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MEDICAID MCO ADMINISTRATIVE COST TRENDS

*PER MEMBER ADMINISTRATIVE
COSTS DECLINED OVERALL,
ACCOUNT AND MEMBERSHIP
ADMINISTRATION INCREASED*

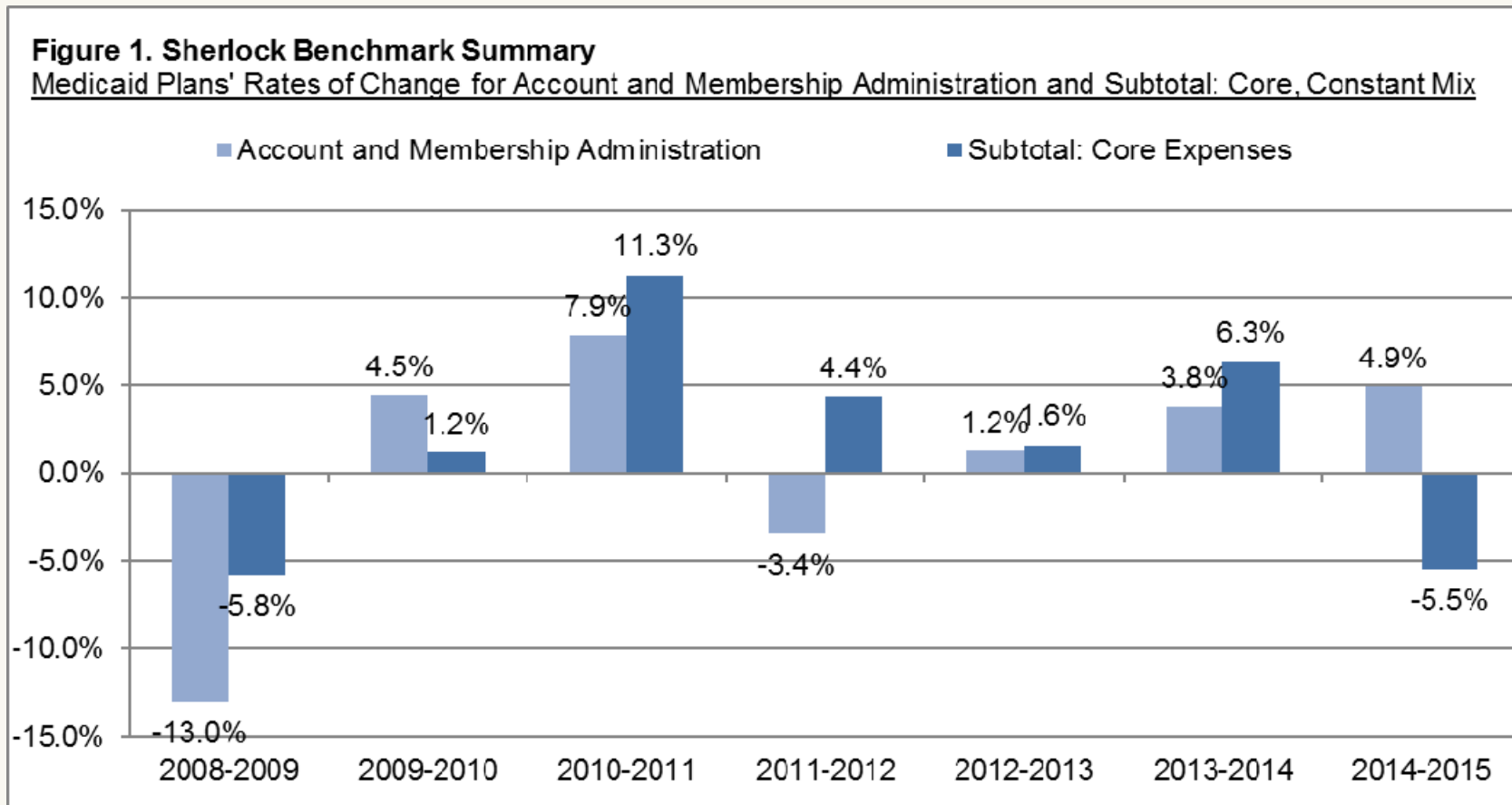
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COST TRENDS DECREASED IN TOTAL BUT INCREASED IN ACCOUNT AND MEMBERSHIP ADMINISTRATION.



