



Transcript

Medicaid Administrative Cost Trends: Core Expenses Rebound from Last Year, Increasing by 1.4%

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<Title Page>

I'm Doug Sherlock. Welcome to our summary of the benchmarking study for Medicaid plans. This is the fourth and last in a series of presentations summarizing 2016 performance metrics for various peer groups of health plans. We've posted previous presentations on our web site, along with transcripts, so I hope you won't hesitate to access them if the Blue, Independent/Provider-Sponsored or Medicare health plan information would be helpful.

<Slide 2>

I'm going to breeze through this slide. It shows the topics that I will address, and lists the appendices. Note that the appendices contain last year's values and a list of all the functions in each of the products offered by these Medicaid-focused plans. That means that administrative expenses are segmented into nearly 800 expense/product cells, each of which are separately analyzed. We only summarize broad trends here.

I will be posting the slides and the transcript of this within the next 24 hours. I very much welcome your questions at the end of this presentation and the audience will be muted during the presentation itself.



Before I begin my formal presentation, I want to thank the participants in this year's benchmarking study. There were 10 organizations participating in this year's benchmarking study, of those, eight also participated last year. One of the new plans operated in an expansion state, while the other did not. Of the eight continuously participating plans, six operated in expansion states.

This year is also a significant milestone for us since it marks the 20th year of the Sherlock Benchmarks. Cumulatively, it reflects the experience of approximately 780 health plan years, and includes Blue Cross Blue Shield Plans, Independent / Provider - Sponsored Plans, Medicaid Plans and Medicare Plans. This has been possible through the efforts of my talented colleagues, some visionary health plan officers including an IPS CEO, a Blue Cross Blue Shield CFO and the professionalism of the participating plans especially our primary contacts within those plans, some of whom are on the line today. The word "gratitude" only faintly expresses my view. Indeed, since the subject matter of this web conference is free of charge and beneficial even to more casual analysts, I hope you share my appreciation.

<Slide 3>

To begin this presentation, I would like to offer a little background. The Affordable Care Act has had important effects on health coverage and the mix of sources of such coverage, and this especially affects Medicaid plans. Slide 3 shows the US Census Bureau's analysis on health insurance coverage from 2013 through 2016. The impact of ACA on the number of uninsured is clear with the proportion of Americans uninsured declining from 13.3% to 8.8%, a 4.6 percentage point decline from 2013 through 2016. Of the 13.7 million newly insured Americans, Medicaid comprised 53.7% of the additions, or increasing by 7.4 million enrollees.

<Slide 4>

Slide 4 shows Gallup's data on the Source of Insurance Coverage, which is directionally consistent with US Census Bureau's analysis shown on the previous slide. 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 14.2% in the second quarter of 2017. While "Plan fully paid for by self or family member" comprised the largest increase, of the 3.9 percentage point increase, Medicaid comprised 2.4 percentage points of it.



The number of uninsured, however, increased from 2016 to 2017 by 0.9 percentage points. Much of this was driven by a 1.2 percentage point decline in the number of Plan Fully Paid for by Self or Family Member. According to Gallup, there were a few factors that may have contributed to the increase to the uninsured rate, noting rising insurance premiums from exchanges, coupled with “uncertainty” with ACA. Gallup states that “President Donald Trump's executive order permitting agencies to waive or delay provisions that ‘impose a fiscal burden’ on individuals, as well as the prospect of a new healthcare law may be causing consumers to question whether the penalty for not having insurance will be enforced.”

<Slide 5>

It is in this environment that Medicaid plans are endeavoring to manage their administrative costs. This slide summarizes the administrative cost trends for Medicaid plans since 2009. Account and Membership Administration cluster is comprised of the enrollment, claims, customers services, and information systems functions. By core expenses, these are *total* expenses less Sales and Marketing. We exclude them since rules for Medicaid marketing vary from state to state. The Corporate Services cluster and Medical and Provider Management cluster are included. Generally, Core and Account and Membership Administration expenses experienced similar trends. Since the low point in 2009, both cost metrics posted rapid growth, peaking in 2011. Trends diverged in 2012 and again in 2015 with Core expenses rebounding to an increase of 1.4% and Account and Membership Administration decelerating to an increase of 1.1%.

