Plan Management Navigator
Analytics for Health Plan Administration

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Please see page 5 for our invitation to participate in the 2024 or license the 2023 Sherlock Benchmarks.

Best-in-Class Independent/Provider-Sponsored Plans

This is a summary of our analysis of "Best-in-Class" Independent / Provider - Sponsored (IPS) plans compared with their IPS peers. Our analysis is based on the 2023 edition of the *Sherlock Benchmarks* reflecting year-ended 2022 financials. The *Sherlock Benchmarks* for Independent / Provider - Sponsored plans is this universe's 21st annual edition.

For the purpose of this analysis, we define "Best-in-Class" plans as those whose "Tactical" costs are in the lowest 25th percentile. Plans not in the Best-in-Class subset are referred to as "Peer" plans.

Tactical costs are all costs of Comprehensive products other than those in the Sales and Marketing cluster and Medical Management function, which we refer to as "Strategic. The focus of much of this analysis is on relative Tactical costs.

In making Strategic costs less of a focus of this analysis, we are recognizing that they have impacts outside of current period administrative costs. They may have costs most readily associated with longer-term objectives such increasing membership and market share and reducing health care costs.

Also, to perform the analysis, we endeavor to quantify and even eliminate the effect of factors largely beyond management control. For instance, comparisons between sets of health plans are made after reweighting the costs of each activity of each Comprehensive product to eliminate the effects of differences in their respective product mixes. After that reweighting, we then isolate and measure the specific contributing factors to performance that are more likely to be under the control of the management team. We approach costs systematically, in total, by cluster and by function. This approach may enable Peer plans to identify areas where their performance can emulate those of Best-in-Class

Figure 1. Best-in-Class Plans Summary
Sources of Tactical Variances, Mix-Adjusted*

	Non-Labor Costs per FTE	+	Staffing Costs Per FTE	=	Total Costs Per FTE	x	FTEs Per 10k Members	=	Costs PMPM
Best-in-Class Plans	*$72,457*		*$92,599*		*$165,055*		*13.33*		*$18.34*
Peer Plans	$72,866		$91,860		$164,726		22.65		$31.10
Dollar Variance	-$409		$739		$330		-9.32		-$12.76
Percent Variance	-0.6%		0.8%		0.2%		-41.1%		-41.0%
Percent of Total Variance	0.5%		-0.9%		-0.4%		100.4%		100.0%
PMPM Dollar Variance	-$0.06		$0.11		$0.05		-$12.81		-$12.76

**Tactical expenses exclude Misc. Business Taxes, Sales and Marketing cluster and Medical Management expenses.*

Notwithstanding our referring to low-cost plans as Best-in-Class, we recognize that a health plan's long-term objective is cost levels that are *optimal* for its corporate objectives. The implication of a broader notion of performance is that high-cost functions might demonstrate the value of their higher costs through other objective metrics of superior performance. Put a different way, the differences between a plan's costs and those of its Best-in-Class peers, if intended to achieve the plan's corporate goals, represents a form of investment upon which an ROI should be expected.

Conclusions

Best-in-Class Plans had Tactical expenses that were lower by $12.76 PMPM, or lower by 41%. They had a mean of $18.34 compared to $31.10 for the Peer Plans.[1] The Best-in-Class Staffing Ratio was mainly responsible for the lower costs, at 13 FTEs per 10,000 members, compared to Peer Plans at 23 FTEs per 10,000 members. (Figure 1)

Non-Labor Costs per FTE (e.g., those found in Information Systems or Facilities) were slightly lower for Best-in-Class plans, by 1%, at $72,000 compared to $73,000 for Peer plans. Best-in-Class plans' Staffing Costs per FTE were slightly higher at $93,000 compared to Peer plans' $92,000, or higher by 1%.

It appears that Best-in-Class plans operate in a culture of conservative administrative expenses since every cluster of Tactical expense was lower than its peers. Also, every Tactical functional area was lower than the Peer plans. (Figure 2) Similar to previous years, the function contributing the most to superior performance was Information Systems.

Low Information Systems costs were responsible for about 33% of the Tactical difference. The Corporate Services *Function* and Claims followed, contributing a combined 28% of the low Tactical difference.

Possible Extraneous Characteristics

We considered six characteristics of the sets of IPS plans that could contribute to improved performance in Best-in-Class versus Peer plans that are unrelated to management performance. These were the effects of scale, cost of living, outsourcing, product mix, exposure to the individual market, and strategic investments in Sales and Marketing and Medical Management.

