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

MEDICARE ADVANTAGE PLAN BENCHMARKS

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

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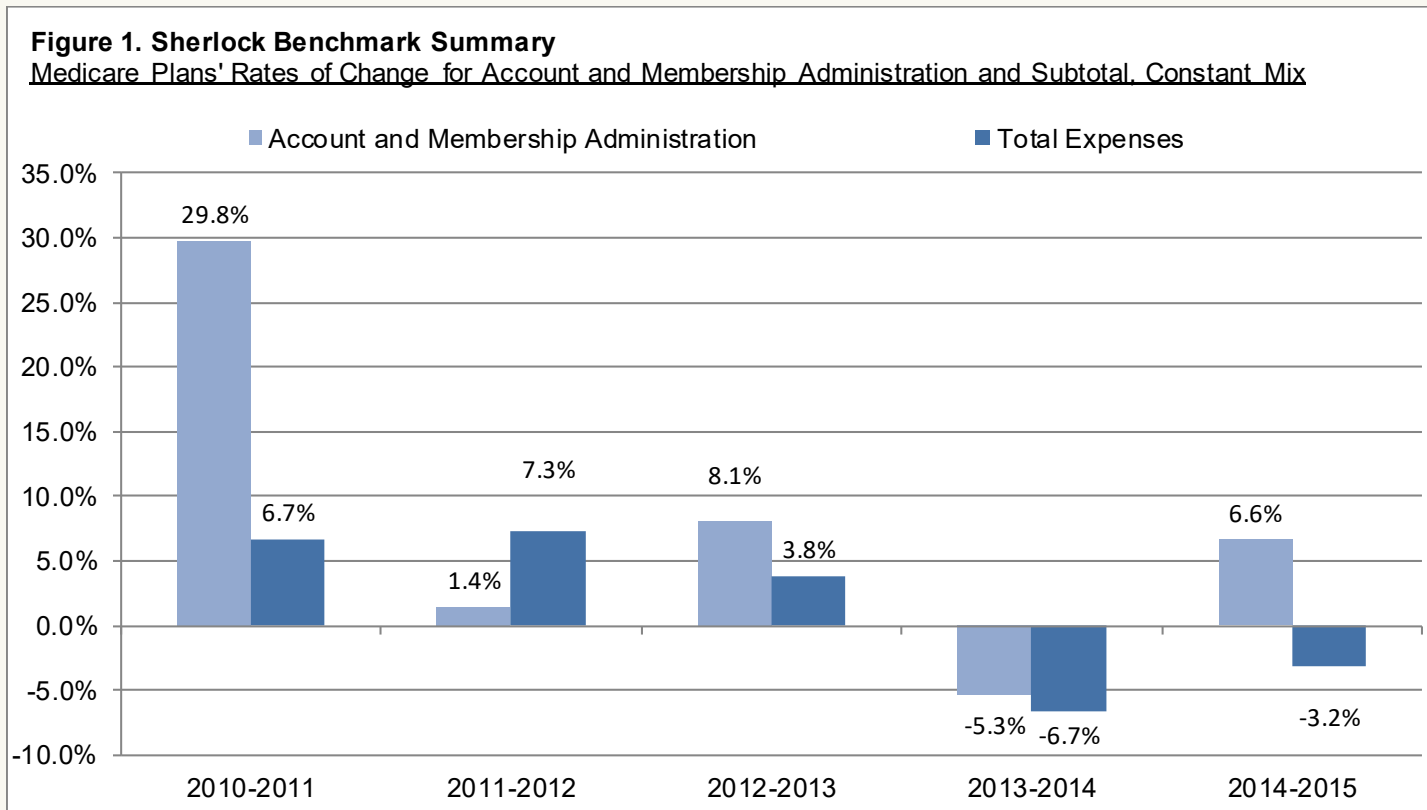
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1

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



TOPICS

- Background on Medicare Advantage
- Increase in Administrative Costs
- 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