By the way, when I speak of growth in costs in this presentation, it will generally be in *per member* terms.

<Slide 6>

The comparisons on the prior slide are further developed in the second and fourth columns of this slide. These two columns reflect continuous plans, whose cost values have been reweighted to eliminate differences due to product mix. All values are medians. The arced blue arrow is to draw your attention to the comparison with prior year's values.



You can see that Account and Membership cost growth tapered to 1.1% per member, circled in red, from 4.9%. Core costs recovered from its 5.5% decline to an increase of 1.4%, circled in blue.

The Corporate Services *cluster* posted the largest change of 11.3 percentage points to 2.1% from a *decrease* of 9.2%. Medical and Provider Management costs fell by 2.1% compared to a decline of 4.5% in the prior year.

As noted previously, the Sales and Marketing cluster is not included in Core expenses. Nevertheless, this cluster is central to the Commercial and Medicare products offered by Medicaid-focused plans. Sales and Marketing increased by 6.2 percentage points to a growth of 0.9% versus a decline of 5.3% in the prior year. Total expenses including Sales and Marketing grew by 2.7% compared to a decline of 5.8% last year.

The first and third columns, signified by the arced *red* arrow, show the changes that the continuously reporting plans actually reported to us. In other words, this is before the effect of reweighting to eliminate the difference in product mix for those continuous plans. Core costs increased at a median rate of 3.9% per member compared to a 10.3% *decrease* last year.

The fact that growth is faster without reweighting is an indicator of faster growth in the *more* expensive product areas. While health plans participating during both 2016 and 2017 posted median membership growth of 10.5%. Medicare SNP increased by 19.9% as Medicare Advantage membership increased by 0.4%. Membership in lower cost Medicaid also increased by 10.5%, total Commercial increased by 5.6%, but the more expensive Insured products grew by 12.6%, while the less expensive ASO grew by 0.8%.

<Slide 7>

This slide explains the *reported* rates of change, that is, the values with no adjustments for changes in product mix. That's the red arrow columns from the previous slide.

Core expenses increased by 3.9% PMPM. The fastest growth was in the Corporate Services *cluster*, with a 4.8% growth compared to last year's 9.4% decline. The small Actuarial function experienced the largest change in this cluster. Corporate Executive and Governance and Corporate Services *function* decelerated their declines. The Finance



and Accounting flipped from a low double-digit drop to low single-digit increase and its increase was the most important source of growth in this cluster.

The Medical and Provider Management cluster flipped from a decline of 2.8% last year to an increase of 2.5% this year. Both Medical Management and Provider Network Management and Services increased at single-digit rates. The growth in Medical Management was especially important to this cluster due to it being much larger than Provider Network Management and Services. In addition, Medical Management flipped from a decline in the prior year.

Account and Membership administration increased by 1.0% *down* from 4.9% growth last year. Customer Services posted the largest change with a high single-digit decline from a low single-digit increase last year. Enrollment / Membership / Billing's decline decelerated from a low double-digits to low single-digits. Claim and Encounter Capture and Adjudication flipped from a drop last year to a mid-single digit increase. The most important source of growth in this cluster, Information Systems, slowed slightly from a high single digit increase to a mid-single digit growth. Information systems is among the largest functions so its growth was the most important in this cluster.

For core expenses, the largest factor in the increase was the growth in information systems. Notwithstanding overall cost growth, actuarial had the greatest change. The Sales and Marketing cluster fell by 0.3%, a muted decline from last year's 6.2% decrease. Both the Sales function and Marketing function flipped from declines last year to increases this year. Marketing growth was the fastest in this cluster.

Rating and Underwriting fell by low single digits compared to the low double digit increase last year. Advertising and Promotion slowed its decline from a low double digit drop to a low single digit decrease. External Broker Commissions also flipped from a low single digit decrease to a low single digit gain. It was the most important factor in cost growth.

Total expenses, including Sales and Marketing, increased by 4.0% compared to a 4.1% decline from a year ago. In summary, marketing functional area growth was the greatest change. The Information Systems function's growth was most important because of its size.

