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8996-4] Oyster Dredging, December 1, 1933. Photograph by A. Aubrey Bodine. Baltimore City Life Museum Collection.

MEDICAID MCO ADMINISTRATIVE COST TRENDS

THE FULL IMPACT OF THE AFFORDABLE CARE ACT

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1

COST TRENDS ACCELERATED IN TOTAL AND IN ACCOUNT AND MEMBERSHIP ADMINISTRATION.

Figure 1. Sherlock Benchmark Summary

Medicaid Plans' Rates of Change for Account and Membership Administration and Subtotal: Core, Constant Mix



MEDICAID MADE A DIFFERENCE IN REDUCING THE RATE OF UNINSURED.

Figure 2. Sherlock Benchmark Summary
Health Insurance Coverage in the United States
(000's)

	2013		2014		Change	Percent Change
Any Health Plan	271,606	86.7%	283,200	89.6%	11,594	4.3%
Any Private Plan	201,038	64.1%	208,600	66.0%	7,562	3.8%
Employment-based	174,418	55.7%	175,027	55.4%	609	0.3%
Direct purchase	35,755	11.4%	46,165	14.6%	10,410	29.1%
Any Government Plan	108,287	34.6%	115,470	36.5%	7,183	6.6%
Medicare	49,020	15.6%	50,546	16.0%	1,526	3.1%
Medicaid	54,919	17.5%	61,650	19.5%	6,731	12.3%
Military health care	14,016	4.5%	14,143	4.5%	127	0.9%
Uninsured	41,795	13.3%	32,968	10.4%	-8,827	-21.1%
Total	313,401		316,168		2,767	0.9%

Source: <https://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-253.pdf>



MEDICAID MADE A DIFFERENCE IN REDUCING THE RATE OF UNINSURED.

Figure 3. Sherlock Benchmark Summary

Source of Insurance Coverage

	Q2 2013	Q2 2014	Q2 2015	Change
Current or Former Employer	44.4%	43.5%	43.4%	-1.0%
Plan Fully Paid for by Self or Family Mer	16.7%	20.7%	20.9%	4.2%
Medicaid	6.8%	8.4%	9.5%	2.7%
Medicare	6.4%	6.9%	7.6%	1.2%
Military / Veterans	4.3%	4.7%	4.9%	0.6%
A Union	2.8%	2.5%	2.5%	-0.3%
(Something Else)	3.8%	3.8%	4.1%	0.3%
No Insurance	21.2%	16.2%	13.8%	-7.4%

Source: <http://www.gallup.com/poll/184064/uninsured-rate-second-quarter.aspx>



TOPICS

- Background
- The Increase 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



GROWTH WAS HIGHER OVERALL AND IN ALL CLUSTERS, EXCEPT SALES AND MARKETING.

Figure 4. Sherlock Benchmark Summary

Medicaid Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2013 Data		2014 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Medical and Provider Management	2.9%	0.2%	4.6%	5.6%
Account and Membership Administration	2.7%	1.2%	3.1%	3.8%
Corporate Services	0.0%	-0.6%	4.3%	5.5%
Subtotal: Core Expenses	3.2%	1.6%	6.1%	6.3%
Sales and Marketing	-1.4%	-1.0%	-4.8%	-4.2%
Total Expenses	0.2%	-1.4%	2.9%	3.3%



SOURCES OF “REAL” GROWTH IN 2014

	Chg	Greatest Change	Highest Weight
Med & Provider	5.6%	Provider Network Management ¹ ↑	Med. Management ↑
Acct & Memb	3.8%	Enrollment / Membership / Billing ↑	Claims ↑
Corp. Serv.	5.5%	Actuarial ↑	Finance and Accting ↑
Total Core	6.3%	Enrollment / Membership / Billing ↑	Med. Management ↑
Sales and Mkt.	-4.2%	Rating and Underwriting ↓	Rating and Underwriting ↓
Total	3.3%	Enrollment / Membership / Billing ↑	Med. Management ↑

¹Followed closely by Medical Management.



SOURCES OF REPORTED GROWTH IN 2014

	Chg	Greatest Change	Highest Weight
Med & Provider	4.6%	Medical Management ↑ ←	Med. Management ↑
Acct & Memb	3.1%	Enrollment / Membership / Billing ↑	Claims ↑
Corp. Serv.	4.3%	Assc. Dues & License / Filing ↑ ←	Finance and Accting ↑
Total Core	6.1%	Enrollment / Membership / Billing ↑	Med. Management ↑
Sales and Mkt.	-4.8%	Rating and Underwriting ↓	Commissions ↓ ←
Total	2.9%	Rating and Underwriting ↓	Med. Management ↑



COMPARED WITH VALUES IN APPENDIX A,
CORE COSTS WERE 14.3% HIGHER IN 2014.
PRODUCT MIX CHANGES WERE LARGELY
RESPONSIBLE.

Figure 5. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2014 Data

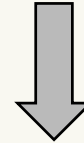
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	\$4.91	\$7.75	\$8.75	26%
Account and Membership Administration	12.73	13.42	16.26	30%
Corporate Services	5.25	6.32	7.21	22%
Subtotal: Core Expenses	\$25.09	\$27.99	\$31.04	22%
Sales and Marketing	\$7.37	\$9.71	\$11.56	29%
Total Expenses	\$31.98	\$37.69	\$42.73	20%



EXPENSE RATIOS VARY BY PRODUCTS.

