

ADMINISTRATIVE COST TRENDS OF INDEPENDENT / PROVIDER- SPONSORED PLANS IN 2021



Photograph by Jay Fleming.

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*

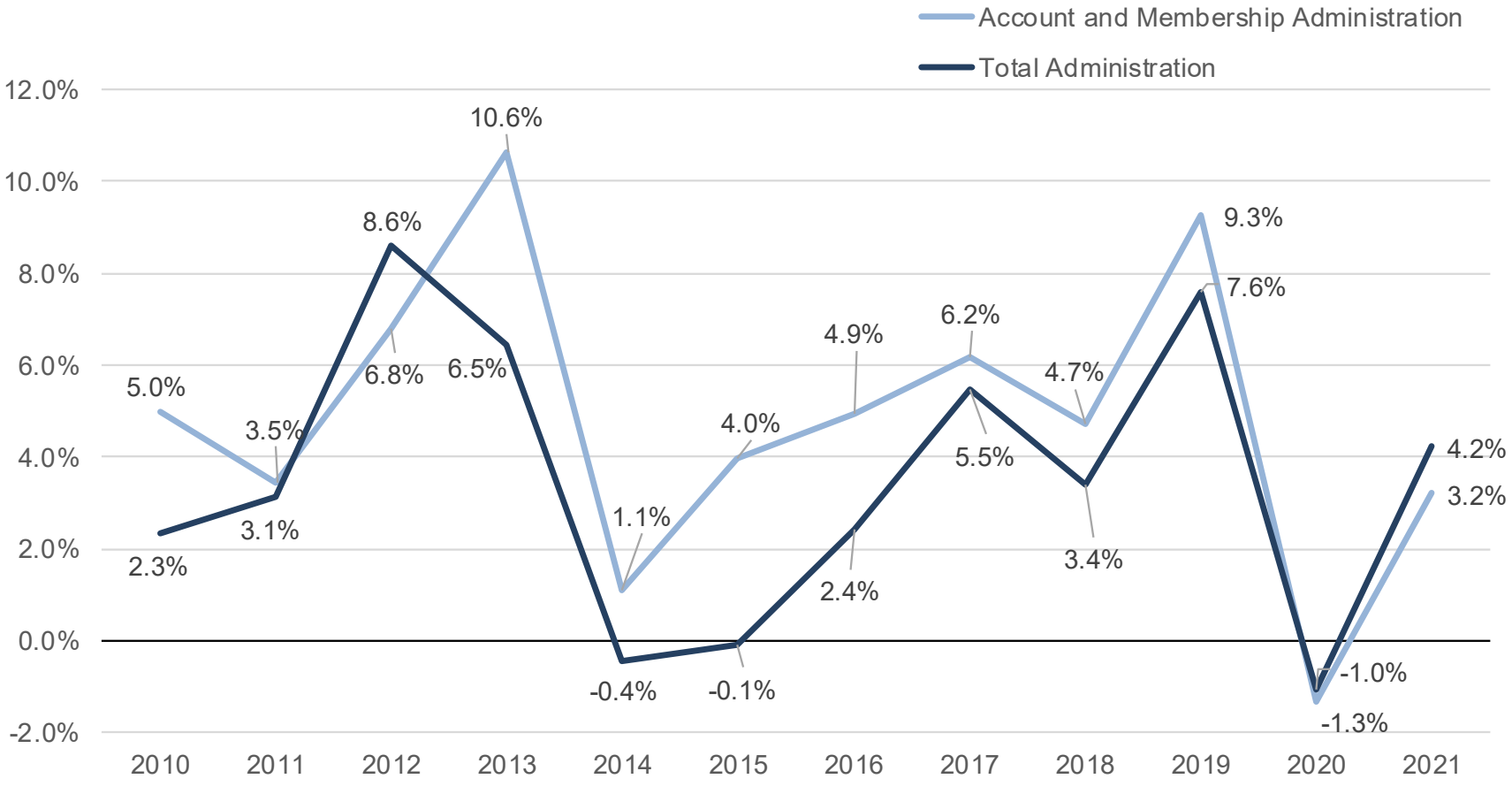
Racing workboats is our metaphor for health plans striving for performance improvement.



BOTH TOTAL AND A&M ADMINISTRATION INCREASED, REVERSING THE DECLINE IN 2020.

Figure 1. Sherlock Benchmark Summary

Independent / Provider - Sponsored Rates of Change for Account and Membership Administration and Total, Constant Mix Median Changes in PMPM Costs



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

AMONG CONTINUOUSLY PARTICIPATING PLANS, WHEN MIX IS HELD CONSTANT COST GROWTH ACCELERATED TO AN INCREASE OF 4.2%.

