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8996-41 Oyster Dingie, December 1, 1933. Photograph by A. Aubrey Bodine. Baltimore City Life Museum Collection.

MEDICARE ADVANTAGE PLANS' BENCHMARKS

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

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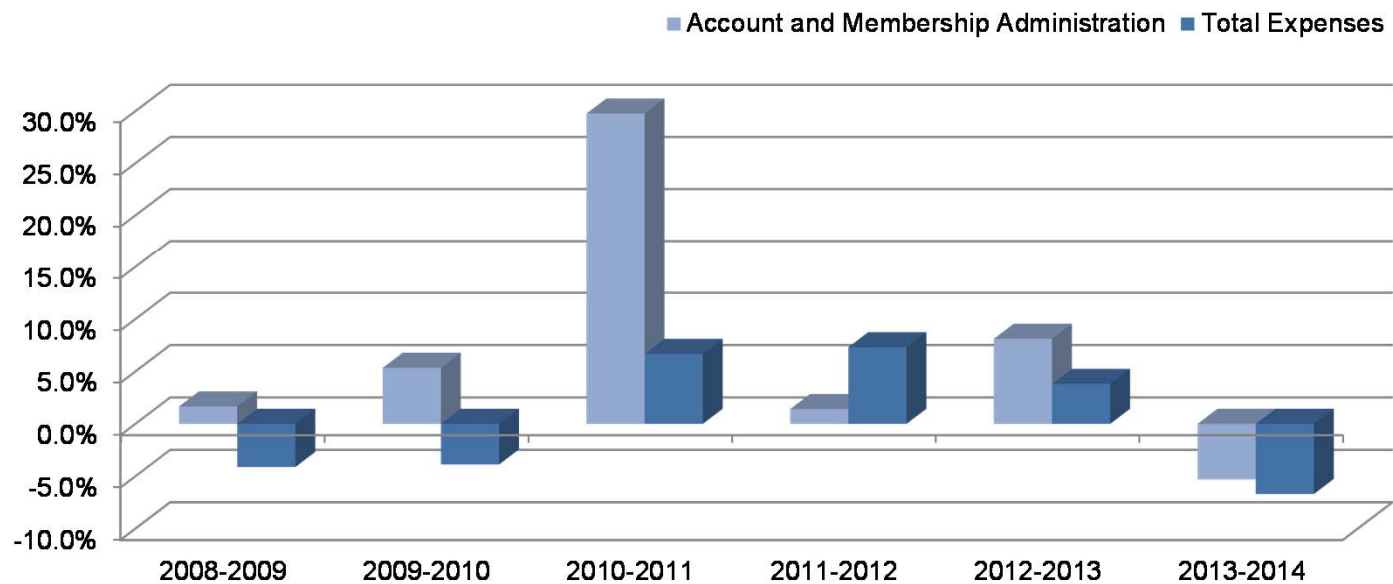
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COST TRENDS FELL IN TOTAL AND IN ACCOUNT AND MEMBERSHIP ADMINISTRATION.

Figure 1. Sherlock Benchmark Summary

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



TOPICS

- Background
- The Decrease in Administrative Costs
- Explosion in Taxes
- Rates of Decline by Cluster: Constant Universe and Constant Product Mix
- Reasons for Cost Decreases
- Costs by Cluster, Percent and PMPM
- Costs by Product, Percent and PMPM

