

Plan Management Navigator

Analytics for Health Plan Administration



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Please see page 7 for our invitation to participate in the 2025 Sherlock Benchmarks.

THE RELATIONSHIP BETWEEN SCALE, STAFFING RATIOS AND COMPENSATION IN HEALTH INSURANCE

Introduction and Conclusion

In early November, we wrote about economies of scale in health insurance. In this analysis, we look at two potentially contributing factors: the relationship between scale and staffing ratios and the relationship between scale and compensation levels. Since both staffing ratios and per employee compensation can contribute to low costs, economies of scale can be further understood by these driving factors.

Recall that we earlier found that economies of scale exist for health insurers. They are limited, however. For the combined set of Blue Cross Blue Shield Plans and Independent / Provider – Sponsored Plans, 25% of administrative costs were subject to scale. The slope was shallow in that a doubling of the size of the plans was associated with costs subject to scale that were 90% of their pre-doubling value.

In this *Navigator*, we find that larger plans tend to have fewer employees per member served but compensate them at a higher rate. In other words, the lower costs that arise from lower staffing ratios are somewhat offset by higher levels of compensation. This is best illustrated by the results of our combined universe of plans.

1. In their first columns of each of the three figures below, we reiterate the results from the *Navigator* earlier this month. Economies of scale were estimated by regression analysis and were indicated in some functional areas of health insurers.
2. We show that economies of scale are more prevalent in staffing ratios.
 - a. More functions display economies of scale in Staffing Ratios than they do PMPM costs.
 - b. If a function displays economies of scale in PMPM costs, it frequently displays economies of scale in staffing ratios.
3. One reason why scale-linked lower staffing ratios do not translate into lower PMPM costs is that high compensation frequently offsets it. In many cases, per FTE Staffing Costs display a *positive* statistically significant relationship with scale. While evident in both Blue and IPS sets, the relationship is more frequently significant in the combined set. This is qualified in that compensation tends to be higher among Blue Cross Blue Shield Plans which are over twice the size of their Independent / Provider – Sponsored peers.
4. When we adjust compensation to exclude the effect of differences in cost of living between the plans (Cost of Living Adjusted or COLA), we still found a positive relationship between compensation and scale for the combined universe. For Blue Plans, the effect of scale is usually diminished and is less likely to be significant. The effect of scale on compensation in the IPS universe is that it tends to be steeper and *more* likely to be significant.

One possible explanation for higher compensation being associated with low staffing ratios in larger health plans, even after excluding the effect of cost of living, is those fewer employees in larger organizations may be more highly skilled.

Blue Cross Blue Shield Results

The results of the Blue Cross Blue Shield regression analyses are shown in Figure 1.

- For the Blue Plans, Economies of Scale in Staffing Ratios were more likely to be significant than PMPM costs. There were 27 significant relationships between scale and staffing ratios as against 20 for PMPM costs.
- The Economies of Scale slopes also tended to be steeper for Staffing Ratios. That is, staffing ratios were less as the plan size increased, even more so than PMPM costs. For instance, the BCG slope for Disease Management staffing ratios was 60.8% as against 66.0% for PMPM costs.
- There was usually a *positive*, though not typically significant, relationship between Scale and Staffing Costs per FTE, based on their as-reported compensation. In other words, larger Blue plans tended to pay their staff more. A doubling of the size of the plan was associated with as-reported per FTE compensation in Corporate Executive and Governance of 117.4% of the pre-doubling value.
- The relationship between size and compensation was less likely to be significant after compensation was adjusted to back out the effect of cost-of-living differences. For statistically significant relationships, the slope often diminished compared with the as-reported compensation. For instance, the BCG slope for Enrollment / Membership / Billing's relationship with size declined from 109.7% to 105.7%, and the COLA compensation was not significant.

Independent / Provider - Sponsored Plan Results

Figure 2 shows the results for Independent / Provider – Sponsored plans. There were fewer functional areas that displayed a significant relationship between scale and PMPM costs, staffing ratio or as-reported compensation compared to the Blues and Combined universes. However, once compensation is adjusted to eliminate the effect of local cost of living differences, the relationships tend to be stronger.

