

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 PLANS ADMINISTRATIVE EXPENSES GREW AT RECORD PACE FOR 2023

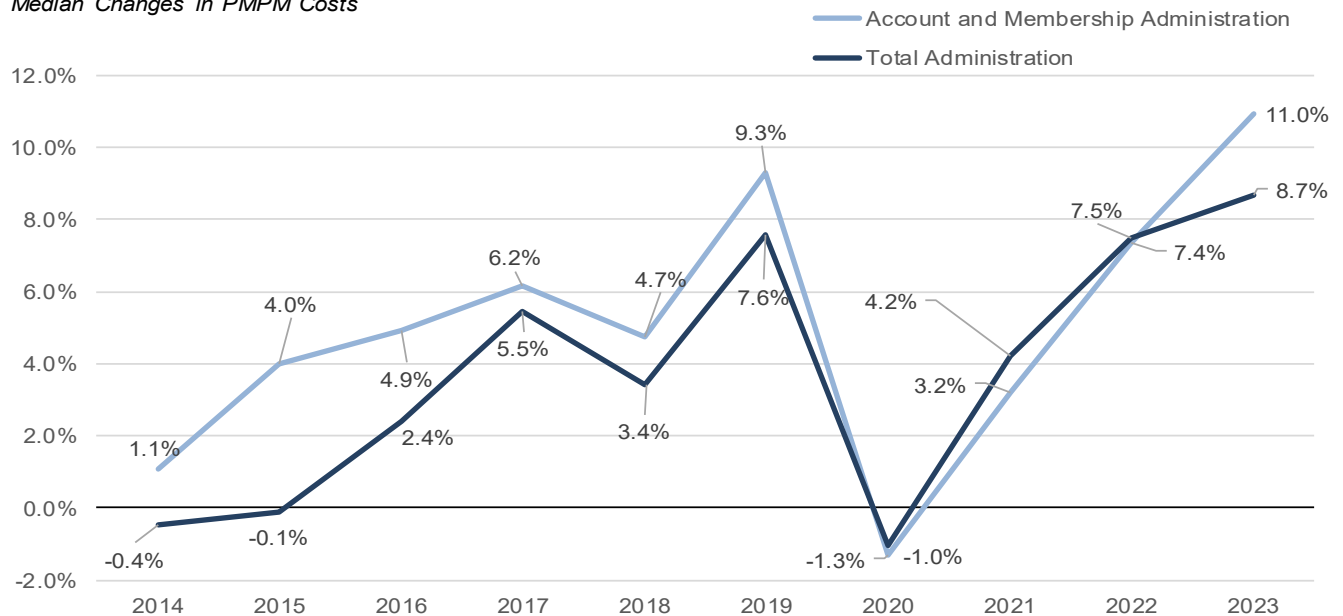
Independent / Provider - Sponsored plan cost growth continued its acceleration, posting its fastest expense growth in 10 years, for both Total and Account and Membership Administration. This is based on the results of 9 continuously participating plans in the *Sherlock Benchmarks*.

Total per member costs increased from a 6.7% increase to an increase of 10.5%. After holding the universe's product mix constant, the real cost growth was 8.7%, compared to a 7.5% increase in 2022. Excluding the effect of behavioral health and pharmacy benefits, the constant mix growth was 3.0 percentage points higher than the average of 5.0% over the past five years.

At 8.7%, constant mix total administrative cost growth narrowly exceeded the 8.6% increase in 2012. On this basis, the growth was the fastest since 2008 when it was 10.2%. Account and Membership Administration (representing 40% of all expenses) surged 11.0% from 7.4% in 2022. Growth in Account and Membership Administration was the highest going back to 2008. This is shown in Figure 1, reflecting continuously participating plans, after having eliminated the effects of product mix differences between every two comparison years.

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



As developed below, on a Constant Mix basis, all clusters accelerated except for Medical and Provider Management. Of the 16 principle functions, which exclude Miscellaneous Business Taxes, five increased growth while eleven declined.

On this basis, the increase in Information Systems was below the overall trend but, because of the size of this functional area, was the most important source of growth. The second and third most important were Corporate Executive and Governance and External Broker Commissions. Corporate Executive and Governance was also the fastest growing function. Staffing Ratios decreased as compensation increased.

The as-reported changes reflected faster growth especially in Marketing and the Corporate Services function. Information Systems was the most important source of growth.

