

# SHERLOCK BENCHMARKS

*Larger Plans Edition*



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# SHERLOCK BENCHMARKS

## Larger Plans Edition - 2018

### *Volume I: Financial Metrics*



SHERLOCK COMPANY

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September 2018

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## INTRODUCTION AND BACKGROUND

### *The 2018 Edition of the Sherlock Benchmarks*

Thank you for licensing the Sherlock Benchmarks for Larger Plans. This is twenty-first annual edition of our performance benchmarks for Larger Plans. The Sherlock Benchmarks (*Sherlock Expense Evaluation Report* or *SEER*) represent the cumulative experience of over 818 health plan years and 21 consecutive years.

Health plans endeavor to achieve optimal administrative costs, that is, operating performance that meets needs of consumers, providers and the enterprise. If that is achieved, favorable health care trends amplify earnings and mute losses. Managing what you measure facilitates your achievement of that goal. In a competitive environment, measurement implies comparison with leaders of your industry.

The Sherlock Benchmarks assists in performance improvements for health plans by facilitating comparisons between plans and their universe as a whole. It quantifies health plans' relative performance and identifies sources of variance at a highly granular level. Sherlock Benchmarks are unusually comprehensive and a highly valid analytical tool. The Sherlock Benchmarks help operational and financial managers optimize costs:

- Identify whether Plans are operating at best-of-class costs.
- Prioritize functional areas for optimization.
- Discern key drivers of function variances such as staffing ratios or compensation levels.

- Draw attention to operational metrics that may affect desired outcomes.

Sherlock Benchmarks have additional uses, such as to:

- Evaluate outsourcing of selected MCO operations, and the value-added of management consultants.
- Develop a realistic and cost-conscious budget.
- Execute business combinations including due diligence, estimation of the effect of synergies and development of a plan for successful integration.

The Sherlock Benchmarks are intended for use by health plan management teams and Boards, as well as their advisors such as management consultants and investment bankers. They are also used by vendors and outsourcers to health plans to assure the competitiveness of their services in the market.

Sherlock Benchmarks are described as the Gold Standard for health plan performance benchmarks. Our broad use is such that:

- Health plans serving 167 million insured Americans use the Sherlock Benchmarks, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Of the 34 U.S.-based, non-duplicated Blue Cross Blue Shield primary licensees, fifteen are participating in this

year's Sherlock Benchmarking Study, either as an enterprise or through a subsidiary. Excluding Host or specialty members they serve 52% of all Blue members not enrolled in publicly traded health plans.

- Of the 14 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, 8 are participating in this year's Sherlock Benchmarks.
- Most of the largest members of the Health Plan Alliance that are focused on commercial insured or ASO are participating in this year's Sherlock Benchmarking Study for Independent / Provider – Sponsored health plans.
- Most of the plans represented by board members of America's Health Insurance Plans are users of the Sherlock Benchmarks.

### *Organization of the Sherlock Benchmarks*

The 2018 Sherlock Benchmarks for Larger Plans is a carefully compiled and validated summary of the surveyed operational characteristics of leading health plans. Seven Blue Cross Blue Shield Plans participated this year. Collectively, the Plans reflected here serve 32.7 million people with comprehensive products.

The Sherlock Benchmarks are produced in two volumes. **Volume I: Financial Metrics** includes analyses of administrative expenses through financial ratios such as percent of revenues and per member per month. Data is divided into fourteen product lines and approximately 72 functions. Additional descriptions are found below.

**Volume II: Operational Metrics** complements Volume I by facilitating in-depth analyses of the financial metrics. It is subdivided into four documents.

*Staffing and Compensation* focuses only on the staffing components of operational metrics and includes metrics of compensation, staffing ratios and outsourcing.

*Operational Metrics* translates between operational performance and cost performance. Expenses are, first, often analyzed into factors of user demand, employee productivity, unit cost, staffing ratios and cost per employee. For instance, Claim and Encounter Capture and Adjudication is analyzed into claims per member, productivity of claims processors, cost per claim and per-employee costs of claims. Second, all functions are analyzed by factors of staffing ratios, staffing costs per FTE and non-labor costs. Finally, numerous drivers of costs and quality are also provided. For example, in the claims area these include metrics of electronic submission, auto-adjudication and factors requiring manual intervention.

