

ADMINISTRATIVE COST TRENDS OF INDEPENDENT / PROVIDER-SPONSORED PLANS IN 2023



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SHERLOCK BENCHMARKS

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July 18, 2024



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*

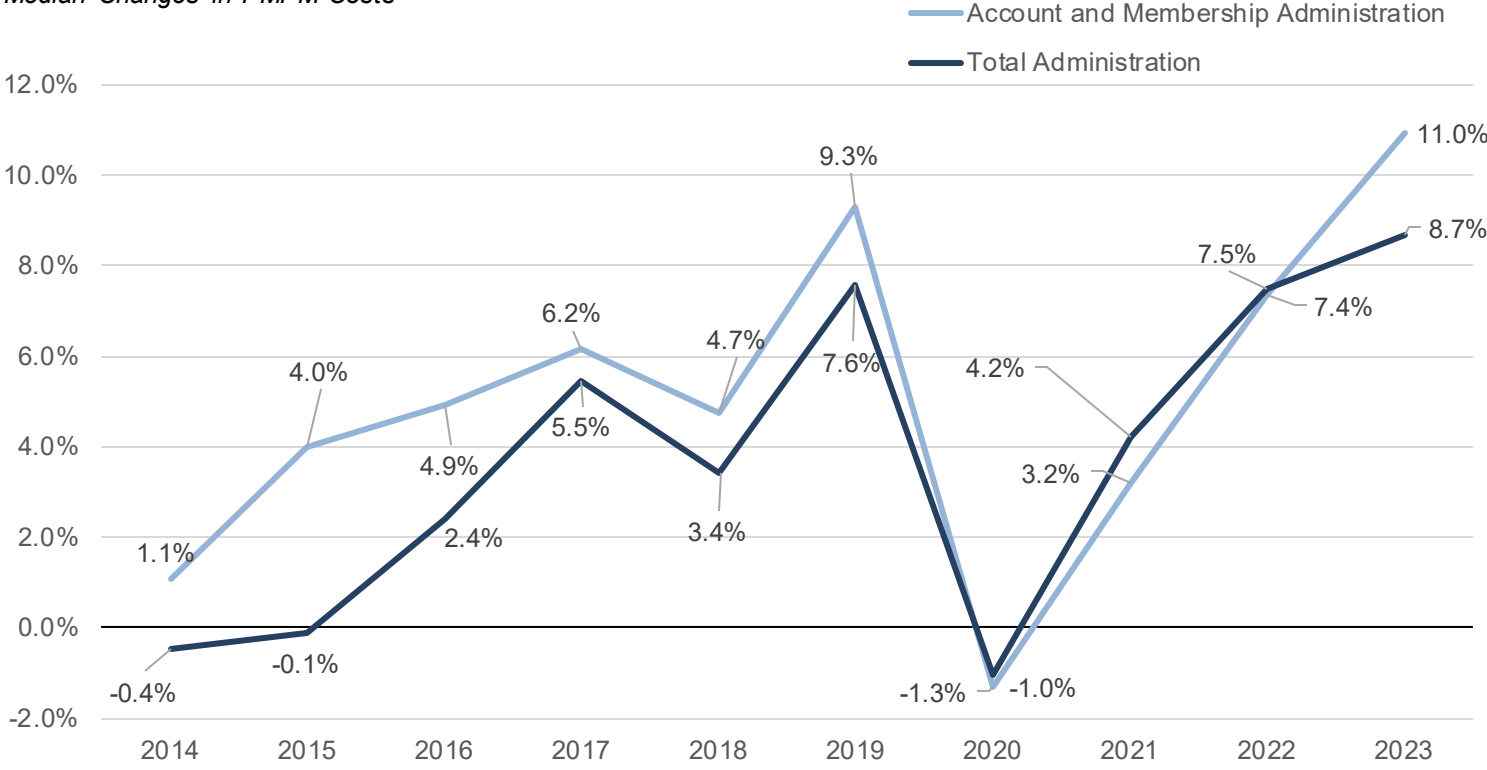
Racing workboats is our metaphor for health plans striving for performance improvement.



