

For Immediate Release  
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Contact: Douglas B. Sherlock, CFA  
215-628-2289  
sherlock@sherlockco.com

## **Optimizing Costs in an Uncertain Environment, Blue Cross Blue Shield Plan Administrative Costs Increased by 0.6% in 2016**

Blue Cross Blue Shield Plans had per member administrative expenses increase by 0.6% in 2016, up from a decline of 0.3% in 2015. A shift in mix to more expensive Medicare Advantage meant that reported expenses appeared to increase by 0.8%, similar to the 0.7% increase in the prior year. These changes eliminate confounding effects of differences in the universe and the effects of ACA and other taxes.

After eliminating the effects of mix differences, every cluster of expenses accelerated except for Sales and Marketing, albeit to modest rates of increase. Sales and Marketing costs growth per member was essentially flat. While Rating and Underwriting was the most rapidly growing function overall, the decline in Advertising and Promotion and Commissions dominated the trend in that cluster.

Account and Membership Administration increased by less than 1% per member compared with a decline in 2015. Information Systems cost increases were central. Medical and Provider Management increased due to Provider Network Management and Services growth. Corporate Services growth stemmed chiefly from increases in Finance and Accounting, but also from sub-functions such as Legal and Human Resources.

The median total costs for the universe as a whole were \$32.00 per member per month, higher than last year's \$31.00. The median administrative expense ratio was 8.3% compared with 8.7% last year.

Additional information was published recently in *Plan Management Navigator*, and is posted [here](#).

We will discuss the results via free web conference on Wednesday, June 21 from 2:00 PM to 3:00 PM Eastern Daylight Time. Douglas Sherlock will offer a brief presentation, followed by questions and answers. To participate in the web conference, please register at [sherlockco.com/webinar](http://sherlockco.com/webinar). Once registered, dial-in information and a link to connect will be provided in a confirmation email.

The *Navigator* analysis excerpts from the 2017 Blue Cross Blue Shield Plan edition of the *Sherlock Benchmarks*. This benchmarking study analyzes in-depth surveys of 14 Blue Licensees serving over 38 million members. Surveyed Plans comprise 55% of the members of Blue Cross Blue Shield Plans not served by publicly-traded companies.



Planning under uncertainty entails strategies that are applicable under any scenario. Cost optimization has been called a “no-regret move” for this reason. After all, superior performance should be translatable into growth in market share or earnings under any environmental outcome since optimal costs can be deployed to achieve low prices or superior quality. One tool to inform this “no-regret move” is to employ Sherlock Benchmarks.

Besides the Blue Cross Blue Shield universe, other universes include Independent/Provider-Sponsored plans, Medicare plans and Medicaid plans. Collectively, the approximately 40 participating plans serve 50 million insured Americans.

This is the 20<sup>th</sup> consecutive year of the Sherlock Benchmarks. With cumulative experience of 780 health plan years, they are “the gold standard” of benchmarks used to measure and manage health plan administrative activities.

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Sherlock Company ([www.sherlockco.com](http://www.sherlockco.com)), based in North Wales, Pennsylvania, provides informed solutions for health plan financial management. Since its founding in 1987, Sherlock Company has been known for its impartiality and technical competence in service to its clients.