

# Plan Management Navigator

## *Analytics for Health Plan Administration*



Healthcare Analysts

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*Please see our invitation to participate in the 2021 Sherlock Benchmarks for Medicare and Medicaid Plans on Page 6.*

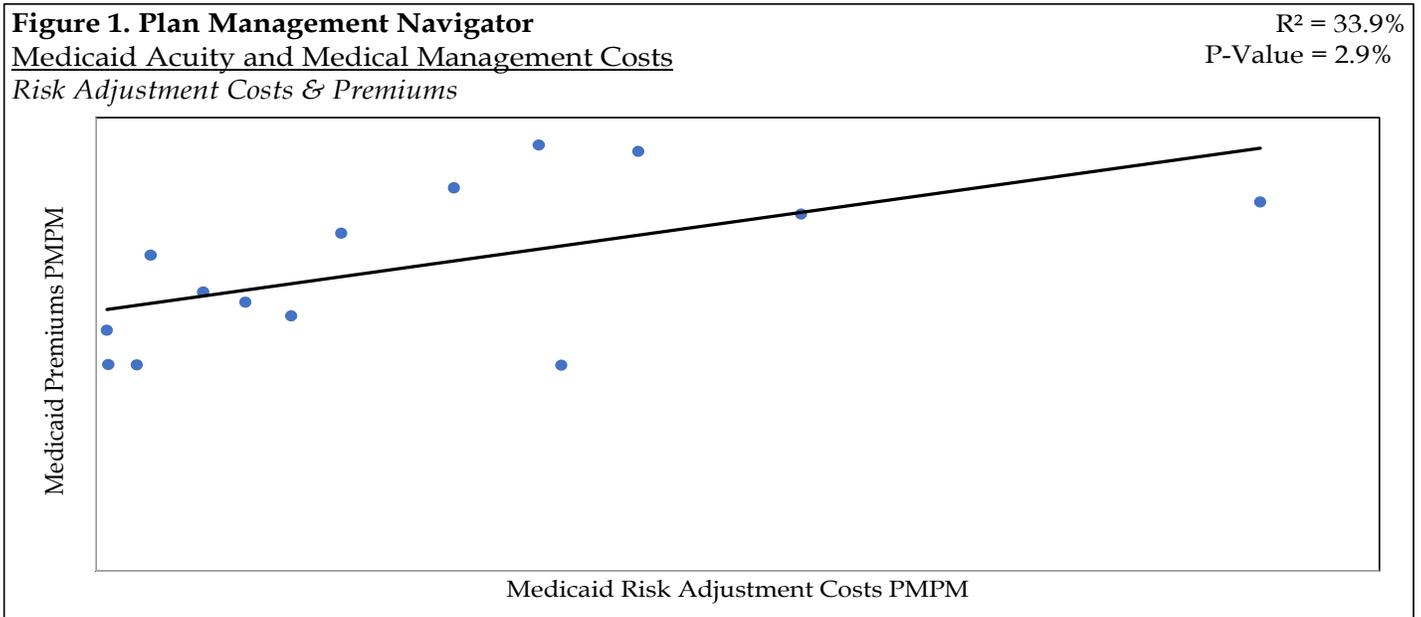
### MEDICAID ACUITY AND MEDICAL MANAGEMENT COSTS

In our March 2021 *Navigator*, we showed an ROI on Risk Adjustment activity: the greater the dollars committed to Risk Adjustment, the higher the premium rates. This *Plan Management Navigator's* analysis fleshes out the relationship between the underlying health care costs of the population that the plans serve and the costs to manage the care for those populations. Our analysis assumes that health care costs are themselves a reasonable reflection of actual member acuity.

**There is a relationship between Risk Adjustment and health care costs.** As shown in Figure 1, as we did in March, high Risk Adjustment cost is associated with high Medicaid premiums. Moreover, Figure 2 (on the next page) shows that there is a close relationship between Medicaid premiums and health care costs. In other words, Risk Adjustment expenses help health plans assure appropriate payment in their service to their populations with high health care costs.

