

Plan Management Navigator

Analytics for Health Plan Administration



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ADMINISTRATIVE COST TRENDS MODERATE FOR INDEPENDENT / PROVIDER - SPONSORED PLANS IN 2018

In 2018, excluding the effect of Miscellaneous Business Taxes, Independent / Provider - Sponsored plans reported administrative cost increases of 3.4%, lower than the 5.5% pace in 2017. As shown in Figure 1, the 2018 trend in Account and Membership Administration was also lower, 4.7% versus 6.2%. This trend is key since this cluster of activities is the largest for health plans and its increase was lower than in the prior two years.

We have not shown this but, after the effect of the Miscellaneous Business Taxes, PMPM total administrative expense increased by 14.9% compared with a decline of 3.8% in the prior year due to the restoration of the Annual Fee on Health Insurance Providers.

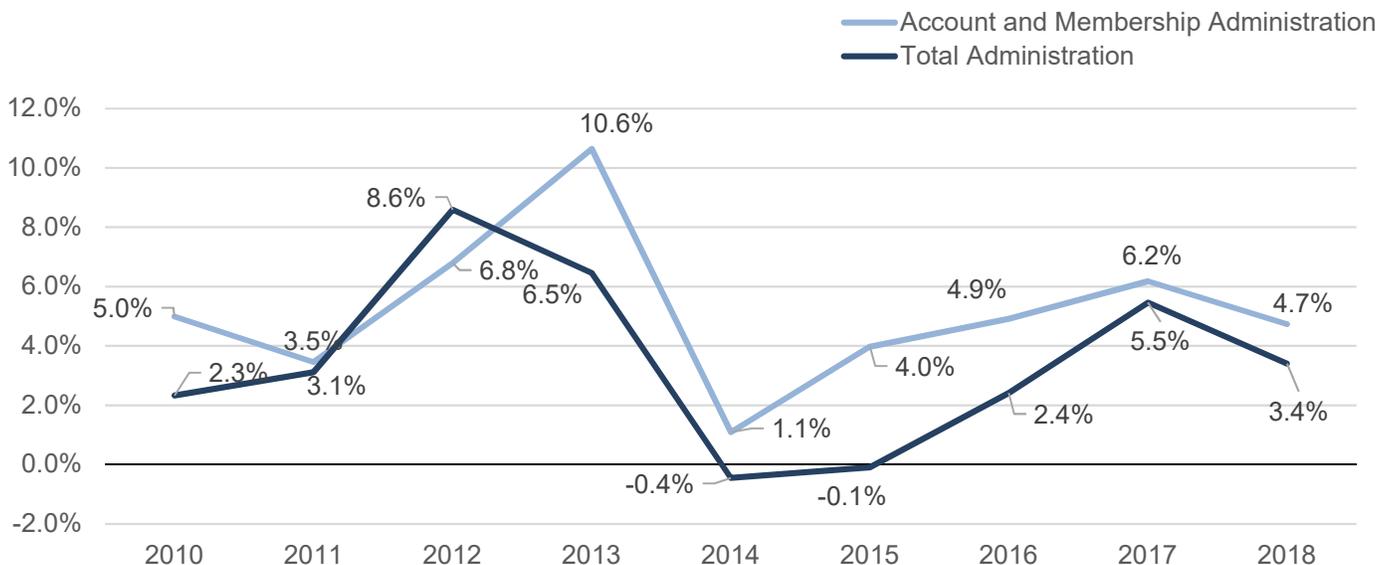
Note: Cluster values of 2017 were updated for a reclassification by one of the plans. Rates of change reflect this update. For this reason, while median total PMPM costs are identical to last year's originally reported value, the Corporate Services Cluster is \$0.17 higher. Last year's values, as updated, are shown in Appendix A.

Trends and Product Mix Changes

Figure 2 outlines year-over-year trends on both an as-reported and constant mix basis. The year-over-year deceleration of cost trends was widespread.

Figure 1. Sherlock Benchmark Summary

Independent / Provider - Sponsored Rates of Change for Account and Membership Administration and Total, Constant Mix



On an as-reported basis, for the 13 continuously participating plans, per member costs grew by 3.7% compared with 5.2% the prior year.