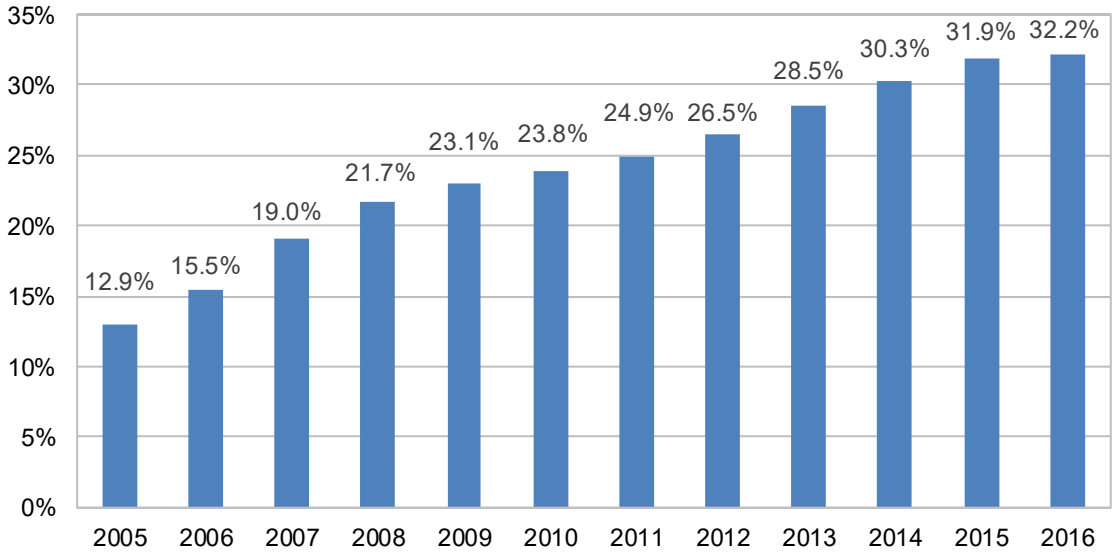
APPENDICES

- Last years values
- Functions in each cluster of expenses



BACKGROUND ON MEDICARE ADVANTAGE

Figure 2. Sherlock Benchmark Summary
Medicare Advantage Share



CONSTANT-MIX GROWTH WAS LOWER IN ALL CLUSTERS, EXCEPT ACCOUNT AND MEMBERSHIP ADMINISTRATION.

Figure 3. Sherlock Benchmark Summary

Medicare Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2014 Data		2015 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	-9.7%	-2.4%	-1.6%	-4.0%
Provider & Medical Management	1.6%	-0.8%	-7.7%	-9.9%
Account & Membership Administration	-2.4%	-5.3%	6.0%	6.6%
Corporate Services	-4.0%	-4.7%	-10.5%	-11.5%
Total Expenses	-4.0%	-6.7%	-4.1%	-3.2%



SOURCES OF AS-REPORTED GROWTH IN 2015

	Change	Greatest Change	Highest Weight
Marketing	-1.6%	Rating and Underwriting ¹ ↓	Sales ↓
Med & Provider	-7.7%	Medical Management ² ↓	Medical Management ↓
Acct & Memb	6.0%	Information Systems ↑	Information Systems ↑
Corp. Serv.	-10.5%	Actuarial ↑	Corporate Services ↓
Total	-4.1%	Actuarial ↑	Sales ↓

¹Largest decline in Rating and Underwriting in past five years, which was also true last year.

²First decline in Medical Management in past five years.



SOURCES OF “REAL” GROWTH IN 2015

	Change	Greatest Change	Highest Weight
Marketing	-4.0%	Rating and Underwriting ¹ ↓	Sales ↓
Med & Provider	-9.9%	Medical Management ² ↓	Medical Management ↓
Acct & Memb	6.6%	Information Systems ↑	Information Systems ↑
Corp. Serv.	-11.5%	Actuarial ↑	Corporate Services ↓
Total	-3.2%	Actuarial ↑	Sales ↓

¹Rating and Underwriting was largest decline in past five years.

²First decline in Medical Management in past five years.



COMPARED WITH VALUES IN APPENDIX A, TOTAL COSTS WERE 6.4% HIGHER IN 2015.

Figure 4. Sherlock Benchmark Summary
Medicare Plans' Costs by Functional Area Cluster, 2015 Data
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$9.11	\$11.25	\$12.15	54%
Medical and Provider Management	7.24	8.52	9.99	63%
Account and Membership Administration	14.78	17.44	19.53	33%
Corporate Services	6.33	7.97	9.42	27%
Total Expenses	\$39.50	\$44.72	\$57.95	29%

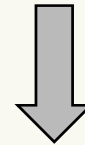


This varies from Slide 5 due to mix changes.



PMPM COSTS VARY BY PRODUCT.

