

Plan Management Navigator

Analytics for Health Plan Administration



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INDEPENDENT / PROVIDER - SPONSORED PLANS ADMINISTRATIVE EXPENSES ACCELERATED IN 2022

Independent / Provider - Sponsored plan cost growth sharply accelerated in 2022 based on the results of 9 continuously participating plans in the *Sherlock Benchmarks*. Total per member costs increased from an increase of 1.9% to an increase of 6.7%. After holding the universe's product mix constant, the real cost growth was 7.5%, compared to a 4.2% increase in 2021.

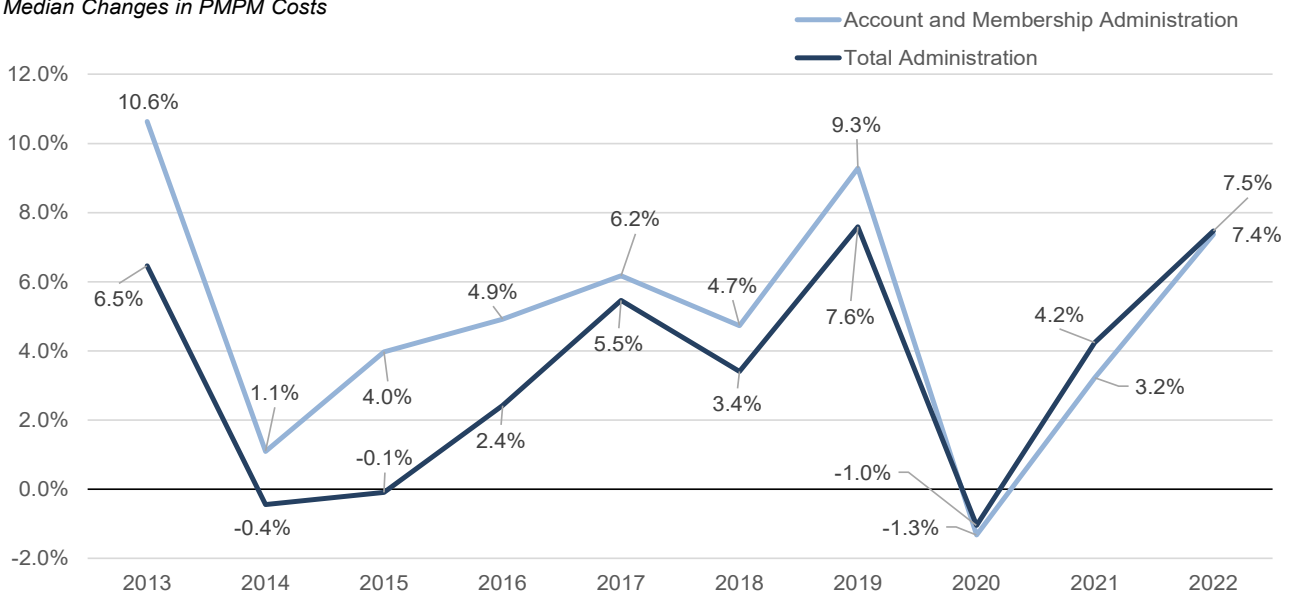
The constant mix increase in costs was higher than recently. Excluding the effect of behavioral health and pharmacy benefits, the constant mix growth was 2.3 percentage points higher than the average of 4.2% over the past five years.

At 7.5%, total administrative cost growth virtually tied the 7.6% increase in 2019 which was the highest since 2012. The growth in Account and Membership Administration (representing 38% of all expenses) surged 7.4% from 3.2% in 2021. The change in trends for Account and Membership Administration was exceeded only twice in the past ten years. This is shown in Figure 1, reflecting continuously participating Plans, after having eliminated the effects of product mix differences between every two comparison years.

As developed below, on a Constant Mix basis, the growth in all clusters accelerated except Corporate Services. Of the 16 principle functions, which exclude Miscellaneous Business Taxes, nine increased growth while seven declined.

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



Adjusting to exclude the effect of mix changes, the increase in Information Systems exceeded inflation slightly but, because of the size of this functional area, it was the most important source of growth. The second most important contributor was Claims. It was also the fastest growing function and was followed by Advertising and Promotion. Staffing Ratios increased as did compensation.