- IPS plans' slopes for scale's effect on Staffing Ratios were generally steeper, negative slopes than those of scale on PMPM costs. For instance, the BCG slopes for Finance and Accounting was 82.6% for PMPM costs and 64.4% for Staffing Ratios.
- For the IPS plans, Economies of Scale in Staffing Ratio was slightly more likely to be significant than for PMPM costs. There were 10 significant relationships between scale and staffing ratios as against 9 for PMPM costs. Only five functions with significant scale staffing ratio relationships also had a significant scale/cost relationship.

- The relationships between scale and staffing costs per FTE were generally positive for IPS plans. These relationships suggest that larger IPS plans compensate their FTEs more. For instance, the resulting slope indicates that a doubling of the size of the plan leads to 124.6% in per FTE Staffing Costs of the pre-doubling value in Human Resources.
- On a cost of living adjusted basis, every significant relationship between scale and Staffing Costs per FTE was a *steeper* positive slope than the as-reported relationship. For instance, Rating and Underwriting's BCG slope for the cost of living adjusted compensation was 114.2% versus 109.4% on an as reported basis.

Figure 1. The Relationship Between Scale, Staffing Ratios, and Compensation
Scalar Effect on Mix-Adjusted Staffing Ratios and Compensation
Blue Cross Blue Shield Plans

Functions	Economies of Scale PMPM Costs	Economies of Scale in Staffing Ratios	Economies of Scale in Staffing Costs per FTE	Economies of Scale in Staffing Costs per FTE, COLA
(b) Risk Adjustment	143.0%	142.4%	99.3%	96.5%
(a) Product Development and Market Research	84.4%	76.9%	111.9%	107.2%
3. Sales	95.2%	86.2%	108.1%	103.5%
(c) Other Sales	95.4%	80.3%	113.1%	108.2%
4. External Broker Commissions	120.5%	NM	NM	NM
5. Advertising and Promotion	95.3%	81.7%	106.0%	101.4%
(a) Media and Advertising	99.1%	81.7%	106.0%	101.4%
(1) Provider Configuration	57.5%	67.1%	89.1%	88.9%
(2) Other Provider Contracting	101.4%	67.1%	110.4%	103.4%
(a) Precertification	84.2%	75.9%	100.1%	96.2%
(b) Case Management	150.4%	140.6%	99.9%	95.6%
(c) Disease Management	66.0%	60.8%	102.2%	99.8%
8. Enrollment / Membership / Billing	90.2%	80.1%	109.7%	105.7%
(b) BlueCard Home and Custom Par Fees	133.2%	NM	NM	NM
11. Information Systems Expenses	81.0%	82.6%	98.5%	94.3%
(b) Applications Maintenance	52.2%	56.6%	100.7%	96.5%
(1) Benefit Configuration	49.1%	53.7%	102.8%	96.2%
(2) Other Applications Maintenance	68.9%	95.0%	109.5%	102.2%
(c) Applications Acquisition and Development	73.2%	54.9%	107.2%	84.4%
(1) Applications Amortization and Licensing Expenses	83.2%	74.5%	87.9%	83.0%
(2) Pre-Planning Project Costs	50.6%	44.4%	111.6%	107.8%
(d) Security Administration and Enforcement	80.2%	76.6%	101.1%	96.9%
14. Corporate Services Function	89.4%	81.0%	103.1%	98.8%
(a) Human Resources	84.4%	85.3%	99.7%	95.6%
(b) Legal	84.9%	84.5%	98.3%	94.0%
(1) Compliance	79.5%	77.9%	102.2%	98.0%
(2) Government Affairs	90.6%	87.8%	72.4%	69.9%
(4) Fraud, Waste & Abuse	87.6%	88.3%	100.4%	96.1%
(6) All Other Legal	72.8%	66.4%	106.8%	102.6%
(c) Facilities	94.5%	64.8%	111.3%	106.6%
(e) Audit	85.2%	78.2%	102.8%	98.5%
(i) Risk Management	88.4%	65.1%	95.3%	94.0%
15. Corporate Executive & Governance	106.7%	65.1%	117.4%	112.4%
Subtotal Expenses	96.2%	89.8%	103.6%	99.5%
Total Expenses	96.9%	89.8%	103.6%	99.5%

*Shaded values are significant.

