

Plan Management Navigator

Analytics for Health Plan Administration



Healthcare Analysts

Douglas B. Sherlock, CFA
sherlock@sherlockco.com

Christopher E. de Garay
cgaray@sherlockco.com

Erin Ottolini
erin.ottolini@sherlockco.com

John Park, CFA
jpark@sherlockco.com

Andrew L. Sherlock
asherlock@sherlockco.com

(215) 628-2289

INDEPENDENT / PROVIDER - SPONSORED PLAN COSTS ACCELERATE IN 2021

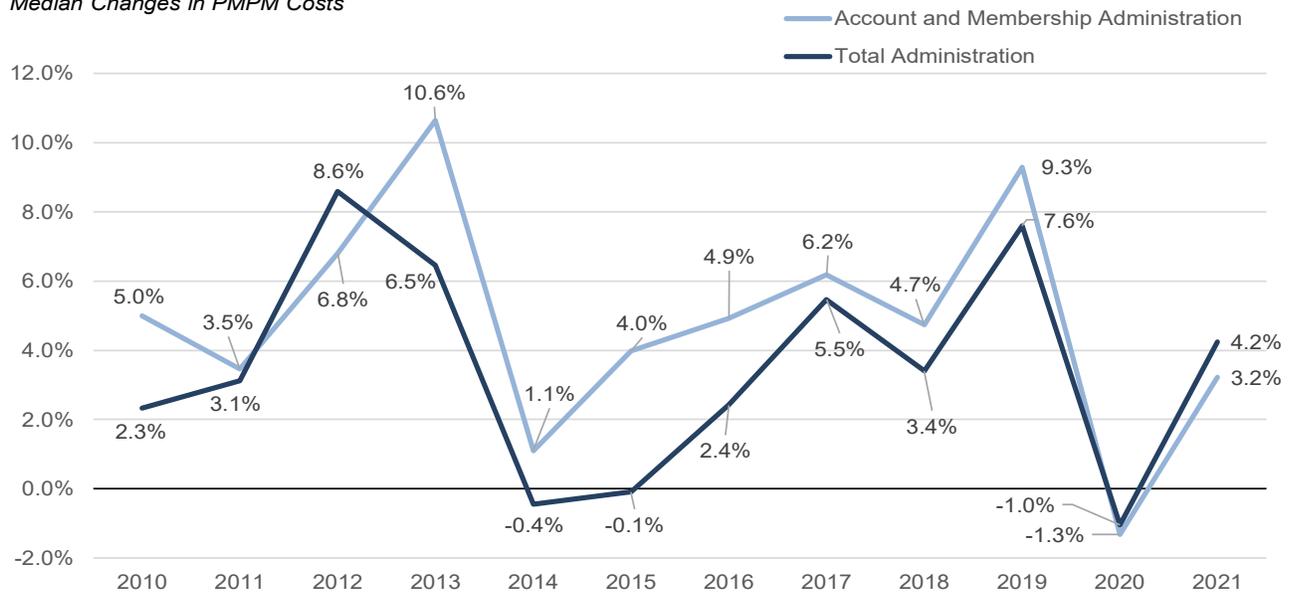
Administrative expenses for the Independent / Provider – Sponsored plans increased in 2021 after experiencing a decline in 2020, but the rate of increase remained much lower than two years ago. Total expenses grew by 4.2%, which was higher than 2018 but well below the increase in 2019. The key area Account and Membership Administration, which composes 36% of total expenses, increased by 3.2%, but this was the second slowest rate since 2014. This is shown in Figure 1, which reflects continuously participating plans and eliminates the effects of product mix differences between the two years.

The as-reported cost trends were less than the constant mix trends, at 1.9% in total. Without reweighting to eliminate the effect of product mix differences, all of the underlying clusters' growth was less except for Medical and Provider Management.

The growth reported here is of health plans that participated in both years used in the comparison. The constant mix trends begin with those same matched sets of plans but reweight the prior year's product costs to reflect the current year's product mix. This reweighting procedure is intended to eliminate the effect of changes in product mix on the growth rates.