The as-reported changes reflected less dramatic growth. Information Systems was closely followed by Claim and Encounter Capture and Adjudication as the leading contributors to cost increases. Claims was also the fastest growing function, followed by Advertising and Promotion. Association Dues and License and Filing Fees, a small function, showed the greatest percent change, a decline.

The source of the data used in this analysis is Sherlock Company surveys of eleven Independent / Provider - Sponsored plans. They collectively serve 8.2 million members with Comprehensive products and represent a high proportion of members served by health plans in this sector.

The Effect of Business Combinations

Business combinations are central to understanding participation in 2023, though they did not affect measurement of cost trends. Of the 15 participating plans in 2022, six were unable to participate in 2023 because they were completing a business combination with another plan. Four of those participating plans were precluded from participation because, in two transactions, four of the participants merged. Two other participating plans are merging with plans that continued to participate. In short, all nine continuous plans from 2022 not precluded by business combinations continued to participate in 2023. In addition, we added two plans for a total of 11 participants in 2023.

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 shown are solely from continuously participating plans, and all trends are in costs per member per month. The “As Reported” values are trends in PMPM costs that the plans report. “Constant Mix” values are also trends in their costs but, in calculating growth, prior year product costs are reweighted to match this year’s product mix.

The pattern of cost growth among IPS plans emphasized growth in lower cost products. Membership growth was at a median rate of 1.6%. Commercial declined by 4.5% while Medicare and Medicaid increased at 3.6% and 14.8% respectively. Within Commercial, insured declined far more steeply, at 5.5% compared with 0.9% for ASO. Medicare Supplement decreased by 1.5%, though only four of the continuous plans offer it.

Medicaid (including CHIP) represents a median of 42.4% of membership for these plans, up by 3.5 percentage points from a median of 38.9% in the prior year. All other products had declines or were unchanged in plan product portfolios.

Overall, the faster growth in Medicaid and slower decline of ASO within Commercial led to a faster growing cost increase on a constant mix basis than on an as-reported basis. Every cluster of expenses grew equal to or faster on a constant mix basis than an as-reported basis, except for the smallest cluster, Corporate Services. This was especially evident in Sales and Marketing: this activity is quite small for fast growing Medicaid.

The trends on an as-reported basis for the nine continuously participating plans, including the effect of Pharmacy and Behavioral Health, per member costs showed 6.7% growth compared with 1.9% the prior year. Cost trends on an as-reported basis reflected a shift in product mix to low administrative cost products in addition to the underlying cost trends. Per member Constant Mix administrative costs increased by 7.5% as against 6.7% as reported. The Constant Mix increase was higher than the 4.2% increase in 2021.

Cost Trends Holding Mix Constant

In our view, trends that exclude the effect of changes in mix are a more accurate representation of real trends in administrative costs. Put a different way, constant mix cost changes show trends in the absence of any distorting effects of a shift in favor of lower cost products. Note that, in addition to holding product mix constant, the comparisons in this section also hold the participants constant.

The trend discussion in this *Navigator* is largely based on this approach. For this presentation of the results of the *Sherlock Benchmarks*, trends in Behavioral Health and Pharmacy Benefits are included. In considering the components of administrative cost increase, we comment only on functions that show unambiguous trends, reflecting key measures of central tendencies.

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%
Total Expenses	1.9%	4.2%	6.7%	7.5%

Conversely, we do not consider others to be generally applicable. Also, we are reporting median values throughout which has the limitation and virtue of excluding outliers. Finally, it should be noted that each of these plans operates with a different management approach depending in part on their individual market circumstances. For instance, one plan may choose to achieve the same efficiencies through Provider Contracting as another achieves using Medical Management so the trends described in measures of central tendency may not capture this nuance.

As noted earlier, the change in administrative expenses in 2022 was greater than in 2021. All clusters except Corporate Services accelerated, shown in Figure 2.

MEDICAL AND PROVIDER MANAGEMENT

Medical and Provider Management grew fastest among the clusters on a constant mix basis, by 8.6%. Provider Network Management and Services grew fastest while the most important increase was Medical Management. The Provider Network Management and Services function increased at a shade less than double digits.

