

# ADMINISTRATIVE COST TRENDS OF INDEPENDENT / PROVIDER- SPONSORED PLANS IN 2022



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*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

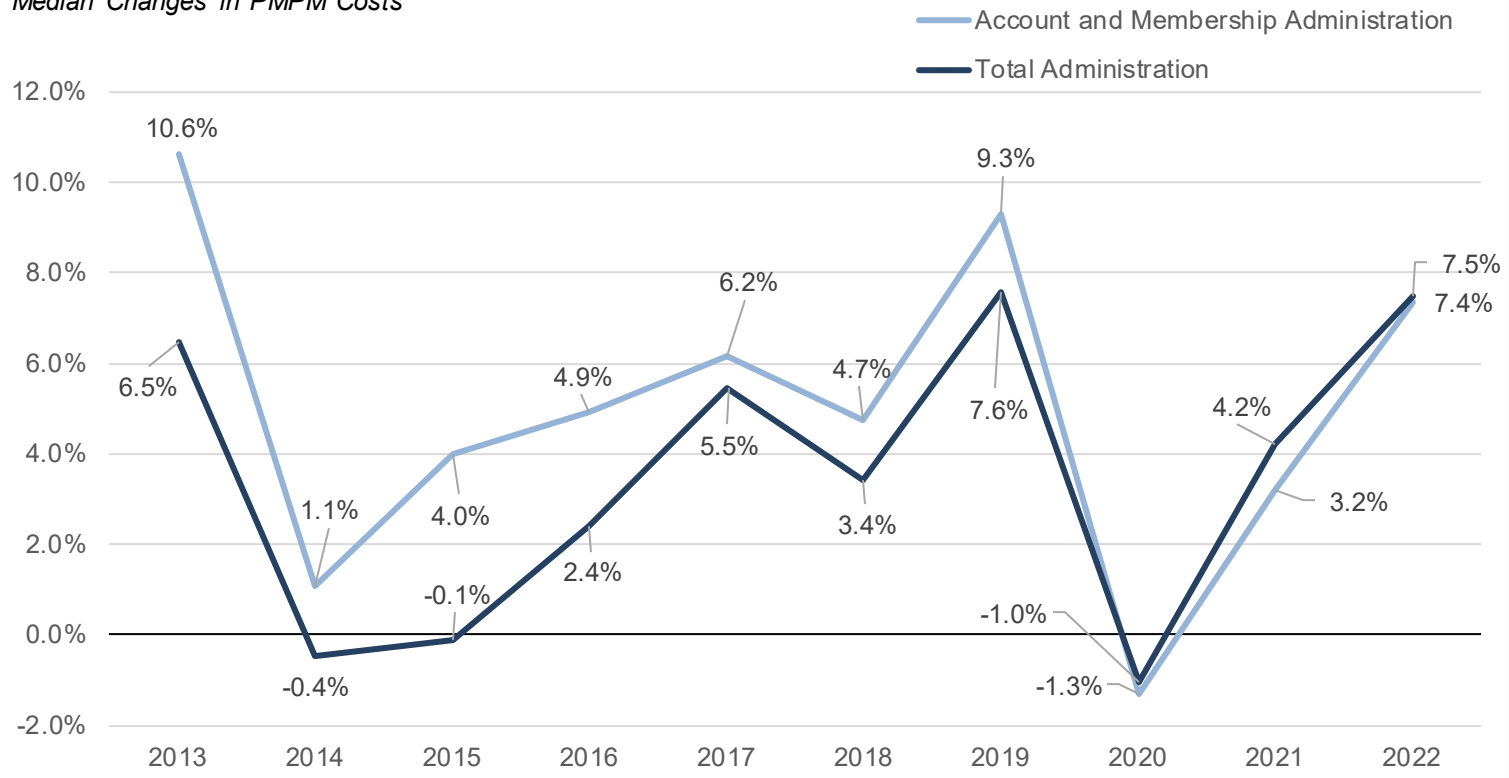
- Last year's cluster values
- Functions in each cluster of expenses
- About the *Sherlock Benchmarks*

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



# TOTAL COSTS ACCELERATED. A&M ADMINISTRATION GROWTH ALSO SURGED.

**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 7.5%.

**Figure 2. Sherlock Benchmark Summary**

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

Functional Area	2021 Increase		2022 Increase	
	As-Reported	Constant Mix	As-Reported	Constant Mix
Sales and Marketing	-1.3%	1.6%	1.2%	8.5%
Medical and Provider Management	4.0%	3.8%	8.3%	8.6%
Account and Membership Administration	2.1%	3.2%	7.4%	7.4%
Corporate Services	0.5%	1.6%	3.2%	1.0%
<b>Total Expenses</b>	1.9%	4.2%	6.7%	7.5%



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

# SOURCES OF “REAL” GROWTH IN INDEPENDENT / PROVIDER - SPONSORED ADMINISTRATIVE COSTS IN 2022

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	8.5%	Advert. and Promotion ↑	Advert. and Promotion ↑
Med & Provider	8.6%	Provider Network Mgmt ↑	Medical Mgmt ↑
Acct & Membership	7.4%	Claims ↑	Information Systems ↑
Corp. Serv.	<u>1.0%</u>	Assoc. Dues and Fees ↓*	Finance and Accounting ↑
Total	7.5%	Claims ↑ †	Information Systems ↑

\* The Actuarial function was the fastest growing.

