

# Plan Management Navigator

## *Analytics for Health Plan Administration*



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## ADMINISTRATIVE COST TRENDS INCREASED FOR INDEPENDENT / PROVIDER - SPONSORED PLANS IN 2019

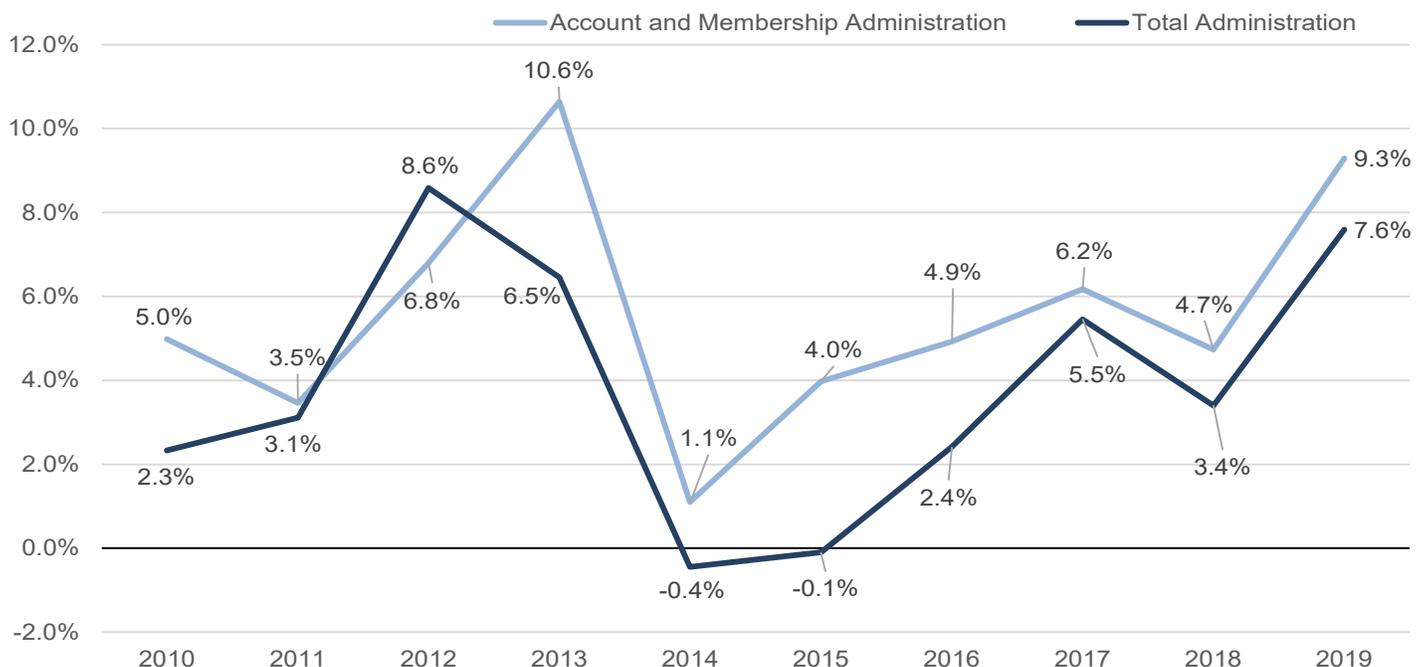
In 2019, Independent / Provider - Sponsored plans reported median administrative cost increases of 7.6%, higher than the 3.4% pace in 2018. As shown in Figure 1, the 2019 trend in Account and Membership Administration was also higher, 9.3% versus 4.7%. This trend is key since this cluster of activities is the largest for health plans and its increase was higher than in any of the past five years.

Growth in all clusters increased. Of the 16 principle functions, only three decelerated. These comparisons exclude the effect of Miscellaneous Business Taxes and eliminate the effect of product mix differences between the two years.