This understates the growth in Provider Network function. In the first reclassification in years, Provider Audit / Billing Validation activities in this function were moved from this function to Claim and Encounter Capture and Adjudication. Put a different way, Provider Network expenses in 2022 exclude this activity but they were included in 2021. (We were able to better adjust for Blue Plan trends since this activity was a separate subfunction.)

While compensation growth for Provider Network was low, the staffing ratio growth was higher. The growth in staffing for Provider Contracting seems to have been central. Medical Management growth was slower but, because of its size, it composed most of dollar increase in costs for this cluster. Staffing ratios increased for this function. Not surprisingly, as Covid-19 adaptation has waned, Nurse Information Line costs were sharply lower. Health and Wellness, Medical Informatics and Utilization Review costs were all notably higher, especially the first two. Staffing ratios increased greatly for Medical Informatics and Utilization Review.

SALES AND MARKETING

Sales and Marketing growth was narrowly behind Medical and Provider Management Cluster of Administrative costs. The growth in Sales and Marketing was notable because it exhibited second fastest growth and the greatest percentage point difference from the 2021 trend. On a constant mix basis, it was the most important source of increase. It was also much higher on a Constant Mix basis than an As Reported basis, 8.5% versus 1.2%.

Except for Rating and Underwriting, every function's cost growth was faster on this basis than on an as-reported basis. The key area of growth was Advertising and Promotion: it grew at a strong double-digit pace, three times the pace of the next closest function. Its double-digit growth was higher than any in the five-year period ended 2022, and nearly double the average for that period. It was also the cluster's most important source of growth. Media and Advertising was higher and Charitable Contributions was sharply higher. For this function, staffing ratios increased, and compensation growth approximated inflation.

Broker commissions increased with inflation, and narrowly followed Advertising and Promotion as a key source of the dollar increase in this cluster. Rating and Underwriting increased below inflation. While the Sales function increased very modestly, its subfunction, Account Services, increased sharply. Marketing trends were ambiguous.

ACCOUNT AND MEMBERSHIP ADMINISTRATION

Account and Membership Administration was the third fastest growing functional area and the third most important cluster as source of cost growth. This cluster is three times the size of Corporate Services, and increased by 7.4%. This cluster also includes Behavioral Health and Prescription Drug benefits that benefit plan sponsors may elect to provide separately from the Plans through other vendors.

The Information Systems functional area was the single most important source of cost growth, though its percent increase was only narrowly greater than inflation. Staffing ratios and compensation increased. Non-Labor declined as outsourcing increased. Application Acquisition and Development showed especially robust growth as its staffing, compensation and outsourcing increased.

The fastest growing functional area in this cluster and among all functions was Claim and Encounter Capture and Adjudication. A higher staffing ratio seems to have been central, especially in its COB and Subrogation subfunction. Compensation was also higher, again especially in COB and Subrogation. The trend in Other Claims, which also grew rapidly, may be amplified by the inclusion of some Provider Audit / Billing Validation activities previously included with Provider Network Management and Services.

Customer Services increased at a low single-digit rate on a higher staffing ratio, somewhat offset by below inflation rates of increase in compensation. Enrollment / Membership / Billing grew slightly.

CORPORATE SERVICES CLUSTER

The Corporate Services cluster was slowest growing, at 1%, and contributed only modestly to the dollar increase in costs. All functions in this cluster increased except Association Dues and License / Filing Fees and Corporate Executive. Actuarial grew fastest, on a sharp increase in staffing ratios and compensation, while outsourcing was unchanged. Finance and Accounting also increased: staffing ratios increased as compensation increased with inflation. All of the dollar increase in this cluster could be attributable to this one function. Both Corporate Executive & Governance and Association Dues and License/Filing Fees declined, the latter function being as fast as the surge in Claim and Encounter Capture and Adjudication. Association Dues and License and Filing Fees is by far the smallest function for these health plans.

More than one half of the costs of this cluster was the function of the same name. It was approximately flat compared with last year. HR, Audit and Risk Management showed significant growth however.

As-Reported Trends

Product mix's importance growth was illustrated in the differing cost trends on an as-reported versus constant mix basis. As shown in Figure 2, the shift in favor of lower cost products had the effect of diminishing the apparent increase in administrative costs, especially in the Sales and Marketing cluster. The focus of the following comments concern *differences* in cost changes between the two sets of calculations that can be plausibly explained by the effect of the underlying cost growth and mix changes.