Cost trends on an as-reported basis reflected a shift in favor of higher cost products. Overall, this was manifest in faster cost growth on an as-reported basis, 3.7% versus 3.4%, when product mix is held constant. The effect of the mix change is to increase as-reported cost trends by 0.3 percentage points; while Commercial declined by 0.6%, various comprehensive Medicare products increased by 6.1%. Commercial composes a median of 64.9% of membership, but Medicare composes 11.7% and roughly double that proportion of expenses.

This mix effect was muted by the shift in Commercial in favor of ASO products and growth in CHIP. Commercial insured membership decreased by 1.0% while lower cost Commercial ASO increased by 1.4%. The products were 38.6% and 23.3% (medians), respectively, of the Comprehensive product mix. Medicaid products increased by 0.2% to 16.3% of membership; it is lower than average in cost, within that product the lower cost CHIP product grew by 7.3% while regular Medicaid declined by 0.3%.

Nineteen Independent / Provider - Sponsored Plans, collectively serving 10.2 million members in comprehensive products participated in this year's study. The median membership was 470,000 and the average membership was 534,000. Additional information on this universe is found below.

Cost Trends Holding Mix Constant

Trends that exclude mix changes are a more accurate representation of real trends in our view so the discussion that follows is largely based on this.

The change in administrative expenses in 2018 at 3.4% is lower than the 5.5% growth of 2017, the change in the trends varied. There was an especially sharp decline in the rate of growth in Corporate Services. Sales and Marketing also had a notable decline. By contrast, Account and Membership Administration had a more moderate decline in cost growth. Notably, Medical and Provider Management accelerated on a constant mix basis.

Figure 2. Sherlock Benchmark Summary
Independent / Provider-Sponsored Median Changes in Per Member Per Month Expenses

Functional Area	2017 Increase		2018 Increase	
	As-Reported	Constant Mix	As-Reported	Constant Mix
Sales and Marketing	6.4%	6.8%	6.2%	1.8%
Medical and Provider Management	6.8%	6.1%	6.8%	6.9%
Account and Membership Administration	9.0%	6.2%	5.5%	4.7%
Corporate Services	11.7%	11.1%	4.3%	1.4%
Total Expenses	5.2%	5.5%	3.7%	3.4%

The underlying trend in the Account and Membership Administration cluster is important since, as shown in Figure 3, it is by far the largest cluster.

As discussed in later sections, staffing ratios declined, compensation generally grew, non-labor expenses declined and propensity to outsource appeared to increase.

ACCOUNT AND MEMBERSHIP ADMINISTRATION

The trend in Account and Membership Administration declined from 6.2% to 4.7% per member. This year's trend reflects, first, a near double-digit increase in Customer Services. This is the second year in a row that this function has grown at that pace.

Information Systems' trends were the second most important factor because it is the largest function in this cluster of expenses. However, the rate of growth in expenses sharply diminished to low single-digits from mid single-digits. The relatively modest growth was overwhelmed by the size of the Information Systems function, making it the second most important source of increase in this cluster of expenses.

Enrollment costs PMPM declined, for the sixth time in the past 10 years. This is a volatile function: its rate of decline was the fastest over that ten-year period and last year's growth was also the fastest over that period so the change in trend was more dramatic than in any other function in this cluster.

Claim and Encounter Capture and Adjudication grew at low single-digit rates, the lowest since 2015 and lower than six of the last ten years.

MEDICAL AND PROVIDER MANAGEMENT

The Medical and Provider Management cluster of expenses uniquely posted accelerating cost growth, 6.9% versus 6.1% in 2017. There are two component functions: Provider Management and Services and Medical Management / Quality Assurance / Wellness. Both grew at sharply lower rates, though Provider Management and Services declined less sharply. (While median values benefit from the tendency to exclude the effect of outliers, there are often apparent calculation disparities.) Provider Contracting growth was the key factor in the growth of Provider Management and Services. Medical Management trends were affected by Health and Wellness growth and declines in Medical Informatics.

SALES AND MARKETING

The Sales and Marketing cluster of expenses also posted declining cost growth, from 6.8% to 1.8%, the second sharpest deceleration among the clusters.