The source of the data used in this *Navigator* analysis is Sherlock Company surveys of thirteen Independent / Provider - Sponsored Plans, collectively serving 8.3 million members in comprehensive products participated in this year's study. The median membership was 554,000 and the average membership was 640,000. This panel served fewer than 1,000 Stand-Alone Medicare Part D members and 112,000 Managed Long Term Services and Supports members. Of the thirteen that participated in 2020, eleven participated in the 2019 survey.

*Note: Corporate Services Cluster values of 2018 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 \$0.71 lower. Last year's values, as updated, are shown in Appendix A.*

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



## *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 acceleration of cost trends was widespread. On an as-reported basis, for the 11 continuously participating plans, the median increase in per member costs was 6.2% compared with 3.7% the prior year. Growth accelerated in Medical and Provider Management, declined in Corporate Services and Sales and Marketing, and remained approximately the same in Account and Membership Administration.

Cost trends on an as-reported basis reflected a shift in favor of lower cost products. Overall, this was manifest in lower cost growth on an as-reported basis, 6.2% versus 7.6%, when product mix is held constant. The effect of the mix change is to decrease as-reported cost trends by 1.3 percentage points.

While Commercial declined by 1.4%, median growth was 2.6% in ASO and declined by 0.5% for the insured products. While Medicare Advantage increased by 2.8%, lower cost Supplemental increased by 3.1%. As we develop later, there were many differences between the plans themselves and while the median plan decrease was 0.7% the standard deviation of growth was 18.7% versus 10.5% in 2018.

The upshot of this was that, among continuous plans, the median plan mix that was ASO increased by 0.6 percentage points, commercial insured decreased by 0.3 percentage points and both Medicare Advantage and Medicaid increased by 0.2 percentage points. The effect of this was a mix of business that was lower cost than in the prior year.

The median mix of continuing plans was 41.2% commercial insured, 22.6%, 7.7% Medicare Advantage and 28.6% Medicaid.

### **Figure 2. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Median Changes in Per Member Per Month Expenses

<b>Functional Area</b>	<b>2018 Increase</b>		<b>2019 Increase</b>	
	<b>As-Reported</b>	<b>Constant Mix</b>	<b>As-Reported</b>	<b>Constant Mix</b>
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%
<b>Total Expenses</b>	<b>3.7%</b>	<b>3.4%</b>	<b>6.2%</b>	<b>7.6%</b>

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## *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. Because this *Plan Management Navigator* often employs medians for rates of change for expenses, the results can be counterintuitive. For instance, the total expense growth on a constant mix basis is less than the growth of any of the underlying functions. Since medians are 50th percentile values, they tend to mute the effects of outliers, but medians cannot be meaningfully summed. Growth in clusters was faster on average than by medians except for the Corporate Services Cluster.

The median change in administrative expenses in 2019, at 7.6%, is higher than the 3.4% of 2018. All cluster of expenses experienced acceleration in growth, shown in Figure 2. The growth in Corporate Services Cluster was especially notable. 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.

### ACCOUNT AND MEMBERSHIP ADMINISTRATION

The trend in Account and Membership Administration grew from 4.7% to 9.3% per member and also accelerated in each of its component functions, except Claims. This cluster includes Enrollment / Membership / Billing, Customer Services, Claim and Encounter Capture and Adjudication and Information Systems. It also includes direct costs associated with prescription drug and behavioral health benefits.

Pharmacy and Behavioral health growth was especially rapid. One plan cited Medicaid expansion which has Pharmacy and Behavioral costs that, PMPM, are higher than the rest of its Medicaid business.

Among the remaining functions, Information Systems' trends was most important factor because it is the largest function in this cluster of expenses. The rate of growth in expenses sharply grew to low double-digits from low single-digits. This was the largest increase in the past six years. The sub-function Applications Acquisition and Development was IS's fastest growing sub-function.

Fast growth in this function seemed to have stemmed from a variety of sources. One plan that had historically enjoyed especially low IS costs cited a greater commitment to invest in its infrastructure. Another completed an acquisition which had a robust system that was scalable over the entire organizations. A third suffered negative operating leverage as membership was weaker than expected.

