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BLUE CROSS BLUE SHIELD ADMINISTRATIVE COST TRENDS

COST OPTIMIZATION CONTINUES

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TOPICS

- Long term decline in cost trends
- Changes in cluster costs
- Reasons for cost increases
- The importance of taxes
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM

APPENDICES

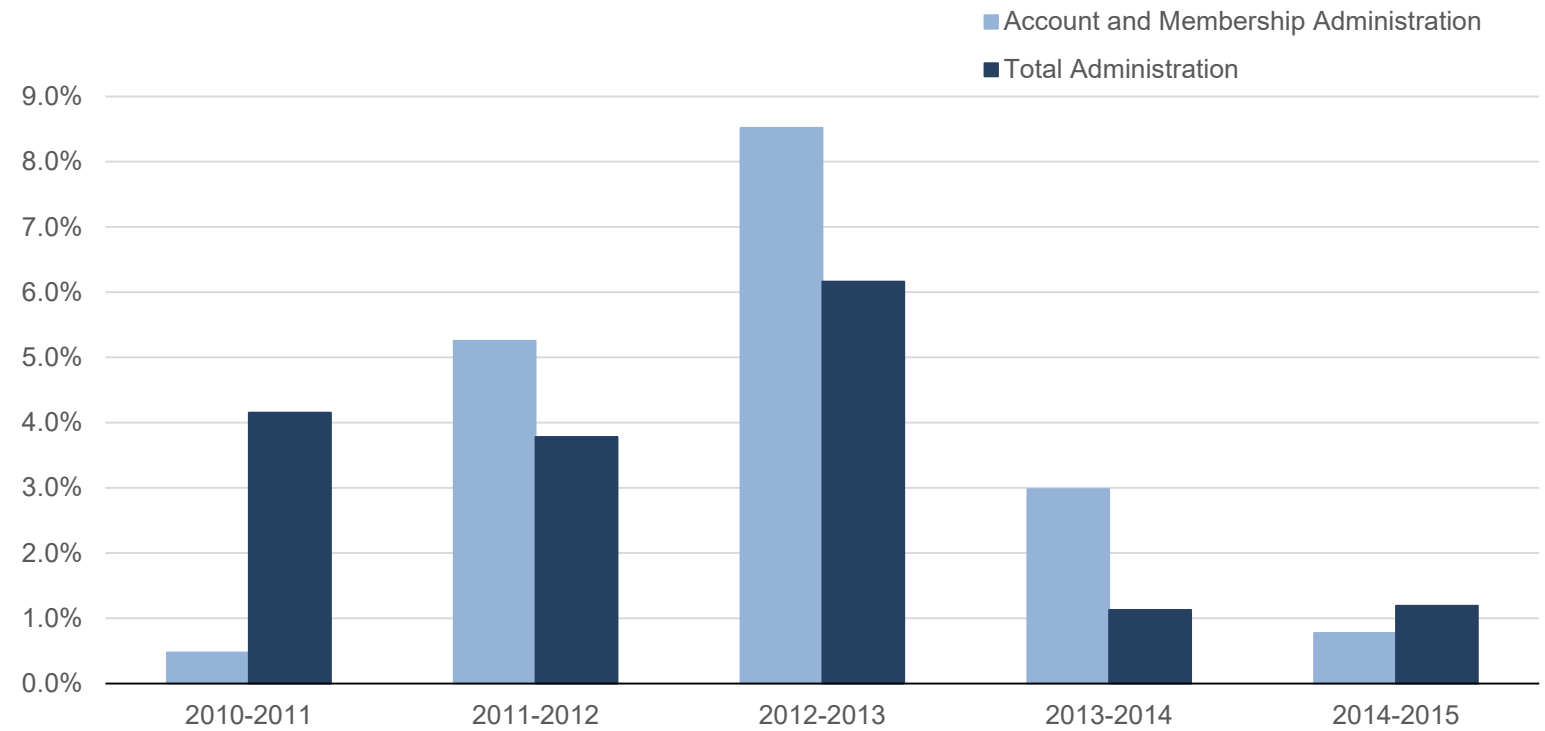
- Last year's values
- Functions in each cluster of expenses
- About the Sherlock Benchmarks



CONTINUED MODEST GROWTH IN TOTAL AND IN ACCOUNT AND MEMBERSHIP ADMINISTRATION.