*Medical Management Metrics* reports the costs and volumes of key medical management activities such as case and disease management.

*Health Care Utilization Metrics* contains health care utilization and cost metrics for forty health services, segmented by product.

In addition to these documents, a comprehensive set of data definitions and calculation notes, called *Common Guidelines*, is provided normally in PDF form for ease of reference.



This document, Volume I, is divided into ten sections:

TAB 1. INTRODUCTION AND BACKGROUND

This section summarizes the organization, conventions, calculations and procedures of the 2018 Sherlock Benchmarks for Larger Plans.

TAB 2. SUMMARY ANALYSES

This section includes several exhibits that summarize the results of the financial metrics. It presents a summary of median costs by product and functional area. Participant editions identify their unfavorable variances by displaying them in red.

Also, this section reports functional expenses summarized into four major functional area clusters, by product. Participant editions show their costs in this and all similar exhibits as the top row in the statistical analysis of each product / expense cell. A separate reconciliation to values published in *Plan Management Navigator* is also provided.

*The description and meaning of the various values presented in the statistical analyses are described later in this tab in the section titled Conventions Used in this Report.*

This section also includes historical expense trends from 2012 through 2017. Trends are calculated both as-reported and constant-mix. The latter adjusts to eliminate the effect any changes in costs attributable to

product mix changes. All rates of change are calculated based solely on continuously participating Plans.

Participant editions have an additional exhibit that displays year-over-year differences. Increases or decreases are expressed as a percent, in dollars and as a percent of total dollars of increase or decrease.

TAB 3. FUNCTIONAL EXPENSES, ACROSS PRODUCTS

This section is an analysis of specific functional expenses as incurred in various across product lines. Values in the statistical analyses are presented on a per member per month and percent of revenue basis, on opposing pages.

TAB 4. FUNCTIONAL EXPENSES OF EACH PRODUCT, PMPM

This section is an analysis of the administrative expense composition for each product. Data is presented on a per member per month basis.

*Note that the values in this section and Tab 5 duplicate those in Tab 3 for ease of use. This approach facilitates application by readers irrespective of whether they first identify cost variance in a function or in a product.*

TAB 5. FUNCTIONAL EXPENSES OF EACH PRODUCT, PERCENT OF PREMIUMS AND/OR FEES

Like Tab 4, this section presents an analysis of the administration expense composition for each product



line. However, results are presented on a percent of revenue basis.

**TAB 6. EXPENSES OF SPECIALTY AND OTHER SELF-CONTAINED SERVICES**

This section provides an analysis of activities and functions of Pharmacy, Behavioral Health and ICD-10 - Information Systems, across product lines. The costs and associated revenues for these functional areas and activities are not included in Tabs 3-5. These activities are not uncommonly outsourced or provided by the health benefit plan sponsor. Therefore, a separate analysis of these areas is beneficial to their understanding and provides more accurate comparability of the other functional areas. Data is presented on a per member per month and percent of revenue basis.

**TAB 7. FUNCTIONAL EXPENSES OF MARKET SEGMENTS**

This section is an analysis of the expense composition of all products sold to Individuals, Small Groups, Middle Market, Large Groups, National Accounts Insured, National Accounts ASO/ASC and local ASO/ASC without regard of the comprehensive product sold to them. Data is presented on a per member per month and on a percent of revenue basis.

The Individual Segment is further split into On Public Exchange, Off Public Exchange and Grandfathered products.

**TAB 8. FINANCE AND ACCOUNTING DETAILS**

Finance and Accounting has a global view of metrics of and operational, tax, accounting / capital intensity policy, solvency and capacity for internal funding of growth. These are gathered here.

Stop Loss insurance is often sold to self-insured (ASO/ASC) customers of health plans. Since stop loss has different economic and cash flow 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 both with and without prescription drug and behavioral health benefits, administrative expenses and associated revenues.