<Slide 8>



Slide 8 shows the rates of change and the most important reasons for the changes, *after eliminating the effect of product mix differences*. This are the “real” rates of increase in my view. Compared to the previous slide, Corporate Services cluster didn’t grow quite as fast, while Account and Membership growth was slightly higher by 0.1 percentage point. Sales and Marketing *increased* slightly compared to the as-reported slight decline. The biggest difference was in Medical and Provider Management, which declined on a constant-mix basis but grew on an as-reported basis.

The fastest growing product was Medicare SNP, which is a high-cost product. The slower growth on a “real” basis illustrates the effect of mix favoring growth in this and other higher cost products.

Slide 8 shows many of the same trends as are evident in Slide 7. Information Systems seems to be a key area for these plans’ Account and Membership Administration cluster. Note that the growth in Medical Management was the chief driver in Core cost growth on a constant-mix basis and Corporate Executive and Governance was the fastest growing. On a constant-mix basis, Marketing is the most important driver of Sales and Marketing and Medical Management is the most important source of cost growth in total.

<Slide 9>

Up until now, I have focused solely on the administrative expenses that managers can control. For instance, we have excluded from this discussion capital costs such as interest and dividends because they are the result of financing decisions made at the board level or at least beyond the purview of the operating managers.

For the same reason, we have excluded Miscellaneous Business Taxes from this analysis. These taxes, which are primarily associated with the Affordable Care Act, layer in additional costs. Unless the health plan restructures to consolidate all “government business” in one non-profit, these taxes cannot be affected by management, especially operational management. From an operating perspective, perhaps the central attribute of such taxes is to leverage the need to manage administrative costs.



On a constant-mix basis, per member Miscellaneous Business Tax costs decrease by 1.8% down from an *increase* of 33.6% last year and a surge of 617.7% in the prior year. The median cost of such taxes is \$9.82 per commercial insured member, or approximately 16% of all administrative costs after the effect of the taxes. By comparison, that cost was \$1.20 PMPM in 2010.

These taxes are primarily focused on insured products. The median Annual Fee on Health Insurers is \$3.82 PMPM and the median Exchange User Fee is \$10.17 for Exchange members.

<Slide 10>

To this point, we have focused on rates of change rather than the underlying values of the components of administrative costs. The next few slides speak to the values of these activities, though it is necessarily a summary.

A very rough gauge of trend is difference in the raw numbers between last year's values and this year's. The median PMPM value for core expenses of \$29.56, 1.7% higher than last year's median of \$29.06.

The prior year values are shown in Appendix A, and are also excerpted on this page. Note that the universes vary. The total medians are higher as are the component clusters. There is very little correspondence with the overall administrative cost trends on Slide 5 and the decreases shown here.

Recall that Corporate Services cluster was the fastest growing cluster in slide 6, but is outpaced by Account and Membership Administration's growth in this slide. Corporate Services cluster increased by 8.3% to \$6.17 PMPM, while Account and Membership Administration grew by 11.4% to \$15.30 PMPM. Medical and Provider Management grew by 1.8% to \$7.32 PMPM. Sales and Marketing expenses *fell* by 10.6% to \$7.65 as total costs including Sales and Marketing grew by 2.1% to \$36.26 PMPM.

Dispersion for Core expenses was similar to last year, as measured by the coefficient of variation. Medical and Provider Management and Account and Membership Administration became more dispersed, while Corporate Services cluster became more clustered. Sales and Marketing and Total Expenses experienced lower variance.



<Slide 11>

I have been emphasizing the effect of product mix changes on trend and this slide shows what I mean. Low cost Medicaid Total's median was \$25.70 PMPM. Medicaid HMO and Medicaid CHIP were \$26.57 and \$26.65, respectively. These products offered to the poor and disabled average 46.4% of Comprehensive members.

Total Commercial Insured products were \$41.75 PMPM, while for HMO, POS, and PPO cost \$43.85, \$47.97, and \$42.89, respectively. Health plans participating during both 2016 and 2017 posted median membership growth of 12.6%. Meanwhile, self-insured Commercial ASO costs were \$22.08, about half of the commercial insured products. Commercial ASO membership increased by 0.8%.

