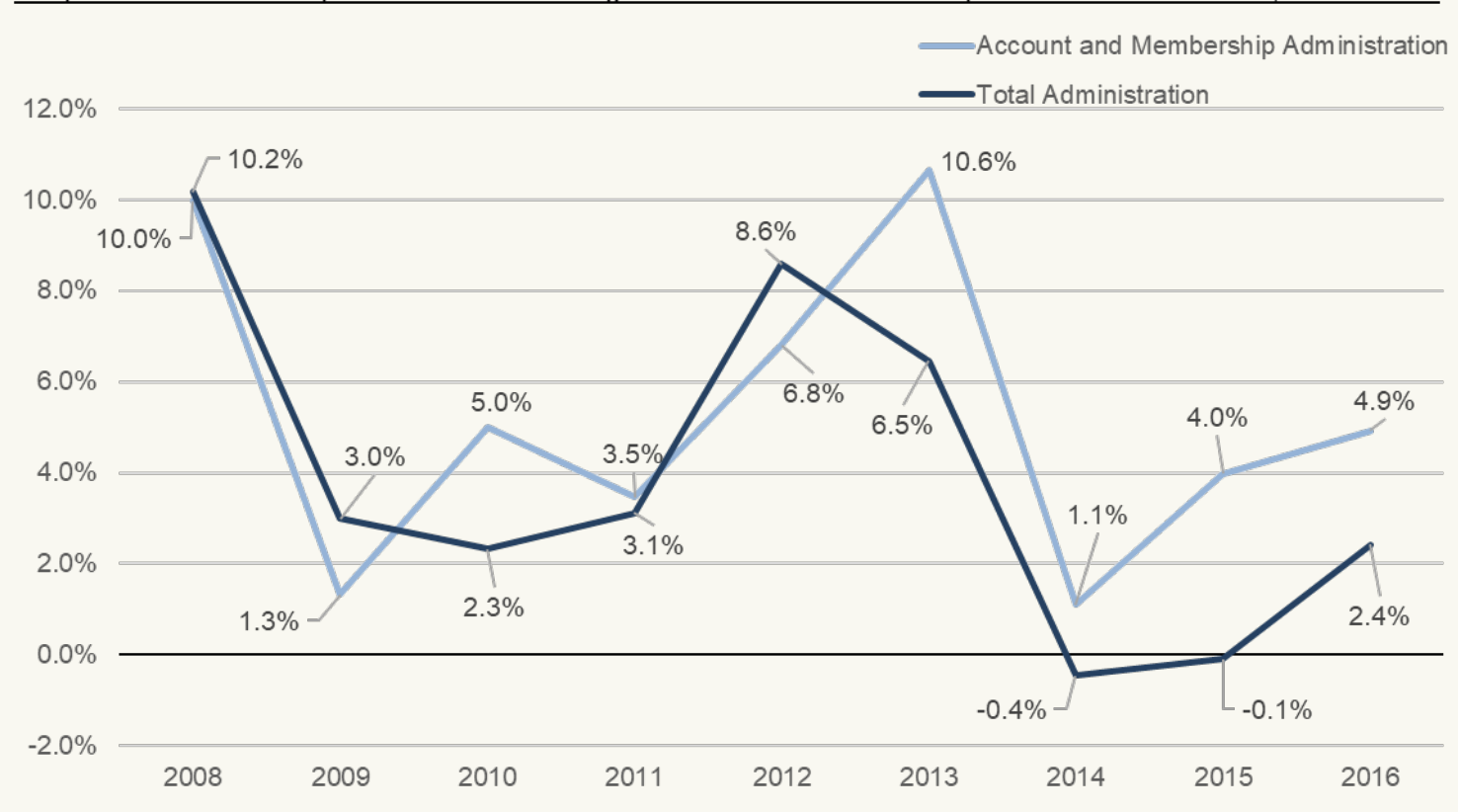
Racing workboats are a metaphor for businesses striving for performance improvement.



UPTICK BUT CONTINUED MODEST EXPENSE GROWTH.