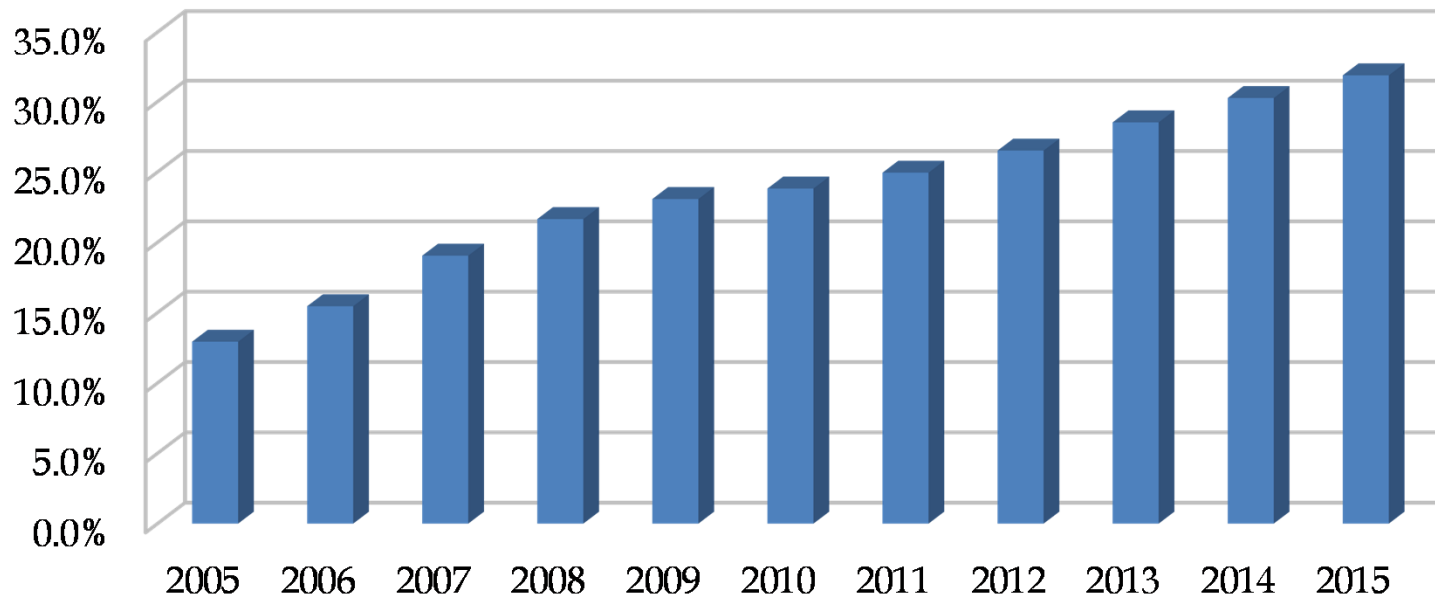
APPENDICES

- Last years values
- Functions in each cluster of expenses



BACKGROUND ON MEDICARE ADVANTAGE

Figure 2. Sherlock Benchmark Summary
Medicare Advantage Membership Trends

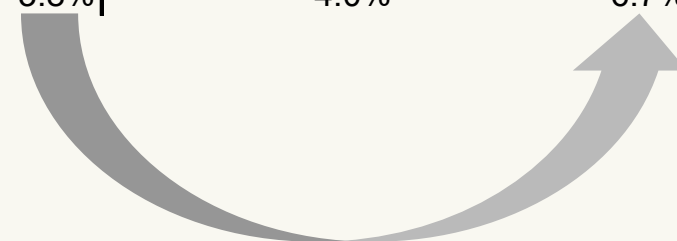


GROWTH WAS LOWER OVERALL AND IN ALL CLUSTERS, EXCEPT SALES AND MARKETING.

Figure 3. Sherlock Benchmark Summary

Medicare Plans' 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	-8.9%	-5.9%	-9.7%	-2.4%
Provider & Medical Management	-1.1%	0.2%	1.6%	-0.8%
Account & Membership Administration	-5.3%	8.1%	-2.4%	-5.3%
Corporate Services	3.4%	2.7%	-4.0%	-4.7%
Total Expenses	-1.9%	3.8%	-4.0%	-6.7%



SOURCES OF AS-REPORTED GROWTH IN 2014

	Chg	Greatest Change	Highest Weight
Sales and Mkt.	-9.7%	Rating and Underwriting ¹ ↓	Rating and Underwriting ↓
Provider & Med	1.6%	Provider Network Management and Services ↓	Provider Network Mgmt. and Svcs. ↓
Acct & Memb	-2.4%	Enrollment ↑	IS ↓
Corp. Serv.	-4.0%	Actuarial ↓	Corp. Svcs. ↑
Total	-4.0%	Rating and Underwriting ↓	Rating and Underwriting ↓

¹Largest decline in Rating and Underwriting in past five years.



SOURCES OF “REAL” GROWTH IN 2014

	Chg	Greatest Change	Highest Weight
Sales and Mkt.	-2.4%	Rating and Underwriting ¹ ↓	Sales ↑ ←
Provider & Med	-0.8%	Provider Network Management and Services ² ↓	Provider Network Mgmt. and Svcs. ↓
Acct & Memb	-5.3%	Enrollment ↑	IS ↓
Corp. Serv.	-4.7%	Actuarial ↓	Actuarial ↓ ←
Total	-6.7%	Rating and Underwriting ↓	Sales ↑ ←

¹Sales increased was the fastest over the past five years.

²Medical Management has grown in the last four out of five years.



COMPARED WITH VALUES IN APPENDIX A, TOTAL COSTS WERE 13.1% LOWER IN 2014.

Figure 4. Sherlock Benchmark Summary

Medicare Plans' Costs by Functional Area Cluster, 2014 Data
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$10.06	\$11.63	\$11.90	28%
Medical and Provider Management	5.21	7.48	9.15	23%
Account and Membership Administration	13.51	15.60	18.33	45%
Corporate Services	6.63	7.33	8.95	67%
Total Expenses	\$34.49	\$42.04	\$45.71	34%



PMPM COSTS VARY BY PRODUCT.

