

ADMINISTRATIVE COST TRENDS OF INDEPENDENT / PROVIDER-SPONSORED PLANS IN 2019



Photograph by Ray K. Saunders.

SHERLOCK BENCHMARKS

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TOPICS

- Long term cost trends
- Changes in cluster costs
- Reasons for cost increases
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM

APPENDICES

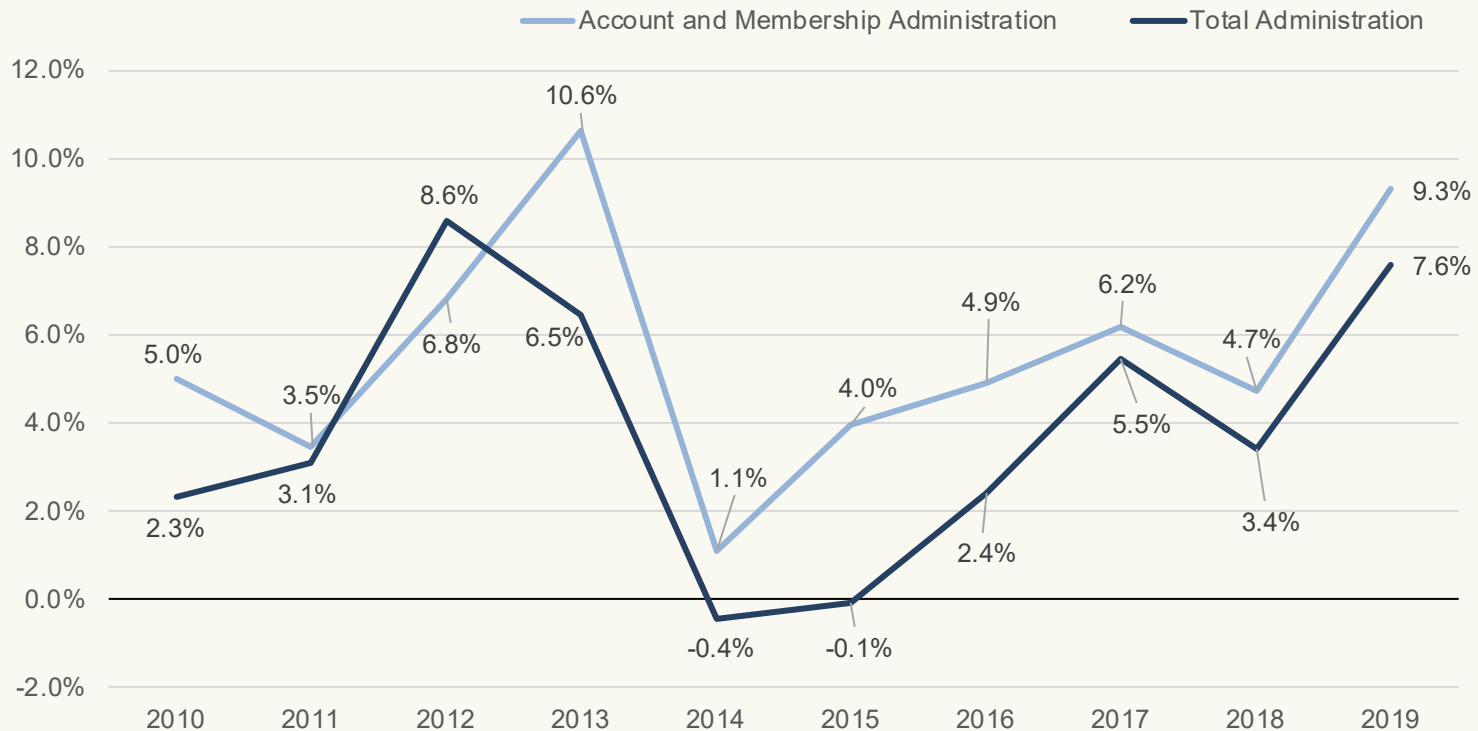
- Last year's cluster values
- Functions in each cluster of expenses
- About the *Sherlock Benchmarks*

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

INCREASING TRENDS IN TOTAL, A&M ADMINISTRATION ALSO GREW.

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	2018 Increase		2019 Increase	
	As-Reported	Constant Mix	As-Reported	Constant Mix
Sales and Marketing	6.2%	1.8%	5.4%	7.9%
Medical and Provider Management	6.8%	6.9%	9.9%	9.7%
Account and Membership Administration	5.5%	4.7%	5.6%	9.3%
Corporate Services	1.5%	-1.9%	-0.4%	9.6%
Total Expenses	3.7%	3.4%	6.2%	7.6%

Constant-Mix adjusts to exclude product-mix differences.



SOURCES OF “REAL” GROWTH IN INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2019

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	7.9%	Marketing ↑	Commissions ↑
Med & Provider	9.7%	Prov. Net. Mgmt & Services ↑	Medical Management ↑
Acct & Membership	9.3%	Customer Services ¹ ↑	Information Systems ↑
Corp Serv.	<u>9.6%</u>	Actuarial ↑	Corporate Services ↑
Total	7.6%	Marketing ↑	Information Systems ↑

¹ Claim and Encounter Capture and Adjudication declined.



SOURCES OF *REPORTED* GROWTH IN INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2019

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	5.4%	Advertising and Promotion ↑	Commissions ↑
Med & Provider	9.9%	Prov. Net. Mgmt & Services ↑	Medical Management ↑
Acct & Membership	5.6%	Information Systems ¹ ↑	Information Systems ↑
Corp. Serv.	<u>-0.4%</u>	Assoc. Dues & Lic / Fees ↑	Corporate Services ↑
Total	6.2%	Prov. Net. Mgmt & Services ↑	Information Systems ↑

¹ Claim and Encounter Capture and Adjudication declined.

