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BP96-4] Oyster Drivage, December 2, 1933. Photograph by A. Aubrey Bodine. Baltimore City Life Museum Collection.

INDEPENDENT / PROVIDER - SPONSORED ADMINISTRATIVE COST TRENDS

THE FULL IMPACT OF THE AFFORDABLE CARE ACT

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TOPICS

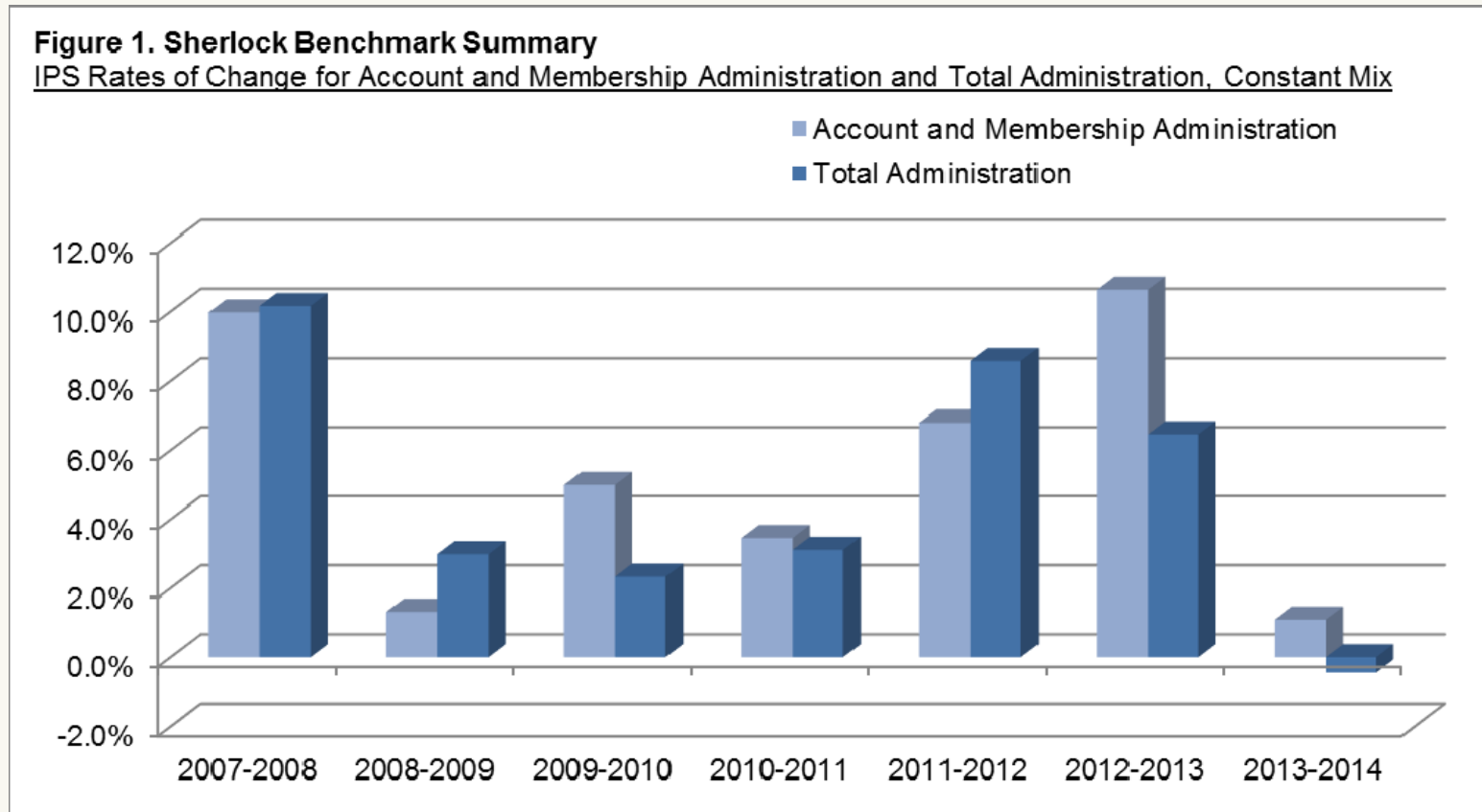
- The Decline in the Rates of Growth
- Explosion in Taxes
- Rates of Increase by Cluster: Constant Universe and Constant Product Mix
- Reasons for Cost Increases
- Costs by Cluster, Percent and PMPM
- Costs by Product, Percent and PMPM

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 ACCELERATED EXPENSE GROWTH.

- 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 \$4.82 in 2014 versus \$0.47 in 2013, an increase of approximately \$4.35.
- Median MBT for *Commercial Insured* was \$9.74 versus \$0.02 in 2013. (Differing universes.)
- Effect of the new taxes was a total administrative expense increase of 11.1%.



GROWTH WAS LOWER OVERALL, IN MOST CLUSTERS AND IRRESPECTIVE OF MEASUREMENT.