Figure 2. Sherlock Benchmark Summary

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

Functional Area	2020 Increase		2021 Increase	
	As-Reported	Constant Mix	As-Reported	Constant Mix
Sales and Marketing	1.7%	1.7%	-1.3%	1.6%
Medical and Provider Management	1.9%	5.9%	4.0%	3.8%
Account and Membership Administration	-1.2%	-1.3%	2.1%	3.2%
Corporate Services	0.8%	-0.6%	0.5%	1.6%
Total Expenses	-1.0%	-1.0%	1.9%	4.2%

The Constant Mix comparison adjusts to exclude product mix differences between years.

SOURCES OF “REAL” GROWTH IN INDEPENDENT / PROVIDER - SPONSORED ADMINISTRATIVE COSTS IN 2021

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	1.6%	Advert and Promotion ↑	Advert and Promotion ↑
Med & Provider	3.8%	Provider Network Mgmt ↑	Provider Network Mgmt ↑
Acct & Membership	3.2%	Claims ↑	Information Systems ↑
Corp. Serv.	<u>1.6%</u>	Corp Exec & Gov ↑	Corp Exec & Gov ↑
Total	4.2%	Corp Exec & Gov ↑	Information Systems ↑



SOURCES OF *REPORTED* GROWTH IN INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2021

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	-1.3%	Marketing ↓	Marketing ↓
Med & Provider	4.0%	Provider Network ↑	Provider Network ↑
Acct & Membership	2.1%	Claims ↑	Information Systems ↑
Corp. Serv.	<u>0.5%</u>	Corp Exec & Gov ↑	Corp Exec & Gov ↑
Total	1.9%	Corp Exec & Gov ↑	Information Systems ↑



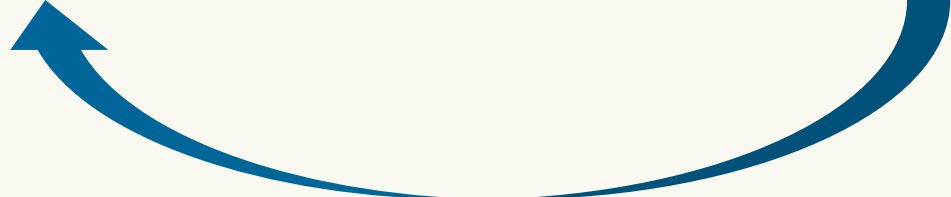
COMPARED WITH 2020, COSTS WERE 8.7% HIGHER IN 2021. COST TRENDS, CHANGES IN THE PRODUCT MIX AND UNIVERSE WERE RESPONSIBLE.

Figure 3. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2021 Results

Per Member Per Month

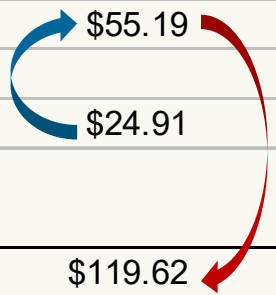
Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2020 Values Median
Sales and Marketing	\$9.31	\$11.09	\$13.55	39%	\$11.79
Medical and Provider Management	6.67	9.23	10.15	27%	7.25
Account and Membership Administration	13.51	16.41	21.21	31%	15.70
Corporate Services	5.15	6.36	7.61	32%	6.92
Total Expenses	\$34.87	\$45.65	\$50.05	25%	\$41.99



PMPMs VARY BY PRODUCT.

Figure 4. Sherlock Benchmark Summary
Independent / Provider-Sponsored Costs by Product, 2021 Results
Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	\$44.48	\$49.87	\$59.61	26%
POS	\$43.15	\$57.59	\$61.01	41%
Indemnity & PPO	\$55.21	\$58.78	\$66.77	36%
Total	\$47.06	\$55.19	\$58.75	24%
Commercial ASO				
	\$21.55	\$24.91	\$31.08	33%
Medicare				
Advantage	\$103.91	\$119.62	\$158.27	31%
SNP	\$180.08	\$191.28	\$198.01	54%
Medicaid				
HMO	\$25.18	\$25.88	\$31.25	21%
CHIP	\$24.04	\$24.75	\$26.21	9%
Medicare Supplement				
	\$30.71	\$35.55	\$50.31	50%
Comprehensive Total	\$34.87	\$45.65	\$50.05	25%
MLTSS				
	\$128.42	\$141.62	\$146.03	22%

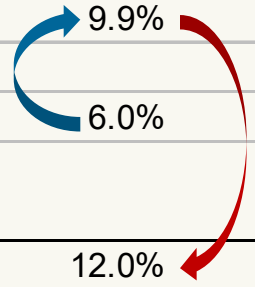


PERCENTS USUALLY ORDERED SIMILARLY TO PMPMs.