Figure 2. The Relationship Between Scale, Staffing Ratios, and Compensation
Scalar Effect on Mix-Adjusted Staffing Ratios and Compensation
Independent / Provider-Sponsored Plans

Functions	Economies of Scale PMPM Costs	Economies of Scale in Staffing Ratios	Economies of Scale in Staffing Costs per FTE	Economies of Scale in Staffing Costs per FTE, COLA
1. Rating and Underwriting	117.4%	104.5%	109.4%	114.2%
(b) Risk Adjustment	123.7%	108.1%	109.6%	114.1%
2. Marketing	135.9%	125.2%	104.4%	109.2%
(b) Member and Group Communication	111.5%	97.7%	110.0%	113.9%
(a) Account Services	123.1%	119.4%	108.6%	113.8%
(a) Provider Relations Services	128.7%	105.1%	112.8%	118.4%
(b) Provider Contracting	86.0%	71.4%	108.1%	112.9%
(1) Provider Configuration	98.7%	76.5%	113.0%	116.6%
7. Medical Management / Quality Assurance / Wellness	113.5%	115.0%	105.1%	110.3%
(a) Precertification	60.4%	64.1%	99.5%	104.7%
(b) Case Management	143.6%	135.4%	103.2%	108.8%
(d) Nurse Information Line	208.4%	235.9%	98.8%	104.8%
(e) Health and Wellness	98.1%	92.5%	111.4%	116.9%
(g) Medical Informatics	178.7%	161.1%	105.8%	111.0%
(h) Utilization Review	182.2%	238.1%	80.6%	81.9%
8. Enrollment / Membership / Billing	110.7%	93.9%	106.8%	112.2%
(a) Enrollment and Membership	120.5%	103.3%	107.5%	112.9%
(b) Billing	92.3%	69.2%	106.6%	112.1%
(b) Printed Materials and Other	259.9%	103.8%	111.4%	111.8%
10. Claim and Encounter Capture and Adjudication	97.8%	93.5%	111.1%	115.3%
(d) Payment Integrity	119.8%	122.3%	120.5%	122.1%
(1) Benefit Configuration	181.6%	153.8%	98.3%	102.5%
(c) Applications Acquisition and Development	127.4%	149.2%	122.3%	127.7%
(d) Security Administration and Enforcement	142.5%	105.3%	112.5%	115.8%
12. Finance and Accounting	82.6%	64.4%	102.0%	106.7%
(b) Fund Accounting for Self-Insured Groups	109.9%	262.7%	97.5%	99.9%
(c) Other Finance and Accounting	79.8%	64.1%	102.4%	107.2%
(a) Human Resources	98.7%	74.0%	124.6%	129.0%
(4) Fraud, Waste and Abuse	71.1%	57.1%	112.3%	117.7%
(c) Facilities	105.3%	61.2%	128.2%	133.5%
(f) Purchasing	129.6%	90.0%	117.6%	118.2%
(h) Printing and Mailroom	39.5%	28.4%	99.4%	104.0%
(i) Risk Management	129.9%	145.4%	120.9%	127.0%
(j) Other Corporate Services Function	59.3%	25.0%	114.1%	115.0%

*Shaded values are significant.

Combined Universe Results

Figure 3 shows the results for the combined universe of 26 Blue and IPS plans. Results from this combined set were similar to the previous two. The most significant difference is that the combined universe has many more significant relationships between Scale and Staffing Costs per FTE, without adjusting for local costs of living. The diversity of size and geography of the health plans is much broader than either the Blue or IPS universes alone.

- For the combined universe, there were 12 significant Scale / Cost relationships, with seven functions having BCG slopes of less than 100%, that is, negative slopes.

