

ADMINISTRATIVE COST TRENDS OF INDEPENDENT / PROVIDER-SPONSORED PLANS IN 2018



Photograph by Ray K. Saunders.

SHERLOCK BENCHMARKS

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TOPICS

- Long term cost trends
- Changes in cluster costs
- Reasons for cost increases
- The effect of taxes
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM
- Vertical Integration

APPENDICES

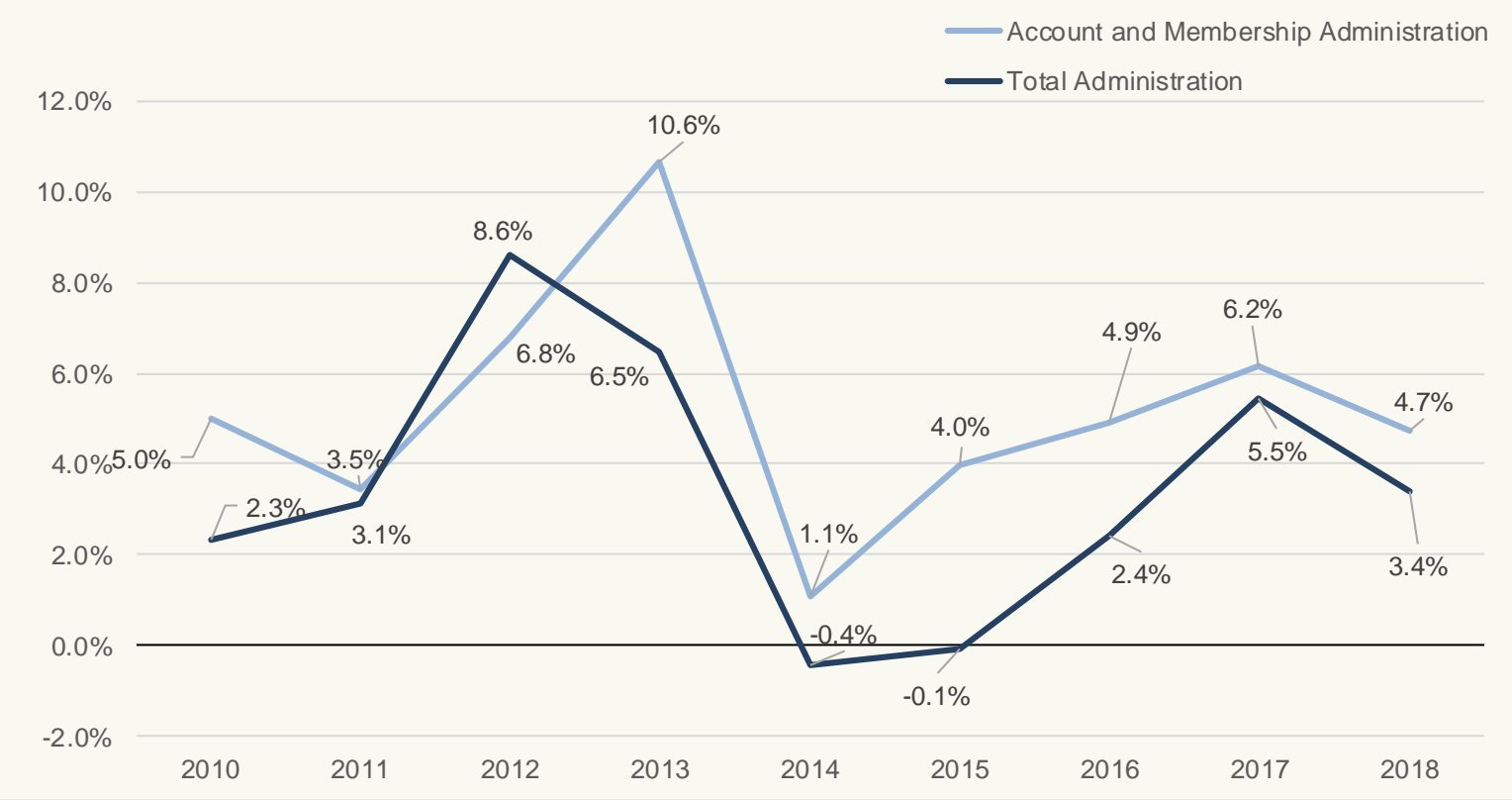
- Last year's cluster values
- Costs by Market Segment
- Functions in each cluster of expenses
- About the *Sherlock Benchmarks*

Racing workboats is our metaphor for health plans striving for performance improvement.



CONTINUED TO GROW, AT A DIMINISHED PACE IN 2018.

Figure 1. Sherlock Benchmark Summary
Independent / Provider - Sponsored Rates of Change for Account and Membership Administration and Total, Constant Mix



Medians. Rates of change hold universe and product mix constant.

