

SHERLOCK EXPENSE EVALUATION REPORT

Medicaid Edition - 2016

Volume I: Financial Metrics



SHERLOCK COMPANY

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Tab 2

Summary Analyses

This section summarizes the Financial Metrics volume of the Sherlock Benchmarks. It includes a summary of median values, a functional area summary, a longitudinal (year-over-year) comparison, comparisons with other Sherlock Company reports and changes in participant plan cost growth.

The median values for each functional area and product are shown in this section. The summary of medians is intended to provide an immediate and accessible metric of central tendency for administrative costs in each product / expense cell. If your plan has submitted data to this survey, median values are printed in black if the plan has low costs and red if it has high costs.

The functional area summary provides a high level analysis by four high-level clusters of functional areas. Results are presented on a per member per month and percent of revenue basis. All of the expense classifications reported by the respondents have been summarized in this section. Revenues are defined as premiums or self-funded fees. Premiums and fees exclude those of pharmacy and mental health, as do their associated expenses.

Sherlock Benchmark values are provided in a slightly different form in *Plan Management Navigator* and figures in this tab facilitate their comparison.

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This section provides an analysis of specific functional expenses across product lines. Values are presented to account for whether services are provided internally or outsourced. Costs are presented on a per member per month and percent of premiums and/or fees basis. Premiums and fees exclude those attributable to pharmacy and mental health.

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This section provides an analysis of the expense composition of each product. All expenses for each product are included in each table. Each figure includes a statistical analysis of expenses. Costs are presented on a percent of premiums and/or fees basis. Premiums and fees exclude those of pharmacy and mental health, as do associated expenses.

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This section provides an analysis of specialty and other self-contained net or total expenses across products. These activities are Pharmacy, Mental Health, ICD-10 Information Systems and COB and Subrogation. Values are presented on a per member per month and percent of premiums or premiums equivalent basis.

In calculating ratios, premiums and equivalents exclude pharmacy and mental health, except they are respectively included for pharmacy and mental health functions. Membership refers to all members except in the case of pharmacy, in which only pharmacy members are used if available.

While Pharmacy, Mental Health and ICD-10 Information Systems are excluded from the total expenses found in Tabs 3-5, Healthcare Recoveries contains a more detailed analysis of COB and Subrogation and Provider Recoveries included in those tabs.

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- **Depreciation and Amortization** reports the size and scope of depreciation and amortization expenses. The non-cash expenses of depreciation and amortization are included in the functions that they support in the main schedule of the administrative expense survey form. In this schedule, only depreciation and amortization expenses are included in each functional area.
- **Strategic Project Expenses** reports the size and scope of those expenses that are considered by your plan to be part of strategic projects. Expenses are reported by functional area. "Strategic" here is intentionally vague, as the purpose of this schedule is to allow plans to compare the amount of expenses that they consider strategic with other plans.
- **Individual Expenses** reports those expenses that are for Individual contracts only. This includes ACA compliant members on and off exchange and grandfathered, non-ACA compliant members. Expenses are reported by functional area.
- **Market Segments** reports various metrics for Individual, Small, Middle, Middle/Large and Large groups.

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Stop-Loss insurance is often sold to self-insured (ASO/ASC) customers of health plans. Since stop-loss has different economic characteristics than ASO/ASC but they are often sold together, it can be illuminating to look at stop-loss and ASO/ASC products as though they were combined. In this section, we report the proportion of ASO/ASC membership that purchases stop-loss coverage and the costs and revenues of the product on a stand-alone basis. We also report the combined economics of the ASO/ASC plus the stop loss insurance to get a complete view of these complementary products. These analyses are performed with and without prescription drug and mental health benefits, expenses and associated revenues.

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The first analysis, "Information Systems Allocations," includes all IS expenses such as infrastructure and software. The second analysis is only for applications that can be traced to specific functional areas.

This analysis is based on Comprehensive Total data. Revenues are defined as premiums and self-funded fees. Premiums and fees exclude those of pharmacy and mental health, as do associated expenses. "Loaded" means that the information systems allocations have been added to the reported functional area costs.

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