Figure 1. Sherlock Benchmark Summary

Blue Cross Blue Shield Rates of Change for Account and Membership Administration and Total, Constant Mix



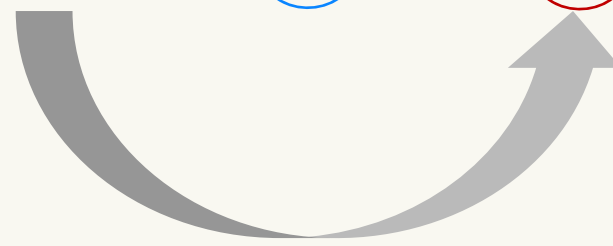
GROWTH CONTINUED TO BE MODEST OVERALL, IN CLUSTERS OTHER THAN MEDICAL AND PROVIDER MANAGEMENT IRRESPECTIVE OF MEASUREMENT.

Figure 2. Sherlock Benchmark Summary

Blue Cross Blue Shield Median Changes in Per Member Per Month Expenses

Functional Area	2014 Data		2015 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	7.2%	2.0%	-0.6%	1.0%
Medical and Provider Management	3.0%	1.6%	3.6%	3.8%
Account and Membership Administration	1.7%	3.0%	0.4%	0.8%
Corporate Services	-0.7%	-1.4%	0.5%	1.1%
Total Expenses	3.5%	1.1%	0.3%	1.2%

Note acceleration in Medical and Provider Management, and faster growth in constant mix versus as reported.



SOURCES OF GROWTH IN 2015

	Chg.	Greatest Change	Highest Weight
Marketing	-0.6%	Rating and Underwriting ¹ ↑	Rating and Underwriting ↑
Med & Provider	3.6%	Provider Net. Mgmt & Svs ↑	Med. Management ↑
Acct & Memb	0.4%	Customer Services ² ↑	Information Systems ↑
Corp. Serv.	<u>0.5%</u>	Corporate Executive & Gov. ↑	Corporate Services ↓
Total	0.3%	Rating and Underwriting ↑	Information Systems ↑

¹ The sharp decline in Advertising and Promotion was central to the trend in this cluster.

² Information Systems also grew rapidly. Claim and Encounter Capture and Adjudication declined.



SOURCES OF “REAL” GROWTH IN 2015

	Chg.	Greatest Change	Highest Weight
Marketing	1.0%	Rating and Underwriting ↑	Commissions ↑
Med & Provider	3.8%	Provider Net. Mgmt & Svs ↑	Provider Net. Mgmt & Svs ↑
Acct & Memb	0.8%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>1.1%</u>	Corporate Exec. & Gov. ↑	Corporate Services ↑
Total	1.2%	Rating and Underwriting ↑	Information Systems ↑

The importance of Provider Network Management and Services and broker Commissions are more evident without the effect of product mix changes.



AFFORDABLE CARE ACT TAXES

- Miscellaneous Business Taxes (mainly ACA) now comprise 17% of total administrative expenses.
- Plans posted median Miscellaneous Business Taxes of \$6.96 in 2015. In 2013, they reported \$0.84.
- Trend (constant mix and universe) had been 4-5%, in 2014, costs increased by 369.1% and 17.5% in 2015.
- Nil for ASO/ASC products and range from \$11.00 to \$15.00 for commercial insured products.
- Include Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee, PCORI/CERF fees and an Annual Fee on Health Insurers.



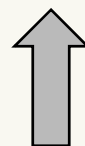
COMPARED WITH VALUES IN APPENDIX A,
COSTS WERE 7.1% LOWER IN 2015. COST
TRENDS, CHANGES IN THE PRODUCT MIX
AND THE UNIVERSE WERE RESPONSIBLE.

Figure 3. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2015 Data

Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$7.75	\$8.22	\$10.80	39%
Medical and Provider Management	3.13	4.07	5.00	26%
Account and Membership Administration	11.81	14.89	16.64	24%
Corporate Services	3.99	4.76	6.22	37%
Total Expenses	\$28.04	\$31.00	\$38.26	26%

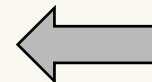


PMPMs VARY BY PRODUCTS.

Figure 4. Sherlock Benchmark Summary
Blue Cross Blue Shield Costs by Product, 2015 Data
Per Member Per Month

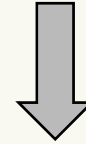


Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$39.93	\$42.99	\$51.37	20%
ASO / ASC	\$16.75	\$23.12	\$26.69	32%
Commercial POS				
Insured	\$38.95	\$44.09	\$45.45	18%
ASO / ASC	\$18.67	\$21.36	\$29.44	30%
Indemnity & PPO				
Insured	\$35.18	\$41.02	\$47.94	28%
ASO / ASC	\$19.22	\$23.58	\$26.29	24%
FEP				
	\$18.12	\$22.68	\$25.96	22%
Medicare Advantage				
	\$74.66	\$84.06	\$101.75	22%
Medicaid	\$32.21	\$32.88	\$37.55	32%
Medicare Supplemental	\$24.06	\$28.06	\$37.16	38%
Comprehensive Total	\$28.04	\$31.00	\$38.26	26%
Medicare Advantage SNP	\$171.72	\$198.93	\$240.49	33%
Stand-Alone Medicare Part D	\$12.19	\$13.94	\$17.81	69%
Stand Alone Dental	\$2.00	\$3.34	\$5.07	50%

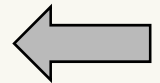


PERCENTS VARY BY PRODUCT, BUT CAN BE ORDERED DIFFERENTLY FROM PMPMs.