Customer Services reported the fastest cost growth in the Account and Membership Administration cluster. The low double-digit increase was the largest growth in at least ten years. Enrollment costs PMPM grew at high single-digit after last year's decline.

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However, Claim and Encounter Capture and Adjudication reported its first cost decline since 2015, though by less than a percent. This function is ordinarily among the slowest growing.

## SALES AND MARKETING

The Sales and Marketing cluster of expenses also posted cost acceleration, from 1.8% to 7.9%, the second sharpest acceleration among the clusters. The cluster consists of the functions Rating and Underwriting, Marketing, Sales, External Broker Commissions and Advertising and Promotion.

Broker Commissions posted a growth at mid single-digit rates, but due to its heavy weighting in the Sales and Marketing cluster, was by far the most important factor in Sales and Marketing cluster growth. This is the largest increase in this function since 2010. By contrast, over the past two years broker Commissions experienced PMPM declines. While broker Commissions for ASO products are very modest per member, it is notable that the median cost is higher. We will be researching reasons for this in July and August.

Marketing expenses was the growth leader with increases at mid double-digit rates, the fastest growth since 2012. Product Development and Market Research is a key subcategory of the Marketing function and grew faster than any of the other subfunctions. Often, Marketing costs trend with Information Systems because any new products must be supported by plan infrastructures. Staffing ratios were higher and, while outsourcing remained relatively the same, compensation was slightly less than inflation. Non-labor costs per FTE were much lower. This function can have a significant strategic component, paralleling that of Corporate Executive in some organizations.

Advertising and Promotion growth was higher than 2018 at high single-digit rates, and was the highest since 2013's ACA-related explosive growth. Two of the plans indicated that this stemmed from entry to new geographic markets. One additional plan spent more to educate its members on the use of its digital tools: it considers this an investment that could lead to decreases in call center costs.

Sales and Rating and Underwriting both experienced cost increases in the low single-digit rates over last year. By far, the fastest growing subfunction of Sales was internal sales commissions.

## MEDICAL AND PROVIDER MANAGEMENT

The Medical and Provider Management cluster of expenses posted accelerating cost growth, 9.7% versus 6.9% in 2018. It posted the fastest growth since at least 2012.

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There are two component functions: Provider Network Management and Services and Medical Management / Quality Assurance / Wellness. Both grew at sharply higher rates.

Provider Network Management and Services grew faster of the two functions, and in fact faster than any year since 2012. Provider Contracting, and particularly its subfunction of Provider Configuration, grew especially rapidly. Network expansion both in and out of home states were cited by three of the plans. Additionally, one plan noted an increase in its commitment Provider Services. Other Provider Network Management and Services, involved in provider education, report cards and similar activities was also a key factor in the growth of Provider Management and Services.

Medical Management/ Quality Assurance / Wellness grew about one-half the rate of Provider Network Management and Services. Notable high growth sub-functions included Disease Management, Utilization Review and Health and Wellness. Staffing ratios tended to increase for this function. One of the plans cited a higher staffing in anticipation of additional members, noting that it was similar to its increases in its other functions. Another plan increased its staff as it entered new geographic regions.

#### CORPORATE SERVICES

Growth in the Corporate Services cluster of expenses sharply grew in 2019. Notwithstanding the sharp reversal from a decline of 1.9% to 9.6%, as the smallest cluster, it had the least effect on the total cost increase. The functions in this cluster include Finance and Accounting, Actuarial, Corporate Services *function*, Corporate Executive & Governance and Association Dues and License / Filing Fees, which all grew in a range of mid single-digit to low double-digits.

Actuarial growth led the functions at low double-digit rates. The increase in these costs appeared to stem from higher staffing ratio and compensation. Non-labor costs per FTE slightly increased.

