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BP96-41 Oyster Dredging, December 1, 1933. Photograph by A. Aubrey Bodine. Baltimore City Life Museum Collection.

BLUE CROSS BLUE SHIELD ADMINISTRATIVE COST TRENDS

THE FULL IMPACT OF THE AFFORDABLE CARE ACT

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TOPICS

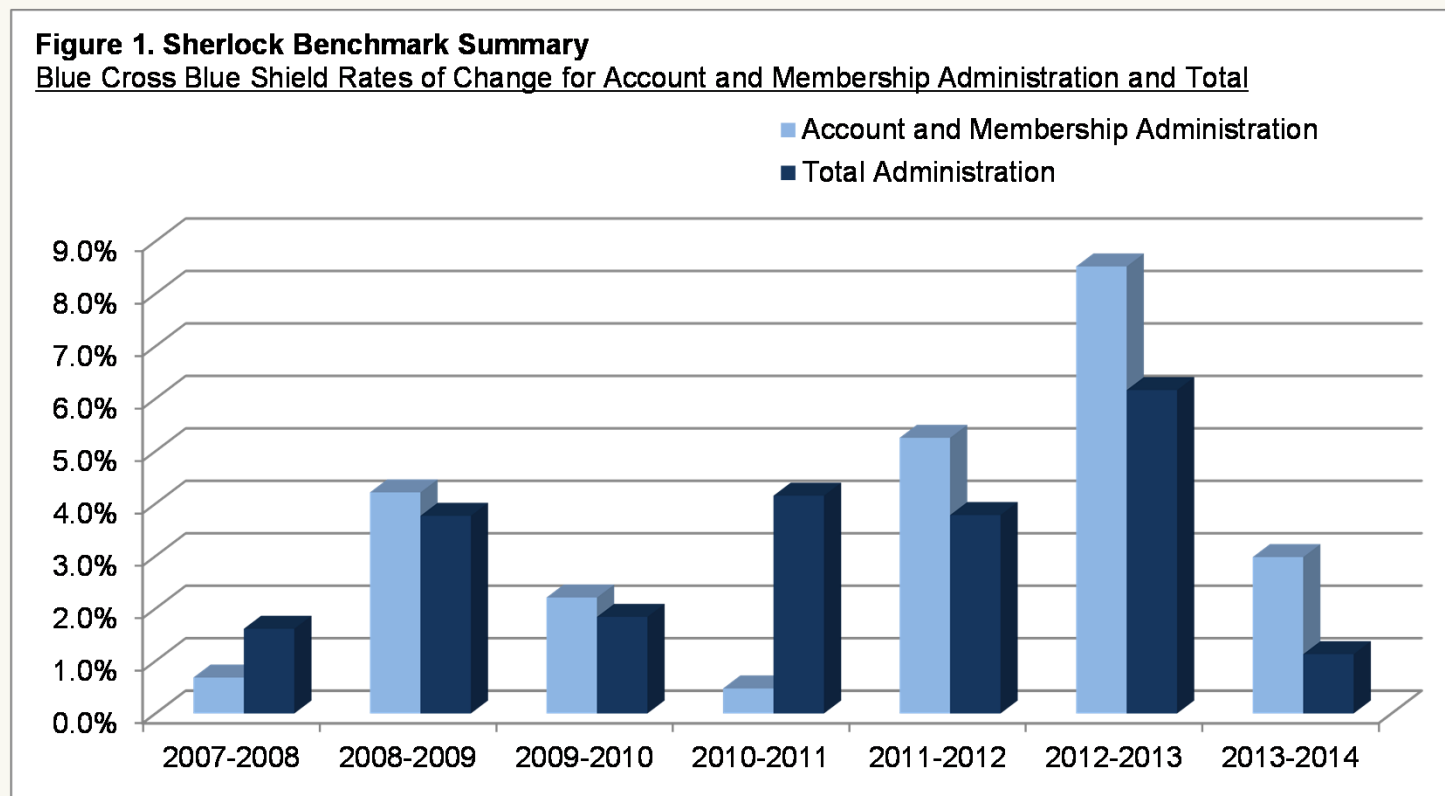
- The Decline in the Rate of Growth
- Explosion in Taxes
- Rates of Increase by Cluster: Constant Universe and Constant Product Mix
- Reasons for Cost Increases
- Costs by Cluster, Percent and PMPM
- Costs by Product, Percent and PMPM

