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INDEPENDENT/ PROVIDER-SPONSORED ADMINISTRATIVE COST TRENDS

COST REDUCTION CONTINUES

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TOPICS

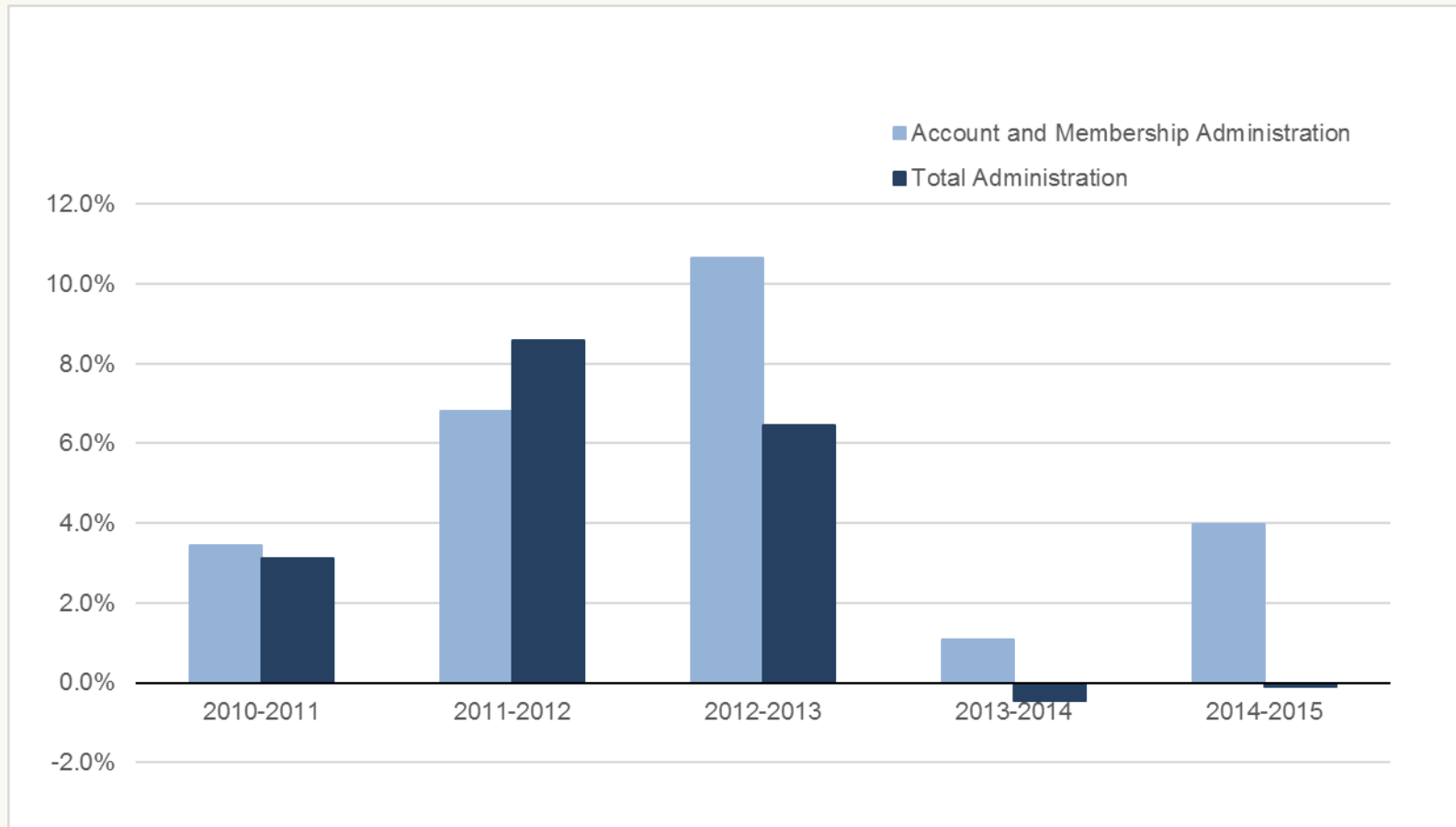
- Long term decline in cost trends
- Changes in cluster costs
- Reasons for cost increases
- The importance of taxes
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM

APPENDICES

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



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



DECLINES CONTINUED OVERALL. DRIVEN BY DECLINES IN MEDICAL AND PROVIDER MANAGEMENT AND CORPORATE SERVICES.

Figure 2. Sherlock Benchmark Summary

Independent / Provider-Sponsored 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	-3.3%	-3.4%	1.9%	2.5%
Medical and Provider Management	5.4%	2.3%	-7.2%	-6.1%
Account and Membership Administration	-0.6%	1.1%	5.3%	4.0%
Corporate Services	1.9%	0.6%	-9.5%	-8.0%
Total Expenses	-2.3%	-0.4%	-1.5%	-0.1%



Note slower declines in constant mix versus as reported.

SOURCES OF GROWTH IN 2015

	Chg.	Greatest Change	Highest Weight
Marketing	1.9%	Rating and Underwriting ¹ ↑	Rating and Underwriting ↑
Med & Provider	-7.2%	Med. Management ↓	Med. Management ↓
Acct & Memb	5.3%	Information Systems ↑	Information Systems ↑
Corp. Serv.	<u>-9.5%</u>	Assoc. Dues/ License Fees ↓	Corporate Services ↓
Total	-1.5%	Rating and Underwriting ↑	Information Systems ↑

¹ The declines in Marketing, Sales and Commissions muted the effect of fast Rating and Underwriting growth in this cluster.

The surge in Information Systems and the declines in Medical Management dominated trend.