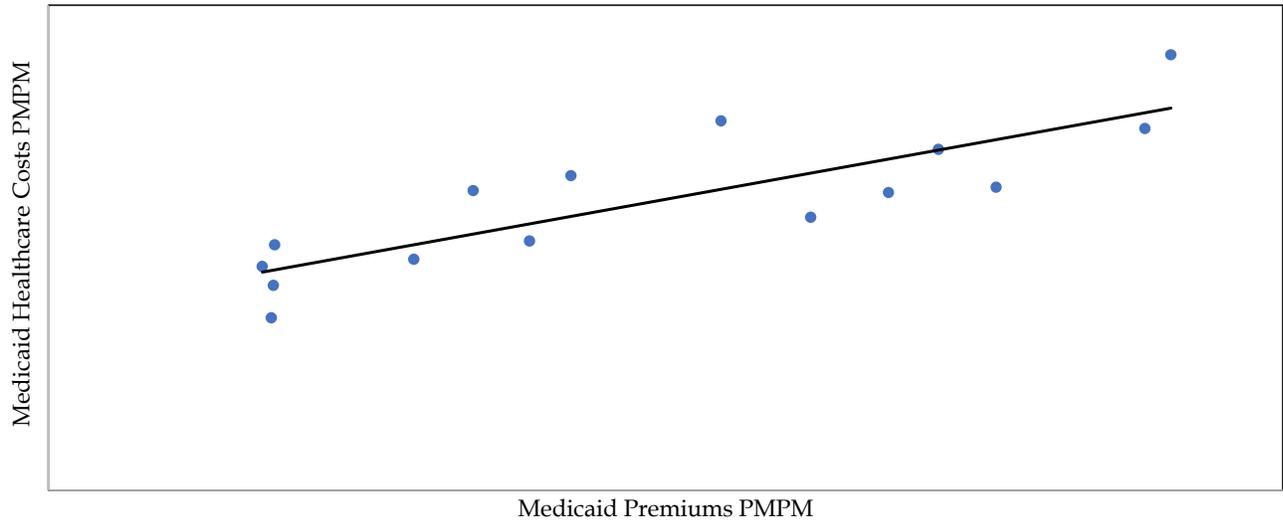
The ROI on Risk Adjustment can be understood by a contrafactual: given that high risk adjustment expenses are associated with high health care costs, if the plans had not made that risk adjustment expense, then premiums would not have covered the costs that their membership incurred.

**Medical Management activities are associated with high Risk Adjustment expenses.** Figure 3 (on the next page) shows that Risk Adjustment is associated with high Medical Management expenses. This relationship illustrates the relationship between Risk Adjustment expenses and the totality of the Medical Management activities. In other words, while a plan's investment in Risk Adjustment endeavors to assure sufficient revenue to cover the costs of their members, a similar investment in Medical Management endeavors to manage the health care needs of those members.



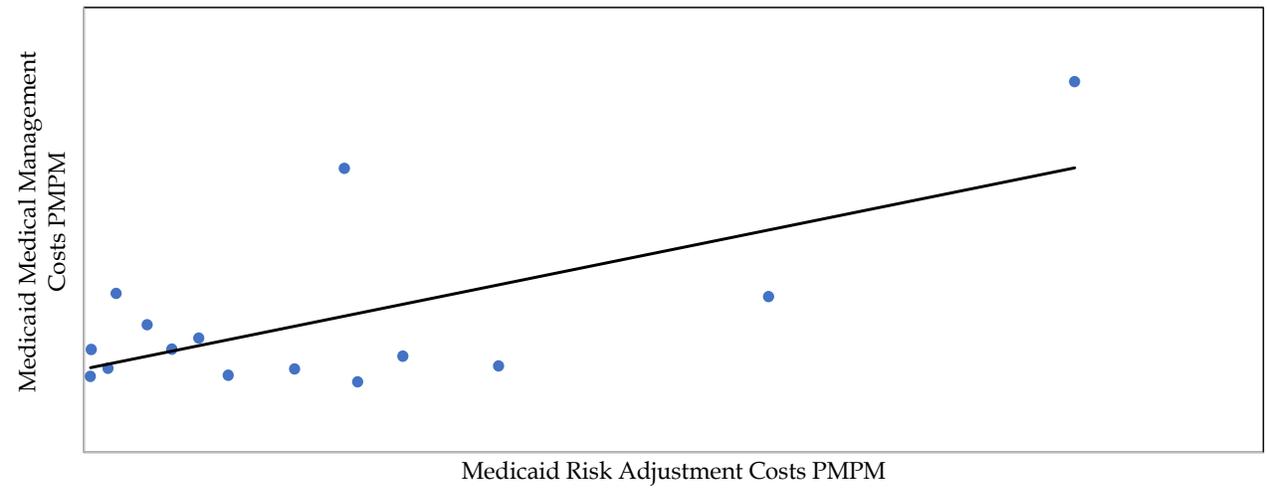
**Figure 2. Plan Management Navigator**  
Medicaid Acuity and Medical Management Costs  
*Premiums & Healthcare Costs*