TOTAL COST AND A&M ADMINISTRATION GROWTH BOTH SET RECORDS.

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 WAS LOWER THAN AS-REPORTED.

Figure 2. Sherlock Benchmark Summary

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

Functional Area	2022 Increase		2023 Increase	
	As-Reported	Constant Mix	As-Reported	Constant Mix
Sales and Marketing	1.2%	8.5%	13.9%	10.5%
Medical and Provider Management	8.3%	8.6%	4.3%	5.2%
Account and Membership Administration	7.4%	7.4%	11.2%	11.0%
Corporate Services	3.2%	1.0%	3.3%	3.3%
Total Expenses	6.7%	7.5%	10.5%	8.7%

Constant Mix adjusts to exclude product mix differences between years.

SOURCES OF “REAL” GROWTH IN INDEPENDENT/PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2023

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	10.5%	Sales ↑	Commissions ↑
Med & Provider	5.2%	Prov. Net. Management ↑	Medical Management ↑
Acct & Membership	11.0%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>3.3%</u>	Corp. Exec. ↑	Corp. Exec. ↑
Total	8.7%	Corp. Exec. ↑	Information Systems ↑



SOURCES OF REPORTED GROWTH IN INDEPENDENT/PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2023

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	13.9%	Marketing ↑	Commissions ↑
Med & Provider	4.3%	Prov. Net. Management ↑	Medical Management ↑
Acct & Membership	11.2%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>3.3%</u>	Corp. Exec. ↑	Corp. Exec. ↑
Total	10.5%	Corp. Exec. ↑	Information Systems ↑



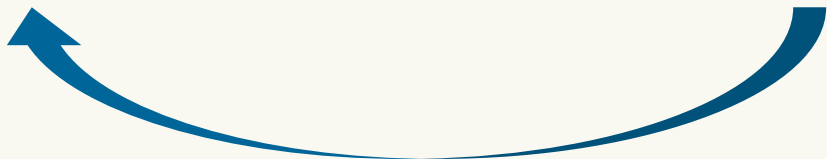
COMPARED WITH 2022, COSTS WERE 11.0% HIGHER IN 2023. COST TRENDS, CHANGES IN THE PRODUCT MIX AND THE UNIVERSE WERE RESPONSIBLE. A LOOSE RELATIONSHIP TO PMPM GROWTH.

Figure 3. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2023 Results

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2022 Values
					Median
Sales and Marketing	\$10.54	\$12.43	\$14.31	28%	\$12.69
Medical and Provider Management	6.44	7.79	10.44	30%	8.03
Account and Membership Administration	17.11	18.77	19.52	12%	15.83
Corporate Services	5.01	6.94	8.59	30%	5.27
Total Expenses	\$42.11	\$45.70	\$51.06	12%	\$41.16



PMPMs VARY BY PRODUCT.

Figure 4. Sherlock Benchmark Summary
Independent / Provider-Sponsored Costs by Product, 2023 Results
 Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	\$49.44	\$59.51	\$59.95	18%
POS	\$43.72	\$57.52	\$65.84	38%
Indemnity & PPO	\$54.86	\$60.01	\$76.05	40%
Total	\$48.93	\$59.48	\$67.44	22%
Commercial ASO				
	\$24.23	\$27.23	\$31.38	21%
Medicare				
Advantage	\$100.46	\$118.57	\$134.54	41%
SNP	\$221.98	\$229.50	\$245.42	17%
Medicaid				
HMO	\$25.45	\$28.43	\$31.83	22%
CHIP	\$23.98	\$29.78	\$39.15	33%
Medicare Supplement				
	\$34.92	\$42.49	\$58.11	33%
Comprehensive Total	\$42.11	\$45.70	\$51.06	12%

Population

Benefit Plan Sponsor

PERCENTS: EFFECTS OF SPONSOR AND POPULATION.