Figure 5. Sherlock Benchmark Summary
Blue Cross Blue Shield Costs by Product, 2015 Data
Percent of Premium Equivalents



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	8.4%	8.9%	10.0%	23%
ASO / ASC	4.9%	5.2%	6.0%	20%
Commercial POS				
Insured	9.7%	10.8%	11.5%	34%
ASO / ASC	6.0%	6.5%	7.2%	32%
Indemnity & PPO				
Insured	9.5%	10.9%	11.6%	18%
ASO / ASC	5.8%	6.2%	6.7%	17%
FEP				
	4.0%	4.6%	6.3%	41%
Medicare Advantage				
	8.2%	9.1%	13.0%	32%
Medicaid				
	7.1%	7.3%	9.2%	27%
Medicare Supplemental				
	12.6%	14.2%	19.3%	31%
Comprehensive Total				
	7.3%	8.6%	9.3%	16%
Medicare Advantage SNP				
	7.6%	10.5%	18.1%	80%
Stand-Alone Medicare Part D				
	5.5%	10.0%	17.2%	53%
Stand Alone Dental				
	9.4%	16.5%	23.7%	54%



THERE WERE DECLINES IN THREE OF THE FOUR CLUSTERS, AND OVERALL. THE ORDER OF IMPORTANCE OF THE CLUSTERS IS LIKE THE PMPM MEDIANS.

Figure 6. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2015 Data

Median Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.9%	2.2%	2.4%	35%
Medical and Provider Management	0.9%	1.0%	1.2%	23%
Account and Membership Administration	3.4%	3.6%	4.0%	16%
Corporate Services	1.1%	1.3%	1.7%	23%
Total Expenses	7.3%	8.6%	9.3%	16%



TRENDS IN ADMINISTRATIVE COSTS OF BLUE CROSS BLUE SHIELD PLANS



- Blue costs were \$31.00 versus \$33.37 last year. Actual performance, differences in universe and mix changes were responsible.
- Continued modest growth in administrative expenses. As reported increased by 0.3%. Constant mix grew by 1.2% essentially the same as last year.
- Sharp declines in the rate of growth of Sales and Marketing and Account and Membership Administration. Increases in Medical and Provider Management, Corporate Services and Rating and Underwriting.
- Information Systems and Customer Service costs increased, as did Provider Service.
- ACA and other taxes grew at a double digit rate, now comprise 17% of total PMPM costs.



APPENDIX A. 2014 VALUES

Appendix A. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2014 Data

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$6.53	\$8.20	\$12.22	46%
Medical and Provider Management	3.35	3.93	5.01	26%
Account and Membership Administration	11.72	14.74	17.34	26%
Corporate Services	4.16	4.63	5.53	36%
Total Expenses	\$27.78	\$33.37	\$40.19	28%



APPENDIX B. 2014 VALUES

Appendix B. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2014 Data

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.8%	2.3%	3.4%	41%
Medical and Provider Management	1.0%	1.2%	1.3%	21%
Account and Membership Administration	3.2%	3.7%	4.3%	18%
Corporate Services	1.2%	1.3%	1.6%	28%
Total Expenses	7.9%	9.0%	9.9%	19%



APPENDIX C. FUNCTIONS IN EACH CLUSTER

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-Based Counseling
 - (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) Information Systems Operations and Support Services
 - (b) Information Systems Applications Maintenance
 - (1) Benefit Configuration
 - (2) All Other Applications Maintenance
 - (c) Information Systems Applications Acquisition and Development
 - (1) Amortization of Developed Software
 - (2) Pre-Planning and Project Costs
 - (d) IT 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



APPENDIX D. ABOUT THE SHERLOCK BENCHMARKS

- 45 health plans serving nearly 60 million people with health insurance are participants in this year's Sherlock Benchmarking study.
- Of the 36 U.S.-based Blue Cross Blue Shield primary licensees, one-half are participating in this year's Sherlock Benchmarking Study, either as an enterprise or through a subsidiary.
- Of the 13 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, 11 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 are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Health plans serving more than one-half of all insured Americans are licensed users of the Sherlock Benchmarks since January 1, 2015.
- Now in 19th consecutive year of benchmarking.