Medicare Advantage at \$85.86 PMPM serves seniors at costs essentially double that of comparable insured products for those of working age. Medicare SNP, often serving dual Medicare and Medicaid eligibles as a comprehensive product, is the most expensive product at \$140.41 PMPM, while Medicare Cost was \$62.78.

Medicare Supplement is a secondary payor to the regular Medicare program, and it costs \$33.89 PMPM.

<Slide 12>

This slide shows the percent of premiums (or equivalents in the case of ASO) for all of the products. At the Comprehensive row, you can see that administrative expenses are 8.4% of premiums.

Medicare Supplement was the highest cost product measured on a percent of premium basis at 15.9%. Medicare Advantage, Medicare SNP, and Medicare Cost products, at 9.6%, 11.1%, and 14.6% respectively, are much more similar to commercial products on a percent than on a PMPM basis. This relationship illustrates how administrative requirements of insured people tend to track their health needs.

In other respects, the relationships between the costs of various products measured in percentages parallel those measured in PMPM values. The ASO products are 5.9% of premium equivalents, similar to the low PMPM value. It is substantially lower than the



ratios for insured products that range from 9.4% for HMO, 10.0% for PPO and to 10.6% for Indemnity and PPO. This is also like the PMPM costs.

<Slide 13>

This slide shows the median administrative expenses by cluster of functions. Core expenses were 6.8% of premium equivalents, 0.2 percentage points higher than last year. The median values for Medical and Provider Management, Account and Membership Administration, and Corporate Services were slightly lower compared to the 2015 values. Sales and Marketing was relatively flat from last year, while total expenses were lower at 8.4%.

<Slide 14>

As you know, all the health plans participating in our benchmarking studies segment their costs by product. This makes it possible for us to compare the same products across universes. Compared with the Medicaid-focused plans, Medicaid HMO Core expenses for Blue Cross Blue Shield Plans cost \$25.97 more than Medicaid plans, while 7 percentage points greater on a percent of premiums basis. IPS plans were lower by \$6.93 compared to Medicaid plans, but higher by 1.4 percentage points on a percent of premium basis.

Total expenses *including* Sales and Marketing were similar to Core expense comparisons. Blue Cross Blue Shield Plans were \$25.57 PMPM higher than Medicaid plans and 7 percentage points higher on a percent of premiums basis. IPS plans were \$8.35 PMPM lower, while higher by 1 percentage points on a percent of premiums basis.

There is variation between the plans but IPS plans tend to have lower Medical and Provider Management in the Medicaid HMO product compared to Medicaid-focused plans. Blue Cross Blue Shield Plans tend to have higher expenses in Account and Membership Administration expenses relative to Medicaid-focused plans.

<Slide 15>

Core costs were \$29.56 PMPM compared to \$29.06 last year.



The core cost trends on a constant-mix basis rebounded to an increase of 1.4% PMPM from last year's decline of 5.5%. The effect was more pronounced on an as-reported basis with costs increasing by 3.9%, compared to the 10.3% decline last year. These comparisons are median values.

Compared to last year, Medical and Provider Management slowed its decline, while Account and Membership Administration's growth decelerated. Corporate Services flipped from a decline to an increase.

Among core functions, Actuarial experienced the largest change on an as-reported basis, while it was Corporate Executive and Governance on a constant-mix basis. Both were declines. Information Systems was the most important source of growth on an as-reported basis and Medical Management on a constant-mix basis.

This is the end of my formal presentation. This presentation, (transcript and slides) will be posted on our web site in the next few hours. You will also find the presentations on Blue Cross Blue Shield, Independent / Provider - Sponsored, and Medicare-focused trends. Please contact me for information on licensing these universes. Additional information, including tables of contents on the benchmarks themselves are found on the website. Call me if we can elaborate.

Thank you for your attention to our presentation. Now I would like to open this for questions.

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Questions and Answers

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I want to again thank you for your participation in this web conference. More in-depth and actionable information is available in the Sherlock Benchmarks themselves, which anyone can license. Please contact me directly if you are considering licensing these materials.



Let me thank you all for the hard work that goes into the 15th annual edition of the Medicaid benchmarks. We believe that participation pays off in lower costs, but the “by-product” is something that benefits the industry as a whole. Thank you!

This is Douglas Sherlock of Sherlock Company.