APPENDICES

- Last years values
- Functions in each cluster of expenses



SHARP DECLINE IN THE RATE OF GROWTH IN TOTAL AND IN ACCOUNT AND MEMBERSHIP ADMINISTRATION.



EXPLOSION IN TAXES AS A RESULT OF THE AFFORDABLE CARE ACT.

- ACA taxes include Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee, PCORI/CERF fees and an Annual Fee on Health Insurers.
- Continuously reporting Plans posted average Miscellaneous Business Taxes of \$6.08 in 2014 versus \$1.30 in 2013, an increase of approximately \$4.79.
- Median MBT for *Commercial Insured* was \$12.94 versus \$1.85 in 2013. (Differing universes.)
- Effect was a total administrative expense increase of 18%.



GROWTH WAS LOWER OVERALL, IN EVERY CLUSTER AND IRRESPECTIVE OF MEASUREMENT.

Figure 2. Sherlock Benchmark Summary

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

Functional Area	2013 Data		2014 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	8.1%	8.9%	7.2%	2.0%
Medical and Provider Management	5.7%	4.5%	3.0%	1.6%
Account and Membership Administration	8.9%	8.5%	1.7%	3.0%
Corporate Services	4.2%	4.5%	-0.7%	-1.4%
Total Expenses	7.3%	6.2%	3.5%	1.1%



SOURCES OF GROWTH IN 2014

	Chg.	Greatest Change	Highest Weight
Marketing	7.2%	Sales ¹ ↑	Commissions ↑
Med & Provider	3.0%	Med. Management ↑	Med. Management ↑
Acct & Memb	1.7%	Customer Services ↑	Customer Services ↑
Corp. Serv.	<u>-0.7%</u>	Corporate Executive & Gov. ↑	Corporate Services ↓
Total	3.5%	Customer Services ↑	Customer Services ↑

¹Followed by Rating and Underwriting and Advertising and Promotion.



SOURCES OF “REAL” GROWTH IN 2014

	Chg.	Greatest Change	Highest Weight
Marketing	2.0%	Sales ¹ ↑	Commissions ↑
Med & Provider	1.6%	Provider Net. Mgmt and Services ↑	Med. Management ↑
Acct & Memb	3.0%	Customer Services ↑	Customer Services ↑
Corp. Serv.	<u>-1.4%</u>	Corporate Executive & Gov. ↑	Corporate Services ↓
Total	1.1%	Customer Services ↑	Customer Services ↑

¹Followed closely by Rating and Underwriting.



COMPARED WITH VALUES IN APPENDIX A, COSTS WERE 9.3% HIGHER IN 2014. PRODUCT MIX CHANGES WERE LARGELY RESPONSIBLE.

Figure 3. 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%



EXPENSE RATIOS VARY BY PRODUCTS.

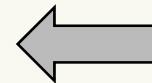
Figure 4. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2014 Data

Per Member Per Month



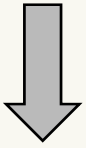
Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$42.13	\$44.39	\$49.77	17%
ASO / ASC	\$20.20	\$22.63	\$26.74	28%
Commercial POS				
Insured	\$33.66	\$41.13	\$44.68	26%
ASO / ASC	\$19.53	\$19.68	\$22.93	28%
Indemnity & PPO				
Insured	\$32.54	\$43.82	\$47.37	30%
ASO / ASC	\$18.20	\$23.81	\$26.99	30%
FEP	\$17.57	\$20.00	\$26.45	31%
Medicare Advantage	\$71.88	\$80.06	\$101.38	20%
Medicaid	\$22.35	\$22.35	\$22.35	NM
Medicare Supplemental	\$24.73	\$31.38	\$45.86	39%
Comprehensive Total	\$27.78	\$33.37	\$40.19	28%
Stand-Alone Medicare Part D	\$12.44	\$16.33	\$19.51	41%
Stand Alone Dental	\$2.41	\$3.88	\$5.14	49%