Figure 1. Sherlock Benchmark Summary

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



Medians. Rates of change hold universe and product mix constant.

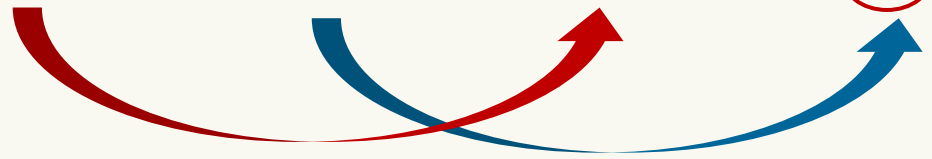


AMONG CONTINUOUSLY PARTICIPATING PLANS, MODEST TREND BUT ACCELERATION

Figure 2. Sherlock Benchmark Summary

Independent / Provider-Sponsored Median Changes in Per Member Per Month Expenses

Functional Area	2015 Data		2016 Data	
	As-Reported	Constant Mix	As-Reported	Constant Mix
Sales and Marketing	1.9%	2.5%	5.2%	4.9%
Medical and Provider Management	-7.2%	-6.1%	4.5%	2.6%
Account and Membership Administration	5.3%	4.0%	3.8%	4.9%
Corporate Services	-9.5%	-8.0%	0.7%	1.2%
Total Expenses	-1.5%	-0.1%	3.0%	2.4%



Constant-Mix adjusts to exclude product-mix differences.

2016 SOURCES OF GROWTH IN INDEPENDENT/PROVIDER-SPONSORED HEALTH PLAN ADMINISTRATIVE COSTS

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	5.2%	Rating & Underwriting ↑	Commissions ↑
Med & Provider	4.5%	Prov. Net. Mgmt & Svs ↑	Medical Management ↑
Acct & Memb	3.8%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>0.7%</u>	Corporate Services ¹ ↑	Corporate Services ↑
Total	3.0%	Rating & Underwriting ¹ ↑	Corporate Services ↑

¹ Association Dues / License and Filing fees was more rapid but is less than 1% of total administration.



SOURCES OF “REAL” GROWTH IN INDEPENDENT / PROVIDER – SPONSORED ADMINISTRATIVE COSTS IN 2016

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	4.9%	Rating & Underwriting ¹ ↑	Commissions ↑
Med & Provider	2.6%	Medical Management ↑	Medical Management ↑
Acct & Memb	4.9%	Claims ² ↑	Claims ↑
Corp. Serv.	<u>1.2%</u>	Actuarial ↑	Corporate Services ↑
Total	2.4%	Rating and Underwriting ¹ ↑	Corporate Services ↑

¹ Marketing and Advertising and Promotion both *declined*.

² Customer Services grew nearly as rapidly.



AFFORDABLE CARE ACT TAXES

- Miscellaneous Business Taxes (mainly ACA) now comprise 20% of total administrative expenses for commercial insured products.
- Plans posted median Miscellaneous Business Taxes for commercial insured products of \$10.51 in 2016. In 2010, they reported \$1.80.
- Decreased by 6.4% PMPM, compared with an increase of 14.6% in 2015 and down from the surge of 922.3% in the year before.
- Includes Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee, PCORI/CERF fees and an Annual Fee on Health Insurers of \$4.55, \$17.97 for Exchange members.



COMPARED WITH VALUES IN APPENDIX A, COSTS WERE 6.9% LOWER IN 2016. ALL CLUSTERS WERE LOWER. COST TRENDS, CHANGES IN THE PRODUCT MIX AND THE UNIVERSE WERE RESPONSIBLE.

Figure 3. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2016 Data

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2015 Values Median
Sales and Marketing	\$8.66	\$10.49	\$12.85	31%	\$10.83
Medical and Provider Management	5.32	6.82	7.54	29%	7.09
Account and Membership Administration	12.75	17.16	20.29	36%	17.80
Corporate Services	4.80	6.17	7.93	38%	6.58
Total Expenses	\$34.97	\$38.23	\$47.32	26%	\$41.04



PMPMs VARY BY PRODUCTS.