Figure 5. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2021 Results
Percent of Premium and/or Equivalentents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	9.1%	9.8%	11.5%	22%
POS	9.5%	10.1%	10.6%	32%
Indemnity & PPO	9.9%	10.8%	11.8%	36%
Total	9.7%	9.9%	11.3%	19%
Commercial ASO				
	5.5%	6.0%	7.0%	31%
Medicare				
Advantage	9.7%	12.0%	15.1%	39%
SNP	10.2%	11.0%	14.0%	19%
Medicaid				
HMO	7.1%	7.3%	8.3%	20%
CHIP	11.4%	12.1%	13.7%	24%
Medicare Supplement				
	11.9%	21.4%	26.9%	48%
Comprehensive Total	8.2%	8.7%	9.7%	12%
MLTSS				
	5.6%	6.5%	7.4%	26%



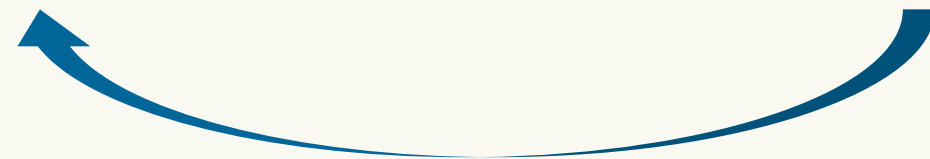
ALL CLUSTERS SLIGHTLY DECLINED IN COMPARISON TO THE 2020 VALUES, EXCEPT MEDICAL AND PROVIDER MANAGEMENT WHICH INCREASED.

Figure 6. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2021 Results

Percent of Premium and/or Equivalent

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2020 Values Median
Sales and Marketing	1.8%	2.3%	2.6%	36%	2.6%
Medical and Provider Management	1.4%	1.7%	2.0%	29%	1.5%
Account and Membership Administration	3.1%	3.3%	4.2%	20%	3.5%
Corporate Services	1.2%	1.3%	1.5%	20%	1.5%
Total Expenses	8.2%	8.7%	9.7%	12%	8.7%



IPS ADMINISTRATIVE COST INCREASED IN 2021



- IPS administrative costs were \$45.65 PMPM versus \$41.99 last year. Actual performance, differences in universes and product mix changes were responsible.
- Expenses increased by 1.9% compared with a decrease of 1.0% in 2020. Excluding product mix changes, costs grew by 4.2% versus a decline of 1.0% in 2020.
- Membership tended to increase. Medicaid grew as Commercial declined, both Insured and ASO. MA also declined.
- Modest Sales & Marketing growth, mainly from decline in Member and Group Communications, offset by higher Advertising & Promotion.
- Relative increase in Medical & Provider Management. Provider & Medical Management responsible.
- Account & Membership Administration increased, most sharply in Claims but most heavily weighted by IS.
- Supported by increase in Finance and Accounting and Corporate Executive infrastructures.



APPENDIX A. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2020

Appendix A. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2020 Results

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$9.75	\$11.79	\$14.01	38%
Medical and Provider Management	6.22	7.25	10.03	63%
Account and Membership Administration	12.99	15.70	20.65	34%
Corporate Services	5.29	6.92	8.99	36%
Total Expenses	\$34.82	\$41.99	\$48.72	36%

APPENDIX B. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2020

Appendix B. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2020 Results

Percent of Premium and/or Equivalent

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.1%	2.6%	3.1%	32%
Medical and Provider Management	1.3%	1.5%	2.0%	61%
Account and Membership Administration	3.0%	3.5%	4.1%	28%
Corporate Services	1.2%	1.5%	1.8%	29%
Total Expenses	7.9%	8.7%	10.4%	29%

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: 53% of IPS participants from last year did so again this year. 67% 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 25th consecutive year. We expect that our cumulative experience to total approximately 963 plan years by year-end 2022. Expect ~34 plans serving ~63 million members to participate in 2021.
- Since June 2019, health plans serving more than 210 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 33 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving approximately 49.1 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Of the 15 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, six are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Four of the 10 largest commercial-focused Health Plan Alliance members are participating in this year's Sherlock Benchmarks.



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
 - (c) Grievances and Appeals
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 & 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 and Governance
16. Association Dues and License/Filing Fees



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