In Sales and Marketing, Commissions are the largest function in this cluster of expenses. Its costs declined and, because of its size, it had the greatest influence on the trend in this cluster. This is the second year in a row of a decline in this function, and it accelerated from last year. The past two years were the only ones in the past 10 with declines in broker Commissions.

The fastest declining function in 2018 was Rating and Underwriting. (This area also includes Risk Adjustment expenses.) This function's costs decline was the first time since 2014. This is an especially volatile function with double digit increases or declines in three of the past 10 years.

In 2018, Marketing function and Sales function expenses were the growth leaders with increases at mid single-digit rates. Marketing growth was the fastest growing function in this cluster. While Marketing growth was down from 2017, it was the second fastest growth since 2012 and 2013 when plans were adapting to the Affordable Care Act. Growth was centered on Member and Group Communication and a group of activities that included "strategic planning of a purely marketing nature, retail store marketing activity, product leadership and strategy relating to digital marketing."

While Sales did not grow as rapidly as Marketing, its pace was the fastest since 2009. The source of the increase was actual sales rather than support, and apparently on base pay versus internal sales commissions. Since Sales was the second most expensive function in this cluster, its impact on overall trend in this cluster was second only to Commissions: as Commissions declined, Sales grew.

Advertising and Promotion growth was slightly higher than 2017, and was the highest since 2013's explosive growth.

CORPORATE SERVICES

Growth in the Corporate Services cluster of expenses sharply declined compared with 2017. Notwithstanding the sharp decline from 11.1% to 1.4%, as the smallest cluster, it had the least effect on growth trends. The functions in this cluster include Finance and Accounting and the Corporate Services *function* which accelerated and Actuarial, Corporate Executive & Governance and Association Dues and License / Filing Fees, which either decelerated or declined.

The most important reason for this growth decline was the mid single-digit decline in Corporate Executive & Governance; this followed a double digit increase in the prior year. This function was the second most important contributor to trend.

Corporate Services *function*, has many subfunctions and is by far the largest function in this cluster. Its growth explained all of the growth in this cluster. Legal (especially Compliance and Government Affairs), HR and Audit contributed most to the cost growth.

Like Corporate Executive & Governance, Association Dues and License and Filing Fees also declined. Finance and Accounting increased at low single digit rates, an acceleration from 2017 and the fastest growth since 2013. Actuarial growth declined to high single digits and was the second fastest growth since 2012.

As-Reported Trends

The differences in as-reported and constant mix trends between 2018 and 2017 reflects the shift in product mix towards more expensive products noted earlier. Recall that Medicare Advantage increased as a proportion of the product portfolio. Contributing to the as-reported growth of 3.7% compared with the constant mix growth of 3.4% and the percentage point decline in growth from 2017 was 1.5 versus 2.1 on a constant mix basis.

Again, cost growth was lower, at 3.7% versus 5.2% in 2017. Sales and Marketing was especially sensitive to the trend towards higher cost products. So, while on a constant mix basis, this cluster's cost growth declined from 6.8% to 1.8%, the as-reported growth was quite similar: 6.2% versus 6.4% in the prior year.

Rather than declining after backing out the effect of mix, Rating and Underwriting actually increase, though at a very modest rate. Also, the pattern of substitution in favor of an internal distribution from brokers was larger when mix is not considered: Sales grew faster and Commissions declined faster. The shift away from internal sales commissions is less pronounced, suggesting that the higher cost Medicare products are less subject to internal sales commissions. Advertising and Promotion more sharply accelerated on an as-reported basis.

Few other functions in other expense clusters were as subject to such differences. But it is notable that the Legal sub-functions of Compliance and Government Affairs grew faster on an as reported basis. Audit and Risk Management growth was also higher, possibly reflecting the higher costs in these activities required for Medicare products.

Medical and Provider Management grew by 6.8%, identical to the As-Reported increase in 2017 and substantially the same as the constant mix growth of 6.9%. Account and Membership Administration growth was higher than constant mix growth at 5.5% versus 4.7%, but the decline in cost growth from 2017, which was 9.0%, was much greater. Members of Medicare products have higher costs, which are also associated with higher administrative burdens.