The source of the data used in this analysis is Sherlock Company surveys of twelve Independent / Provider - Sponsored Plans. They collectively serve 9.9 million members with Comprehensive products and represent a high proportion of members served by health plans in this sector. Nine of the 12 plans participated in both years.

Of the 11 plans that participated in the 2023 cycle, two declined to participate and three new plans joined the panel. The average experience of the 12 participants is 15.1 years and 75% of the plans have ten or more years of experience.

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.

Membership growth was at a median rate of 5.5%. The pattern of cost growth among IPS plans emphasized growth in higher cost-to-administer products. Commercial growth slightly exceeded Comprehensive at 5.6%. Within Commercial, insured grew faster than ASO, 5.6% versus 2.0%. MA grew faster at 6.2% while Medicaid increased by 3.4%. Medicare Supplemental decreased by 1.7%, though only some of the continuous plans offer it.

Medicaid (including CHIP) represents a median of 35.2% of membership for these plans, down by 7.2 percentage points from a median of 42.4% in the prior year. The median share of the product portfolio composed by Commercial was up 8.6 percentage points.

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 10.5% growth compared with 6.7% the prior year. Cost trends on an as-reported basis reflected a shift in product mix to high administrative cost products in addition to the underlying cost trends. Per member Constant Mix administrative costs increased by 8.7% as against 10.5% as reported.

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 higher 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. 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 growth in administrative expenses in 2023 was greater than in 2022. All clusters except Medical and Provider Management accelerated, shown in Figure 2. On a constant mix basis, the fastest growing functions were Corporate Executive, Sales and Customer Services. The most important increases were from Information Systems, Corporate Executive, External Broker Commissions and Sales. Interestingly, on a PMPM basis both Rating and Underwriting and Finance and Accounting posted double-digit cost declines. Enrollment costs also declined, PMPM.

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% |

The inclusion of Prescription Drug and Behavioral Health accelerated growth for the Account and Membership Administration Cluster, and in total.

ACCOUNT AND MEMBERSHIP ADMINISTRATION

Account and Membership Administration was the fastest growing functional area and the most important cluster as source of cost growth. It also had the sharpest acceleration. This cluster is almost three times the size of Corporate Services, and increased by 11.0%. 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 less growth overall for these companies. Non-Labor expense growth appears to have been central as staffing ratios declined and outsourcing increased.

The fastest growing functional area in this cluster and among all functions was Customer Services. Higher compensation and non-labor seem to have been central. Claim and Encounter Capture and Adjudication increased notwithstanding declines in the staffing ratio as compensation and non-labor increased. Enrollment declined.

SALES AND MARKETING

Sales and Marketing growth was narrowly behind the growth in Account and Membership Administration Cluster of Administrative costs. The growth in Sales and Marketing was notable because it exhibited the fastest growth in the past five years. On a constant mix basis it was the most second important source of increase. It was also significantly affected by mix changes, lower on a Constant Mix basis than an As Reported basis, 10.5% versus 13.9%. Every function's cost growth in this cluster was slower on this basis than on an as-reported basis, particularly Marketing.

The Sales function was the most rapidly increasing of the functions in this cluster, with its Internal Sales Commissions and Other Sales notably higher. Compensation and Non-Labor were both higher.

External Broker Commissions, one of the largest functions, was prominent in its *contribution* to cost increases yet it increased at just over half the rate of Sales. While not fastest growing function, it was the most importance because of its size. Advertising and Promotion grew at its slowest rate in five years but also at a high single-digit pace. Rating and Underwriting posted cost declines approximating double-digits, especially in its Risk Adjustment subfunction.

MEDICAL AND PROVIDER MANAGEMENT

Medical and Provider Management grew third fastest but also had the greatest decline in growth among the clusters on a constant mix basis, to 5.2% from 8.6% in the prior year. Provider Network Management and Services grew fastest while the most important increase was Medical Management. Both functions increased by single digits.

While compensation growth for Provider Network was static, the staffing ratio grew. Staffing increased in the Provider Services subfunction, as did compensation.

Medical Management growth was slower but, because of its size, composed most of dollar increase in costs for this cluster. Both compensation and Staffing ratios increased for this function. Nurse Information Line and Other Medical Management increased faster than other subfunctions.