Corporate Services *function*, has many subfunctions and is by far the largest function in this cluster. Its growth was the distantly second highest but was the most important factor in this cluster's growth. HR and Facilities costs grew fastest. Geographic expansion and business combinations impacted these trends according to three of the plans. Additionally, two of the plans cited heightened regulatory costs in connection with their expansions.

Association Dues and License and Filing Fees and Finance and Accounting also increased at mid single-digit rates from declines in 2018. Finance and Accounting experienced the fastest growth since 2013. Corporate Executive & Governance grew by mid single digits rates and was the second fastest growth since 2012. It had a sharp increase in staffing ratios.

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## *As-Reported Trends*

As noted earlier, the continuously participating plans generally changed their mix a few tenths of a percentage point in favor of lower cost products, such as ASO over insured, so that the apparent growth in expenses was lower than that of the real, constant mix growth.

Figure 2 shows that the overall cost trends on an as-reported basis were relatively similar to the constant mix growth. The differences shown are amplified by several individual plan differences, variously relating to one or more significant changes in their operations. These include significant changes in product mix, geographic expansion (sometimes out of state), a business combination or staffing up in anticipation of growth.

Growth is faster in Medical and Provider Management likely associated with the growth in Medicaid and Medicare. A business combination contributed to the increase in Medicaid in one plan and the heightened health needs of Medicaid expansion members. It is slower in Sales and Marketing likely associated with the growth in ASO products and Medicaid. The apparent greater differences in Account and Membership Administration and Corporate Services reflect the restructuring noted above.

Greater Medicaid focus probably contributed to slower growth on an as-reported basis in the Sales and Marketing and Account and Membership Administration clusters. This may owe to the lower health care requirements of the Medicaid population which lead to lower associated administrative expenses. For instance, growth in Customer Services, Enrollment / Membership / Billing and Claims expenses was all lower on an as-reported than a constant mix basis.

Sales and Marketing also grew slower on an as-reported basis. There were some exceptions to this in that Rating and Underwriting and Advertising and Promotion grew faster. Both of these functions tend to be lower for Medicaid members.

Corporate Services Cluster also grew more slowly on an as-reported basis. Actuarial and Finance and Accounting grew much slower on an as-reported basis than on a constant mix basis. Health plans spend much less on these two functional areas in their Medicaid and ASO products. Therefore, their growth mutes the trends that are otherwise higher on a constant mix basis.

Association Dues and license/Filing Fees was an exception. While such expenses for ASO are much lower than average for the products, they are approximately the same for Medicaid, and are much higher for Medicare Advantage, both of which grew faster than these plans' insured commercial business.

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While medians often mute the effect of outlying values, if rates of change differ greatly between the plans, then the 50th percentage point growth rate may yield counterintuitive results both by cluster and overall. In the first place, of eleven plans, the 50% percentile plan will be the one ranked number 6, and that plan may differ in each function and for the total. Second, functions with highly dispersed growth are more susceptible to such results. So total administrative expense growth, which has comparatively small coefficient of variation, median and mean growth rates that are comparatively similar to the as-reported and constant mix calculations. But Corporate Services, with growth displaying a much higher coefficient of variation, has a much greater difference between as-reported and constant mix calculations. The median difference for Corporate Services is 10 percentage points, but only 2.7 percentage points if averages are used.

### *Trends in Factors Driving Costs*

The operational drivers provide additional insights to cost trends. The drivers discussed in this section are estimated staffing ratios, compensation, non-labor costs and propensity to outsource.

For the continuously reporting plans, staffing ratios increased to approximately 27 FTEs per 10,000 members serving the Commercial Insured product<sup>1</sup>. This includes the effects of outsourced staffing, discussed later.

A high proportion of the increase was in Information Systems and it was accompanied by declines in staffing in Customer Services. Enrollment / Membership / Billing, and Claim and Encounter Capture and Adjudication may also have declined. Medical Management / Quality Assurance / Wellness also appeared to notably increase.