AMONG CONTINUOUSLY PARTICIPATING PLANS, GROWTH IN CLUSTERS OTHER THAN PROVIDER AND MEDICAL MANAGEMENT HAVE BEEN SLOWER.

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%

Constant-Mix adjusts to exclude product-mix differences.

SOURCES OF “REAL” GROWTH IN INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2018

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	1.8%	Marketing ¹ ↑	Commissions ↓
Med & Provider	6.9%	Prov. Net. Mgmt & Services ↑	Prov. Net. Mgmt & Services ↑
Acct & Membership	4.7%	Customer Services ² ↑	Customer Services ³ ↑
Corp. Serv.	<u>1.4%</u>	Corporate Services ↑	Corporate Services ⁴ ↑
Total	3.4%	Corporate Services ↑	Corporate Services ↑

¹ Rating and Underwriting and Commissions declined.

² Enrollment / Membership / Billing declined.

³ Information Systems contributed nearly as much.

⁴ Corporate Executive & Governance and Association Dues and License/Filing Fees declined.



SOURCES OF *REPORTED* GROWTH IN INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2018

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	6.2%	Sales ¹ ↑	Commissions ↓
Med & Provider	6.8%	Prov. Net. Mgmt & Services ↑	Medical Management ↑
Acct & Membership	5.5%	Customer Services ² ↑	Information Systems ↑
Corp. Serv.	<u>4.3%</u>	Corporate Services ³ ↑	Corporate Services ↑
Total	3.7%	Corporate Services ↑	Corporate Services ↑

¹ Rating and Underwriting increased, and Advertising and Promotion was second fastest.
² Enrollment / Membership / Billing declined.
³ Corporate Executive & Governance and Association Dues and License/Filing Fees declined.

AFFORDABLE CARE ACT TAXES

- Miscellaneous Business Taxes (mainly ACA) are ~ 20% of total administrative expenses for commercial insured products. Last year, they were ~ 11%.
- Cost growth without MBT is 3.4%; with is 14.9%.
- Plans posted median Miscellaneous Business Taxes for commercial insured products of \$10.87 in 2018 versus \$5.32 in 2017. In 2012, they reported median PMPM costs of \$1.52.
- For all comprehensive products, MBT trend (constant mix) had been 4-5%, in 2014, costs increased by 922.3%. They declined by 54.9% in 2017 and were up by 157.0% in 2018.
- Costs include Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee, PCORI/CERF fees and an Annual Fee on Health Insurers. Where applicable, the last fee declined from a median of \$4.55 in 2016 to zero in 2017 then climbed to \$6.18 PMPM in 2018.



COMPARED WITH VALUES IN APPENDIX A,
 COSTS WERE 7.6% HIGHER IN 2018. COST
 TRENDS, CHANGES IN THE PRODUCT MIX
 AND THE UNIVERSE WERE RESPONSIBLE.

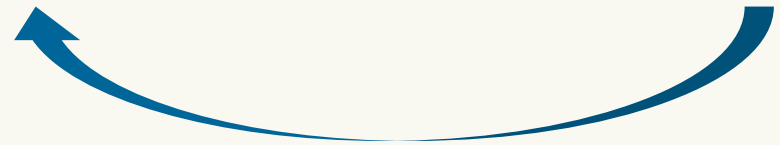
Figure 3. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2018 Results

Per Member Per Month

*2017
 Results*

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Sales and Marketing	\$8.56	\$9.45	\$13.39	43%	\$10.22
Medical and Provider Management	5.77	7.35	9.07	31%	6.80
Account and Membership Administration	14.61	17.72	18.98	31%	15.32
Corporate Services	5.73	7.54	8.98	31%	6.75
Total Expenses	\$38.61	\$41.28	\$45.43	27%	\$38.35



PMPMs VARY BY PRODUCT.

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%
Stand-Alone Medicare Part D	NM	NM	NM	NM



PERCENTS USUALLY ORDERED SIMILARLY TO PMPMs.

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%
Stand-Alone Medicare Part D	NM	NM	NM	NM

ADMINISTRATIVE EXPENSES WERE 8.6% OF PREMIUMS, ESSENTIALLY THE SAME AS LAST YEAR'S; HOWEVER, THE DISTRIBUTION OF EXPENSES CHANGED.

Figure 6. Sherlock Benchmark Summary
Independent / Provider-Sponsored Costs by Functional Area Cluster, 2018 Results
Percent of Premium and/or Equivalentents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2017 Results Median
Sales and Marketing	1.9%	2.1%	2.6%	33%	2.5%
Medical and Provider Management	1.2%	1.6%	1.9%	27%	1.5%
Account and Membership Administration	3.0%	3.8%	4.3%	23%	3.3%
Corporate Services	1.1%	1.5%	1.7%	26%	1.5%
Total Expenses	7.9%	8.6%	9.9%	16%	8.5%



VERTICAL INTEGRATION MAY MAKE A DIFFERENCE, ESPECIALLY IN INFORMATION SYSTEMS.