SOURCES OF “REAL” GROWTH IN 2015

	Chg.	Greatest Change	Highest Weight
Marketing	2.5%	Rating and Underwriting ↑	Commissions ↑
Med & Provider	-6.1%	Med. Management ↓	Med. Management ↓
Acct & Memb	4.0%	Information Systems ↑	Information Systems ↑
Corp. Serv.	<u>-8.0%</u>	Assoc. Dues/ License Fees ↓	Corporate Services ↓
Total	-0.1%	Rating and Underwriting ↑	Information Systems ↑



AFFORDABLE CARE ACT TAXES

- Miscellaneous Business Taxes (mainly ACA) now comprise 15% of total administrative expenses.
- Plans posted median Miscellaneous Business Taxes of \$6.62 in 2015. In 2013, they reported \$0.61.
- Trend (constant mix and universe) had been 6-7%, in 2014, costs increased by 922.3% and 14.6% in 2015.
- ASO Miscellaneous Business Taxes have a median value of \$0.02 and range from \$11.00 to \$12.00 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 2.6% LOWER IN 2015. 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, 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%

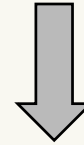


PMPMs VARY BY PRODUCTS.

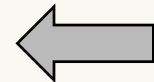
Figure 4. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2015 Data

Per Member Per Month




Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	\$38.61	\$47.64	\$57.64	26%
POS	\$38.21	\$43.20	\$50.33	38%
Indemnity & PPO	\$37.90	\$47.05	\$50.58	29%
Commercial ASO	\$20.32	\$24.14	\$30.20	44%
Medicare				
Advantage	\$73.29	\$81.21	\$87.66	30%
SNP	\$127.35	\$132.88	\$146.32	74%
Cost	\$35.73	\$36.71	\$48.63	33%
Medicaid				
HMO	\$17.97	\$29.59	\$32.78	36%
CHIP	\$18.06	\$29.10	\$36.07	43%
Medicare Supplemental	\$25.33	\$42.55	\$53.50	41%
Comprehensive Total	\$37.05	\$41.04	\$50.31	24%
Stand-Alone Medicare Part D	\$12.53	\$29.57	\$48.67	77%



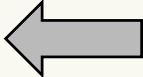
PERCENTS VARY BY PRODUCT, BUT CAN BE ORDERED DIFFERENTLY FROM PMPMs.

Figure 5. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2015 Data
Percent of Premium and/or Equivalent



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	10.1%	10.7%	11.6%	26%
POS	8.3%	9.2%	12.3%	30%
Indemnity & PPO	10.0%	10.8%	13.8%	28%
Commercial ASO	5.3%	5.8%	7.7%	42%
Medicare				
Advantage	7.9%	9.6%	10.6%	35%
SNP	9.7%	10.8%	17.4%	50%
Cost	11.3%	14.1%	14.8%	30%
Medicaid				
HMO	6.9%	7.5%	9.9%	24%
CHIP	11.7%	14.1%	14.7%	31%
Medicare Supplemental	11.6%	17.6%	22.3%	44%
Comprehensive Total	8.6%	8.9%	10.5%	17%
Stand-Alone Medicare Part D	12.3%	15.0%	41.8%	139%



THERE WERE DECLINES OVERALL AND IN CORPORATE SERVICES AN SALES AND MARKETING. THE FORMER REFLECTS FIGURE 2, THE LATTER ALSO REFLECTS MIX.

Figure 6. Sherlock Benchmark Summary

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

Percent of Premium and/or Equivalent

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	1.7%	2.1%	2.4%	28%
Total Expenses	8.6%	8.9%	10.5%	17%



TRENDS IN ADMINISTRATIVE COSTS OF INDEPENDENT / PROVIDER -SPONSORED PLANS



- IPS costs were \$41.04 versus \$42.14 last year. Actual performance, differences in universe and mix changes were responsible.
- Continued declines in administrative expenses. As reported decreased by 1.5%. Constant mix declined by 0.1%, the second decline in a row.
- Sharp declines in Medical and Provider Management, Corporate Services. The growth in Sales and Marketing was modest but Account and Membership Administration growth accelerated.
- Information Systems increased as Medical Management decreased.
- ACA and other taxes grew at a double digit rate, now comprise 15% of total PMPM costs.



APPENDIX A. 2014 VALUES

Appendix A. Sherlock Benchmark Summary
Independent / Provider-Sponsored Costs by Functional Area Cluster, 2014 Data
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$9.08	\$11.49	\$11.92	34%
Medical and Provider Management	5.34	6.48	8.85	34%
Account and Membership Administration	13.39	16.03	18.77	39%
Corporate Services	5.23	6.70	8.01	31%
Total Expenses	\$33.82	\$42.14	\$45.81	27%

APPENDIX B. 2014 VALUES

Appendix B. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2014 Data

Percent of Premium and/or Equivalent

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.2%	2.5%	2.9%	34%
Medical and Provider Management	1.3%	1.4%	2.0%	29%
Account and Membership Administration	3.1%	3.7%	4.5%	30%
Corporate Services	2.0%	2.3%	2.7%	28%
Total Expenses	8.4%	9.2%	10.5%	20%



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
 - (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
 - (b) Internal Sales Commissions
 - (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
 - (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
 - (a) Enrollment and Membership
 - (b) Billing
9. Customer Services
 - (a) Member Services
 - (b) Printed Materials and Other
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (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
 - (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
 - (3) All Other Legal
 - (c) Facilities
 - (e) Audit
 - (f) Purchasing
 - (g) Imaging
 - (h) Printing and Mailroom
 - (i) Risk Management
 - (j) 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 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.
- 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.
- 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.