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- For the combined universe, there were 14 significant relationships between Scale and Staffing Ratios. Of these 14, six also displayed significant slopes between Scale and PMPM costs. Each of these were negative slopes.
 - The slopes of the relationship between size and staffing ratios were generally steeper than those of size and costs. For example, Fraud, Waste, and Abuse had a BCG slope of 84.4% for scale and PMPM costs and 80.4% for scale and staffing ratio.
 - Similar to the analyses of Blue and IPS plans alone, the relationship between scale and staffing costs per FTE were generally positive. Corporate Executive and Governance represents an ideal example: The Scale / Cost BCG slope of 99.3% is shallower (and not significant) than the significant Scale / Staffing slope of 80.2%, likely reflecting the offsetting effect of a positive Scale / Compensation cost slope of 122.5%, or 119.5% after adjustments for cost of living.
 - Adjusted for cost of living, there were fewer significant slopes of the scale and compensation relationships. The slopes tended to be shallower than the unadjusted relationships before adjusting compensation for local costs of living. Enrollment / Membership / Billing's slope declined from 109.7% to 107.5%.

How we Performed this Analysis

The source of the information used in these analyses is from the 2024 *Sherlock Benchmarks*, reflecting 2023 costs. The source of the Staffing Costs per FTE (Compensation), Member Months (Scale), and FTEs per 10,000 members (Staffing Ratio) is data from surveys of 14 Blue Cross Blue Shield Plans ("Blue") and 12 Independent / Provider – Sponsored plans (IPS). The third 26-plan universe set is the combination of these two.

Each column in each of the figures shows the results of our regression analyses for each function and for each universe. Each of the percents describe the slopes of the regression lines. They are expressed as the BCG Slope, that is, the effect of doubling the membership of a health plan. A value of less than 100% shows economies of scale, a negative slope, and a value of greater than 100% shows diseconomies of scale, a positive slope. In this analysis, we occasionally use the term economies of scale broadly to include both negative and positive slopes. A more complete description of the BCG slope and its interpretation may be found in the November 2024 *Plan Management Navigator*. These slopes of economies of scale are calculated to eliminate the effect of product mix differences between the plans.

We considered the relationship between membership and the dependent variable to be significant if it displayed p-values of less than 0.1. If they are shaded, they are significant. Functions were included if they were significant in any regression analysis in their universe.

Each of the figures has four columns summarizing analyses described below.

Figure 3. The Relationship Between Scale, Staffing Ratios, and Compensation
Scalar Effect on Mix-Adjusted Staffing Ratios and Compensation
Blue and IPS Plans

Functions	Economies of Scale PMPM Costs	Economies of Scale in Staffing Ratios	Economies of Scale in Staffing Costs per FTE	Economies of Scale in Staffing Costs per FTE, COLA
1. Rating and Underwriting	110.1%	99.4%	107.0%	104.7%
(b) Risk Adjustment	128.3%	114.9%	104.9%	102.9%
(c) Other Rating and Underwriting	102.2%	97.6%	107.1%	104.3%
2. Marketing	99.7%	96.4%	107.2%	104.6%
(a) Product Development and Market Research	102.8%	89.6%	110.3%	107.5%
3. Sales	98.1%	90.1%	107.1%	104.3%
(a) Account Services	99.0%	92.2%	109.1%	106.4%
(c) Other Sales	97.3%	86.2%	108.3%	105.5%
5. Advertising and Promotion	91.0%	91.0%	106.1%	103.3%
(a) Media and Advertising	91.3%	91.0%	106.1%	103.3%
(b) Provider Contracting	81.5%	77.6%	106.9%	104.3%
(1) Provider Configuration	59.0%	53.3%	109.3%	110.0%
(2) Other Provider Contracting	92.7%	86.5%	115.0%	111.5%
(c) Other Provider Network Management and Services	104.3%	85.0%	108.0%	105.7%
7. Medical Management / Quality Assurance / Wellness	108.9%	99.8%	105.5%	103.5%
(a) Precertification	90.4%	79.4%	102.4%	100.3%
(b) Case Management	134.6%	122.8%	102.1%	99.6%
(c) Disease Management	104.6%	72.9%	102.8%	102.4%
8. Enrollment / Membership / Billing	99.8%	86.9%	109.7%	107.5%
9. Customer Services	107.2%	98.6%	106.6%	104.5%
(a) Member Services	109.3%	99.6%	107.1%	105.0%
10. Claim and Encounter Capture and Adjudication	112.0%	99.4%	106.3%	104.5%
(a) Coordination of Benefits (COB) and Subrogation	108.5%	89.5%	105.8%	103.5%
(e) Other Claim and Encounter Capture and Adjudication	113.4%	91.6%	105.8%	104.1%
11. Information Systems Expenses	90.8%	93.0%	101.1%	98.5%
(b) Applications Maintenance	66.0%	68.6%	103.0%	100.3%
(1) Benefit Configuration	78.9%	76.5%	105.8%	102.2%
(2) Other Applications Maintenance	86.8%	101.2%	108.8%	105.2%
(c) Applications Acquisition and Development	86.7%	74.3%	103.4%	85.2%
(d) Security Administration and Enforcement	105.8%	102.7%	105.7%	103.0%
13. Actuarial	88.2%	91.9%	103.0%	100.6%
14. Corporate Services Function	97.5%	87.7%	107.9%	105.2%
(a) Human Resources	95.2%	90.6%	109.7%	106.8%
(b) Legal	93.5%	85.2%	104.6%	101.9%
(1) Compliance	82.2%	78.9%	104.2%	101.7%
(2) Government Affairs	90.3%	84.4%	85.2%	83.9%
(4) Fraud, Waste and Abuse	84.4%	80.4%	105.4%	102.7%
(c) Facilities	98.7%	81.3%	113.8%	110.9%
(e) Audit	105.0%	104.9%	106.6%	102.7%
(f) Purchasing	146.2%	131.8%	110.8%	106.6%
15. Corporate Executive & Governance	99.3%	80.2%	122.5%	119.5%
Subtotal Expenses	101.3%	94.8%	105.9%	103.6%
Total Expenses	101.1%	94.8%	105.9%	103.6%