Figure 2 shows that the overall cost trends on an as-reported basis were lower compared to the constant mix growth, overall and in all clusters except Corporate Services. This stems from the shift in favor of lower cost products like Medicaid and ASO though muted by growth in high-cost Medicare Advantage.

The change in mix between the two years had the effect of diminishing the apparent rate of cost increase, which was as reported of 6.7% but 7.5% when 2021 product costs are reweighted to the 2022 product mix. The effect of changes in product mix may be seen in some clusters and functions.

Medical and Provider Management. On an as-reported basis, costs increased more rapidly for this cluster than if mix is held constant. At 8.3%, this was the fastest growing cluster. While the cost growth in Provider Network Management and Services was higher on an as-reported basis, it was lower for Medical Management on an as-reported basis. Medical Management is the larger of the two functions in this cluster and so dominates the cluster's cost growth. Medical Management in Medicaid approximates that of Commercial insured, and Medicare's is three times higher. Recall that Medicare Advantage growth was higher than other products. By contrast, Provider Network expenses for fast growing Medicaid is lower than for Commercial Insured whose membership is declining.

Account and Membership Administration. This cluster grew exactly the same on an as-reported basis or a constant mix basis, 7.4%. There was a decline in Enrollment / Membership / Billing on an as-reported basis compared with modest growth on a constant mix basis. Medicaid enrollment costs are very modest compared with Commercial. There was faster growth in Customer Services, possibly related to Medicare membership growth. Claims grew slightly less rapidly but quite rapidly notwithstanding. The much larger Information Systems function posted slightly faster growth on this basis. Information Systems was the most important reason for cost increases while its rate of growth is modest.

Corporate Services. This cost growth was faster on an as-reported basis though half the pace of the total at 3.2%. The modest pace of Corporate Services function growth was faster, as was Finance and Accounting and Actuarial. Corporate Executive and Governance and Association Dues and License/Filing Fees declined more sharply on an as-reported basis.

Sales and Marketing. This cluster was the slowest growing on an as-reported basis. Because Medicaid has minimal Sales and Marketing expenses, the 7.3 percentage point reduction in as-reported cost growth to 1.2% most vividly reflects the shift in favor this and other low cost products. In other words, as Medicaid increased its share in typical product portfolios, the proportion of members that did not require these activities increased and diminished the ostensible rate of growth in these costs.

The Sales function actually declined on this basis, with Marketing sharply lower. Broker Commission growth approached flat. Advertising and Promotion still grew at double digits was by far the greatest contributor to growth. Only the Rating and Underwriting function grew faster on an as-reported basis. The Risk Adjustment (often chart review) activities in support of Medicare are vastly greater than Commercial.

Trends in Factors Driving Costs

The plans' operational drivers provide additional insights to their cost trends. The drivers discussed in this section are estimated Staffing Ratios, Compensation, Non-labor Costs and propensity to outsource. We previously noted their impact on some of the functions themselves.

For the continuously reporting plans, Staffing Ratios increased at a mean rate of 4.7%, excluding the effects of product mix shifts. The median staffing ratio was 25.9 FTEs per 10,000 among the continuous plans and all participating plans. For Commercial Insured, a mainstay set of products, staffing ratios were 28.3 FTEs per 10,000 members for all plans and for continuous plans. This includes the effects of outsourced staffing, discussed later.¹

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.

Advertising and Promotion, Provider Network Management and Services, Claim and Encounter Capture and Adjudication, Actuarial significantly increased staff, as Marketing, Finance and Accounting, Corporate Services and Corporate Executive and Governance either were up by no more than 1% or even declined.

The median proportions of FTEs that were outsourced² for 2022 are 11.5% for all plans and for continuously participating plans. Overall, the percent of FTEs of continuously participating plans that are outsourced increased by 1.2 percentage points. A few functions substantially increased their outsourcing such as Marketing, Claim and Encounter Capture and Adjudication and Information Systems. More modest declines in outsourcing included Advertising and Promotion and Enrollment / Membership / Billing.

For the set of all plans, functions with a median of at least 15% outsourced are Claim and Encounter Capture and Adjudication, Information Systems and Actuarial. *Subfunctions* that are at least 20% outsourced include Nurse Information Line and Information Systems Operations and Support.