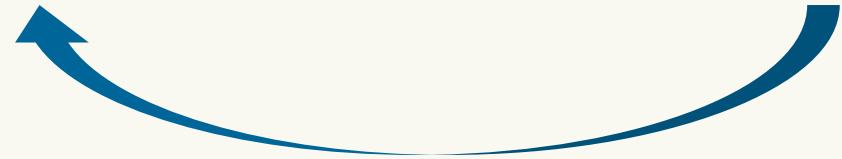
COMPARED WITH VALUES IN APPENDIX A, COSTS WERE 2.8% HIGHER IN 2019. COST TRENDS, CHANGES IN THE PRODUCT MIX AND THE UNIVERSE WERE RESPONSIBLE.

Figure 3. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2019 Results

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2018 Results Median
Sales and Marketing	\$8.85	\$11.45	\$13.84	29%	\$9.45
Medical and Provider Management	6.50	7.67	9.40	45%	7.35
Account and Membership Administration	12.75	17.55	20.43	35%	17.72
Corporate Services	4.67	6.44	8.10	39%	6.83
Total Expenses	\$34.41	\$42.43	\$47.70	29%	\$41.28



PMPMs VARY BY PRODUCT.

Figure 4. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2019 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	\$40.98	\$48.23	\$62.25	44%
POS	\$42.12	\$47.85	\$49.81	28%
Indemnity & PPO	\$45.79	\$47.71	\$58.30	41%
Total	\$43.06	\$48.62	\$57.92	36%
Commercial ASO				
	\$19.54	\$22.08	\$27.32	44%
Medicare				
Advantage	\$85.96	\$101.65	\$109.43	27%
SNP	\$155.55	\$171.10	\$185.74	18%
Medicaid				
HMO	\$27.32	\$29.09	\$39.26	52%
CHIP	\$24.92	\$25.35	\$26.82	15%
Medicare Supplement				
	\$38.58	\$42.87	\$56.64	39%
Comprehensive Total	\$34.41	\$42.43	\$47.70	29%



PERCENTS *USUALLY* ORDERED SIMILARLY TO PMPMs.

Figure 5. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2019 Results

Percent of Premium and/or Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	8.4%	10.1%	11.4%	51%
POS	7.8%	8.0%	10.5%	25%
Indemnity & PPO	9.4%	10.5%	12.4%	19%
Total	8.8%	9.8%	10.8%	37%
Commercial ASO				
	4.9%	5.9%	8.0%	68%
Medicare				
Advantage	9.2%	10.5%	12.2%	30%
SNP	7.4%	9.0%	10.4%	33%
Medicaid				
HMO	6.9%	7.3%	10.3%	23%
CHIP	10.8%	11.1%	12.2%	13%
Medicare Supplement				
	11.9%	25.1%	27.6%	45%
Comprehensive Total	7.7%	8.3%	9.3%	28%



ADMINISTRATIVE EXPENSES WERE 8.3% OF PREMIUMS, 0.3 PERCENTAGE POINTS LOWER THAN LAST YEAR. THE DISTRIBUTION OF EXPENSES CHANGED.

Figure 6. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2019 Results

Percent of Premium and/or Equivalent

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2018 Results Median
Sales and Marketing	1.6%	2.2%	2.7%	30%	2.1%
Medical and Provider Management	1.4%	1.5%	1.8%	46%	1.6%
Account and Membership Administration	2.9%	3.6%	3.7%	33%	3.8%
Corporate Services	1.0%	1.3%	1.7%	39%	1.4%
Total Expenses	7.7%	8.3%	9.3%	28%	8.6%

IPS ADMINISTRATIVE COST GROWTH ACCELERATED IN 2019



Photograph by Ray K. Saunders.

- IPS costs were \$42.43 PMPM versus \$41.28 last year. Actual performance, differences in universe and product mix changes were responsible.
- Expenses increased by 6.2% compared with an increase of 3.7% in 2018. Excluding the effect of product mix differences, costs increased by 7.6% versus 3.4% in 2018. These are the real increases in our view.
- Continuous plans had a shift in favor of lower cost products among continuous plans, which included growth in ASO and a decline in insured products. Both Medicare Advantage and Medicaid increased.
- All cluster of expenses experienced acceleration in growth.
- The growth in Marketing, Provider Network Management and Services and Information Systems suggests the effects of investment in adaptation to the future.
- Other functions with growth are also associated with future growth such as Actuarial, Customer Services and Association Dues and License and Filing Fees.



APPENDIX A. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2018

Appendix A. 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	5.22	6.83	8.51	32%
Total Expenses	\$38.61	\$41.28	\$45.43	28%



APPENDIX B. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2018

Appendix B. Sherlock Benchmark Summary

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

Percent of Premium and/or Equivalent

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%	1.4%	1.6%	24%
Total Expenses	7.5%	8.6%	9.9%	17%

APPENDIX C. 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: 85% of IPS repeated from last year. 77% of IPS have eight 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 D. 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 E. STRONG NETWORK, BROAD ACCEPTANCE

- The Sherlock Benchmarks is in its 23rd consecutive year. We expect that our cumulative experience to total approximately 895 plan years by year-end 2019. Expect ~37 plans serving ~68 million members to participate in 2019.
- Since June 2017, health plans serving 182 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 34 U.S.-based Blue Cross Blue Shield primary licensees, twenty serving approximately 54.7 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Of the 16 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, seven are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Most of the 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.

APPENDIX F. FUNCTIONS IN EACH CLUSTER

Appendix F. 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



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