TOPICS

- Background
- The Increase in the Rates of Growth
- Increase 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



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		2015		2015 Change	Percent Change	Cml. Change	Percent Change
Any Health Plan	271,606	86.7%	283,200	89.6%	289,903	90.9%	6,703	2.4%	18,297	6.7%
Any Private Plan	201,038	64.1%	208,700	66.0%	214,238	67.2%	5,538	2.7%	13,200	6.6%
Employment-based	174,418	55.7%	175,027	55.4%	177,540	55.7%	2,513	1.4%	3,122	1.8%
Direct purchase	35,755	11.4%	46,165	14.6%	52,057	16.3%	5,892	12.8%	16,302	45.6%
Any Government Plan	108,287	34.6%	115,470	36.5%	118,395	37.1%	2,925	2.5%	10,108	9.3%
Medicare	49,020	15.6%	50,546	16.0%	51,875	16.3%	1,329	2.6%	2,855	5.8%
Medicaid	54,919	17.5%	61,650	19.5%	62,384	19.6%	734	1.2%	7,465	13.6%
Military health care	14,016	4.5%	14,143	4.5%	14,849	4.7%	706	5.0%	833	5.9%
Uninsured	41,795	13.3%	32,968	10.4%	28,966	9.1%	-4,002	-12.1%	-12,829	-30.7%
Total	313,401		316,168		318,878		2,701	0.9%	5,468	1.7%

Source: Health Insurance Coverage in the United States, <https://www.census.gov/content/dam/Census/library/publications/2016/demo/p60-257.pdf>

Note: According to the analysis "Individuals are considered to be uninsured if they do not have health insurance coverage for the entire calendar year" and "The estimates by type of coverage are not mutually exclusive; people can be covered by more than one type of health insurance during the year."



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	Q2 2016	2016 Change	Cml. Change
Current or Former Employer	44.4%	43.5%	43.4%	43.5%	0.1%	-0.9%
Plan Fully Paid for by Self or Family Member	16.7%	20.7%	20.9%	21.8%	0.9%	5.1%
Medicaid	6.8%	8.4%	9.5%	9.6%	0.1%	2.8%
Medicare	6.4%	6.9%	7.6%	7.4%	-0.2%	1.0%
Military / Veterans	4.3%	4.7%	4.9%	4.9%	0.0%	0.6%
A Union	2.8%	2.5%	2.5%	2.5%	0.0%	-0.3%
(Something Else)	3.8%	3.8%	4.1%	4.3%	0.2%	0.5%
No Insurance	21.2%	16.2%	13.8%	13.3%	-0.5%	-7.9%

Source: U.S. Uninsured Rate Remains at Historical Low of 11.0%
<http://www.gallup.com/poll/193556/uninsured-rate-remains-historical-low.aspx>

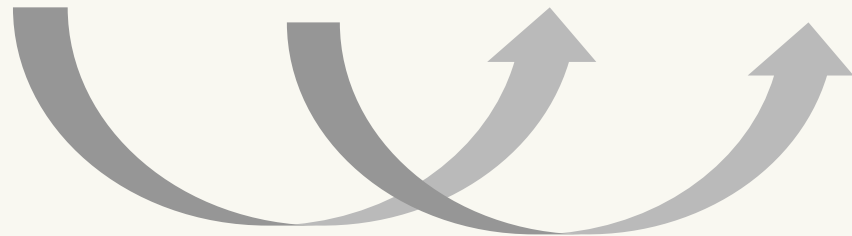


ALL OPERATING EXPENSE CLUSTERS DECLINED BOTH ON AS REPORTED AND CONSTANT MIX BASIS, EXCEPT ACCOUNT AND MEMBERSHIP ADMINISTRATION.