[1]*Costs are standardized for member months (i.e., PMPM) even if not stated.*

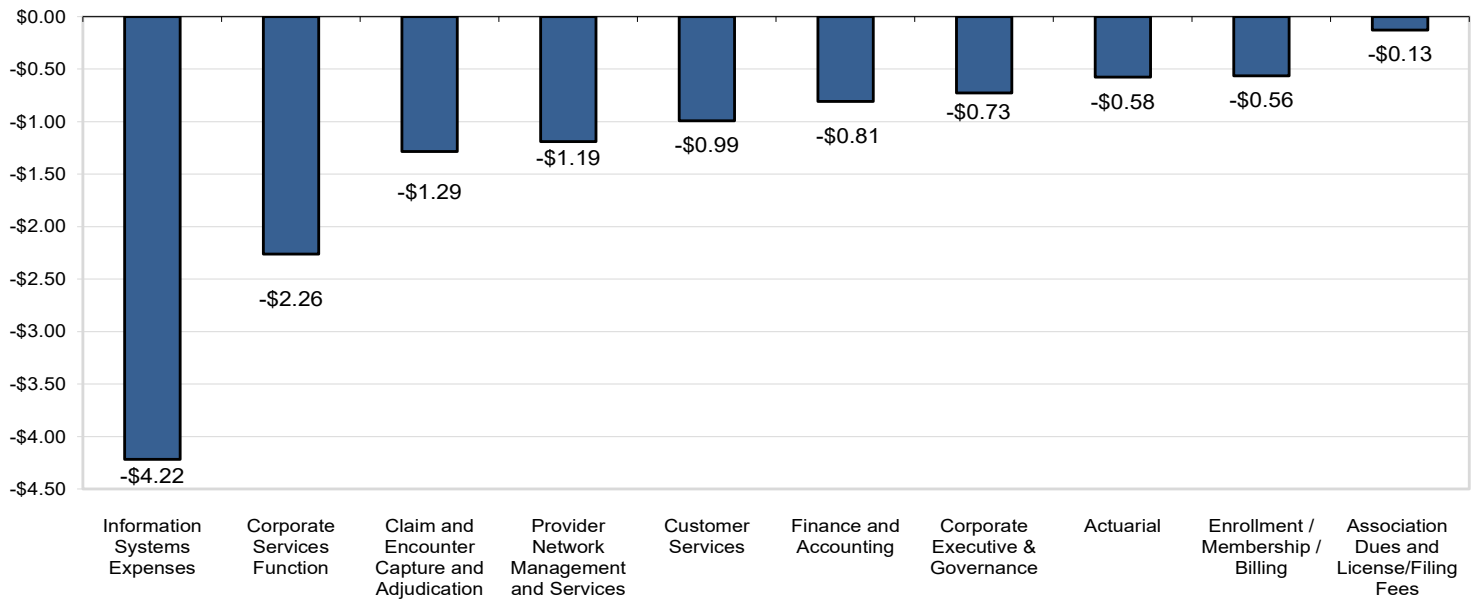
Regarding economies of scale, based on the results of *Sherlock Company's* 2023 Scale Study, 83% of Independent / Provider - Sponsored plans *Tactical* administrative expenses were subject to scale. Moreover, the slope was gradual: doubling the size of the plan lead to Tactical costs of 83% of the pre-doubling value. The average size of the Best-in-Class plans was 87% larger than that of the Peer plans. Adjusting the Peer plans to match the size of the Best-in-Class plans caused their PMPM advantage to fall by $3.92 PMPM.

Local costs of living differences were unlikely to have conferred an advantage on the Best-in-Class plans. In fact, the mean wage index for Best-in-Class plans was 10% *higher* compared to its Peer plans, while the median was *higher* by 10%. (We employ the Hospital Wage Index used by CMS). Adjusting the Peer plans to match the size of the Best-in-Class plans caused their PMPM advantage to *increase*.

Outsourcing was not a major contributing effect for favorable comparisons. In general, Best-in-Class plans had slightly lower average outsourcing than Peer plans, but slightly higher median outsourcing. The exception was the Corporate Services cluster, which had Best-in-Class plans outsourcing at a mean of 14 and median of 26 percentage points higher than the Peer Plans. The Information Systems function was outsourced at a mean rate of 1 percentage point higher for the Best-in-Class plans, but lower by 5 percentage points for the median rate.

Figure 2. Best-in-Class Plans Summary

Functional Area Cluster Components of Low Cost Variance from Mean, Mix-Adjusted



Our values were adjusted so that product mix could not impact comparisons: product mix was adjusted to eliminate its effect. We describe this method earlier in the fifth paragraph of this *Navigator*.