Other operational metrics include those of Broker Overrides and Bonuses and Per Member Claim Costs Outside of Service Area. Metrics of accounting / capital intensity policy include aging of IS, Facilities and Other assets value and non-cash expenses. RBC, Current Ratio and aging of accounts payable and receivable are metrics of solvency. Equity Turnover and Return on and Operating Return on Equity are

metrics of the plan's capacity to internally fund its growth.

**TAB 9. INFORMATION SYSTEMS EXPENSES, ALLOCATED BY SUPPORTED FUNCTIONAL AREA**

This section provides analyses of functional expenses but, because each includes an allocation of Information Systems costs, it provides an end-to-end view of the associated process.

There are two sets of analyses. One is based on all Information Systems costs and the other is based on identifiable Information Systems applications associated with the supported functions. Applications are a subset of total Information Systems costs.

In each instance, we report the proportion and dollar amounts of Information Systems costs that respondents consider appropriate to be allocated to each of the supported functional areas. The PMPM dollar amount of these allocations are presented to illuminate the cost of the functional areas, *including* the allocable Information Systems costs, and what proportion of functional area costs these allocated IS costs represent. Staffing costs are also calculated as a proportion of each functional area's total costs, defined to include the allocated Information Systems costs.

**TAB 10. PARTICIPANT CHARACTERISTICS**

This section presents an extensive profile of the participating universe. We summarize membership,

product mix, groups served, growth, revenues and sources, medical expenses and ratios, administrative expenses and ratios, profit margins and other key attributes of the products offered by the Plans. In addition, this section provides provide information of the business segments offered by the Plans.

Statistical summaries illustrating the distribution of results are included.

*Conventions Used in this Report*

In the *Sherlock Benchmarks*, we analyzed costs for the Plans as a whole, by functional area and also by product. We have employed a number of reporting conventions, which we discuss below.

1. The terms "high" and "low" mean the average of the *two* highest and *two* lowest values, respectively. The standard deviation is the measure of dispersion. To facilitate comparability of standard deviations, we have expressed standard deviation as a percent of the mean, commonly termed the coefficient of variation.
2. Statistical results are unweighted. That is, each metric reflects equally the experience of each Plan that reports a functional area for a product, without regard to the Plan's size.
3. Statistical measures for each functional area are calculated independently. Accordingly, the statistical analysis of total expenses is not the sum of the statistical analysis of each component cost.



4. Results were carefully validated to identify, and correct if possible, reporting errors.
5. Within each firm, ratios based on the *total* scope of products (for instance in the Total and Comprehensive values) are intrinsically weighted by the relative importance of each product to that firm. For instance, a firm with a heavy commitment to Indemnity & PPO ASO will reflect that product's weighting and its company-wide costs will be lower as a result.
6. Trend analyses are calculated to include only data from firms participating in both years of a comparison. For instance, the comparisons between costs in 2017 and 2016 employ the same firms in both years, and the comparisons between costs in 2016 and 2015 employ the same firms in both years. But the 2016 firms may not be the same in both comparison periods.
7. The trend analyses that hold mix constant similarly include only data from firms in both years of comparisons. In addition, to calculate the constant-mix values, each of the participating Plans' cost values for the prior year are reweighted to reflect the current year product mix.

### *Explanatory Notes to Participant Characteristics*

We do not disclose any individually identifiable values without the express permission of the Plan. However, to

understand the comparability of the Plans to users of Sherlock Benchmarks, Tab 10 contains a statistical summary of the Plans in the respondent universe. The following describes the conventions that we employed in making this summary.

#### EXPLANATION OF LINE ITEMS

In the participant characteristics section, we make reference to a number of revenue and expense items that, because of the way we use them, benefit from further explanation. The term "as reported" means as reported on the survey form submitted to us, after the effect of our data validation. Expense classifications used in the Sherlock Benchmarks often differ from Plans reporting to its internal and other external audiences.

Note that in some of the above calculations, we make adjustments to health benefits, administrative expenses and premiums to exclude "Rx and B.H." "Rx" means pharmacy, "B.H." means Behavioral Health, and "ICD-10 - IS" means ICD-10 - Information Systems related costs. This segmentation improves comparability between firms that outsource these activities (or otherwise do not provide them) and those who perform them internally. Accordingly, administration and benefits for these health services are collected in a separate section of the survey form and are therefore not normally included in the calculations of total per member per month costs or in any calculation of percent of premium.