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



The reason for the difference between the constant mix trends and the as-reported trends was a shift in continuously participating plans in favor of lower cost products. So, while membership increased at a median rate of 1.2%, low-cost Medicaid membership soared. The median continuing plan declined in Medicare and in Commercial. Within Commercial, the more costly to administer commercial insured product declined at a far faster rate than did the ASO product.

As developed below, only the growth rate in the Account and Membership Administration cluster consistently declined. Of the 16 principle functions, which exclude Miscellaneous Business Taxes, nine accelerated and seven posted declining growth.

The source of the data used in this analysis is Sherlock Company surveys of 15 Independent / Provider – Sponsored health plans. They collectively serve 10.6 million members with Comprehensive products. These plans also served 253,000 people through Medicaid Managed Long Term Services and Supports products. This is the 25th annual study for the *Sherlock Benchmarks* and the 20th consecutive annual study of Independent / Provider – Sponsored Health Plans.

Trends and Product Mix Changes

Figure 2 shows median year-over-year trends in total administrative expenses and in each cluster of expense. In all cases, trends are shown solely from continuously participating plans, and all trends are in costs per member per month. The “As-Reported” values are trends in PMPM costs. “Constant Mix” values are also trends in costs but, in calculating growth, prior year cost values are reweighted to match this year’s product mix.

Figure 2 shows the acceleration in total and one-half the clusters of expenses, both on an as-reported basis and a constant mix basis. That the growth in Account and Membership Administration, representing the plurality of expenses, dominated the trend is illustrated here. Note also that the change in the cost trends was most dramatic in this cluster, a 3.3 percentage point difference on an as-reported basis and a 4.5 percentage point difference on a constant mix basis.

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%

Interestingly, Account and Membership Administrations was the only cluster to have accelerated its cost growth under both renderings. Sales and Marketing cost growth declined, and actually fell on an as-reported basis. Medical and Provider Management decelerated on a constant mix basis and Corporate Services decelerated on an as-reported basis.

Cost Trends Holding Mix Constant

In our view, trends that exclude mix changes are a more accurate representation of real trends so the trend discussion in this *Navigator* is largely based on this approach. In addition to holding product mix constant, comparisons also hold the participants constant.

As noted earlier, the increases in administrative expenses in 2021 was higher than that of 2020. But the composition of the expense growth is different. Two clusters decelerated, shown in Figure 2. The acceleration in Account and Membership Administration was especially notable, a 4.5 percentage point difference from the prior year. The change in Corporate Services also resulted in 2.2 percentage point difference. For this presentation of the results of the *Sherlock Benchmarks*, trends in Behavioral Health and Pharmacy Benefits are included, which increases total expense growth.

ACCOUNT AND MEMBERSHIP ADMINISTRATION

Account and Membership Administration cluster costs grew by 3.2%. The Account and Membership Administration was the largest factor in the cost acceleration in 2021. Within that cluster, Information Systems was far and away the function most contributing to growth, at high single digit rates. Staffing ratios increased as compensation declined and non-labor costs fell. Benefit Configuration and Security Administration and Enforcement seemed to grow especially rapidly.

Information Systems cost growth was narrowly exceeded by Claims. The Claim and Encounter Capture and Adjudication function increased with higher staffing ratios and compensation but lower non-labor costs. Customer Services increased, overcoming a decline in 2020. The source appeared to be higher staffing ratios and compensation. Enrollment was the only function that declined in PMPM costs, which it also did in 2021 and in 2018. While staffing increased, non-labor fell.

MEDICAL AND PROVIDER MANAGEMENT

The per member costs for this cluster decelerated. While Provider Network Management and Services increased very rapidly, the far larger Medical Management / Quality Assurance / Wellness was effectively flat.

The Medical and Provider Management cluster grew fastest, though it was a decline in the rate of growth, 3.8% versus 5.9% in 2020. IPS plans reported no meaningful change in Medical Management Quality / Assurance / Wellness but low double-digit growth in Provider Network Management and Services. Staffing growth appeared to have been central, both in Provider Relations Services and Provider Contracting. Compensation growth was moderate and non-labor costs declined.

Medical Management costs were essentially flat, and it muted cluster growth because it is large relative to Provider Network Management and Services. Some key areas had significant declines including Case Management, Nurse Information Line, Medical Informatics and Other Medical Management. Staffing ratios declined in this function.