Figure 2. Sherlock Benchmark Summary
Independent / Provider-Sponsored 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	2.8%	4.4%	-3.3%	-3.4%
Medical and Provider Management	7.0%	3.3%	5.4%	2.3%
Account and Membership Administration	7.5%	10.6%	-0.6%	1.1%
Corporate Services	-0.3%	0.6%	1.9%	0.6%
Total Expenses	6.8%	6.5%	-2.3%	-0.4%



SOURCES OF “REAL” GROWTH IN 2014

	Chg.	Greatest Change	Highest Weight
Marketing	-3.4%	Rating and Underwriting ¹ ↓	Advertising & Prom. ↓
Med & Provider	2.3%	Provider Net. Mgmt and Srvcs ↑	Med. Management ↑
Acct & Memb	1.1%	Customer Services ↑	Information Systems ↓
Corp. Serv.	<u>0.6%</u>	Actuarial ↓	Corporate Services ↓
Total	-0.4%	Rating and Underwriting ¹ ↓	Advertising & Prom. ↓

¹Followed closely by Advertising and Promotion.

SOURCES OF REPORTED GROWTH IN 2014

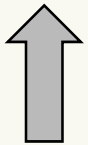
	Chg.	Greatest Change	Highest Weight
Marketing	-3.3%	Rating and Underwriting ¹ ↓	Advertising & Prom. ↓
Med & Provider	5.4%	Provider Net. Mgmt and Srvcs ↑	Med. Management ↑
Acct & Memb	-0.6%	Claims ↑	Information Systems ↓
Corp. Serv.	<u>-1.9%</u>	Corporate Executive ↑	Corporate Services ↓
Total	-2.3%	Rating and Underwriting ¹ ↓	Advertising & Prom. ↓

¹Followed closely by Advertising and Promotion.

COMPARED WITH VALUES IN APPENDIX A, COSTS WERE 9.2% HIGHER IN 2014. PRODUCT MIX CHANGES WERE LARGELY RESPONSIBLE.

Figure 3. 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%

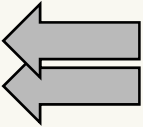


EXPENSE RATIOS VARY BY PRODUCTS.

Figure 4. Sherlock Benchmark Summary
 Independent / Provider-Sponsored Costs by Product, 2014 Data
 Per Member Per Month



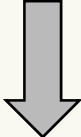
Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	\$35.08	\$44.93	\$52.06	32%
POS	\$32.86	\$43.93	\$50.67	37%
Indemnity & PPO	\$39.77	\$44.87	\$55.51	29%
Commercial ASO	\$17.99	\$22.03	\$25.80	31%
Medicare				
Advantage	\$70.09	\$83.60	\$110.14	46%
SNP	\$135.81	\$139.03	\$173.64	41%
Cost	\$45.94	\$49.86	\$53.78	22%
Medicaid				
HMO	\$18.90	\$29.57	\$35.74	39%
CHIP	\$16.42	\$29.74	\$41.82	50%
Medicare Supplemental	\$32.35	\$41.66	\$48.55	40%
Comprehensive Total	\$33.82	\$42.14	\$45.81	27%
Stand-Alone Medicare Part D	\$13.47	\$21.83	\$32.42	64%



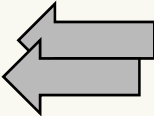
PERCENTS VARY BY PRODUCT, BUT ORDERED DIFFERENTLY FROM PMPMs.

Figure 5. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2014 Data
Percent of Premium Equivalents



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	9.0%	10.6%	12.1%	27%
POS	8.7%	9.1%	11.5%	29%
Indemnity & PPO	11.4%	13.2%	14.4%	23%
Commercial ASO				
	5.1%	6.2%	6.6%	19%
Medicare				
Advantage	7.8%	9.2%	11.9%	51%
SNP	4.6%	8.4%	11.5%	71%
Cost	13.0%	13.7%	14.3%	14%
Medicaid				
HMO	7.8%	8.6%	10.0%	27%
CHIP	11.5%	14.7%	17.5%	40%
Medicare Supplemental				
	17.1%	18.6%	21.0%	51%
Comprehensive Total	8.4%	9.2%	10.5%	21%
Stand-Alone Medicare Part D				
	10.7%	15.0%	20.6%	57%



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

Figure 6. Sherlock Benchmark Summary
Independent / Provider-Sponsored Costs by Functional Area Cluster, 2014 Data
Percent of Premium Equivalents

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%	21%

TRENDS IN ADMINISTRATIVE COSTS OF INDEPENDENT / PROVIDER - SPONSORED PLANS



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1898-01 Over Design, December 1, 1953. Photograph by A. Aubrey Bodine. Baltimore City Life Museum Collection.

- Costs declined overall, for most clusters and irrespective of measurement. Constant mix, constant universe PMPM growth of 0.4%. Unprecedented in recent years.
- Except for Corporate Services every cluster of expenses posted declines in growth and Sales & Marketing actually declined.
- ACA taxes surged, resulting in an 11% increase in total PMPM costs.
- Advertising and Promotion, Rating and Underwriting and Information Systems were central to declines. But Customer Service costs increased.
- Membership growth was strong, especially in senior products and in ASO/ASC.



APPENDIX A. 2013 VALUES

Appendix A. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2013 Data

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$8.78	\$10.80	\$12.87	31%
Medical and Provider Management	5.37	6.38	7.84	31%
Account and Membership Administration	11.23	15.29	18.32	44%
Corporate Services	4.87	6.16	8.22	32%
Total Expenses	32.12	38.59	48.58	28%

APPENDIX B. 2013 VALUES

Appendix B. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2013 Data

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.4%	2.8%	3.1%	33%
Medical and Provider Management	1.3%	1.7%	1.8%	20%
Account and Membership Administration	3.0%	3.7%	4.9%	36%
Corporate Services	1.2%	1.6%	1.9%	28%
Total Expenses	8.5%	9.7%	10.6%	22%

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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