Figure 5. Sherlock Benchmark Summary

Medicare Plans' Costs by Product, 2014 Data

Per Member Per Month



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	\$70.09	\$83.62	\$108.28	31%
Advantage	\$66.64	\$82.42	\$110.14	32%
SNP	\$105.59	\$127.34	\$131.58	24%
Medicaid Total	\$22.87	\$27.10	\$34.54	43%
HMO	\$23.00	\$28.41	\$34.73	43%
CHIP	\$14.35	\$22.63	\$43.48	57%
Commercial Insured Total	\$34.62	\$40.18	\$59.33	34%
HMO	\$37.49	\$49.30	\$59.26	33%
POS	\$34.63	\$43.14	\$52.64	39%
Indemnity & PPO	\$31.90	\$41.33	\$54.55	37%
Commercial ASO	\$18.54	\$20.75	\$23.60	36%
Comprehensive Total	\$34.49	\$42.04	\$45.71	34%
Medicare Part D	\$14.08	\$18.97	\$23.87	73%



PERCENTS VARY BY PRODUCT, BUT ORDERED DIFFERENTLY FROM PMPMs.

Figure 6. Sherlock Benchmark Summary
 Medicare Plans' Costs by Product, 2014 Data
 Percent of Premium Equivalent



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	7.6%	8.8%	11.4%	28%
Advantage	7.6%	9.2%	11.4%	28%
SNP	6.2%	7.7%	9.6%	43%
Medicaid Total	7.4%	8.6%	10.6%	27%
HMO	7.4%	8.6%	10.5%	27%
CHIP	10.6%	14.2%	18.3%	45%
Commercial Insured Total	9.8%	11.6%	14.3%	32%
HMO	8.9%	10.8%	14.6%	35%
POS	9.0%	9.3%	12.9%	35%
Indemnity & PPO	11.3%	12.8%	13.5%	31%
Commercial ASO	5.4%	5.7%	6.5%	33%
Comprehensive Total	8.5%	8.9%	11.3%	23%
Medicare Part D	8.2%	9.4%	10.7%	37%



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

Figure 7. Sherlock Benchmark Summary

Medicare Plans' Costs by Functional Area Cluster, 2014 Data

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.3%	2.4%	19.6%	20%
Medical and Provider Management	1.4%	1.7%	1.9%	18%
Account and Membership Administration	3.1%	3.5%	4.1%	33%
Corporate Services	2.2%	2.5%	3.0%	49%
Total Expenses	8.5%	8.9%	11.3%	22%



COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicare Advantage Product Characteristics by Universe, 2014 Data

	Medicare Plans	IPS Plans	BCBS Plans	Combined Plans
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$66.64	\$74.48	\$71.88	\$69.16
Median	82.42	103.51	80.06	86.39
75th Percentile	110.14	181.48	101.38	107.16
Coefficient of Variation	32%	52%	20%	39%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	7.6%	9.1%	7.9%	7.9%
Median	9.2%	22.9%	8.9%	9.5%
75th Percentile	11.4%	24.7%	12.4%	12.4%
Coefficient of Variation	28%	53%	28%	52%
Plans offering Medicare	10	5	11	26
Medicare Members (millions)	0.68	0.11	0.93	1.72
Comprehensive Total Members (millions)	5.36	2.44	29.17	36.96



TRENDS IN ADMINISTRATIVE COSTS OF MEDICARE PLANS



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- Every cluster of expenses declined. Constant mix, constant universe PMPM expenses fell of 6.7%. Lowest trend in the past five years.
- Account and Membership Administration expenses declined, also the sharpest in the past five years.
- ACA taxes surged, resulting in an 2.8% increase in *total* PMPM costs.
- Rating and Underwriting, Provider Network Management, Information Systems, and Actuarial were central to decreases. But Sales costs increased.
- Comprehensive membership growth was modest, but strong in both Medicaid and Medicare.



APPENDIX A. 2013 VALUES

Appendix A. Sherlock Benchmark Summary

Medicare Plans' Costs by Functional Area Cluster, 2013 Data

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$10.87	\$12.63	\$13.66	42%
Medical and Provider Management	6.73	7.79	9.21	94%
Account and Membership Administration	13.53	17.53	22.71	42%
Corporate Services	6.75	7.95	9.64	57%
Total Expenses	\$37.71	\$48.35	\$62.16	\$0.46



APPENDIX B. 2013 VALUES

Appendix B. Sherlock Benchmark Summary

Medicare Plans' Costs by Functional Area Cluster, 2013 Data

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.6%	2.8%	3.0%	14%
Medical and Provider Management	1.5%	1.7%	2.0%	46%
Account and Membership Administration	3.1%	3.4%	4.3%	34%
Corporate Services	1.7%	2.2%	2.8%	52%
Total Expenses	8.3%	10.3%	11.6%	19%



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
 - (b) HCC Expenses
 - (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

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-based Counseling
 - (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
 - (d) Imaging
 - (e) Other Claim and Encounter Capture and Adjudication
- Information System Expenses
 - (a) Information Systems Operations and Support Services
 - (b) Information Systems Applications Maintenance
 - (1) Benefit Configuration
 - (2) All Other Applications Maintenance
 - (c) Information Systems Applications Acquisition and Development
 - (d) IT Security Administration and Enforcement

Corporate Services Cluster

- 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
 - (i) Other Corporate Services Function
- Corporate Executive and Governance
- Association Dues and License/Filing Fees