SALES AND MARKETING

The Sales and Marketing cluster of functions declined slightly to 1.6% from 1.7% in the prior year. It was the third most important source of cost growth. The key driver of growth was the function of Advertising and Promotion which explained all and more of this cluster's growth. Non-labor costs surged in this function. Broker Commissions grew far slower but was nevertheless nearly as important source of growth as Advertising and Promotion. Rating and Underwriting increased in both Other Rating and Underwriting and Risk Adjustment Expenses. Sales growth was modest with non-labor increasing and compensation decreasing. There appeared to be a shift in favor of Account Services from Other Sales.

CORPORATE SERVICES CLUSTER

The least important change in cost trends among continuously participating plans was a modest increase in the cluster of Corporate Services. The Corporate Services cluster accelerated its growth, which had declined in 2020. The 1.6% growth was a 2.2 percentage point reversal from last year's decline of 0.6%. The Corporate Executive and Governance growth was well into double digits and, while it is a small function, was the most important source of increase in the cluster. Both staffing ratios and compensation increased.

Finance and Accounting grew at near double digit rates. Its subfunction Credit Card Fees seems to have amplified this function's cost growth. The growth in the Staffing Ratio in Other Finance and Accounting offset a decline in compensation as non-labor increased. The small Actuarial function increased modestly with an increase in staffing ratios. The Corporate Services function declined on a decline in non-labor expenses. Subfunction declines included Legal, Facilities, Imaging, Printing and Mailroom and Risk Management. Areas increasing included Human Resources.

Change in Mix

Membership increased at a median rate of 1.2% among continuously participating plans. Underlying this was a shift in membership where Medicaid increased by 15.9% to 28.5% of total membership. Commercial membership, at 55.3% of the total, decreased by 4.2%. Within commercial, low cost ASO decreased by 2.0% to 22.1% while the more expensive to administer insured product decreased by 6.7% to 29.1%. Medicare also declined at a median rate of 0.7% to 5.8% of membership.

Covid-19 adaptation may have continued to be a factor in 2021 enrollment trends, notwithstanding fewer restrictions by Federal and state governments. Since most working age people receive health insurance through their employers, commercial health plan enrollment declined as Medicaid products insulated from those economic policies continued to grow.

As-Reported Trends

Figure 2, shown on page 2, shows that the overall cost trends on an as-reported basis were similar to the constant mix trends in the mentioned in the introduction. On an as-reported basis, for the 10 continuously participating plans, per member costs increased by 1.9% overall up from a decline of 1.0% in the prior year.

Cost trends on an as-reported basis reflected a shift in favor of lower cost products in addition to the underlying cost trends. The key example of this is the decline in overall commercial products and the continuing growth in Medicaid. Overall, this was manifest in lower cost growth on an as-reported basis. The effect of the elimination of mix changes between the years is to increase constant mix cost trends by 2.3 percentage points.

We think of the constant mix change as the real growth of administrative expenses so when we look at as reported changes, we will focus on only those changes that differ. This has the effect of highlighting the effects of mix. Overall, as-reported cost growth trends are slower. And they are also lower in nearly every cluster of functions.

Recall the shift in mix in favor of lower cost products. Those products tend to have costs that are lower, especially in Sales and Marketing Cluster of functions. So while these expenses increased modestly on a constant mix basis, they decreased by 1.3% on an as reported basis. Rating and Underwriting, which includes Risk Adjustment (integral to Medicare and Medicaid), grew faster here though all other functions grew less rapidly or declined relative to constant mix comparisons.

There was also a notable difference in the Corporate Services cluster which increased by 0.5%, slower than the 1.6% constant mix increase. This was also a decline in the rate of growth compared with an acceleration on a constant mix basis. Most notably, Actuarial declined by 1.0% compared with growth of 2.9% on a constant mix basis. In other words, the as reported trends reflected that they did not have the mix to support the level of actuarial services in the prior year but, within the products they offered, they actually increased their commitments to that function.

Account and Membership Administration cost growth was lower on an as reported basis when compared to a constant mix basis, 2.1% versus 3.2%. The chief reason for this was that Information Systems costs increased much slower on this basis. But Medicaid has lower information systems costs than does commercial, and insured commercial in particular. So the as reported cost trends disguises more rapid growth in costs once one eliminates the effect of the lower requirements of this product.