Figure 5. Sherlock Benchmark Summary
Medicare Plans' Costs by Product, 2015 Data
Per Member Per Month

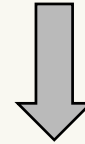


Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	\$81.10	\$84.71	\$91.05	22%
Advantage	\$74.32	\$81.21	\$89.72	24%
SNP	\$132.90	\$142.91	\$231.79	77%
Medicaid Total	\$22.67	\$26.60	\$29.89	32%
HMO	\$22.74	\$27.62	\$29.89	32%
CHIP	\$18.06	\$21.37	\$30.76	52%
Commercial Insured Total	\$40.64	\$50.99	\$59.21	35%
HMO	\$40.38	\$55.72	\$67.94	31%
POS	\$37.08	\$43.58	\$49.29	19%
Indemnity & PPO	\$37.70	\$46.19	\$52.61	58%
Commercial ASO	\$19.96	\$20.88	\$26.17	59%
Medicare Supplement	\$26.51	\$39.93	\$53.94	45%
Comprehensive Total	\$39.50	\$44.72	\$57.95	29%



PERCENTS VARY BY PRODUCT, BUT ORDERED DIFFERENTLY FROM PMPMs.

Figure 6. Sherlock Benchmark Summary
 Medicare Plans' Costs by Product, 2015 Data
 Percent of Premium Equivalents



Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	8.5%	9.8%	10.7%	23%
Advantage	8.3%	9.8%	10.7%	24%
SNP	10.2%	10.8%	13.2%	36%
Medicaid Total	7.0%	7.5%	9.8%	19%
HMO	6.9%	7.5%	9.5%	19%
CHIP	9.4%	9.6%	16.0%	54%
Commercial Insured Total	9.5%	12.0%	12.5%	37%
HMO	10.2%	12.1%	14.8%	36%
POS	7.5%	9.9%	12.6%	32%
Indemnity & PPO	8.5%	10.1%	11.1%	74%
Commercial ASO	4.4%	5.3%	6.0%	63%
Medicare Supplement	11.0%	15.4%	24.2%	55%
Comprehensive Total	7.8%	8.6%	10.5%	19%



DECLINES IN EVERY FUNCTION RATIO CONTRIBUTED TO OVERALL LOWER RATIOS. THIS ILLUSTRATES THAT, NOT ONLY DO COSTS DIFFER BY PRODUCT, BUT THE COMPOSITION OF PRODUCT COSTS DIFFER AS WELL.

Figure 7. Sherlock Benchmark Summary
 Medicare Plans' Costs by Functional Area Cluster, 2015 Data
 Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.9%	2.2%	2.5%	27%
Medical and Provider Management	1.4%	1.6%	1.8%	62%
Account and Membership Administration	3.0%	3.4%	3.6%	27%
Corporate Services	1.7%	2.2%	2.9%	45%
Total Expenses	7.8%	8.6%	10.5%	19%



The order of importance of the clusters is slightly different than the PMPM medians, with Medical and Provider Management the lowest.



COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicare Advantage Product Characteristics by Universe, 2015 Data

	Medicare Plans	IPS Plans	BCBS Plans	Combined Plans
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$74.32	\$75.08	\$74.66	\$74.32
Median	81.21	80.51	84.06	81.21
75th Percentile	89.72	96.75	101.75	101.18
Coefficient of Variation	24%	36%	22%	26%
<i>Percent of Premiums and Equivalents</i>				
25th Percentile	8.3%	8.1%	8.2%	8.1%
Median	9.8%	9.2%	9.1%	9.3%
75th Percentile	10.7%	11.4%	13.0%	11.8%
Coefficient of Variation	24%	43%	32%	33%
Plans offering Medicare	10	8	12	30
Medicare Advantage Members (millions)	0.64	0.46	1.11	2.21
Comprehensive Total Members (millions)	3.72	7.30	44.96	47.12



TRENDS IN ADMINISTRATIVE COSTS OF MEDICARE PLANS



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- All clusters of expenses *except* Account and Membership Administration declined. Constant mix, constant universe PMPM expenses fell of 3.2%.
- But Account and Membership Administration expenses increased by 6.6%.
- Rating and Underwriting, Medical Management, and the Corporate Services Function were integral to costs declines. This was offset by higher IS and Enrollment costs.
- Comprehensive membership growth was moderate in Medicare and overall, for the most part.



APPENDIX A.

2014 PMPM VALUES

Appendix A. 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%



APPENDIX B.

2014 PERCENT OF PREMIUM EQUIVALENTS VALUES

Appendix B. 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%	38%
Corporate Services	2.2%	2.5%	3.0%	49%
Total Expenses	8.5%	8.9%	11.3%	23%



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