† Association Dues and License and Filing Fees declined as rapidly as Claims increased.



# SOURCES OF *REPORTED* GROWTH IN INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2022

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	1.2%	Advert. and Promotion ↑	Advert. and Promotion ↑
Med & Provider	8.3%	Provider Network Mgmt ↑	Medical Mgmt ↑
Acct & Membership	7.4%	Claims ↑	Information Systems ↑
Corp. Serv.	<u>3.2%</u>	Assoc. Dues and Fees ↓*	Finance and Accounting ↑
Total	6.7%	Assoc. Dues and Fees ↓†	Information Systems ↑

\* *The Finance and Accounting function was the fastest growing.*

† *Claims function grew fastest.*



# COMPARED WITH 2021, COSTS WERE 9.8% LOWER IN 2022. COST TRENDS, CHANGES IN THE PRODUCT MIX AND UNIVERSE WERE RESPONSIBLE.

**Figure 3. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2022 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>	<b>2021 Values</b> <b>Median</b>
Sales and Marketing	\$8.03	\$12.69	\$13.66	31%	\$11.09
Medical and Provider Management	6.99	8.03	10.25	31%	9.23
Account and Membership Administration	14.86	15.83	20.13	28%	16.41
Corporate Services	4.98	5.27	7.24	37%	6.36
<b>Total Expenses</b>	<b>\$36.65</b>	<b>\$41.16</b>	<b>\$48.93</b>	<b>25%</b>	<b>\$45.65</b>



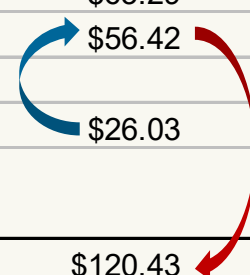
# PMPMs VARY BY PRODUCT.

**Figure 4. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Costs by Product, 2022 Results

*Per Member Per Month*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
<b>Commercial Insured</b>				
HMO	\$42.82	\$49.81	\$56.23	25%
POS	\$42.44	\$42.52	\$71.72	43%
Indemnity & PPO	\$55.47	\$63.29	\$71.27	32%
<b>Total</b>	\$43.96	\$56.42	\$65.29	26%
<b>Commercial ASO</b>				
	\$22.45	\$26.03	\$28.57	18%
<b>Medicare</b>				
Advantage	\$102.87	\$120.43	\$172.86	35%
SNP	\$141.91	\$182.10	\$217.86	31%
<b>Medicaid</b>				
HMO	\$25.69	\$28.49	\$33.74	18%
CHIP	\$24.61	\$28.48	\$31.79	23%
<b>Medicare Supplement</b>				
	\$32.69	\$34.79	\$38.85	27%
<b>Comprehensive Total</b>	<b>\$36.65</b>	<b>\$41.16</b>	<b>\$48.93</b>	<b>25%</b>





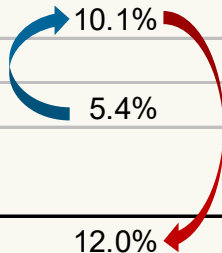
# PERCENTS CLUSTER MORE THAN PMPMs BECAUSE ADMINISTRATIVE EXPENSES MORE OR LESS TRACK WITH HEALTH CARE COSTS.

**Figure 5. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Costs by Product, 2022 Results

*Percent of Premium and/or Equivalent*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
<b>Commercial Insured</b>				
HMO	8.8%	9.2%	10.6%	20%
POS	9.4%	9.7%	9.9%	33%
Indemnity & PPO	10.2%	11.5%	11.8%	29%
Total	9.4%	10.1%	10.6%	18%
<b>Commercial ASO</b>				
	4.9%	5.4%	7.3%	22%
<b>Medicare</b>				
Advantage	10.8%	12.0%	16.7%	38%
SNP	9.3%	10.9%	13.0%	22%
<b>Medicaid</b>				
HMO	6.9%	7.3%	7.5%	19%
CHIP	11.7%	12.9%	14.0%	14%
<b>Medicare Supplement</b>				
	12.0%	16.1%	21.5%	42%
<b>Comprehensive Total</b>	<b>7.8%</b>	<b>8.3%</b>	<b>9.0%</b>	<b>22%</b>



# ALL CLUSTERS SLIGHTLY DECLINED IN COMPARISON TO THE 2021 VALUES.

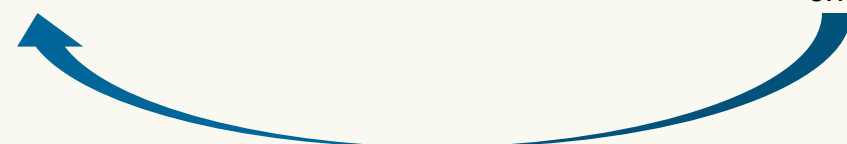
**Figure 6. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2022 Results