Medical and Provider Management cost trend was only 0.2 percentage point higher on an as-reported basis. Reported growth for Provider Network Management and Services was slightly slower and Medical Management growth was faster, though still low. The cost of Medical Management activities is much greater than Provider Network and dominates the cluster trends. As it happens, Medical Management costs for Medicaid are nearly identical to that of Commercial Insured despite very different demographics.

Trends in Factors Driving Costs

In considering the underlying trends that led to growth of 4.2%, the staffing ratio increased at a median rate of 3.1% and a mean rate of 3.7%. The median staffing ratio for continuously participating plans was 21.7 FTEs per 10,000 members. This includes the effects of outsourced staffing, discussed later.¹ The median staffing ratio for commercial insured was 28.9 FTEs per 10,000 members. Compensation levels were effectively unchanged at approximately \$101,000 per FTE. Non-labor expenses per FTE declined slightly. The average proportion of FTEs that were outsourced² increased by a mean of 0.4 percentage points or median 0.6 percentage points to a median of 5.0%.

For *all* plans, the percent of FTEs outsourced was 11.2%, median compensation was \$106,000 and the median total and commercial staffing ratios were 24.3 FTEs per 10,000 members and 28.3 respectively. Functions with greater than 15% of FTEs outsourced, measured by medians, were Nurse Information Line, Information Systems Operations and Support, All Other Application Maintenance and Information Systems as a whole.

¹ 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.

² Outsourced FTEs are often estimated from invoice amounts of BPOs and other similar vendors based on the compensation and non-labor

To be clear, it is the convention of the *Sherlock Benchmarks* to treat health plan activities performed by parent hospital systems as “outsourced.” Eight of the fifteen plans have this structure. Human Resources, Finance and Accounting, Information Systems, Corporate Executive and Governance, Facilities and Legal were frequently cited as outsourced. Measured by total dollars, these expenses were mostly in Account and Membership Administration with a plurality in Information Systems.

This is not to say that all of the activities in these functions are outsourced to the health system parent but that this outsourcing exists. In aggregate, they total \$2.60 PMPM among the eight reporting plans, and amounted to a median of 7.6% of function costs. HR had the highest proportion of costs outsourced to parent health systems.

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

Figure 3 shows the values of administrative expenses for all 15 participating plans. 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 shift towards lower cost products was partly obscured by the differences between the universes that participated in 2021 and 2022. Of the 19 plans that participated in 2021, 10 continued to participate in 2022. In addition, five plans that did not participate in 2021 elected to do so in 2022. In comparing the respective universes, both their product costs and product mix differed. Also, the size differed: in the 2022 cycle the median and mean membership was 555,000 and 705,000. In the 2021 cycle, these were 346,000 and 505,000.

Ten plans participated in both 2021 and 2022 so the changes shown in Figure 2 are a better measure of trend. For the new plans and the ones that participated last year, we can know neither their trends, or their changes in product mix. However, there are some similarities between calculated trends and differences between annual values.

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
Sales and Marketing	\$9.31	\$11.09	\$13.55	39%
Medical and Provider Management	6.67	9.23	10.15	27%
Account and Membership Administration	13.51	16.41	21.21	31%
Corporate Services	5.15	6.36	7.61	32%
Total Expenses	\$34.87	\$45.65	\$50.05	25%

The total PMPM administrative expenses for the universe as a whole, at a median of \$45.65, was 8.7% higher than last year's values, shown in Appendix A. Medical and Provider Management, the fastest growing cluster in Figure 2, was higher by 27.2% to \$9.23. This group of functions includes Provider Network Management and Services and Medical Management / Quality Assurance / Wellness.

Sales and Marketing, which showed a same-plan decline on an as-reported basis, was down by 5.9% to \$11.09. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Corporate Services, which experienced slow growth in Figure 2, was lower by 8.2% to \$6.36. Activities in this cluster include Corporate Executive, Actuarial, Finance and Accounting, and the Corporate Services function, a group of other activities like Facilities, Human Resources and Legal.

Account and Membership Administration was higher by 4.5% to \$16.41. 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.