R<sup>2</sup> = 70.6%  
P-Value = 0.01%



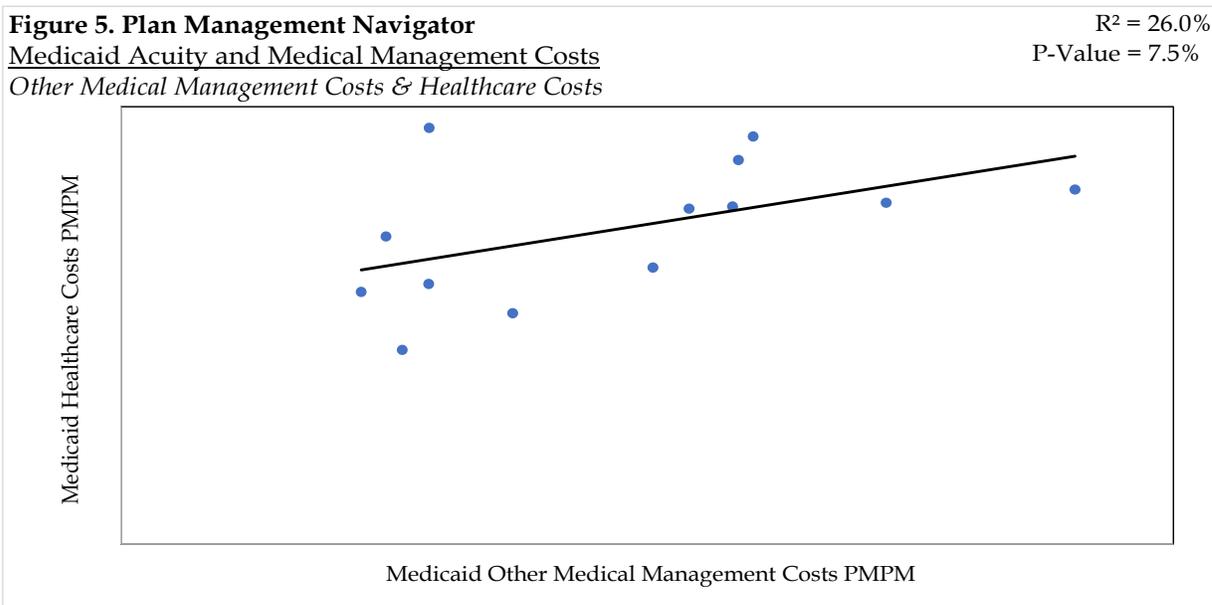
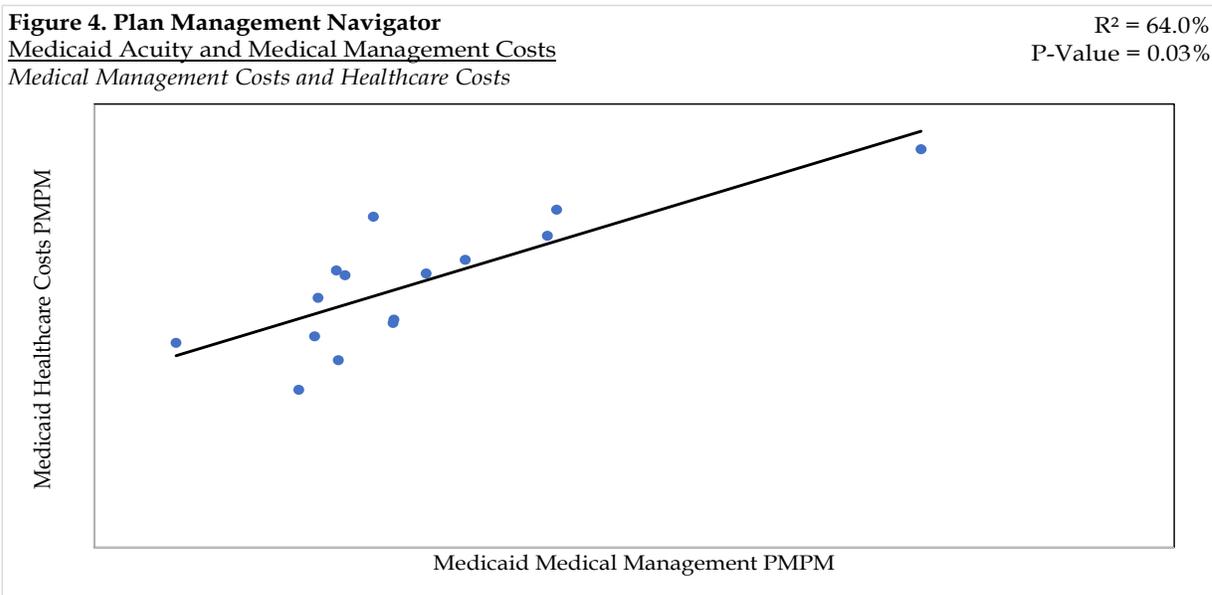
**Figure 3. Plan Management Navigator**  
Medicaid Acuity and Medical Management Costs  
*Risk Adjustment Costs & Medical Management Costs*