*Percent of Premium and/or Equivalents*

*2021  
Values*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>	<b>Median</b>
Sales and Marketing	1.7%	2.1%	2.7%	32%	2.3%
Medical and Provider Management	1.5%	1.6%	1.7%	33%	1.7%
Account and Membership Administration	3.1%	3.3%	3.7%	25%	3.3%
Corporate Services	1.0%	1.2%	1.4%	33%	1.3%
<b>Total Expenses</b>	<b>7.8%</b>	<b>8.3%</b>	<b>9.0%</b>	<b>22%</b>	<b>8.7%</b>



# IPS ADMINISTRATIVE COST ACCELERATED IN 2022



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- IPS plan costs were \$41.16, below \$45.65 last year.
- Holding product mix constant, costs increased by 7.5% versus 4.2% growth in 2021. Reported expenses accelerated from 1.9% in 2021 to 6.7% in 2022.
- Product mix shifted towards lower cost products. Commercial share declined as Medicaid grew. Medicare also increased though more slowly.
- Claims and Advertising & Promotion were the fastest growing functions. IS and Claims had the greatest impact.
- Medical and Provider Management Cluster grew fastest and was responsible for greatest increase. Provider Network Management and Services grew fastest in cluster at a shade less than double digits, with Provider Contracting key.
- Sales and Marketing was second fastest: key was Advertising & Promotion.
- Account and Membership grew third fastest. Claims had fastest growth in cluster and overall. IS was most important source of growth.
- Corp. Services Cluster was slowest growing cluster. Finance and Accounting had greatest impact.
- Staffing Ratio and compensation both increased. Outsourcing grew.



# APPENDIX A. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2021

## Appendix A. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2021 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	\$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%
<b>Total Expenses</b>	<b>\$34.87</b>	<b>\$45.65</b>	<b>\$50.05</b>	<b>25%</b>

# APPENDIX B. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2021

## Appendix B. Sherlock Benchmark Summary

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

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
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%
<b>Total Expenses</b>	<b>8.2%</b>	<b>8.7%</b>	<b>9.7%</b>	<b>12%</b>

# 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: Every participant in the 2021 IPS study not precluded by a business combination participated again in 2022. The average participant longevity with the IPS Sherlock Benchmarks is 12.2 years.
- **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 calculate estimates of staffing ratios by product.
- The **operational metrics** include 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 26<sup>th</sup> consecutive year. We expect our cumulative experience to total approximately 1,000 plan years. Expect more than 30 organization serving 63 million members to participate in 2023.
- Since June 2020, health plans serving more than 208 million insured Americans use the Sherlock Benchmarks, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans. The plans serve 8.3 million members.
- Health plans serving 57% members of those served by the Alliance of Community Health Plans participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans. This ratio excludes ACHP's staff model plans
- Health plans serving 36% of those served by the Health Plan Alliance are participating in this year's *Sherlock Benchmarks*.
- Of the 34 U.S.-based Blue Cross Blue Shield primary licensees, seventeen serving approximately 52.2 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.





# APPENDIX F. FUNCTIONS IN EACH CLUSTER

## Appendix F. Sherlock Benchmark Summary

### Major Functions Included in Each Administrative Expense Cluster

#### **Sales & Marketing**

1. Rating and Underwriting
  - (b) Risk Adjustment
  - (c) All Other Rating and Underwriting
2. Marketing
  - (a) Product Development and Market Research
  - (b) Member and Group Communication
  - (c) Other Marketing
3. Sales
  - (a) Account Services
  - (b) Internal Sales Commissions
  - (c) Other Sales
4. External Broker Commissions
5. Advertising and Promotion
  - (a) Media and Advertising
  - (b) Charitable Contributions

#### **Provider & Medical Management**

6. Provider Network Management and Services
  - (a) Provider Relations Services
  - (b) Provider Contracting
    - (1) Provider Configuration
    - (2) Other Provider Contracting
  - (d) Other Provider Network Management and Services
7. Medical Management / Quality Assurance / Wellness
  - (a) Precertification
  - (b) Case Management
  - (c) Disease Management
  - (d) Nurse Information Line
  - (e) Health and Wellness
  - (f) Quality Components
  - (g) Medical Informatics
  - (h) Utilization Review
  - (i) Other Medical Management

#### **Account & Membership Administration**

8. Enrollment / Membership / Billing
  - (a) Enrollment and Membership
  - (b) Billing
9. Customer Services
  - (a) Member Services
  - (b) Printed Materials and Other
  - (c) Grievances and Appeals
10. Claim and Encounter Capture and Adjudication
  - (a) Coordination of Benefits (COB) and Subrogation
  - (d) Payment Integrity
  - (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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