Premium equivalents are estimated by adding health benefits to ASO/ASC fees paid by self-insured groups. Fees are used instead of administrative expenses since fees encompass profits, making the calculation more closely resemble

premiums. When calculations of health benefits include pharmacy and behavioral health, health benefits include any capitation, benefits and subtract the effect of rebates. Administration includes both internal administrative costs and / or internal contract management of otherwise capitated and combined administration and health benefits.

#### EXPLANATION OF PARTICIPANT CHARACTERISTICS RATIOS

Most of these metrics are self-explanatory but a few are worth elaboration. Additional explanation of data elements and calculations are found in the *Common Guidelines*, which accompanies the *Sherlock Benchmarks*. Some additional calculation notes are shown in a table on the following page.

**Mix** – The proportion of each Plan’s product portfolio is calculated based on membership, and revenues and premium equivalents. The denominator for membership is that of the Comprehensive total. Revenues are a blend of fees and premiums, while premium equivalents are fees, adjusted upwards to include health benefits. Premiums and premium equivalents include costs and revenues related to pharmacy and behavioral health. The denominators for revenue metrics of mix equal Comprehensive product revenues plus revenue of Medicare Part D and Stand Alone Dental products.

**Health Benefits Ratio** – Health and Other Benefits Costs divided by Premium / Premium Equivalents. This is calculated both including *and* excluding Rx and B.H.

Health benefits are services that are provided to members as patients. Note that this differs from health benefit definition employed in CMS’s Medical Loss Ratio calculations in that

activities that improve health care quality or health information technology in the medical management and information systems functions may be included as medical expenses. Instead these activities are reflected in our ratios as administrative costs.

**Administrative Expense Ratio** – Administrative Expenses divided by Premium or Fees. We also calculate this based on Premium Equivalents, and these ratios are calculated both including *and* excluding Rx, B.H and ICD-10 - IS.

**Operating Margin** – Operating Earnings divided by Premiums/Self-funded Fees. These ratios are calculated both including *and* excluding Rx, B.H and ICD-10 - IS.



<i>Line Items in "Characteristics"</i>	<i>Insured</i>	<i>ASO/ASC</i>
<b>Premiums or Self Funded Fees</b>	As reported.	As reported.
<b>Premium &amp; Premium Equivalents</b>	As reported.	The sum of Self Funded Fees, Health and Other Benefit Costs (exclude Rx and B.H.), all net Pharmacy Benefits and Behavioral Health Benefits.
<b>Premium / Self-Funded Fees (excluding Rx and B.H.)</b>	Premiums, as reported, minus the sum of administrative and health costs of Pharmacy Management <i>and</i> administrative and health costs of Behavioral Health Management.	Self Funded Fees minus the sum of internal and outsourced administrative costs of Pharmacy and Behavioral Health.
<b>Premium / Premium Equivalents (excluding Rx and B.H.)</b>	Same as above.	Self Funded Fees (excluding Rx and B.H.) plus Health and Other Benefit Costs (excluding Rx and B.H.).
<b>Health and Other Benefit Costs</b>	The sum of Health and Other Benefit Costs (excluding Rx and B.H.), Pharmacy Benefits (net of Rebates), Pharmacy Capitation, Behavioral Health Benefits and Behavioral Health Capitation.	The sum of Health and Other Benefit Costs (excluding Rx and B.H.), Pharmacy Benefits (net of Rebates), Pharmacy Capitation, Behavioral Health Benefits and Behavioral Health Capitation.
<b>Health and Other Benefit Costs (excl. Rx and B.H.)</b>	Health and Other Benefit Costs (excluding Rx and B.H.).	Health and Other Benefit Costs (excluding Rx and B.H.).
<b>Administrative Costs (excl. Rx, B.H. and ICD-10 - IS) PMPM</b>	Administrative costs, excluding those of Rx, B.H. and ICD-10 - IS.	Administrative costs, excluding those of Rx, B.H. and ICD-10 - IS.
<b>Administrative Costs PMPM</b>	Administrative costs, including those of Rx, B.H. and ICD-10 - IS.	Administrative costs, including those of Rx, B.H. and ICD-10 - IS.
<b>Operating Earnings</b>	Premiums, minus the sum of Health and Other Benefit Costs and Total Administrative Expenses.	Self Funded Fees, minus Total Administrative Expenses.
<b>Operating Earnings (excl. Rx and B.H.)</b>	Premiums (excluding Rx and B.H.), minus the sum of Health and Other Benefit Costs (excluding Rx and B.H.) and Total Administrative Expenses (excluding Rx, B.H., and ICD-10 - IS).	Self Funded Fees (excluding Rx and B.H.), minus Total Administrative Expenses (excluding Rx, B.H., and ICD-10 - IS).



