

For Immediate Release
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Optimizing Costs in an Uncertain Environment, Independent/Provider-Sponsored Administrative Costs Increased by 2.4% in 2016

Independent/Provider-Sponsored health plans' per member administrative expenses increased by 2.4% in 2016, up from a decline of 0.1% in 2015. A shift in mix to more expensive Medicare Advantage meant that reported expenses appeared to increase by 3.0%, compared to the 1.5% decrease in the prior year. These changes exclude 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, albeit to modest rates of increase. Account and Membership Administration increased by 4.9% per member slightly faster than in 2015. Both this cluster of functions and overall growth were moderate compared with historic trends.

Rating and Underwriting was the most rapidly growing function overall, with Risk Adjustment growth especially strong. The Corporate Services function also increased rapidly, especially in the Legal sub-function. Medical Management growth was also important, in part due to the growth in Quality Components.

The median total costs for the universe were \$38.23 per member per month, lower than last year's \$41.04. The median administrative expense ratio was 8.7% compared with 8.9% 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, July 12 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. Once registered, dial-in information and a link to connect will be provided in a confirmation email.

The *Navigator* analysis excerpts from the 2017 Independent/Provider-Sponsored edition of the *Sherlock Benchmarks*. This benchmarking study analyzes in-depth surveys of 20 mainly provider-sponsored health plans serving 10 million members.

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 the Sherlock Benchmarks.

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

This is the 20th 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), 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.