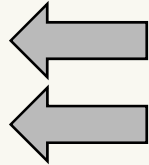
PERCENTS VARY BY PRODUCT, BUT ORDERED DIFFERENTLY FROM PMPMs.

Figure 5. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2014 Data
Percent of Premium Equivalents



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	9.5%	10.8%	12.4%	34%
ASO / ASC	5.3%	6.7%	7.4%	23%
Commercial POS				
Insured	8.0%	10.2%	11.2%	27%
ASO / ASC	5.4%	5.5%	6.0%	9%
Indemnity & PPO				
Insured	9.0%	11.7%	12.5%	22%
ASO / ASC	5.4%	6.4%	7.6%	23%
FEP				
Medicare Advantage	4.2%	4.5%	5.7%	36%
Medicaid	7.9%	8.9%	12.4%	28%
Medicare Supplemental	7.8%	7.8%	7.8%	NM
Comprehensive Total	13.9%	16.7%	20.8%	29%
Stand-Alone Medicare Part D	7.9%	9.0%	9.9%	19%
Stand Alone Dental	7.8%	14.2%	17.8%	49%
	9.1%	16.3%	18.9%	45%




THE ORDER OF IMPORTANCE OF THE CLUSTERS IS SIMILAR TO THE PMPM MEDIANS.

Figure 6. 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%



TRENDS IN ADMINISTRATIVE COSTS OF BLUE CROSS BLUE SHIELD PLANS



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1998-01 Outer Design, December 1, 1993. Photograph by A. Ashby Bollen, Baltimore City Life Museum Collection.

- Lower cost growth overall, in every cluster and irrespective of measurement. Constant mix, constant universe PMPM growth of 1.1%.
- Every cluster of expenses posted declines in the median rate of growth with Corporate Services cluster actually experience a decline in trend.
- ACA taxes surged, resulting in an 18% increase in total PMPM costs.
- Customer Service was central to cost increase. IS costs sharply declined.
- Membership growth was strong, especially in senior products and in ASO/ASC.



APPENDIX A. 2013 VALUES

Appendix A. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2013 Data

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$7.29	\$8.09	\$10.15	36%
Medical and Provider Management	3.42	4.05	4.99	27%
Account and Membership Administration	11.02	13.94	15.60	25%
Corporate Services	4.03	4.44	5.85	31%
Total Expenses	\$27.44	\$30.53	\$36.14	24%



APPENDIX B. 2013 VALUES

Appendix B. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2013 Data

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.8%	2.4%	2.8%	37%
Medical and Provider Management	1.0%	1.1%	1.3%	23%
Account and Membership Administration	3.5%	3.9%	4.5%	19%
Corporate Services	1.2%	1.3%	1.7%	26%
Total Expenses	7.7%	8.7%	10.2%	18%



APPENDIX C. MAJOR FUNCTIONS IN EACH CLUSTER

Appendix C. Sherlock Benchmark Summary

Major Functions Included in Each Administrative Expense Cluster

Sales & Marketing

- Rating and Underwriting
- Marketing
- Sales
- External Broker Commissions
- Advertising and Promotion

Provider & Medical Management

- Provider Network Management and Services
- Medical Management / Quality Assurance / Wellness

Account & Membership Administration

- Enrollment / Membership / Billing
- Customer Services
- Claim and Encounter Capture and Adjudication
- Information Systems Expenses

Corporate Services

- Finance and Accounting
- Actuarial
- Corporate Services Function
- Corporate Executive and Governance
- Association Dues and License/Filing Fees



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