Compensation, including all benefits, increased at a mean rate of 5.6% among continuous plans, below inflation. The median compensation was \$101,000 among continuous plans and was \$95,000 among all Plans. Compensation growth was notable in Marketing, Claim and Encounter Capture and Adjudication, Information Systems and Corporate Services.

Functions or subfunctions with median compensation levels at least 30% higher than plans' median included Product Development and Market Research, Other Marketing (including product leaders), Advertising and Promotion, Other Medical Management (including Medical Directors), Information Systems Operations and Support Services, Information Systems Applications Acquisition and Development, Information Systems Security Administration and Enforcement, Finance and Accounting, Actuarial, Human Resources, Government Affairs, All Other Legal, Risk Management and Corporate Executive and Governance.

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

The shift in favor of low-cost Medicaid may in part be reflected in the median costs by cluster found in Figure 3, on the next page. This shows the values of administrative expenses for all 11 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. In some ways, the changes parallel the trends in Figure 2 as there are some similarities between calculated trends and differences between annual values.

² Outsourced FTEs are often estimated from invoice amounts of BPOs and other similar vendors based on the compensation and non-labor costs of Plans that do not themselves outsource.

Nine plans participated in both 2022 and 2023 so the changes shown in Figure 2 are a better measure of trend. Of the 15 Plans that participated in 2022, 9 continued to participate in 2023. As previously noted, all of those plans that declined to participate in 2023 were in the throes of business combinations. In addition, two plans that did not participate in 2022 elected to do so in 2023. In comparing the two respective annual universes, both their product costs and product mix differed.

The total costs PMPM were \$41.16, 9.8% lower than that of 2021. Last year's values are shown in Appendix A. Sales and Marketing, identified as a low increase expense in our analysis of as-reported costs and the second highest on a constant mix basis, increased by 14.4% when comparing the two annual universe values. Its costs were \$12.69 PMPM. This cluster of functions includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising. This cluster, uniquely, was greater than last year's values.

Comparisons between the two annual sets of plans are lower in all other clusters. Account and Membership Administration was lower by 3.5% to \$15.83 PMPM. This cluster includes the central activities of Information Systems, Enrollment, Claims and Customer Services. This is by far the largest cluster of expenses and it has an outsized effect on cost trends.

The cluster with the third greatest as-reported decrease was Medical and Provider Management, lower by 13.0% from last year to \$8.03. This group of functions includes Provider Network Management and Services and Medical Management / Quality Assurance / Wellness.

At a 17.0% decrease among continuing plans, Corporate Services were \$5.27 PMPM. Activities in this cluster include Corporate Executive, Actuarial, Finance and Accounting, and the Corporate Services *function*, a group of other activities such as Facilities, Human Resources and Legal.

Measured by the coefficient of variation the values similarly clustered in 2022 versus 2021. In total, it was 25% in both years. But while Sales and Marketing and Account and Membership Administration both expanded, Medical and Provider and Corporate Services narrowed.

Figure 3. Sherlock Benchmark Summary

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

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$8.03	\$12.69	\$13.66	31%
Medical and Provider Management	6.99	8.03	10.25	31%
Account and Membership Administration	14.86	15.83	20.13	28%
Corporate Services	4.98	5.27	7.24	37%
Total Expenses	\$36.65	\$41.16	\$48.93	25%

On the other hand, dispersion measured by the differences between the 75th and 25th percentile values decreased. In total, this decreased by \$2.90 with Account and Membership Administration declining by \$2.42. Only Sales and Marketing dispersion increased, by \$1.39.

Costs of Independent / Provider - Sponsored, PMPM by Product

Earlier we emphasized comparisons that held product mix constant. We did this by reweighting product costs in the prior year to match that of the current year. The nine continuously participating plans posted growth in low cost to administer products, diminishing the share in the product portfolio of products in the middle and high end. Concretely, the differences in the costs between the Commercial Insured and Medicaid mean that a year-over-year shift to the latter appears as lower cost growth as shown in Figure 2.

The importance of considering the product cost values is shown in Figure 4 because products vary greatly in their per member costs. Products predominantly used by seniors, Medicare Advantage and Medicare SNP, were by far the highest cost. At \$120.43 and \$182.10, they are double to triple the cost of comparable Commercial Insured products, which range from \$42.52 to \$63.29 PMPM. The share of MA was greater by 1.4 percentage points in 2022, to 8.5%. The Insured Commercial products represented 31.1% of the mix, down by 2.2 percentage points.