Figure 5. Sherlock Benchmark Summary
Independent / Provider-Sponsored Costs by Product, 2023 Results
Percent of Premium and/or Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial Insured				
HMO	9.2%	10.2%	11.2%	18%
POS	9.3%	9.8%	10.1%	34%
Indemnity & PPO	10.3%	10.7%	11.6%	36%
Total	9.5%	10.4%	10.9%	18%
Commercial ASO	5.0%	6.1%	6.9%	24%
Medicare				
Advantage	9.9%	11.7%	13.1%	41%
SNP	10.4%	11.9%	14.8%	28%
Medicaid				
HMO	7.4%	7.6%	8.4%	21%
CHIP	11.5%	12.2%	14.4%	40%
Medicare Supplement	15.4%	22.6%	25.3%	31%
Comprehensive Total	8.1%	8.6%	9.2%	14%

Population
 2.0x → 1.1x

Benefit Plan Sponsor
 2.2x → 1.7x

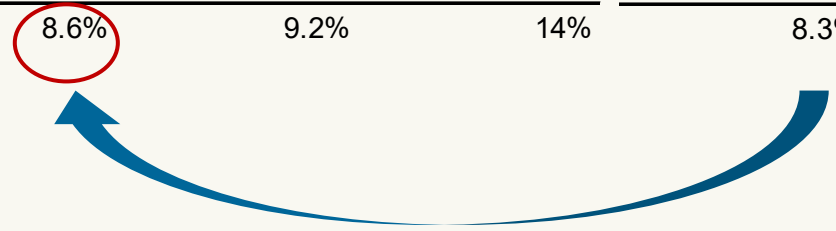
THE PERCENT OF PREMIUM EQUIVALENTS WAS 8.6%, 0.3 PERCENTAGE POINTS ABOVE LAST YEAR'S. SALES & MARKETING AND ACCOUNT AND MEMBERSHIP ADMINISTRATION INCREASED.

Figure 6. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2023 Results

Percent of Premium and/or Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2022 Values Median
Sales and Marketing	2.0%	2.3%	2.6%	32%	2.1%
Medical and Provider Management	1.3%	1.5%	1.7%	34%	1.6%
Account and Membership Administration	3.3%	3.4%	3.7%	14%	3.3%
Corporate Services	1.0%	1.2%	1.5%	24%	1.2%
Total Expenses	8.1%	8.6%	9.2%	14%	8.3%



IPS ADMINISTRATIVE COSTS: ACCELERATED IN 2023



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- IPS plan costs were \$45.70, compared with \$41.16 last year.
- Expenses accelerated to 10.5% from 6.7% in 2022. Holding product mix constant, cost growth increased to 8.7% versus 7.5% in 2022.
- Product mix shifted towards higher cost products. Commercial Insured and Medicare grew.
- A&M Admin. Cluster was fastest growing at constant mix. Customer Services was fastest growing in cluster. Information Systems was most impactful in the cluster and in total.
- Sales and Marketing cluster grew nearly as fast, due to Sales and Commissions. R&U declined.
- M&P grew moderately. Provider Network grew fastest and Medical Management had greatest impact.
- Corp. Services Cluster grew slowest. Corporate Executive grew faster than any other function in this cluster and overall. Finance & Accounting declined.
- Staffing Ratio decreased; Comp. grew modestly. Outsourcing increased.

APPENDIX A. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2022

Appendix A. 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%

APPENDIX B. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2022

Appendix B. Sherlock Benchmark Summary

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

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%

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: 81 % of Plans participating this year also participated last year. 75% of Blue participants have done so for ten or more years. Average years of participation is 15.1.
- ***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 27th consecutive year. We expect our cumulative experience to total more than 1,000 plan years. Expect ~ 30 organizations serving 52 million members to participate in 2024.
- Since June 2021, health plans serving 200 million insured Americans use the *Sherlock Benchmarks*, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Health plans serving 59% 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 32% of members served by the Health Plan Alliance are participating in this year's *Sherlock Benchmarks* for IPS plans.
- Of the 33 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving approximately 41.3 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.



APPENDIX F. FUNCTIONS IN EACH 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) Fund Accounting for Self-Insured Groups
 - (c) 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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