## Procedures

The process employed in the development of the Sherlock Benchmarks is to select the Plans, design the survey instrument, assure confidentiality, collect the data, validate and analyze the data and publish the reports. The *Common Guidelines*, employed by all users of the Sherlock Benchmarks, provides the data definitions distributed to each participant for functional area and product descriptions. The data employed in this report was for the period ended December 31, 2017.

### SELECTION OF PLANS

This peer group, along with other Sherlock Benchmark universes, was established to be relatively uniform. Within that constraint, it is open to all Blue Cross Blue Shield Plans possessing the ability to compile high quality segmented financial and operational data. The peer group universe in this analysis consisted of seven Blue Cross Blue Shield Primary Licensees. Six of this year's participants participated in the prior year.

The selected Plans served 32.7 million people with comprehensive health benefits. This total excludes 29,000 served under Medicare SNP, which are not considered comprehensive for the purpose of this universe. These Plans also served 362,000 members of stand-alone Medicare Part D products and 4.2 million people in Stand-Alone Dental products.

Within the Comprehensive products, 81.5% was commercial, or 26.6 million. 16.1 million of the commercial members were

served under some form of self-insurance arrangements, comprising approximately 60.4% of the total commercial members.

Total Medicare Advantage, with 865,000 members, was offered by 6 Plans. It comprised 2.6% of the combined comprehensive membership and 9.9% of revenues for comprehensive products. Medicare Supplement, offered by 7 Plans, comprised 6.2% of members and 4.9% of premiums and self-funded fees for comprehensive products. Medicaid HMO, offered by two Plans, comprised 3.1% of membership. FEP comprised 6.5% of comprehensive membership.

### CONFIDENTIALITY

Confidentiality is an important aspect of this study for competitive, data quality and legal reasons. Accordingly, we employed a number of safeguards to promote confidentiality of company-specific information.

1. Sherlock Company does not identify respondents. Accordingly, with respect to Sherlock Company's communications, only Sherlock Company has certain knowledge of the precise identity of the participants. We do not restrict any communication between the Plans themselves, however.
2. The results of the individual Plans are not disclosed in the Sherlock Benchmarks. The end product is a statistical summary: In these documents, no specific company information is disclosed, except in the case of participants' editions in which only its own results are displayed.



3. The data is provided to Sherlock Company to physical and virtual locations that are under Sherlock Company control. No respondent has physical or electronic access to information provided by any other Plans.
4. We sign mutual confidentiality agreements. The confidentiality agreements require Sherlock Company to keep Plan data confidential and for Plans to restrict use of the Sherlock Benchmarks exclusively for their internal purposes. This agreement underscores the seriousness of Sherlock Company's commitment to the confidentiality of the data.

#### SURVEY DESIGN

The 2018 survey was similar to ones performed in prior years for Blue Cross Blue Shield Plans and other peer groups. The scope and other aspects of the survey were refined based on conversations with past and current respondents and users. One aspect of this refinement, definitions and calculation notes, were memorialized in *Common Guidelines*. The *Common Guidelines*, included with the Sherlock Benchmarks reports as a separate electronic volume, was provided to the participants to promote the comparability of responses. In addition, the panel requested, and we added several new sub-functions making more granular existing classification: Internal Sales Commissions, Member Services, Printed Materials, Grievances and Appeals and Risk Management. The survey instrument itself contains the detailed definitions corresponding with the *Guidelines*. Both the survey and the *Guidelines* were provided to the respondents in electronic form in March. Ambiguities in definitions and emerging issues were addressed in weekly conference calls and by other means.