Figure 4. Sherlock Benchmark Summary
Independent / Provider-Sponsored Costs by Product, 2022 Results
Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
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%
Total	\$43.96	\$56.42	\$65.29	26%
Commercial ASO	\$22.45	\$26.03	\$28.57	18%
Medicare				
Advantage	\$102.87	\$120.43	\$172.86	35%
SNP	\$141.91	\$182.10	\$217.86	31%
Medicaid				
HMO	\$25.69	\$28.49	\$33.74	18%
CHIP	\$24.61	\$28.48	\$31.79	23%
Medicare Supplement	\$32.69	\$34.79	\$38.85	27%
Comprehensive Total	\$36.65	\$41.16	\$48.93	25%

Commercial products serve a plurality of members served by the IPS plans, or 56.5% of the total. Overall they decreased by 6.0 percentage points. Within this group, the ASO products, at \$26.06 PMPM declined by 3.8 percentage points to 25.5%. Low costs in ASO products reflects the size of the groups that are their customers. This chiefly stems from ability to spread Sales and Marketing costs, plus Enrollment and Billing, over members of large groups with the statistical ability to assume medical care variance risk.

On the other hand, Medicaid HMO at \$28.49 and Medicaid CHIP at \$28.48 are approximately one-half of the PMPM costs of commercial insured products. Those products were greater share by 5.2 and 0.1 percentage points, respectively, to 31.9% and 0.7%. The changes in the Medicaid mix was the most important change in plans' product portfolios.

Medicare Supplement is a low cost product, at \$34.79 PMPM, and it declined by 0.7 percentage points to 1.8%. We believe that it is a transitional product for seniors who will eventually purchase an MA product. We include this as a comprehensive product in the *Sherlock Benchmarks* though it pays only when fee-for-service Medicare does not.

Costs of Independent / Provider - Sponsored, 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" are expressed as 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.

Figure 5 expresses the prior product cost relationships in percents of premiums. The values tend to be more clustered in that, while the high PMPM value is 7 times higher than the lowest, Medicare Supplement at 16.1% is only 3 times the differences in percents versus ASO at 5.4%. This overstates the differences in that Medicare Supplement's premiums are not truly "comprehensive" covering only health expenses that the primary coverage, Medicare, does not cover but may include some expenses normally associated with being a primary payor. It is an outlier in its ratio and its operations. By contrast, the CHIP ratio of 12.9% is only 2.4 times that of the ASO ratio. Commercial Insured products range from 9.2% for the HMO to 11.5% for the Indemnity and PPO product. Most of the participants in this universe originally focused on Commercial HMO products.

The relationship between Medicare and Commercial HMO declines from 3.2 times on a PMPM basis to 1.3 times on a percent basis, or to 12.0% versus 9.2%. These are similar products in important ways in that they have legally defined benefit structures, potentially limited provider panels, limited copayments and deductibles. That their markets differ in age explains the narrowing in the percent metrics of administrative costs; many of them are correlated with the underlying health needs of the people that they serve. According to the *Sherlock Benchmarks for 2022*, mean Medicare hospital days per thousand were five times that of Commercial HMO Insured. Along with higher health needs, senior customers also require higher administrative support such as claims processing, medical management and customer services. Information Systems costs grow as they support these functions. So while administrative expenses are not quite proportional there is a relationship with them that makes differences in percents far smaller than PMPM costs. Medicare SNP administration was 10.9% of premiums.

Note that ASO costs are also low relative to premiums. In this case, we use “premium-equivalents” as the denominator, calculated as the ASO fees plus the associated health benefits. As with PMPM costs, at 5.4%, these are low because Sales and Marketing plus Enrollment and Billing are spread over many members.