Figure 4. Sherlock Benchmark Summary

Medicaid Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2014 Data		2015 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Medical and Provider Management	4.6%	5.6%	-2.8%	-4.5%
Account and Membership Administration	3.1%	3.8%	6.0%	4.9%
Corporate Services	4.3%	5.5%	-9.4%	-9.2%
Subtotal: Core Expenses	6.1%	6.3%	-10.3%	-5.5%
Sales and Marketing	-4.8%	-4.2%	-6.2%	-5.3%
Total Expenses	2.9%	3.3%	-4.1%	-5.8%



SOURCES OF AS-REPORTED GROWTH IN 2015

	Change	Greatest Change	Highest Weight
Med & Provider	-2.8%	Medical Management ¹ ↓	Medical Management ↓
Acct & Memb	2.5%	Enrollment/Memb./Billing ↓	Information Systems ↑
Corp. Serv.	-9.4%	Corp. Executive & Gov. ↓	Corp. Executive & Gov. ↓
Core	-10.3%	Corp. Executive & Gov. ↓	Information Systems ↑
Sales & Mkt.	-6.2%	Rating and Underwriting ↑	Sales ↓
Total	-4.1%	Corp. Executive & Gov. ↓	Information Systems ↑

¹First decline in Medical Management since 2009.



SOURCES OF “REAL” GROWTH IN 2015

	Change	Greatest Change	Highest Weight
Med & Provider	-4.5%	Medical Management ¹ ↓	Medical Management ↓
Acct & Memb	4.9%	Information Systems ↑	Information Systems ↑
Corp. Serv.	-9.2%	Corp. Executive & Gov. ↓	Corp. Executive & Gov. ↓
Core	-5.5%	Corp. Executive & Gov. ↓	Information Systems ↑
Sales & Mkt.	-5.3%	Marketing ↓	Sales ↓
Total	-5.8%	Corp. Executive & Gov. ↓	Information Systems ↑

¹First decline in Medical Management since 2009.



COMPARED WITH VALUES IN APPENDIX A, TOTAL CORE COSTS WERE 3.8% HIGHER IN 2015.

Figure 5. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2015 Data

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	\$6.24	\$7.19	\$8.64	22%
Account and Membership Administration	12.36	13.74	16.48	30%
Corporate Services	5.23	5.70	6.73	20%
Subtotal: Core Expenses	\$24.02	\$29.06	\$30.37	21%
Sales and Marketing	\$4.48	\$8.56	\$10.56	52%
Total Expenses	\$32.34	\$35.50	\$40.31	24%



This varies from Slide 6 due to Universe mix changes.

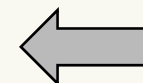


PMPM COSTS VARY BY PRODUCT.

Figure 6. Sherlock Benchmark Summary
Medicaid Plans' Costs by Product, 2015 Data
Per Member Per Month



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	\$21.33	\$26.60	\$31.89	27%
HMO	\$20.93	\$27.62	\$31.91	27%
CHIP	\$18.97	\$25.24	\$31.28	43%
Medicare	\$75.12	\$81.05	\$92.52	22%
Advantage	\$73.29	\$77.16	\$85.26	15%
SNP	\$128.95	\$138.85	\$246.93	66%
Commercial Insured Total	\$39.70	\$44.81	\$49.97	35%
HMO	\$39.17	\$43.28	\$53.38	34%
POS	\$38.45	\$43.20	\$44.29	15%
Indemnity & PPO	\$38.10	\$47.06	\$50.72	26%
Commercial ASO	\$21.37	\$24.67	\$25.14	19%
Medicare Supplement	\$22.97	\$27.73	\$47.25	46%
Comprehensive Total	\$32.34	\$35.50	\$40.31	24%

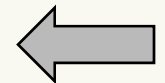


PERCENTS VARY BY PRODUCT, BUT ORDERED DIFFERENTLY FROM PMPMs.

Figure 7. Sherlock Benchmark Summary
Medicaid Plans' Costs by Product, 2015 Data
Percent of Premium Equivalents



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	6.9%	7.5%	7.7%	12.3%
HMO	6.9%	7.2%	7.6%	12.9%
CHIP	9.6%	11.7%	14.0%	42.1%
Medicare	7.6%	8.4%	10.5%	27.9%
Advantage	6.9%	8.1%	8.9%	27.8%
SNP	9.5%	10.1%	17.2%	60.4%
Commercial Insured Total	9.8%	10.6%	14.4%	56.3%
HMO	9.6%	10.8%	16.7%	59.0%
POS	7.8%	8.3%	9.7%	22.1%
Indemnity & PPO	9.8%	11.0%	11.0%	23.2%
Commercial ASO	5.7%	5.8%	6.4%	15.1%
Medicare Supplement	11.2%	12.4%	13.7%	52.7%
Comprehensive Total	7.8%	8.6%	8.7%	13.0%



WHILE ACCOUNT AND MEMBERSHIP ADMINISTRATION REMAINED STEADY, ALL OTHER CLUSTERS DECLINED CONTRIBUTING TO OVERALL LOWER RATIOS.