Best-in-Class plans appear to have slightly less exposure to the Individual market segment. However, the cost difference between the segments appears to be modest. We think this difference likely has little effect on the relative performance of the two groups of IPS plans.

Finally, the strategic investments (Sales and Marketing and Medical Management) could not have affected comparisons because they were excluded from the central part of this analysis. We do touch upon strategic expenses next.

Strategic Expenses Were Also Lower

Best-in-Class plans also had lower costs in the Strategic areas of Sales and Marketing cluster and the Medical Management function. The Sales and Marketing cluster of expenses was lower by 20% for Best-in-Class plans. This cluster included functional areas of Rating and Underwriting, Marketing, Sales, Advertising and Promotion, and External Broker Commissions. Only External Broker Commissions were higher for Best-in-Class plans.

It does not appear these lower Sales and Marketing costs came at the expense of growth. Comprehensive membership for the Best-in-Class plans increased by a median rate of 8.9%, compared with 1.5% for Peer plans. At the product-mix of the Best-in-Class plans, the Peer plans' median membership grew by 2.3%.

Best-in-Class plans had Medical Management costs that were lower by 42%. Median gross profit margin for insured products was 9% for the Best-in-Class plans, compared with 10% for Peer plans. (Insured products are Commercial Insured, Medicare Supplement, Medicare, and Medicaid. Gross profit margins are premiums less health benefits, all divided by premiums). Peer plans' margins were slightly higher, at 11%, when reweighted at the mix of Best-in-Class plans. Looking at mean values, however, Best-in-Class plans had slightly higher gross profit margins at 10% compared to the Peer plans at 9%. When reweighted, the mean Peer plans' margin matched that of the Best-in-Class plans at 10%.

Our Approach

Each of the plans included in the dataset that used this analysis differs in many key characteristics. So, to compare Best-in-Class plans to Peer plans, we employed a composite approach to summarize the characteristics of each subset. Granular costs are reported by product by the plans, and the costs in the two sets were weighted to have a common product mix.

We identified the Best-in-Class plans by comparing each plan's costs to its universe. To do so, and to eliminate the potentially distorting effect of product mix differences on the cost comparisons, we reweighted the product costs of the IPS universe to match the mix of each plans. Plans were then ranked by the differences between their expenses and the re-weighted IPS universe costs. We selected the lowest cost IPS plans as the 25% with the most favorable cost comparisons.

The Staffing Ratios for each plan were provided by the plans, but also included outsourced FTEs inferred from payments to outsourcers. Staffing ratios for each product of each plan was inferred from their PMPM costs and from their total costs per FTE. The subset staffing ratios were drawn from the Best-in-Class and Peer plans respectively, and each subset reflects the same reweighting of plan values, using the same process as costs as described in the previous paragraph.

Invitation to Participate in the 2024 Sherlock Benchmarking Study

The highly valid, well-populated *Sherlock Benchmarks* provide an unbiased ranking and help prioritize cost management activities to have the greatest impact on improving your health plan's overall operating performance.

The 2024 study will be the 27th consecutive year, reflecting a cumulative experience of 1,000 health plan years. Health plans serving more than 200 million Americans are either licensees or participants in the *Sherlock Benchmarks* from June 2021. Participating plans include most Blue Cross Blue Shield plans, large public companies, Independent / Provider-Sponsored health plans, Medicare plans and Medicaid plans.

For the most recent cycle of the *Sherlock Benchmarks*, of the 33 U.S.-based Blue Cross Blue Shield primary licensees, seventeen plans serving approximately 52.2 million people, participated in the *Sherlock Benchmarks* for Blue Cross Blue Shield Plans. For Independent / Provider – Sponsored Plans, eleven plans serving 8.3 million people participated in the most recent cycle. Participants in this year's study serve about 36% of all Independent / Provider – Sponsored members in the Health Plan Alliance. Most members served by Alliance of Community Health Plans participated in the *2023 Sherlock Benchmarks*.

The *Sherlock Benchmarks* have been called the "Gold Standard" by leading health care consultants. Report publication begins in late June but varies by universe. Participation entails efforts on the part of the plans since actionable outputs require relatively granular inputs. However, the cost is relatively modest.

The *Sherlock Benchmarks* are also available to license. Please reach out to Douglas Sherlock at sherlock@sherlockco.com or 215-628-2289 if you are interested in either participation or licensing. *You will be among good company.*

Contact

This look at the performance characteristics of Best-in-Class plans has the virtue of being mutually exclusive and collectively exhaustive. Because we have polled the plans to develop this analysis, the data controlled for quality and comparability. While the results are objective and strongly emphasize the quantitative, the process is complex. We hope that you feel free to address any questions to:

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