As-Reported	<u>Comprehensive Total</u>	<u>Information Systems</u>	<u>Other Functions</u>
<i>Non-Integrated Weight</i>			
Integrated as Percent of Non-Integrated	88.6%	63.5%	97.0%
<i>Integrated Weight</i>			
Integrated as Percent of Non-Integrated	85.1%	63.2%	92.1%
Cost of Living Adjusted			
<i>Non-Integrated Weight</i>			
Integrated as Percent of Non-Integrated	102.8%	73.7%	112.5%
<i>Integrated Weight</i>			
Integrated as Percent of Non-Integrated	98.7%	73.3%	106.9%

IPS ADMINISTRATIVE COST GROWTH MODERATES IN 2018



- IPS costs were \$41.28 PMPM versus \$38.35 last year. Actual performance, differences in universe and product mix changes were responsible.
- Expenses increased by 3.7% compared with an increase of 5.2% in 2017. Excluding the effect of product mix differences, costs increased by 3.4% versus 5.5% in 2017. Growth in Medicare amplified cost trends.
- Most clusters of expenses declined in growth. However, Medical and Provider Management accelerated. Provider Network Management and Services was chiefly responsible.
- Other factors affecting growth were increases in Customer Services and Corporate Services and a decline in Commissions.
- There appear to be differences in the costs of Independent and Provider Sponsored Plans, with Information Systems cost lower in the Provider Sponsored Plans.
- Miscellaneous Business Taxes now comprise 20% of PMPM costs for Commercial Insured products.



APPENDIX A. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2017

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. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2017

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. MARKET SEGMENT COSTS OF IPS PLANS

Limited Sample for these metrics.

Independent / Provider-Sponsored Costs by Segment

Per Member Per Month

	ACA, Under 65	Non-ACA Under 65	Small Group	Middle Market	Large Group
Median Administrative Expenses	56.29	46.08	\$55.21	\$53.98	\$48.71

- Sales and Marketing is higher on ACA versus non-ACA individual Plans. ACA Information Systems, Medical Management and Customer Services are higher.
- Small group Sales and Marketing expenses are higher than individual. Broker Commissions are central.
- Large Groups cost less than Middle Market because of lower Sales and Marketing. Claims and Enrollment costs are also lower.

APPENDIX D. CAREFUL QUALITY ASSURANCE

- **Voluntary** – Since providers are users, they have stake in the metrics. Other than required metrics, scope is also voluntary.
- **Strong definitions** – Developed with participants. Activities and cost centers listed, supported by ongoing clarifying discussions.
- **Highly granular** - Ready identification of outliers, as well as drill-down capabilities.
- **Practice effect** – High percent of repeaters: 86% of Blue and 65% of IPS repeated from last year. 86% of Blues have seven or more years of participation, and 76% of IPS plans have five or more years of participation.
- **Checks** - In survey instrument and in analytical module; Anomalies investigated.
- **Data Validation** – Reconciled to audit. Preliminary results provided for proofing.
- **Business model** - No conflicts of interest; no “Tragedy of the Commons.”



APPENDIX E. SUMMARY OF THE REPORTS AND GUIDELINES

- The **financial metrics** report analyzes costs segmented by function and by product. They are standardized by PMPMs and by Percent.
- The **staffing and compensation** report analyzes the staffing ratios, per employee compensation and propensity to outsource. We supply estimates of staffing ratios by product.
- The **operational metrics** include operational metrics unique to particular functions such as the average speed of answer in member services and the time between claim receipt and payment approved. While completion of many of these metrics is optional, you will receive the results of your universe.
- **Medical management** metrics are comprised of results for all universes. These include the costs to manage various cases and diseases. This is optional like the operational metrics.
- **Health care utilization** metrics are also comprised of results for all universes. Unit cost and volumes are provided for each product for 40 health care services and products.
- The **CFO Letter** summarizes and analyzes the financial metrics, staffing, and compensation reports. After eliminating the effect of product mix differences, variances from norms are identified and functions are ranked in order of importance. We calculate the value of the factors of staffing ratios, compensation and non-labor costs, and their relative contribution to each functional variance.
- The **Common Guidelines** provide detailed definitions of activities and calculation notes.



APPENDIX F. STRONG NETWORK, BROAD ACCEPTANCE

- The Sherlock Benchmarks is in its 22nd consecutive year. We expect that our cumulative experience to total approximately 855 plan years by year-end 2019. Expect ~40 plans serving ~51 million members to participate in 2019.
- Since June 2016, health plans serving 171 million insured Americans use the Sherlock Benchmarks, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Of the 15 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.
- Five of the seven largest members of the Health Plan Alliance that are focused on Commercial Insured or ASO are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Of the 34 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving approximately 37 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.



APPENDIX G. FUNCTIONS IN EACH CLUSTER

Appendix G. 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 & Governance
16. Association Dues and License/Filing Fees