*Shaded values are significant.

Economies of Scale PMPM Costs. Each of these values models the effect of greater membership on PMPM costs in each function. This is the same analysis we discussed in the November 2024 *Navigator* and provides context for the other regressions.

Economies of Scale in Staffing Ratios. This is similar to Economies of Scale in PMPM Costs except that the dependent variables are the function staffing ratios. It measures the effect of higher membership on Staffing Ratios so that a BCG Slope of 90% means that doubling of membership is associated with a staffing ratio of 90% of the pre-doubling value. The Staffing Ratios used in this analysis include the effect of outsourced activities expressed as FTEs. As with PMPM costs, Staffing Ratios eliminate the differences in product mix between the plans. The slopes are generally negative, more so than for costs.

Economies of Scale in Staffing Costs per FTE. This is conceptually similar to the previous columns of regressions but the Staffing Costs per FTE, or compensation, is the dependent variable. Staffing Costs per FTE usually have a positive relationship to scale, so BCG slopes of greater than 100% are common.

Economies of Scale in Staffing Costs per FTE, COLA. The difference between these regressions and the immediately previous ones described above is that the dependent variables of Staffing Costs per FTE are adjusted to eliminate local cost of living differences. We adjust by dividing actual per FTE staffing costs by the index of local costs of living used by the Centers for Medicare and Medicaid Services for hospital payment calculations. The BCG slopes are frequently greater than 100% with the COLA adjustment.

Invitation to Participate in the 2025 Sherlock Benchmarking Study

The *Sherlock Benchmarks* are the “gold standard” of health plan administrative benchmarks. The *Sherlock Benchmarks* is a unique window for health plans to gauge with accuracy and granularity whether their administrative costs are competitive with their peers. With the Benchmarks, plans can measure their costs relative to others that are similar in business model, product focus and business mix. They can prioritize the functions that contribute to those differences, and identify cost factors such as staffing ratios, compensation levels and non-labor costs that affect those functions.

The 2025 study will be the 28th consecutive year, reflecting a cumulative experience of over 1,000 health plan years. Health plans serving at least 145 million Americans are either licensees or participants in the *Sherlock Benchmarks* from June 2022. Participating plans have included 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, fourteen plans serving approximately 41.3 million people, participated in the *Sherlock Benchmarks* for Blue Cross Blue Shield Plans.

For the universe of Independent / Provider - Sponsored Plans, twelve plans serving 9.9 million people participated in the most recent cycle. Participants in this year's *Sherlock Benchmarks* serve about 41% of all members in the Health Plan Alliance and 59% of members served by Alliance of Community Health Plans.

Report publication normally begins in late June 2025 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.*

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