Besides Sales and Marketing, the change in product mix was most profoundly felt in the Corporate Services Cluster. Cost growth was 4.3% without the adjustment for mix, versus 1.4% after that adjustment. The decline in cost trend from 11.7% was steep but less so than the constant mix decline.

Trends in Factors Driving Costs

As the toggle switches of cost performance, operational drivers provide additional insights to cost trends. The drivers discussed in this section are staffing ratios, compensation, non-labor costs and propensity to outsource.

Having said this, the following discussion is softer than earlier trend analyses because of the difficulties in adjusting factors such as staffing ratio for mix differences. Since the plans report all PMPM costs for each function by product, we can estimate product staffing costs using only the assumption that the mix of labor and non-labor costs is the same across all offered products. In this instance, some of the values are expressed in terms of Commercial Insured: as noted earlier, this is the most important single product in the IPS universe, and is 38.6% of the membership of the continuously participating plans.

For the continuously reporting plans, staffing ratios decreased by 3-4% and now have about 25 FTEs per 10,000 members serving the commercial product. This includes outsourced staffing, discussed later.

The function with the sharpest declines in staffing were Corporate Services. Offsetting this was growth in Enrollment and Customer Services staffing ratios. Of the 14 major functional areas with staff, eleven declined and three grew, based on median ratios.

Compensation, including all benefits, increased at a median rate of 1.5%, to a median of \$95,000. Compensation grew especially rapidly in Advertising and Promotion, Information Systems, Finance and Accounting and Marketing. Corporate Executive and Governance compensation declined, as did Provider Network Management and Services.

Figure 3. Sherlock Benchmark Summary
Independent / Provider-Sponsored Costs by Functional Area Cluster, 2018 Results
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$8.56	\$9.45	\$13.39	43%
Medical and Provider Management	5.77	7.35	9.07	31%
Account and Membership Administration	14.61	17.72	18.98	31%
Corporate Services	5.73	7.54	8.98	31%
Total Expenses	\$38.61	\$41.28	\$45.43	27%

The functions of Corporate Executive, Actuarial, Sales and Marketing were the highest compensated. Certain sub-functions were also high including Other Medical Management (where medical directors are classified), Risk Management and Government Affairs.

We estimate that non-labor costs per FTE decreased by 2.2%. Areas where non-labor cost growth declined especially sharply included Advertising and Promotion and Provider Network Management and Services. Actuarial, the Corporate Services function and the Corporate Executive per FTE costs increased notably. Non-labor costs are affected by changes in staffing ratios and this appears to have been the case for the Corporate Services function.

The median proportions of FTEs that were outsourced was 12.9% up from 11.5% in 2017. While outsourcing of Claim and Encounter Capture and Adjudication increased, it decreased in Marketing and in Applications acquisition and Development.

Areas that are heavily outsourced include Claim and Encounter Capture and Adjudication, Corporate Services, Enrollment, Rating and Underwriting, Actuarial, Information Systems, and Finance and Accounting, which are typically at or above 10%.

There are also subfunctions that tend to be outsourced as a characteristic of their activities. These include Risk Adjustment and Nurse Information Line.

Outsourcing is sometimes quite skewed. So while the median proportion of Information Systems that is outsourced was 9.7%, the average was 19.9%. Corporate Services, Finance and Accounting showed a similar pattern. The outsourced percents of Corporate Executive and Governance was even more dramatic with a median of 1.8% but a mean of 15.5%.

For this universe of Independent / Provider - Sponsored plans, the nature of the outsourcing is sometimes broader than is found for other health plans. That is because we include as outsourcing those employees that are charged to the health plan but may receive paychecks from parent health systems. The Corporate Services subfunctions of Human Resources and Purchasing which are highly outsourced may especially reflect this.

Costs of Independent / Provider - Sponsored Plans, by Cluster, PMPM

Figure 3 shows the values of administrative expenses for all 19 participating plans. Bear in mind that this universe of Independent / Provider - Sponsored Plans differs from that of last year in product mix and in plans. In this section we will touch on comparisons with the results reported last year, notwithstanding this limitation. The prior year's values are shown in Appendix A.