#### SUBMISSION OF DATA

Plans emailed their completed survey forms to us, beginning on April 27<sup>th</sup>. All financial and other information submitted to us was provided in actual dollars or actual volumes (member months, for instance) which were segmented by functional area and product line. If we identified outlying responses, we requested the Plans to revise outliers stemming from reporting errors. This data validation process is further described in Quality Assurance, below.

#### COMPILATION AND ANALYSIS OF DATA

Data from all of the respondents was compiled into linked spreadsheets. The survey form was in Microsoft Excel®, facilitating links between the various survey forms, the final Sherlock Benchmark Reports and intermediate analyses. The final Sherlock Benchmarks represent summaries and statistical analyses of the results of the survey. Not all Plans offered all business lines and certain optional fields were omitted by some Plans.

#### QUALITY ASSURANCE

We employed the procedures below to promote the accuracy of the responses. It should be noted that, while we believe the responses to be as accurate as practical, we did not perform an audit on any of the respondents.

1. Precise Definitions. Functions and product lines were extensively defined in the survey instrument and *Common Guidelines*. Definitions typically included the



function name itself, which is meaningful to participants, and a broad description of the activities undertaken by the function. A more detailed list of each of the principle activities is also provided for each function. In addition, examples of cost centers associated with various functions were provided, often using language employed by the Plans themselves, so that if a question arises as to what functional area a cost center should be included, the respondent may locate where other similarly-described cost centers have been assigned. In addition, exceptions to the described activities were also noted, as appropriate.

Because these definitions were provided electronically, the definitions are searchable in the separate *Common Guidelines* document. They were also included as “comments” on the electronic form of the survey for ease of use.

The *Guidelines* are also included with licensed copies so, if you are not a participant, you may employ the *Guidelines* to harmonize your plan’s cost classifications with those found in the benchmarking study. Sherlock Company can also do this and has done so on numerous occasions. Let us know if this would be of interest.

2. Participatory Protocol. The scope of the survey reflected the input of participants, including at a meeting of most of the participants in February of 2018. This, we believe, helps to assure that the benefit of the resulting metrics exceeds the cost of gathering the information to populate it. As a result of this balanced

approach, we believe that participating Plans are committed to the accurate completion of the survey. This approach also assures that the segmentation of the functions reflect the *consensus* of the actual practices of the respondents: by reducing the overall need of the panel to reclassify, the resulting simplicity promotes accuracy. Finally, since each of the participants receives a copy of the Report, and since the Report is typically shared with senior management and other leaders, our primary contacts have a strong incentive for accuracy.

3. Feedback, Reinforcing Definitions. We also addressed emerging issues as they arose. These arose from the evolving nature of the business of health plans or ambiguities that were found in the definitions employed in the survey. We resolved, nearly always in consultation with Plans, any ambiguities and we communicated interpretations to all participants so that respondents could adjust their responses accordingly. Approximately 91 issues were addressed and disseminated through a series of conference calls conducted during the survey process.
4. Reconciliation with Financial Statements. We requested that each of the Plans provide audited consolidated financial information and that revenues, health benefits and administrative expense information tie to information Plans provide in the survey form. If there were differences between the data submitted in the survey form and in the audit, Plans submitted a reconciliation schedule. The reconciliation of their submitted data with audited financials is intended to

assist in assuring the accuracy and completeness of their survey information.

In certain cases, reported expenses were excluded from this survey, for instance pension accrual adjustments and product start-up costs. However, to assure the validity of the check with the audit, these exclusions were highly limited and tightly defined.

5. Submissions Scanned for Anomalies. We employed statistical models and visual screens to identify outliers in the submissions. For instance, if a Plan reported a value for a function within a product that varied by a specified standard deviation, it was flagged to be addressed by the participating Plan. The Plan was then required to determine and communicate to us whether variances stemmed from reporting errors or were true operational differences. Reporting errors were corrected for inclusion in the Sherlock Benchmarks reports, while actual variances were not corrected.

The combination of the granularity of the survey with the audit reconciliation noted above has the effect of highlighting outlying responses.