R<sup>2</sup> = 43.8%  
P-Value = 0.7%



**Medical Management activities are associated with high health care costs.** The health care costs necessitate a management response, and higher health care costs necessitate a higher response. Figure 4 shows that the higher the members' health care costs, the greater the Medicaid Medical Management expense. Put a different way, Medical Management expenses may be thought of as an adaptation of health plans to the health costs in the population they serve.

The policy and medical director-focused Other Medical Management (Figure 5) shows high sensitivity to Medicaid health care costs. The Chief Medical Officer and Medical Directors are found here. Medical policy consists of medical guidelines, including diagnostic imaging management policies, reimbursement guidelines, evidence-based guidelines, and administrative guidelines.



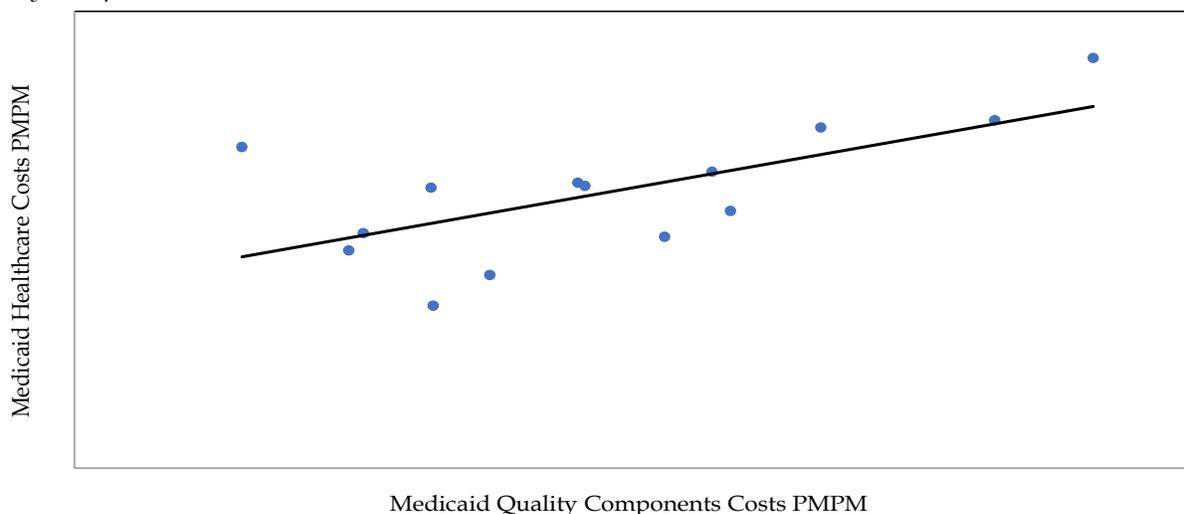
A strong relationship between Medicaid health care costs and Medicaid medical management is also found in the quantitative area of Medical Management, Quality Components, as shown in Figure 6. This subfunction, according to the *Sherlock Benchmarks*, is charged with the measurement of health care quality aspects of health insurance and coordination of health plans' participation in external surveys compiling such measurement. This subfunction's role involves reporting to NCQA, HEDIS and other private and governmental bodies, activities analogous to the reporting necessary for Risk Adjustment.

Many of the other subfunctions do not show as strong sensitivity to health care costs as these two subfunctions or Medical Management as a whole. One possible explanation of the difference between the overall relationship between medical management and health care costs and that few subfunctions exhibit it is that the plans emphasize different techniques (e.g., case management, precertification, utilization review) to manage the care of their members.

**Other Provider Contracting is also associated with higher health care costs.** While this activity is not part of Medical Management, Provider Contracting is part of plans' overall cost management strategy. The *Sherlock Benchmarks* segment Provider Contracting expenses into Provider Configuration and Other Provider Contracting, the latter of which performs, among other things, provider contracting, credentialing and re-credentialing, structuring reimbursement and payment models as well as the administration, design and setup of physician group incentive programs. The higher Medicaid health care costs are, the greater the costs for Other Provider Contracting This is shown in Figure 7 (on the next page).