Figure 6. Sherlock Benchmark Summary
Medicaid Plans' Costs by Product, 2014 Data
Per Member Per Month



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	\$23.32	\$29.09	\$34.35	26%
HMO	\$23.73	\$29.57	\$34.35	25%
CHIP	\$12.06	\$14.52	\$22.63	55%
Medicare	\$79.42	\$104.74	\$108.64	31%
Advantage	\$72.22	\$99.72	\$104.50	39%
SNP	\$135.81	\$139.03	\$139.84	16%
Commercial Insured Total	\$35.80	\$38.78	\$44.72	19%
HMO	\$36.38	\$37.49	\$44.93	14%
POS	\$37.53	\$41.74	\$44.63	16%
Indemnity & PPO	\$32.96	\$41.74	\$47.24	27%
Commercial ASO	\$18.46	\$23.26	\$25.63	20%
Comprehensive Total	\$31.98	\$37.69	\$42.73	20%



PERCENTS VARY BY PRODUCT, BUT ORDERED DIFFERENTLY FROM PMPMs.

Figure 7. Sherlock Benchmark Summary
 Medicaid Plans' Costs by Product, 2014 Data
 Percent of Premium Equivalents



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	7.0%	8.6%	9.7%	24.9%
HMO	7.1%	8.6%	9.3%	24.7%
CHIP	9.3%	9.7%	10.6%	30.7%
Medicare	7.7%	8.7%	12.1%	26.6%
Advantage	7.8%	12.0%	12.7%	52.9%
SNP	8.4%	9.5%	11.5%	27.9%
Commercial Insured Total	9.3%	10.1%	11.6%	12.9%
HMO	8.7%	9.1%	10.0%	9.6%
POS	8.6%	9.3%	10.2%	19.9%
Indemnity & PPO	11.5%	12.7%	13.9%	21.1%
Commercial ASO	5.8%	6.5%	7.5%	22.9%
Comprehensive Total	8.5%	9.6%	10.0%	13.8%



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

Figure 8. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2014 Data

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	1.4%	2.0%	2.1%	25%
Account and Membership Administration	3.2%	3.7%	3.9%	27%
Corporate Services	1.8%	2.0%	2.4%	22%
Subtotal: Core Expenses	6.4%	7.1%	7.5%	20%
Sales and Marketing	1.9%	2.3%	18.5%	19%
Total Expenses	8.5%	9.6%	10.0%	13.8%



COMPARISONS WITH IPS UNIVERSE

Figure 9. Sherlock Benchmark Summary

Medicaid HMO Product Characteristics by Universe, 2014 Data

	Medicaid	IPS	Combined
Core Costs			
<i>Per Member Per Month</i>			
25th Percentile	\$21.29	\$16.42	\$18.56
Median	26.43	17.91	24.21
75th Percentile	32.07	39.45	32.91
Coefficient of Variation	29%	50%	35%
<i>Percent of Premiums and Equivalentents</i>			
25th Percentile	7.4%	9.0%	7.5%
Median	8.9%	11.6%	9.9%
75th Percentile	11.0%	12.2%	11.8%
Coefficient of Variation	32%	23%	29%
Total Costs			
<i>Per Member Per Month</i>			
25th Percentile	\$23.73	\$17.60	\$21.27
Median	29.57	18.90	28.33
75th Percentile	34.35	39.88	36.29
Coefficient of Variation	25%	58%	37%
<i>Percent of Premiums and Equivalentents</i>			
25th Percentile	8.1%	9.9%	8.1%
Median	10.8%	12.3%	11.2%
75th Percentile	12.5%	12.3%	12.4%
Coefficient of Variation	28%	29%	28%
Plans Offering Medicaid	11	5	16
Medicaid Members (millions)	3.65	0.51	4.16
Comprehensive Total Members (millions)	6.92	3.60	10.51



TRENDS IN ADMINISTRATIVE COSTS OF MEDICAID PLANS



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- Every cluster of Core expenses grew. Constant mix, constant universe Core PMPM growth of 6.3%. Second highest in the past five year.
- All Core clusters posted increases in growth and Sales & Marketing declined.
- ACA taxes surged, resulting in an 15.1% increase in total PMPM costs.
- Enrollment, Customer Services, Provider Network Management and Services and Medical Management were central to increases. But Information Systems costs decreased.
- Membership growth was strong, especially in Medicaid and in senior products.



APPENDIX A. 2013 VALUES

Appendix A. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2013 Data

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	\$5.53	\$7.24	\$8.44	31%
Account and Membership Administration	9.46	14.61	16.51	40%
Corporate Services	4.25	5.05	6.66	38%
Subtotal: Core Expenses	\$20.71	\$24.48	\$28.10	32%
Sales and Marketing	\$5.79	\$8.80	\$12.22	54%
Total Expenses	\$24.53	\$33.57	\$41.27	28%



APPENDIX B. 2013 VALUES

Appendix B. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2013 Data

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	1.5%	1.8%	2.5%	37%
Account and Membership Administration	3.4%	3.9%	4.8%	40%
Corporate Services	2.0%	2.2%	2.8%	22%
Subtotal: Core Expenses	5.2%	6.8%	9.0%	32%
Sales and Marketing	2.4%	2.8%	3.1%	46%
Total Expenses	8.8%	10.5%	11.0%	20%



APPENDIX C. MAJOR FUNCTIONS IN EACH CLUSTER

Appendix C. Sherlock Benchmark Summary

Functions Included in Each Administrative Expense Cluster

Core Functions:

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
Total Information System Expenditures (as expensed)

Corporate Services

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

Non-Core Functions:

Sales & Marketing

Rating and Underwriting
Marketing
Sales
Commissions (external)
Advertising and Promotion



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