Recall that it reflects a reclassification by one of the plans. Also, of the 20 plans that participating in 2018, thirteen repeated in the 2019 cycle. That is, seven were unable to participate and six additional plans joined. Since the universes differed in each year, it is not possible to perfectly compare the performance of plans participating this and last year based on these charts. For the new plans and the ones that participated last year, we can know neither their trends, or their changes in product mix.

The actual total PMPM administrative expenses at a median of \$41.28 were 7.6% higher than last year's values. Corporate Services was higher by 11.7% to \$7.54. Activities include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities like Facilities, HR and Legal.

Sales and Marketing was down by 7.5% to \$9.45. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Account and Membership Administration was higher by 15.7% to \$17.72. This cluster includes the central activities of Information Systems, Enrollment, Claims and Customer Services.

Figure 4. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2018 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	\$43.90	\$48.97	\$52.05	19%
POS	\$43.13	\$49.63	\$52.21	27%
Indemnity & PPO	\$45.34	\$54.16	\$64.20	34%
Total	\$43.27	\$49.29	\$52.61	19%
Commercial ASO				
	\$19.25	\$21.73	\$26.55	29%
Medicare				
Advantage	\$82.84	\$90.71	\$109.78	39%
SNP	\$132.73	\$155.56	\$240.59	38%
Cost	\$47.90	\$59.15	\$61.58	27%
Medicaid				
HMO	\$21.28	\$28.41	\$35.24	35%
CHIP	\$22.92	\$25.01	\$25.23	20%
Medicare Supplement				
	\$35.40	\$41.09	\$51.62	36%
Comprehensive Total	\$38.61	\$41.28	\$45.43	27%

While in this unadjusted analysis the cost trends are much different the relative size of the Account and Membership Administration cluster of expense helps to explain its influence on overall trend.

Medical and Provider Management was higher by 8.0% to \$7.35. This group of functions includes Provider Network Management and Services, and Medical Management / Quality Assurance / Wellness.

Note also that the values were more clustered, measured by coefficient of variation. This seems to have been solely the result of Account and Membership Administration which uniquely posted a decline.

Also, the differences between 75th and 25th percentile values declined by \$6.21. The differences declined in Sales and Marketing, in addition to Account and Membership Administration.

Costs of Independent / Provider - Sponsored Plans, PMPM by Product

The importance of considering the product cost values is shown in Figure 4. The products vary greatly in their per member costs.

For the set of all participating plans, Commercial members were 64.9% of the total comprehensive membership. Administrative expenses for these costs are both higher and lower than the median comprehensive administrative costs, depending on their financing mechanism, which indirectly bears on the group size.

As a sector, Independent / Provider - Sponsored Plans have a heavy commitment to commercial insured products, representing 44.6% of comprehensive members. These products' costs are higher than for comparable ASO products largely due to the high per member Sales and Marketing expenses required for small groups and individuals (representing a mean of 17.3% of commercial insured members) not eligible self-insure. The single most important insured product is HMO which costs \$48.97 PMPM. The insured Indemnity and PPO follows at \$54.16 while POS costs \$49.63.

A self-insured group eligible to purchase ASO products possesses the statistical advantages of larger size, which also means that their Sales and Marketing costs are spread through greater numbers of members. The median PMPM costs for ASO, which are not segmented into products, is \$21.73 PMPM.

Medicaid HMO, serving low income people, is a focus of Independent / Provider Sponsored plans or 16.3% of total members. Fourteen of the plans offer Medicaid HMO (MCO) and five offer CHIP. Medicaid costs a median of \$28.41, while CHIP, for Children, costs \$25.01 PMPM.

Independent / Provider - Sponsored plans also have a high commitment to senior products. The replacement products of Medicare Advantage, Medicare Advantage SNP and Medicare Cost serve a median 9.2% of total members and a median of 24.8% of revenues.

Medicare products are relatively high cost at \$90.71 and \$155.56 PMPM for Medicare Advantage and Medicare Special Needs Plans, respectively. Medicare Cost, which directly covers only part of the benefits for Medicare, is \$59.15 PMPM. Individuals represent approximately 90.0% of the membership for these products.

Note that Medicare Supplement is almost exactly the average cost product at \$41.09 PMPM. We include this as a comprehensive product in the *Sherlock Benchmarks* though it pays only when Medicare does not. This is a minor product serving less than a median of one percent of total members and is only offered by 10 plans.