Measured by the coefficient of variation the values were more clustered in 2021 versus 2020. Overall, and in every cluster except for Sales and Marketing, coefficients of variation were lower in 2021 versus 2020. In the case of that cluster, the increase was only 0.8 percentage points versus an 11.4 percentage point narrowing in total expenses.

By contrast, dispersion measured by the differences between the 75th and 25th percentile values were more scattered in total but more clustered in each cluster except Account and Membership Administration. The total increased by \$1.27, with Corporate Services declining by \$1.25 PMPM.

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

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

The median mix of commercial products was 59.8% of the comprehensive membership for all of the participating plans. Administrative expenses for these costs are both higher and lower than the median comprehensive administrative products, depending on their financing mechanism, which indirectly reflects group size.

As a sector, Independent / Provider – Sponsored Plans have a heavy commitment to Commercial Insured and HMO in particular, with medians of 29.8% and 26.7% respectively of comprehensive members. These products' costs, at \$55.19 and \$49.87 are only somewhat higher than the average of \$45.65. Sales and Marketing costs and Enrollment costs also tend to be higher per member for insured products.

By contrast, ASO product costs are lower than for comparable insured products largely due to the comparatively modest per member Sales and Marketing expenses required for large groups that are eligible to use these products. An ASO group necessarily possesses the statistical advantages of larger size to bear the medical cost variance risk: this also means that group Sales and Marketing costs are spread through greater numbers of members. For ASO, costs are a median of \$24.91 PMPM.

Note that Medicare Supplemental is a below average cost product at \$35.55 PMPM. We include this as a comprehensive product in the *Sherlock Benchmarks* though it pays only when fee-for-service Medicare does not.

Medicare and Medicaid are government-sponsored products serving seniors and the poor. Medicaid costs \$25.88 PMPM while CHIP costs \$24.75. These two products are cornerstone products for IPS plans and 26.7% and 0.6% of membership on average. Ten of the 15 plans offer Medicaid and four offer CHIP.

Medicare products are relatively high cost at \$119.62 and \$191.28 PMPM for Medicare Advantage and Medicare Special Needs Plans respectively.

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%

Managed Long Term Services and Supports (MLTSS) is not included among comprehensive products. These are high-cost Medicaid products for members that have complex healthcare needs and chronic illnesses often making them eligible for care in nursing homes. They resemble Medicare Advantage SNP products in some ways. Their median administrative costs were \$141.62 PMPM.

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

Many analysts evaluate administrative expenses standardized as percents of premium. While this is straightforward for fully insured products, in the ratios displayed in Figure 5 and in Figure 6 which follows, “premiums” represent 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. Comprehensive products, had a median administrative expense ratio of 8.7%.

The product ranking of administrative expenses measured by the percents of premiums often corresponds with that of the PMPM costs.

Figure 5. Sherlock Benchmark Summary
Independent / Provider-Sponsored Costs by Product, 2021 Results
Percent of Premium and/or Equivalents

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%

ASO products are 6.0% of premiums and these are lower than average cost on a PMPM basis as well as on a percent of premium basis. Commercial Insured products range from 9.8% of premiums to 10.8% of premiums, higher than average, similar to relative PMPM costs. Lower Sales and Marketing for self-insured groups is key reason for the lower costs of the ASO products. Medicaid was lower than average on a percent of premium basis, at 7.3%, and was lower on a PMPM basis.

The percent metrics of the products are more clustered than are the PMPMs and sometimes gives rise to changes in the order of product costs. While Medicare Supplement is below average cost when measured PMPM, at 21.4%, its cost ratio was the highest when calculated as a percent. CHIP was also a lower than average cost product PMPM but, at 12.1%, was higher cost than average measured as a percent. Conversely MLTSS which was among the highest cost products PMPM, at 6.5%, was among the lowest cost when measured against premium equivalents.

Medicare Advantage costs, while more than double Commercial Insured PMPM, have ratios of 12.0%, 21% greater than Commercial Insured. Medicare SNP, at 11.0%, is 10% above Commercial Insured and 3.5 times its PMPM.

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 summed. Also note that the following discussion also includes changes in values that are obscured by rounding. As with the previous section, the term “premiums” refers to premium equivalents.