Figure 4. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2016 Data
Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	\$38.62	\$43.85	\$49.73	17%
POS	\$38.58	\$47.97	\$49.94	50%
Indemnity & PPO	\$39.69	\$49.03	\$54.63	29%
Total	\$38.51	\$45.52	\$50.38	21%
Commercial ASO				
	\$18.52	\$21.62	\$27.34	49%
Medicare				
Advantage	\$73.68	\$81.14	\$119.63	51%
SNP	\$119.59	\$131.03	\$137.77	13%
Cost	\$57.29	\$59.12	\$60.95	9%
Medicaid				
HMO	\$18.23	\$24.23	\$31.80	46%
CHIP	\$17.40	\$25.60	\$39.37	52%
Medicare Supplement				
	\$32.74	\$45.14	\$58.91	62%
Comprehensive Total	\$34.97	\$38.23	\$47.32	26%
Stand-Alone Medicare Part D				
	\$13.06	\$15.96	\$34.50	88%



PERCENTS VARY BY PRODUCT, BUT SOMETIMES ORDERED DIFFERENTLY FROM PMPMs.

Figure 5. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2016 Data

Percent of Premium and/or Equivalent

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	9.4%	10.0%	10.9%	14%
POS	7.8%	9.6%	10.9%	38%
Indemnity & PPO	9.5%	11.4%	12.9%	25%
Total	9.5%	10.5%	11.2%	14%
Commercial ASO				
	4.6%	5.7%	7.6%	40%
Medicare				
Advantage	7.9%	9.6%	12.9%	67%
SNP	7.4%	8.8%	9.7%	31%
Cost	13.5%	13.9%	14.3%	8%
Medicaid				
HMO	6.5%	7.2%	10.1%	29%
CHIP	7.2%	10.5%	14.5%	40%
Medicare Supplement				
	16.6%	22.4%	27.3%	64%
Comprehensive Total	7.9%	8.7%	9.8%	21%
Stand-Alone Medicare Part D				
	11.0%	14.8%	17.3%	46%



THE SOURCE OF THE DECLINE IS IN ACCOUNT AND MEMBERSHIP ADMINISTRATION, CORPORATE SERVICES WAS HIGHER. THE ORDER OF IMPORTANCE OF THE CLUSTERS IS LIKE THE PMPM MEDIANS.

Figure 6. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2016 Data
Percent of Premium and/or Equivalents

*2015
 Values*

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Sales and Marketing	1.9%	2.3%	3.0%	31%	2.3%
Medical and Provider Management	1.1%	1.5%	1.6%	26%	1.5%
Account and Membership Administration	2.9%	3.5%	4.3%	31%	3.8%
Corporate Services	1.1%	1.5%	1.6%	29%	1.4%
Total Expenses	7.9%	8.7%	9.8%	21%	8.9%



IPS PLANS OPTIMIZING UNDER UNCERTAINTY



- IPS costs were \$38.23 versus \$41.04 last year. Actual performance, differences in universe and mix changes were responsible.
- Continued modest growth in administrative expenses. As-reported increased by 3.0%. Constant mix grew by 2.4%, both accelerating from last year.
- All clusters accelerated. But Account and Membership Administration's was modest. Both Corporate Services and Medical and Provider accelerated faster but had modest growth.
- Rating and Underwriting and Corporate Services were fastest growing and most important growth factors, respectively. Legal cost growth was especially notable.



APPENDIX A. INDEPENDENT / PROVIDER – SPONSORED PLAN ADMINISTRATIVE COSTS IN 2015

Appendix A. Sherlock Benchmark Summary

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

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
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%
Total Expenses	\$37.05	\$41.04	\$50.31	24%

APPENDIX B. INDEPENDENT / PROVIDER – SPONSORED PLAN ADMINISTRATIVE COSTS IN 2015

Appendix B. Sherlock Benchmark Summary

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

Percent of Premium and/or Equivalentents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
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	1.2%	1.4%	1.8%	26%
Total Expenses	8.6%	8.9%	10.5%	17%