Plans in this year's panel did not offer specialty products in sufficient numbers to produce reliable benchmark values. By specialty products, we mean stand alone Part D or Stand-Alone Dental.

Figure 5. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2018 Results
Percent of Premium and/or Equivalent

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	8.4%	9.4%	10.8%	19%
POS	9.1%	9.8%	11.1%	26%
Indemnity & PPO	8.8%	11.7%	13.0%	25%
Total	8.5%	9.2%	11.0%	17%
Commercial ASO				
	4.9%	5.9%	6.7%	58%
Medicare				
Advantage	8.8%	11.0%	12.6%	47%
SNP	7.5%	9.2%	10.9%	39%
Cost	10.1%	13.1%	13.3%	32%
Medicaid				
HMO	7.0%	7.4%	9.8%	20%
CHIP	8.8%	10.6%	11.1%	21%
Medicare Supplement				
	11.0%	19.0%	23.7%	45%
Comprehensive Total	7.9%	8.6%	9.9%	16%

Costs of Independent / Provider - Sponsored Plans, Percent of Premiums by Product

Many analysts evaluate administrative expenses standardized as a percent of premium. While this is straightforward for fully insured products, in the ratios displayed in Figure 5 and in Figure 6 which follows, “premiums” represents premium equivalents in self-insured products. We calculate premium equivalents as the sum of fees to self-insured groups plus the health benefits associated with those groups.

The product ranking of administrative expenses measured by the percents of premiums corresponds with that of the PMPM costs with some important exceptions. While Medicare Supplemental is almost exactly average cost when measured PMPM, at 19.0%, its cost ratio was the highest among the comprehensive products, which had a median value of 8.6%.

Medicare Advantage costs, while twice times higher than total PMPM, have ratios only 17% higher than the median for similar commercial HMO products at 11.0%. SNP, at 9.2% is quite similar to the commercial HMO product though its PMPM costs are three times as high. By contrast, while Medicare Cost’s PMPM costs are 20% higher than commercial insured products, the percent is 42% higher at 13.1%.

Medicaid products’ are low, measured PMPM. Medicaid HMO is a low cost percent product at 7.4% while CHIP is high at 10.6%.

Costs of Independent / Provider - Sponsored Plans, Expense Clusters as Percent of Premium

Figure 6 shows the ratios of administrative expenses to premiums or equivalents. As a preliminary note, this chart illustrates that while medians have the advantage of reducing the effect of outlying performance, as the 50th percentile value, they have disadvantages too. For instance, they cannot be reliably used in computations such as sums. Also note that the following discussion also includes changes in values that are obscured by rounding.

Figure 6. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2018 Results
Percent of Premium and/or Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.9%	2.1%	2.6%	33%
Medical and Provider Management	1.2%	1.6%	1.9%	27%
Account and Membership Administration	3.0%	3.8%	4.3%	23%
Corporate Services	1.1%	1.5%	1.7%	26%
Total Expenses	7.9%	8.6%	9.9%	16%

Administrative expenses were 8.6% of premiums, essentially the same as last year's equivalent value of 8.5%. However, the distribution of expenses changed. While Sales and Marketing declined by 0.4 percentage points to 2.1% of premium equivalents Account and Membership Administration increased by 0.4% of premium equivalents to 3.8%. There were miniscule increases in the ratios for Corporate Services and Medical and Provider Management.

How We Performed This Analysis

CHARACTERISTICS OF THE INDEPENDENT / PROVIDER - SPONSORED UNIVERSE

This analysis is based on the twenty-second annual edition of our performance benchmarks for health plans. The *Sherlock Benchmarks (Sherlock Expense Evaluation Report or SEER)* and we project will represent the cumulative experience of over 855 health plan years by September.

Each peer group in the *Sherlock Benchmarks* is established to be relatively uniform. So, within that constraint, it is open to most Independent / Provider - Sponsored plans possessing the ability to compile high-quality, segmented financial and operational data. We surveyed the participants to populate the *Sherlock Benchmarks* and this summary.