Figure 6. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2021 Results
Percent of Premium and/or Equivalents

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

Administrative expenses were 8.7% of premiums, 0.1 percentage points lower than last year. Sales and Marketing decreased by 0.3 percentage points to 2.3% of premium. Medical and Provider Management increased by 0.1 percentage points to 1.7% of premiums. Corporate Services declined 0.2 percentage points to 1.3% of premiums. Account and Membership Administration was down by 0.2 percentage points to 3.3% percent of premiums.

How We Performed this Analysis

CHARACTERISTICS OF THE INDEPENDENT / PROVIDER - SPONSORED UNIVERSE

This analysis is based on the twenty-fifth 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, more than 960 health plan years.

Each peer group in the *Sherlock Benchmarks* is established to be relatively uniform. So, within that constraint, participation in this set is open to 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. Typically, “independent” plans are managed care focused and regional. A “provider-sponsored” plan has those characteristics also but also are owned by hospital systems. Ten of this year’s fifteen participants also participated last year.

This 20th analysis of IPS plans is based on a peer group of fifteen Independent / Provider – Sponsored plans who collectively serve approximately 10.6 million people with Comprehensive products. In addition to the Comprehensive members, these plans also served 253,000 Managed Long Term Services and Supports members. We believe this universe to be quite robust. Participants in this year’s study serve about 52% of all membership in plans served by non-staff model plans of the Alliance of Community Health Plans and 35% of all membership served by commercial members of the Health Plan Alliance. The plans were geographically disbursed, serving 24 states.

Collectively in 2021, the health plan operations of these plans earned annual premiums plus fees of \$47 billion and nearly \$62 billion in premium equivalents for Comprehensive products only. The total revenues for the group were \$53 billion in 2021. The median plan participating in the *Sherlock Benchmarks* this year served 555,000 people.

Collectively, within the Comprehensive products, 65.2% of membership was commercial. Of the commercial members, approximately 53.6% were served under some form of self-insurance arrangement.

Medicare Advantage, with 883,000 members, was offered by 14 Plans. It composed 7.7% of the Comprehensive membership and 20.3% of revenues for comprehensive products. With SNP, total Medicare Advantage products represent 25.0% of combined revenues.

Medicare Supplement, offered by eight plans, was 4.7% of Comprehensive members and 1.4% of revenues for IPS comprehensive products. Medicaid HMO, offered by 11 Plans, comprised 22.8% of combined membership and 25.0% of revenues.

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 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 their 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 2022 *Sherlock Benchmarks* reconciles these two presentations.
 - 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, they are impractical to manage. These taxes are primarily related to the Affordable Care Act, and they may vary based on current public policy. For Commercial Insured products, the median PMPM value of such taxes is \$5.86 compared with \$12.50 in 2020. The 2021 value was approximately 10% of total administrative costs for this set of products.

Note on the Sherlock Benchmarks

The *Sherlock Benchmarks* are the health plan industry's metrics informing the management of administrative activities. They are based on validated surveys of health plans serving 63 million Americans and provide costs and their drivers on key administrative activities.

The *Benchmarks* are reported in multiple universes of health plans: Independent / Provider-Sponsored, Blue Cross Blue Shield, Larger Plans, Medicare and Medicaid.

The *Sherlock Benchmarks* are the "gold standard" of health plan administrative cost benchmarks. Health plans use them to determine whether their administrative costs are competitive, to prioritize for improvement among numerous specific activities and to identify cost drivers such as staffing ratios that, overall and within functions, can help implement those improvements. Since June of 2019, health plans serving at least 210 million people have licensed the *Sherlock Benchmarks*.

These *Plan Management Navigator* results are excerpted from the Independent / Provider - Sponsored edition of the 2022 *Sherlock Benchmarks*. We reported on the Blue Cross Blue Shield universe earlier in June and 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*.

Tables of Contents, report formats, citations, quality assurance and other information can be found at sherlockco.com/sherlock-benchmarks and our brochure can be found at sherlockco.com/brochure

In addition, the Sherlock Company website has an application that allows you to try out the *Benchmarks* for no charge. It can be found at sherlockco.com/test-drive

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 at sherlock@sherlockco.com

You will be among good company.

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. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2020 Results
Percent of Premium and/or Equivalents

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. 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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