Figure 8. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2015 Data

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	1.4%	1.7%	2.0%	28%
Account and Membership Administratic	2.9%	3.8%	3.9%	25%
Corporate Services	1.7%	1.9%	2.1%	16%
Subtotal: Core Expenses	6.2%	6.6%	7.4%	18%
Sales and Marketing	1.2%	1.9%	2.3%	43%
Total Expenses	7.8%	8.6%	8.7%	13.0%



The order of importance of the clusters is slightly different than the PMPM medians, with Medical and Provider Management proportion, replacing Corporate Services.



COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 9. Sherlock Benchmark Summary

Medicaid HMO Product Characteristics by Universe, 2015 Data

	Medicaid	IPS	Blue	Combined
Core Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$18.50	\$15.99	\$30.63	\$17.48
Median	24.15	17.23	32.34	27.13
75th Percentile	28.33	32.38	37.05	31.72
Coefficient of Variation	28%	46%	26%	36%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	6.2%	7.3%	9.0%	6.3%
Median	6.4%	9.4%	9.2%	7.0%
75th Percentile	7.0%	9.7%	10.4%	9.0%
Coefficient of Variation	15%	25%	22%	28%
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$20.93	\$17.34	\$32.72	\$18.95
Median	27.62	17.97	35.22	29.74
75th Percentile	31.91	35.69	40.89	32.86
Coefficient of Variation	27%	49%	23%	36%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	6.9%	8.2%	9.9%	6.9%
Median	7.2%	9.9%	10.4%	7.6%
75th Percentile	7.6%	10.5%	11.5%	9.9%
Coefficient of Variation	13%	23%	18%	27%
Plans Offering Medicaid	11	7	4	22
Medicaid HMO Members (millions)	4.55	0.67	0.67	5.89
Comprehensive Total Members (millions)	7.94	4.78	19.03	31.75



TRENDS IN ADMINISTRATIVE COSTS OF MEDICAID PLANS



1998-01 Over Design, December 1, 1991. Photograph by A. Ashby Bode, Baltimore City Life Museum Collection. Copy of original owned by the Maryland Medicaid Society. No reproduction or use without permission.

- All clusters of expenses *except* Account and Membership Administration declined. Constant mix, constant universe PMPM Core expenses fell by 5.5%.
- But Account and Membership Administration expenses increased by 4.9%.
- Corporate Executive & Governance, Enrollment/Membership/Billing, and Medical Management were integral to core costs declines. This was offset by higher IS costs.
- ACA and other taxes grew at a double digit rate, now comprise 15% of total PMPM costs.



APPENDIX A.

2014 PMPM VALUES

Appendix A. 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%



APPENDIX B.

2014 PERCENT OF PREMIUM EQUIVALENTS VALUES

Appendix B. 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%



APPENDIX C. 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

- (a) Provider Relations Services
- (b) Provider Contracting
- (d) Other Provider Network Management and Services

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

Enrollment / Membership / Billing

- (a) Enrollment and Membership
- (b) Billing

Customer Services

- (a) Member Services
- (b) Printed Materials and Other

Claim and Encounter Capture and Adjudication

- (a) Coordination of Benefits (COB) and Subrogation
- (e) Other Claim and Encounter Capture and Adjudication

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

Finance and Accounting

- (a) Credit Card Fees
- (b) All Other Finance and Accounting

Actuarial

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

Corporate Executive and Governance

Association Dues and License/Filing Fees

Non-Core Functions:

Non-Core Functions:

Sales & Marketing

Rating and Underwriting

- (b) Risk Adjustment
- (c) All Other Rating and Underwriting

Marketing

- (a) Product Development and Market Research
- (b) Member and Group Communication
- (c) Other Marketing

Sales

- (a) Account Services
- (b) Internal Sales Commissions
- (c) Other Sales

External Broker Commissions

Advertising and Promotion

- (a) Media and Advertising
- (b) Charitable Contributions



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