This 17th analysis of Independent / Provider - Sponsored plans is based on a peer group of nineteen plans who collectively serve 10.2 million people. Their median and mean membership is 470,000 and 534,000, respectively.

As a universe, we believe the sample represented by the participants to be quite robust. Of the 16 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, ten are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.

Of the seven largest members of the Health Plan Alliance that are focused on commercial products, five are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans. Sherlock Benchmark participating plans represent 47.8% of the total members of this subset of the Health Plan Alliance plans.

Of the Comprehensive products provided by this universe, 68.5% was commercial, or 7.0 million. Approximately 2.7 million of the commercial members were served under some form of self-insurance arrangement, comprising approximately 38.7% of the total commercial members.

Medicare Advantage, with 1.1 million members, was offered by 17 plans. It composed 11.1% of the combined comprehensive membership and 25.0% of revenues for comprehensive products, which was \$47.4 billion. The combination of Medicaid HMO and CHIP, offered by fourteen Plans, served 1.9 million members and comprised 18.9% of the total.

REPORTING CONVENTIONS

We employ a number of conventions to make the metrics most beneficial for the audience of *Plan Management Navigator*.

- The trends reported in this analysis are median changes, and when we refer to PMPM or percent of premium ratios, these too are medians. This convention reduces the effect of outlying values on overall trends and values. Since each median value is calculated independently, the components cannot be summed.
- References to growth rates hold the universe constant in the comparison years unless otherwise noted. Rates of change that are called “as-reported” are of health plans participating during both comparison years. When we refer to “constant mix” we are calculating rates of change for that same constant set of Plans after reweighting each Plan’s values to eliminate the effect of product mix differences between the years.
- Percent of premium ratios are calculated on a premium-equivalent basis. That is, in the case of ASO/ASC arrangements, we synthesize a premium by adding to fees the health benefits incurred by the self-insured group. In this way, premium equivalents sum to all of the expenses of health insurance, including profits earned by the health plan, analogous to actual premiums on insured products. While not in accordance with GAAP, this approach has two advantages: comparability of ASO/ASC ratios with those of insured products offered by these plans, and an intuitive appeal to general readers.
- Expenses exclude capital costs and investment income. We specifically exclude interest and similar debt capital costs, profits and capital formation costs (debt or equity) such as transaction costs, and interest payments to providers under “prompt pay” laws.

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- Participants in and licensees of the *Sherlock Benchmarks* will note that the values for Account and Membership Administration and Total Administrative costs reported here will differ from those reported in the Benchmarks. The values reflected in Navigator include administrative expenses associated with pharmacy and mental health while the *Sherlock Benchmarks* do not. Because variation in employer benefit designs and that sometimes the administration of these health services is outsourced by Plans accepting these management responsibilities, the Benchmark reports carve them out. Pages 22 - 24 in Tab 2 of Volume I of the 2019 *Sherlock Benchmarks* reconciles these two presentations.
 - Miscellaneous Business Taxes are a special case among administrative expenses since, short of recapitalization or elimination of commercial insured business, such expenses are impossible to manage. So, expense trends, along with the PMPM and percent of premium ratios, are generally calculated before the effect of Miscellaneous Business Taxes. These taxes are primarily related to the Affordable Care Act. For commercial insured products, the median PMPM value of such taxes is \$10.87 and the mean is \$12.33 or approximately 20% of administrative costs. (As noted earlier, this is sharply higher than in the prior year.) Such costs are essentially nil for ASO products. By way of comparison, in 2012, the median Miscellaneous Business Tax for commercial insured products was \$1.52 PMPM.
 - The ACA fees include Comparative Effectiveness Research Fees (CERF), Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee and Annual Fee on Health Insurers. The Annual Fee on Health Insurers was the largest generally applicable fee since it applied to all insured business and has a median value of \$6.18. The Risk Adjuster Fee, the second largest fee, has a median value of \$0.19 PMPM. The Exchange User Fee only applies to Exchange members but the median fee for that population is \$26.69 PMPM.
 - On a constant-mix basis, per member Miscellaneous Business Tax costs increased by 157.0% PMPM, compared with a decrease of 54.9% down from the surge of 992.3% in 2014.

Note on the Sherlock Benchmarks

While health plan managers are responsible for the health care for many your members, they manage the administrative services necessary for all of them.