Other functions in which plans tended to increase staffing ratios include Rating and Underwriting, Advertising and Promotion, Marketing, Actuarial and Corporate Executive & Governance.

Compensation, which includes benefits, increased at a rate of 4.4%, to a median of \$99,000. Compensation growth was notable in Rating and Underwriting, Customer Services, Actuarial and Enrollment / Membership / Billing. Compensation declined in Sales. None of these trends consider the effect of changes in the types of employees included within each function.

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<sup>1</sup> The staffing ratio for the commercial products is estimated based on plan reports for their comprehensive products. 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. By focusing on one product we are able to illustrate trends without the distortion of product mix changes.

We estimate that non-labor costs per FTE decreased by low double digits. Areas where non-labor cost growth declined especially sharply included Corporate Executive & Governance, Claims, Provider Network Management and Services and Enrollment, Membership and Billing. Customer Services and Rating and Underwriting per FTE non-labor costs increased notably. Non-labor costs are affected by changes in staffing ratios and this appears to have been the case for Customer Services.

The mean and median proportions of FTEs that were outsourced<sup>2</sup> are 13.1% and 11.2%, respectively. This is approximately the same as last year. Areas that heavily outsourced included Claims and Information Systems, both with medians in the low teens. Outsourcing is sometimes quite skewed. So while the median proportion of Information Systems that is outsourced was 11.3%, the average was 19.8%.

Because some of these plans are affiliates of health systems, functions such as Finance and Accounting and sub-functions such as HR, Purchasing and Facilities are, on average, heavily outsourced. Corporate Executive and Governance, Finance and Accounting showed a similar pattern though of much smaller magnitude.

The outsourced percents of Corporate Services was even more dramatic with a median of 1.9% but a mean of 10.8%.

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

Figure 3 shows the values of administrative expenses for all 13 participating plans. Again, 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.

#### **Figure 3. Sherlock Benchmark Summary**

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

*Per Member Per Month*

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

<sup>2</sup> Outsourced FTEs are often estimated by the plans based on the compensation and non-labor costs of Plans that do not themselves outsource. Otherwise, the plans count them directly in affiliated organizations or in the individual vendors.

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(Recall that it reflects a reclassification by one of the plans that affects last year's results. The differences are in the Corporate Services cluster row only, and do not affect the totals.)

The universes differed between the two years. Of the 13 plans that participating in 2019, eleven repeated in the 2020 cycle. That is, eight were unable to participate and two additional plans joined. In order of importance, these were due to staffing changes (such as the loss of relevant officers and analysts), business combinations and reorganization to enable multistate expansion.

So the rates of change shown in Figure 2 are a better measure of trend than any changes in the values shown in Figure 3. 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 \$42.43 were 2.8% higher than last year's values. Sales and Marketing was higher by 21.2% to \$11.45. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Medical and Provider Management was higher by 4.4% to \$7.67. This group of functions includes Provider Network Management and Services, and Medical Management / Quality Assurance / Wellness.

Account and Membership Administration was lower by 0.9% to \$17.55. This cluster includes the central activities of Information Systems, Enrollment, Claims and Customer Services. This is by far the largest cluster of expenses and has an outsized effect on cost trends.

Corporate Services was lower by 5.8% to \$6.44. Activities include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities like Facilities, HR and Legal.

Note also that the values appeared more disbursed in 2019 versus 2018, as measured by the coefficient of variation. Overall and in every cluster except for Sales and Marketing, coefficients of variation were higher in 2019. They increased by 13 percentage points in Medical and Provider Management.

Similarly, dispersion measured by the differences between the 75th and 25th percentile values expanded. In total, this widened by \$6.48 and sharply increased in Account and Membership Administration by \$3.30. Corporate Services Cluster and Sales and Marketing also expanded, while Medical and Provider Management narrowed.

## 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 a median of 64.5% 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 34.9% 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 not eligible for self-insurance. The single most important insured product is HMO which costs a median of \$48.23 PMPM. The insured Indemnity and PPO follows at \$47.71 while POS costs \$47.85.