CORPORATE SERVICES CLUSTER

The Corporate Services cluster was slowest growing, at 3.3%, and contributed only modestly to the dollar increase in costs. All functions in this cluster, for which trends are not ambiguous, increased except Finance and Accounting posted cost declines approximating double-digits, despite increases in its staffing ratio. The Corporate Services function was effectively unchanged: staffing increased as compensation was, on average, lower. Its Legal and Audit subfunctions increased.

As noted previously, Corporate Executive costs grew especially rapidly on a sharp increase in staffing ratio, as compensation remained static and outsourcing also increased. The dollar amount of this function's increase was all and more of the increase for the cluster.

As-Reported Trends

Product mix's importance to expense 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 higher cost products had the effect of accelerating the apparent increase in administrative costs in the Account and Membership Administration in particular. The exception was Medical and Provider which declined. The rate of Total expense growth was at an as-reported rate of 10.5% but 8.7% when 2022 product costs are reweighted to 2023 product mix. The inclusion of Prescription Drug and Behavioral Health accelerated growth in this cluster and in Total.

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. This changes stemmed from the shift in favor of higher cost products like Medicare Advantage and Commercial and, within Commercial, a shift in favor of Insured versus ASO.

The affect of mix on trends was most pronounced in Marketing, Commissions, Claims and Actuarial. The more expensive mix amplified Marketing, Commissions and Corporate Services. In other words, the high cost products required more of these. Growth in high cost products muted apparent growth in Actuarial on an as-reported basis.

Sales and Marketing. This cluster was the fastest growing, as-reported. Each function grew faster on an as-reported basis or, in the case of Rating and Underwriting, declined slower. Marketing grew sharply faster on an as-reported basis, followed by Broker Commissions and Advertising and Promotion.

Account and Membership Administration. This cluster grew slightly faster on an as-reported basis, 11.2%. There was a decline in Enrollment / Membership / Billing on an as-reported basis but less dramatic compared with that on a constant mix basis. Growth was slightly slower in Customer Services but faster in Claims and Information Systems.

Medical and Provider Management. On an as-reported basis, costs increased more slowly for this cluster than if mix is held constant. This difference is unique among the clusters and at 4.3%, this was the second slowest growing cluster. Interestingly, the median expense growth in Provider Network Management and Services and Medical Management were both *more rapid* on an as-reported basis.

Corporate Services. This cost growth was exactly the same on an as reported basis though one-third the pace of the total at 3.3%. PMPM Finance and Accounting costs declined more sharply by this rendering, and Actuarial growth was much less. Corporate Services function growth did occur, rather than being unchanged, as Corporate Executive and Governance was nearly as strong.

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 touched on their impact on some of the functions themselves.

It is possible to estimate the drivers of cost trends, staffing ratios, compensation and non-labor costs. To do this, we focused on one set of products, Commercial Insured, a mainstay of IPS plans. They are usually their original product, and typically exceed their ASO in membership. They are frequently on par with the mix of Medicaid. We estimated FTEs in that product by dividing the Commercial Insured PMPM values drawn from the *Sherlock Benchmarks* survey forms by the total costs per FTE, after adjusting to annualize.

Among continuous plans, Staffing Ratios declined overall by low single-digit percents to 27 FTEs per 10,000 Commercial Insured members. This includes the effects of outsourced staffing.¹ The median staffing ratio for all plans in Comprehensive products was 23 FTEs per 10,000 members. Functions with Staffing Ratio declines included Medical Management, Customer Services, Claims and IS. Functions with increases included Corporate Services and Corporate Executive.

Staffing costs per FTE, including all benefits, increased at low single digits to a median of \$104,000. Among all plans, the median compensation was \$109,000. Non-labor cost per FTE increased at a greater rate than overall expenses. The median number of FTEs that were outsourced was 13.2% among continuous plans and 13.5% among all plans.²

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), Other Medical Management (including Medical Directors), Information Systems including Applications Acquisition and Development and Security Administration and Enforcement, Actuarial, Government Affairs, All Other Legal, Risk Management and Corporate Executive and Governance.

A few functions substantially increased their outsourcing such as Rating and Underwriting, Marketing, Information Systems and Corporate Executive. By contrast Finance and Accounting, Actuarial and the Corporate Services Function decreased their outsourcing.

For the set of all plans, functions with a median of at least 15% outsourced are Information Systems and the Corporate Services Function. Note that we consider ordinary operating services supplied by the parent health system (HR, Legal, etc.) to be outsourced. *Subfunctions* that are at least 20% outsourced include Nurse Information Line and Information Systems Operations and Support Applications Acquisition and Development, Security Administration and Enforcement, Human Resources, All Other Legal, Audit and Purchasing.