APPENDIX C. INDEPENDENT / PROVIDER – SPONSORED PLAN ADMINISTRATIVE FUNCTIONS

Appendix C. Sherlock Benchmark Summary

Major Functions Included in Each Administrative Expense Cluster

Sales & Marketing

Rating and Underwriting

- (b) Risk Adjustment
- (c) All Other Rating and Underwriting

Marketing

- (a) Product Development and Market Research
- (b) Member and Group Communication
- (c) Other Marketing

Sales

- (a) Account Services
- (b) Internal Sales Commissions
- (c) Other Sales

External Broker Commissions

Advertising and Promotion

- (a) Media and Advertising
- (b) Charitable Contributions

Provider & Medical Management

Provider Network Management and Services

- (a) Provider Relations Services
- (b) Provider Contracting
- (d) Other Provider Network Management and Services

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

Enrollment / Membership / Billing

- (a) Enrollment and Membership
- (b) Billing

Customer Services

- (a) Member Services
- (b) Printed Materials and Other

Claim and Encounter Capture and Adjudication

- (a) Coordination of Benefits (COB) and Subrogation
- (e) Other Claim and Encounter Capture and Adjudication

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

Finance and Accounting

- (a) Credit Card Fees
- (b) All Other Finance and Accounting

Actuarial

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

Corporate Executive and Governance

Association Dues and License/Filing Fees

*Each product
is segmented
into each of
these
functions.*



APPENDIX D. CAREFUL QUALITY ASSURANCE

- ***Voluntary*** – Since providers are users, they have stake in the metrics. Other than required metrics, scope is also voluntary.
- ***Strong definitions*** – Developed with participants. Activities and cost centers listed, supported by ongoing clarifying discussions.
- ***Highly granular*** - Ready identification of outliers, as well as drill-down capabilities.
- ***Practice effect*** – High percent of repeaters: 71% of Blue and 81% of IPS repeated from last year. 71% of Blues have seven or more years of participation, and 76% of IPS plans have five or more years of participation.
- ***Checks*** - In survey instrument and in analytical module; Anomalies investigated.
- ***Data Validation*** – Reconciled to audit. Preliminary results provided for proofing.
- ***Business model*** - No conflicts of interest; no “Tragedy of the Commons.”



APPENDIX E. SUMMARY OF THE REPORTS AND GUIDELINES

- The **financial metrics** report analyzes costs segmented by function and by product. They are standardized by PMPMs and by Percent.
- The **staffing and compensation** report analyzes the staffing ratios, per employee compensation and propensity to outsource. We supply estimates of staffing ratios by product.
- The **operational metrics** include operational metrics unique to particular functions such as the average speed of answer in member services and the time between claim receipt and payment approved. While completion of many of these metrics is optional, you will receive the results of your universe.
- **Medical management** metrics are comprised of results for all universes. These include the costs to manage various cases and diseases. This is optional like the operational metrics.
- **Health care utilization** metrics are also comprised of results for all universes. Unit cost and volumes are provided for each product for 40 health care services and products.
- The **CFO Letter** summarizes and analyzes the financial metrics, staffing, and compensation reports. After eliminating the effect of product mix differences, variances from norms are identified and functions are ranked in order of importance. We calculate the value of the factors of staffing ratios, compensation and non-labor costs, and their relative contribution to each functional variance.
- The **Common Guidelines** provide detailed definitions of activities and calculation notes.



APPENDIX F. STRONG NETWORK, BROAD ACCEPTANCE

- The Sherlock Benchmarks is now in 20th consecutive year, or 780 plan-years.
- Health plans serving more than 60% of all insured Americans are licensed users of the Sherlock Benchmarks since January 1, 2015.
- Approximately 40 health plans serving approximately 50 million people with health insurance are participants in this year's Sherlock Benchmarking study.
- There are 20 Independent/Provider-Sponsored health plans providing 10 million people with Comprehensive products participating this year.
- Of the 14 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, 7 are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Most of the largest members of the Health Plan Alliance that are not focused on public programs participated in this year's Study.
- Of the 34 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving 38.3 million people, participated in this year's Study.

