

Plan Management Navigator

Analytics for Health Plan Administration



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THIRD-PARTY ADMINISTRATOR: BENCHMARKING RESULTS FOR 2023 AND COMPARISONS WITH OTHER UNIVERSES

We recently completed a small benchmarking study of TPAs. This *Plan Management Navigator* compares their results to similar products within the Blue Cross Blue Shield and Independent/Provider-Sponsored universes. Within this set of expenses, IPS and TPAs approximated each other and both were lower than Blue Cross Blue Shield Plans. To make the comparisons, we focused on similar products. That is, they were entirely medical products, and in all cases the Medical and Provider Management Cluster of expenses were omitted.

However, the organizations were vastly different in size. The TPAs had a median membership of 176,000 members compared to the similar products of Blue Cross Blue Shield Plans with a median of 1.1 million ASO members (of 2.1 million total) and IPS plans with a median of 112,000 ASO members (of 673,000 total). There were five TPAs, 17 Blue Plans and 11 IPS plans.

Median expenses are shown in Figure 1.

Qualifications

There are important qualifications in this analysis, and we do not know if they are material. The products are assumed to be similar across the universes. However, since the product definitions provide a degree of latitude in this, comparability is imperfect. Specifically, to be included as an ASO or an ASC product in the Blue or IPS universes, the activities must be substantially the same as for plans' insured products. By contrast, TPAs do not have insured products.

Also, costs for each function within the Blue and IPS universes are allocated by product by the plans and only their ASO/ASC operations are reflected here. Our validation procedures confirm the plausibility of each of their product's costs, product's costs relative to other products and their cost relationships to operational metrics, such as staffing ratios. But cost allocation by product finally contains a degree of art.

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Figure 1. Expenses for Medical Products of TPAs, Blue and IPS Plans

Median PMPMs

	TPA	Blue	IPS
Total PMPM Costs*	\$19.35	\$25.90	\$19.76

*ASO only for Blue and IPS plans. Excludes Miscellaneous Business Taxes and the Medical and Provider Cluster

TPAs versus ASO Products of Blue Cross Blue Shield Plans

As shown in Figure 1, TPA costs are substantially lower. The overwhelming reason for the differences is the Account and Membership Administration cluster. Specifically, Information Systems, Claims and Corporate Services were the key sources of differences, and the functions contributed in that order.

The costs drivers that contributed to the lower costs in TPAs included lower Staffing Ratios, lower Non-Labor costs per FTE and lower per FTE Compensation. TPAs operated differently as well with lower autoadjudication rates and lower rates of outsourcing.

TPAs versus ASO Products of Independent/Provider-Sponsored Health Plans

Figure 1 also shows the IPS costs compared with those of TPAs. Overall, the costs are substantially the same. Sales and Marketing costs are higher for TPAs, especially in Account Services subfunction of Sales.

While Account and Membership Administration costs are similar, their compositions differ. Information Systems costs are probably lower for TPAs but Claims, Customer Services and Enrollment function costs are higher.

Overall, TPAs have lower Staffing Ratios than ASO products of IPS plans, higher per FTE compensation, and similar non-labor costs per FTE. TPAs and IPS plans have similar autoadjudication rates. TPAs have lower proportions of outsourcing than IPS plans.

About the Sherlock Benchmarks

The *Sherlock Benchmarks* are the health benefits industry's metrics informing the management of administrative activities. The 2023 editions were based on validated surveys of organizations serving 63 million Americans and provide costs and their drivers on key administrative activities. The *Sherlock Benchmarks* are in their 26th consecutive year and represent 1,000 health benefit organization years of experience.

The Benchmarks are reported in multiple universes: Larger Plans, Blue Cross Blue Shield, Independent / Provider-Sponsored, Medicare, Medicaid and TPAs.

The *Sherlock Benchmarks* are the "gold standard" of health organization administrative cost benchmarks. Organizations use them to determine whether their administrative costs are competitive, to prioritize for improvement among numerous specific activities and to identify cost drivers such as staffing ratios that, overall and within functions, can help implement those improvements.

This *Plan Management Navigator* has been sent primarily to those who have requested to be included on the email list. If you are not on our regular distribution and would like to be, please let us know or sign up [here](#).

Invitation to Participate in Sherlock Benchmarks for TPAs in 2023

This *Plan Management Navigator* results are excerpted from the Third-Party Administrators edition of the 2023 *Sherlock Benchmarks*.

We will soon be building a new universe of Third-Party Administrators for 2024. We will be launching this Spring and welcome your participation. We expect to publish four months later. Please contact asherlock@sherlockco.com for more information.

You will be among good company.

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