Plan Management Navigator
Analytics for Health Plan Administration

Healthcare Analysts

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Market Segment Costs of Blue Cross Blue Shield Plans

In the wake of the June 12th *CMS Effectuated Enrollment Report*, it is helpful to look at the underlying administrative costs of the affected sectors. Some of the Blue Cross Blue Shield Plans report market segment information for 2016. Market segments distinguish between small groups, middle market, various forms of individual markets and so forth. Market segments are broadly reflected in the product segmentation of the Sherlock Benchmarks since ASO/ASC products are sold to larger groups than are insured products. While the differences in the administrative costs of the product segmentation are evident, the market segmentation provides additional detail.

Up to 9 plans reported market segments. The plans that reported costs for membership on Exchanges served 13.4% of the average "effectuated enrollment."

Market Segmentation and the Affordable Care Act

Health care reformers have focused on market inefficiencies for insurance and on the lack of access to care stemming from a lack of insurance. Alain Enthoven's solution, summarized in 1993 in the journal *Health Affairs*, was that insurance premiums are a "price that people can understand and respond to most effectively, during the annual enrollment, when they have information, choices, and time for consideration."

To make markets more efficient, he and others proposed relatively standard benefit designs, community rating, no preexisting condition limits, consumer choice in an environment of price elasticity, risk adjustment and health insurance purchasing cooperatives as the vehicle through which competition would occur.

He believed that organized systems of care, such as Kaiser Permanente, had cost advantages in avoiding the adversarial relationship between insurers and providers, lack of accountability, poor information for consumers and lack of emphasis on prevention.

Figure 1. Plan Management Navigator

Median Administrative Expenses by Segment[1]

	ACA Compliant			Total	Groups			Note [2]	
	On Exchange	Off Exchange	Grandfathered	Individual	Small	Middle	Large	Commercial Insured	Commercial ASO/ASC
PMPM	$50.48	$51.10	$42.89	$46.88	$49.08	$45.92	$34.51	$42.08	$23.84
Pct. Premium	14.8%	14.6%	16.3%	14.8%	14.7%	14.8%	11.3%	10.2%	6.5%
n =	8	6	6	9	8	6	9	14	14

[1] Excludes pharmacy and mental health.
[2] Includes pharmacy and mental health.

He also noted that, "[b]y putting market pressure on providers to cut costs, market reforms promoting competition if not accompanied by universal coverage could exacerbate access problems. (This would be true of any serious cost containment program.)"

So, to achieve universal coverage, he stressed the need for an employer mandate, an individual mandate, and subsidies to assist low income households, financed through "payroll taxes or more broadly based taxes."

Many of these aspects were mirrored in the Affordable Care Act, though in weaker form than he and others had envisioned. There are exceptions in the employer mandate for the small group market, the self-insured market is exempt for certain "essential health benefits," the individual mandate is weak, and the subsidies are funded by the insured rather than being more broadly based. The risk-adjustment mechanism historically found in price differentials for age was muted, effectively requiring younger insured to subsidize older insured.

On June 12th, CMS reported that "10.3 million individuals had effectuated coverage for February 2017, meaning that they selected a plan that started in January or February, and had paid their first month's premium." This compares with 10.8 million in the same period in 2016. In October of 2016, CMS had projected that "11.4 million individuals will effectuate their enrollment on an average monthly basis over the course of 2017." There is seasonality to "effectuated enrollment" so that, by December of 2016, effectuated enrollment had fallen from 10.8 million in March to 9.1 million in December.

Results

We expect to publish final results for the Blue Cross Blue Shield universe late this week or early next week so that the values in Figure 1 should be considered preliminary. They are in a late stage of validation, however. While comporting with our intuitions, the detail is especially interesting.

Commercial Insured values are provided for comparison only. Since ASO/ASC is only available to groups with actuarially sufficient size to bear the risk of self-insurance, the split between financing captures differences in group size to some degree. The basis for reporting differs slightly and these values are also preliminary.

The two ACA compliant products are relatively similar in costs. Notably, the Sales and Marketing costs are less on the Exchanges, especially external Commissions. However, this and all other totals excludes Miscellaneous Business Taxes which *includes* the Exchange User Fee. Miscellaneous Business Taxes for On Exchange members is $25.13 or 6.8% of premiums. The total costs including these taxes are $74.34 On Exchange versus $61.44 Off Exchange.

Comparing the Off-Exchange Compliant with the Grandfathered, costs for Grandfathered are lower by approximately $8.00 PMPM. Sales and Marketing and Medical and Provider Management are similar though Grandfathered appears to favor a broker distribution system. Account and Membership Administration is much higher in the Compliant product. While Customer Services and Enrollment costs have the greatest differences, Information Systems was the largest source of variance.

Small groups resemble Grandfathered Individual in nearly all ways except that Sales and Marketing costs are higher due to higher broker Commissions.

Small groups cost more to administer than Middle markets. Enrollment, Rating and Underwriting, Actuarial are chiefly responsible for the higher costs.

Middle Markets cost more to administer than do Large Groups. Sales and Marketing costs are lower for Large Groups, chiefly due to lower broker Commissions, though Sales is lower too. Account and Membership Administration is lower for Large Groups because Information Systems costs are lower.

SAVE THE DATE - BLUE BENCHMARK RELEASE

On Wednesday, June 21st from 2:00 PM to 3:00 PM Eastern Daylight Time, we will host a web conference to discuss the Blue Cross Blue Shield results. To participate in the web conference, please register here. Once registered, dial-in information and a link to connect to the web conference will be provided in a confirmation email. We hope you can join us.

We expect to release the results in a *Plan Management Navigator* on Monday of next week.

Independent / Provider – Sponsored results will be released in early July. We'll provide the calendar on this in the near future.

BENCHMARK PARTICIPATION OPPORTUNITY

There is still time to participate in the Medicare and Medicaid Sherlock Benchmark universes. We realize that the Medicare bid process is a heavy commitment so we start the survey process in early June.

While some of the plans have already started the survey, the survey forms are only due back by the third week in July. We validate the data in August and publish the results beginning in September.

Please contact Douglas Sherlock, CFA at 215-628-2289 or sherlock@sherlockco.com if you would like to explore this further.

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