In the current environment, optimizing administrative expenses is a high priority for health plan managers. The surge in expenses of adapting to the Affordable Care Act and the bulge in Exchange and Medicaid members stemming from the ACA have passed. Plus, administrative expense visibility has been heightened by the rhetoric of presidential candidates.

These results are excerpted from the Independent / Provider - Sponsored edition of the 2019 *Sherlock Benchmarks*. In addition to the Independent / Provider - Sponsored universe, we also survey and report on universes of Blue Cross Blue Shield plans, Larger Health Plans, Medicare Advantage Plans and Medicaid Plans. We will be reporting on the results of the other universes in the months that follow. Accordingly, much more information is available by licensing the *Sherlock Benchmarks*.

Tables of Contents, report formats, citations, quality assurance and other information can be found on the following page.

<https://sherlockco.com/sherlock-benchmarks/>.

In addition, the Sherlock Company website has an application that allows you to try out the Benchmarks for no charge.

If you are interested in licensing these materials or if we can answer any further questions about them or you have questions about this *Plan Management Navigator*, we hope you will not hesitate to contact us (sherlock@sherlockco.com).

Appendix A. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2017 Results
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$7.83	\$10.22	\$13.04	42%
Medical and Provider Management	4.92	6.80	7.71	29%
Account and Membership Administration	11.21	15.32	17.11	39%
Corporate Services	5.22	6.75	7.89	29%
Total Expenses	\$31.26	\$38.35	\$44.29	31%

Appendix B. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2017 Results
Percent of Premium and/or Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.9%	2.5%	2.8%	36%
Medical and Provider Management	1.2%	1.5%	1.7%	23%
Account and Membership Administration	2.8%	3.3%	4.2%	32%
Corporate Services	1.3%	1.5%	1.7%	23%
Total Expenses	7.8%	8.5%	9.8%	23%

Appendix C. Sherlock Benchmark Summary

Major Functions Included in Each Administrative Expense Cluster

Sales & Marketing

1. Rating and Underwriting
 - (b) Risk Adjustment
 - (c) All Other Rating and Underwriting
2. Marketing
 - (a) Product Development and Market Research
 - (b) Member and Group Communication
 - (c) Other Marketing
3. Sales
 - (a) Account Services
 - (b) Internal Sales Commissions
 - (c) Other Sales
4. External Broker Commissions
5. Advertising and Promotion
 - (a) Media and Advertising
 - (b) Charitable Contributions

Provider & Medical Management

6. Provider Network Management and Services
 - (a) Provider Relations Services
 - (b) Provider Contracting
 - (1) Provider Configuration
 - (2) Other Provider Contracting
 - (d) Other Provider Network Management and Services
7. Medical Management / Quality Assurance / Wellness
 - (a) Precertification
 - (b) Case Management
 - (c) Disease Management
 - (d) Nurse Information Line
 - (e) Health and Wellness
 - (f) Quality Components
 - (g) Medical Informatics
 - (h) Utilization Review
 - (i) Other Medical Management

Account & Membership Administration

8. Enrollment / Membership / Billing
 - (a) Enrollment and Membership
 - (b) Billing
9. Customer Services
 - (a) Member Services
 - (b) Printed Materials and Other
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (e) Other Claim and Encounter Capture and Adjudication
11. Information Systems Expenses
 - (a) Operations and Support Services
 - (b) Applications Maintenance
 - (1) Benefit Configuration
 - (2) All Other Applications Maintenance
 - (c) Applications Acquisition and Development
 - (d) Security Administration and Enforcement

Corporate Services

12. Finance and Accounting
 - (a) Credit Card Fees
 - (b) All Other Finance and Accounting
13. Actuarial
14. Corporate Services Function
 - (a) Human Resources
 - (b) Legal
 - (1) Compliance
 - (2) Government Affairs
 - (3) Outside Litigation
 - (4) All Other Legal
 - (c) Facilities
 - (e) Audit
 - (f) Purchasing
 - (g) Imaging
 - (h) Printing and Mailroom
 - (i) Risk Management
 - (j) Other Corporate Services Function
15. Corporate Executive and Governance
16. Association Dues and License/Filing Fees