6. Review by Participants. Prior to final printing, a draft of each participant edition of the Report was submitted to the participants. This draft was similar to the final Sherlock Benchmarks report in that it highlighted each Plan's results in the context of the universe as a whole. This permitted the plans to identify any anomalies that we may have missed.

7. Practice Effect. Six respondents participating in this year's study participated with us last year, or 86%. We believe that familiarity with reporting in accordance with the Sherlock Benchmarks enhances the accuracy of reporting.

### *Questions and Comments*

We invite questions and comments on the  
*Sherlock Benchmarks.*

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In addition, please know that we support your use of the Sherlock Benchmarks. We hope that you will not hesitate to contact us if you have any questions concerning classifications, calculation methodologies and the application of the Sherlock Benchmarks to improve the performance of your health plan.

## 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 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 and/or self-funded fees. Premiums and fees exclude those of pharmacy and behavioral health, as do their associated expenses. Also, administrative cost growth is analysed for health plans that participated in both this and the prior years.

Sherlock Benchmark values are provided in a slightly different form in *Plan Management Navigator*. Figures 2-14 to 2-16 in this section facilitate their comparison.

Administrative cost growth is analyzed for health plans that participated this year and the prior year.

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### Expenses of Specialty Services and Other Self-Contained Activities

This section provides an analysis of specialty and other self-contained net or total expenses across products. These activities are Pharmacy, Behavioral Health and ICD-10 Information Systems. Values are presented on a per member per month and percent of premium equivalents or premium and/or fees basis.

Normally when calculating ratios, premiums, fees and equivalents exclude pharmacy and behavioral health. For these services they are included. Membership refers to all members except in the case of pharmacy in which only members covered under those services are used, if available.

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### Functional Expenses of Market Segments

This provides an analysis of the functional expenses of all products sold to individuals, groups, and national accounts regardless of the products sold to them. Data is presented on a per member per month and on a percent of premiums and/or fees basis.

Individual Commercial Health Products exclude any government programs and/or Medicare Supplemental (Individual Medigap, and National Medigap). Stand Alone Dental and Stand Alone Medicare Part D are not included with Individual Commercial Health Products. Individuals with HSAs are included here.

The Individual Product is segmented to reflect the implementation of the Affordable Care Act. The three categories are ACA-compliant "Metal Products" sold through a public exchange, ACA-compliant products sold off of a public exchange including those sold on a private exchange, and Grandfathered products.

Groups are segmented as follows.

- Small Group business is defined as groups having 2- 50 eligible employees and may include sole-proprietors if the Plan views them as small group business.
- Middle Market business is defined as groups having 51-99 eligible employees.
- Large Group business is defined as groups having 100 or more eligible employees.
- National Accounts are defined as Control Plan Accounts for the purposes of this study and should exclude FEP. National Accounts are customers (groups) with 5,000 or more employees and 10% or greater membership out of the plan's service area. They may be Insured or ASO/ASC.
- Local ASO/ASC values are calculated based on reported ASO/ASC Totals, less National Accounts that are ASO/ASC.

In all schedules, revenues are defined as premiums and/or premium equivalents basis. Premiums and premium equivalents exclude those of pharmacy and behavioral health, as do associated expenses.

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## Tab 8

### Finance and Accounting Details

This section analyzes a variety of financial management activities, typically at the enterprise level. This includes Stop Loss metrics, which relates to Plan working capital as well as product design. Other topics include metrics of financial condition and liquidity, value and aging of IS, Facilities and other assets, non-cash expenses, an analysis of taxes stemming from health care reform, Strategic Projects, Broker Overrides and Bonuses, and Per Member Claim Costs, Outside of Service Area.

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 behavioral health benefits, expenses and associated revenues.

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### Information Systems, Allocated by Supported Functional Areas

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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 behavioral 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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### Participant Characteristics

This section provides a profile of the respondents to this edition of the Benchmarking Study. We summarize membership, product mix, groups served, revenues, medical expenses, profit margin and other key attributes. In addition, characteristics of business segments (e.g., Individual, Small Group, etc.) are also provided.

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# SHERLOCK BENCHMARKS

*Larger Plans Edition - 2018*

Volume I – Financial Metrics