**Figure 6. Plan Management Navigator**  
Medicaid Acuity and Medical Management Costs  
*Quality Components Costs & Healthcare Costs*

R<sup>2</sup> = 43.6%  
P-Value = 1.0%

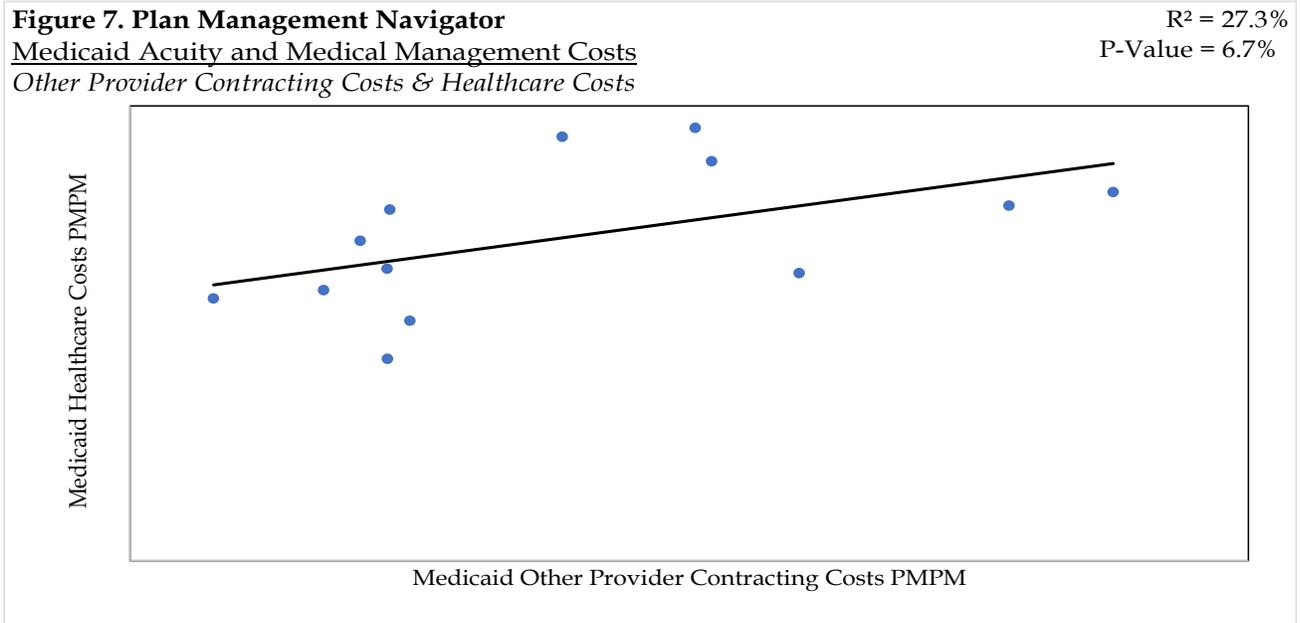


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## Conclusion

The activities of Medical Management and Risk Adjustment are associated with the costs of health care for the Medicaid members that the plans serve. The quantitative Quality Components and Medical Director-intensive Other Medical Management seem especially sensitive to high Medicaid health care costs. While not included in Medical Management activities, Other Provider Contracting is also associated with Medicaid health care costs. As we see it, all of these administrative activities are an adaptation to the acuity of the members that they serve.



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## INVITATION TO PARTICIPATE IN THE 2021 *SHERLOCK BENCHMARKS*

We invite you to consider participating in the *Sherlock Benchmarks*.

The independently-executed, validated, robustly-populated *Sherlock Benchmarks* provide a unique tool to identify cost variances and prioritize cost management activities to have the greatest impact on improving your health plan's overall operating performance. The current turbulent environment makes participation by your health plan an appropriate and necessary response to the strong incentives to cost efficiency.

The *Sherlock Benchmarks* have been called the "Gold Standard" by leading health care consultants. With cumulative participation expected to significantly exceed 900 health plan years in 2021, health plans serving nearly 180 million insured Americans are licensed users of the *Sherlock Benchmarks*. In the most recent cycle, the 35 participating health plans served 62 million members.

We will launch the **Medicaid** and **Medicare** universes in June. These universes are open to plans with a plurality of members in those respective products. (We recognize that most plans offer multiple products.) Participation entails effort on your part since useful outputs require relatively granular inputs. However, the cost is modest.

### *Contact*

Please reach out to Douglas Sherlock if you are interested or considering participation. We are always available to answer any questions. You will be among good company.

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