Figure 5. Sherlock Benchmark Summary
Independent / Provider-Sponsored Costs by Product, 2022 Results
Percent of Premium and/or Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
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%
Commercial ASO				
	4.9%	5.4%	7.3%	22%
Medicare				
Advantage	10.8%	12.0%	16.7%	38%
SNP	9.3%	10.9%	13.0%	22%
Medicaid				
HMO	6.9%	7.3%	7.5%	19%
CHIP	11.7%	12.9%	14.0%	14%
Medicare Supplement				
	12.0%	16.1%	21.5%	42%
Comprehensive Total	7.8%	8.3%	9.0%	22%

Costs of Independent / Provider - Sponsored Plans, Expense Clusters as Percent of Premium

Figure 6 shows the ratios of administrative expenses to premium equivalents overall and in each cluster. 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. The following discussion also includes changes in values that are obscured by rounding.

Administrative expenses were 8.3% of premium equivalents, 0.4 percentage points lower than last year. Sales and Marketing was lower by 0.2 percentage points to 2.1% of premium equivalents. Medical and Provider Management declined by 0.1 percentage points to 1.6%. Account and Membership Administration was down by 0.1 percentage point to 3.3% percent of premium equivalents. Corporate Services was also declined by 0.1 percentage points to 1.2%.

Figure 6. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2022 Results
Percent of Premium and/or Equivalents

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

How We Performed this Analysis

CHARACTERISTICS OF THE INDEPENDENT / PROVIDER - SPONSORED UNIVERSE

This analysis is based on the twenty-sixth 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 October, approximately 1,000 health benefit organization years.

Each peer group in the *Sherlock Benchmarks* is established to be relatively uniform. So, within that constraint, participation is open to all 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 21st analysis of IPS plans is based on a peer group of eleven Independent / Provider - Sponsored plans who collectively serve approximately 8.3 million people, not including specialty and other products. This universe is quite robust. Participants in this year's study serve about 36% of all Independent / Provider - Sponsored members in the Health Plan Alliance. Most members served by Alliance of Community Health Plans participated in the 2023 *Sherlock Benchmarks*.

Collectively in 2022, the health plan operations of these plans earned annual premiums plus fees of \$40 billion and \$50 billion in premium equivalents for comprehensive products. The total revenues for the group were \$46 billion in 2022. The median plan participating in the *Sherlock Benchmarks* this year served 673,000 people with comprehensive products. The plans were geographically disbursed, serving 22 states. Nine of this year's eleven participants also participated last year. The average participation experience in the 2023 Independent / Provider - Sponsored universe of the *Sherlock Benchmarks* is 12.2 years.

Collectively, within the comprehensive products, 55% was commercial. Of the commercial members approximately 43% were served through self-insurance arrangements.

Medicare Advantage, with 711,000 members, was offered by all eleven plans. It composed 9% of the combined comprehensive membership and 20% of revenues for comprehensive products. With SNP, total Medicare Advantage products represent 23% of total revenues.

Medicare Supplement, offered by four plans, was 2% of comprehensive members and 1% of revenues for Independent / Provider - Sponsored comprehensive products. In total, 24% of combined plan revenues arises from products sold to seniors.

Medicaid HMO, offered by nine plans, comprised 33% of combined membership.

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 measure of central tendency 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 product costs to eliminate the effect of product mix differences between their years.

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- 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 behavioral health while the *Sherlock Benchmarks* do not. Because of variation in contracting by employers for these benefits and that the administration of these health services is sometimes outsourced by plans who accept these management responsibilities, the *Benchmark* reports carve them out. Pages 22 - 24 in Tab 2 of Volume I of the 2023 *Sherlock Benchmarks* reconciles these two presentations.
 - 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 public policy. For Commercial Insured products, the median PMPM value of such taxes is \$5.72 for 2022 compared with \$5.86 in 2021 and \$12.50 in 2020. The 2022 value was 13.0% 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: Larger Plans, Independent / Provider - Sponsored, Independent / Provider-Sponsored, 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.

These *Plan Management Navigator* results are excerpted from the Independent / Provider - Sponsored edition of the 2023 *Sherlock Benchmarks*. We will be reporting on the results of the other universes in the months that follow. Detailed 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 <https://sherlockco.com/sherlock-benchmarks/>.

Our 2023 edition Brochure is found here.

<https://sherlockco.com/docs/Brochure/Sherlock%20Benchmarks%20Digital%20Brochure%20S%20June%202022.pdf>

In addition, the Sherlock Company website has an application that allows you to try out the Benchmarks free of charge.

<https://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 (sherlock@sherlockco.com)

You will be among good company.

Appendix A. 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%

Appendix B. 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%

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
 - (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