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 \$22.08 PMPM.

**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
<b>Commercial Insured</b>				
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%
<b>Commercial ASO</b>				
	\$19.54	\$22.08	\$27.32	44%
<b>Medicare</b>				
Advantage	\$85.96	\$101.65	\$109.43	27%
SNP	\$155.55	\$171.10	\$185.74	18%
<b>Medicaid</b>				
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%
<b>Comprehensive Total</b>	<b>\$34.41</b>	<b>\$42.43</b>	<b>\$47.70</b>	<b>29%</b>

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Medicaid HMO, serving low income people, is a focus of Independent / Provider Sponsored plans or 15.0% of total members. Nine of the plans offer Medicaid HMO (MCO) and five offer CHIP. Medicaid costs a median of \$29.09, while CHIP, for children, costs \$25.35 PMPM.

Independent / Provider - Sponsored plans also have a high commitment to senior products. The replacement products of Medicare Advantage and Medicare Advantage SNP serve a median 7.7% of total members and a median of 21.9% of revenues.

Medicare products are relatively high cost at \$101.65 and \$171.10 PMPM for Medicare Advantage and Medicare Special Needs Plans, respectively. Individuals represent approximately 92.4% of the membership for the regular Medicare Advantage product.

Note that Medicare Supplement is almost exactly the average cost product at \$42.87 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 on average 1.6% of total members and is only offered by 6 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, Stand-Alone Dental or Managed Long-Term Services and Support. Only one of the plans offered Medicare Cost, so it has not been reported here.

### *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 Supplement is almost exactly average cost when measured PMPM, at 25.1%, its administrative cost ratio was the highest among the comprehensive products, which had a median value of 8.3%.

Medicare Advantage costs, while more than two times higher than total PMPM, has a ratio only 0.4 percentage points higher than the median for similar commercial HMO products at 10.5%. SNP, at 9.0% is lower than the commercial HMO product though its PMPM costs are almost four times as high.

Note that the commercial insured products are higher than average cost, notwithstanding that they are central to these plans. The reason for this is that, while they represent a plurality of members, at a median of 34.9%, these products serve a minority of them. Overall, their administrative costs are 9.8% of administrative costs, with Indemnity & PPO as the highest cost product, followed by HMO and POS with the lowest cost on this basis.

Medicaid products' are low, measured PMPM. Medicaid HMO is a low cost percent product at 7.3% while CHIP is relatively high at 11.1%.

### *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 discussed earlier medians cannot be summed. The following discussion also includes changes in values that are obscured by rounding.

Administrative expenses were 8.3% of premiums, 0.3 percentage points lower than last year's equivalent value of 8.6%. However, the distribution of expenses changed. While Sales and Marketing grew by 0.1 percentage points to 2.2% of premium equivalents, all other clusters declined by 0.1 percentage points. Medical and Provider Management and Account and Membership Administration were 1.5% and 3.6%, respectively. The ratio for Corporate Services Cluster was 1.3% of premium equivalents.

**Figure 5. Sherlock Benchmark Summary**  
Independent / Provider-Sponsored Costs by Product, 2019 Results  
*Percent of Premium and/or Equivalents*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
<b>Commercial Insured</b>				
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%
<b>Total</b>	<b>8.8%</b>	<b>9.8%</b>	<b>10.8%</b>	<b>37%</b>
<b>Commercial ASO</b>				
	4.9%	5.9%	8.0%	68%
<b>Medicare</b>				
Advantage	9.2%	10.5%	12.2%	30%
SNP	7.4%	9.0%	10.4%	33%
<b>Medicaid</b>				
HMO	6.9%	7.3%	10.3%	23%
CHIP	10.8%	11.1%	12.2%	13%
<b>Medicare Supplement</b>				
	11.9%	25.1%	27.6%	45%
<b>Comprehensive Total</b>	<b>7.7%</b>	<b>8.3%</b>	<b>9.3%</b>	<b>28%</b>

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## How We Performed This Analysis

### CHARACTERISTICS OF THE INDEPENDENT / PROVIDER - SPONSORED UNIVERSE

This analysis is based on the twenty-third annual edition of our performance benchmarks for health plans. The *Sherlock Benchmarks* (*Sherlock Expense Evaluation Report* or *SEER*) represent the cumulative experience of, we expect by year end, approximately 895 health plan years.

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 18th analysis of Independent / Provider - Sponsored plans is based on a peer group of thirteen plans who collectively serve 8.4 million people. Their median and mean membership is 554,000 and 640,000, 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, seven 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 27.9% of the total members of this subset of the Health Plan Alliance plans.

Of the Comprehensive products provided by this universe, 70.7% of members were commercial, or 5.9 million. Approximately 2.7 million of the commercial members were served under some form of self-insurance arrangement, comprising approximately 32.6% of the total commercial members.

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### Figure 6. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2019 Results  
*Percent of Premium and/or Equivalents*

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

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Medicare Advantage, with 664,000 members, was offered by 11 plans. It composed 7.9% of the combined comprehensive membership and with \$7.5 billion in premiums, represented 20.6% of revenues for comprehensive products. The combination of Medicaid HMO and CHIP, offered by nine plans, served 1.5 million members and comprised 18.1% 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.
- 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 2020 *Sherlock Benchmarks* reconciles

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- We have excluded Miscellaneous Business Taxes from this analysis so expense trends, along with the PMPM and percent of premium ratios, are calculated before the effect of Miscellaneous Business Taxes. These expenses are a special case among administrative expenses since, short of major reorganization, are impractical to manage. These taxes are primarily related to the Affordable Care Act. For commercial insured products, the median PMPM value of such taxes is \$6.64 and the mean is \$8.15 or approximately 12% of administrative costs. By way of comparison, in 2012, the median Miscellaneous Business Tax for commercial insured products was \$2.03 PMPM. The ACA-related taxes and fees include Comparative Effectiveness Research Fees (CERF), Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee and Annual Fee on Health Insurers. The Exchange User Fee was the largest tax, at a median value of \$24.10, but only applies to Exchange members. The second largest fee was Risk Adjuster Fee, at a median of \$0.31 PMPM also for Exchange members, while the CERF, for commercial members only was \$0.16 PMPM. Both the Transitional Reinsurance Fee and the Annual Fee on Health Insurers were \$0.00 PMPM.

### *Note on the Sherlock Benchmarks*

With over 43 million people having filed new claims for unemployment since mid-March, the secondary effects of the coronavirus may lead to declines in health plan membership and shifts in product mixes. Commercial membership, especially insured, is especially susceptible to declines, while Medicaid and Medicare Advantage may increase in proportion or even in numbers of enrollees.

The *Sherlock Benchmarks* can assist in adapting and achieving operational efficiency driven by the recently volatile operating environment. Moreover, the benchmarks can assist in budgeting for changes in membership and product-mix and for projecting for changes in staffing needs.

These results are excerpted from the Independent / Provider - Sponsored edition of the 2020 *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. Collectively, these plans serve approximately 67 million members. We will be reporting on the results of the other universes in the months that follow. Much more information on health plan costs and operational drivers is available by licensing the *Sherlock Benchmarks*.

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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](mailto:sherlock@sherlockco.com)).

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#### **Appendix A. Sherlock Benchmark Summary**

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

*Per Member Per Month*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
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%
<b>Total Expenses</b>	<b>\$38.61</b>	<b>\$41.28</b>	<b>\$45.43</b>	<b>28%</b>

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#### **Appendix B. Sherlock Benchmark Summary**

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

*Percent of Premium and/or Equivalentents*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
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%
<b>Total Expenses</b>	<b>7.5%</b>	<b>8.6%</b>	<b>9.9%</b>	<b>17%</b>

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## 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) Fraud, Waste and Abuse
    - (5) 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

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