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 costs of plans that do not themselves outsource.

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

The shift in favor of higher-cost Commercial Insured and Medicare may in part be reflected in the median costs by function found in Figure 3. This shows the values of administrative expenses for all 12 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.

Nine plans participated in both 2023 and 2022 so the changes shown in Figure 2 are a better measure of trend. In comparing the two respective annual universes, both their product costs and product mix differed.

The total costs PMPM were \$45.70, 11.0% higher than that of 2022. Last year's values are shown in Appendix A. Sales and Marketing, identified as the high increase expense in our analysis of as-reported costs and the second highest on a constant mix basis, decreased by 2.1% when comparing the two annual universe values. Its costs were \$12.43 PMPM. This cluster of functions includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

The cluster with the third greatest as-reported increase, Medical and Provider Management, was lower by 2.9% from last year to \$7.79. This group of functions includes Provider Network Management and Services and Medical Management / Quality Assurance / Wellness.

Comparisons between the two annual sets of plans are higher in all other clusters. Account and Membership Administration was higher by 18.6% to \$18.77 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.

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 |
|---------------------------------------|----------------------------|----------------|----------------------------|-------------------------------------|
| Sales and Marketing | \$10.54 | \$12.43 | \$14.31 | 28% |
| Medical and Provider Management | 6.44 | 7.79 | 10.44 | 30% |
| Account and Membership Administration | 17.11 | 18.77 | 19.52 | 12% |
| Corporate Services | 5.01 | 6.94 | 8.59 | 30% |
| Total Expenses | \$42.11 | \$45.70 | \$51.06 | 12% |

At a 3.3% increase among continuing plans (constant mix and as reported), Corporate Services were \$6.94 PMPM. This was 31.6% greater than for the prior year. 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 were more clustered in 2023 versus 2022, 12% versus 25%. Dispersion narrowed in each cluster, especially Account and Membership Administration.

On the other hand, dispersion measured by the differences between the 75th and 25th percentile values varied. In total, this decreased by \$3.32 with Account and Membership Administration declining by \$2.85. Sales and Marketing dispersion also decreased, by \$1.86. However, Medical and Provider Management and Corporate Services increased by \$0.74 and \$1.31, respectively.

Costs of Independent / Provider - Sponsored Plans, 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 high cost-to-administer products, diminishing the share in the product portfolio of products in the low end. Concretely, the differences in the costs between the Commercial Insured and Medicare on one hand and Medicaid and Commercial ASO mean that a year-over-year shift to the former appears as higher cost growth as shown as reported trends 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 \$118.57 and \$229.50, they are double to quadruple the cost of comparable Commercial Insured products, which range from \$57.52 to \$60.01 PMPM. The share of MA among all plans (not just continuous ones) was greater by 1.2 percentage points in 2023, to 9.7%. The Insured Commercial products represented 31.1% of the mix, the same as last year.

Commercial products serve a plurality of members served by the IPS plans, or 58.7% of the total. Overall they increased by 2.2 percentage points. Within this group, the ASO products, at \$27.23 PMPM, increased by 2.2 percentage points to 27.7%. 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 \$28.43 and Medicaid CHIP at \$29.78 are approximately one-half of the PMPM costs of commercial insured products. Medicaid products had a smaller share in 2023 by 3.6 percentage points to 28.3%, while CHIP increased by 0.2 percentage points, respectively, to 0.9%.

Medicare Supplement is a low cost product, at \$42.49 PMPM, and it increased by 0.1 percentage points to 1.1% of comprehensive membership. 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 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% |

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 8 times higher than the lowest, Medicare Supplement, at 22.6% is only 3 times the ASO at 6.1%. This overstates the differences in that Medicare Supplements 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 12.2% is only 2.0 times that of the ASO ratio. Commercial Insured products range from 9.8% for the POS to 10.7% for the Indemnity and PPO product. Most of the participants in this universe originally focused on Commercial HMO products, at 10.2%.

The relationship between Medicare and Commercial HMO declines from 2.0 times on a PMPM basis to 1.2 times on a percent basis, or to 11.7% versus 10.2%. 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 the product expenses are correlated with the underlying health needs of the people that they serve. According to the *Sherlock Benchmarks for 2023*, mean Medicare hospital days per thousand were 6.5 times that of Commercial HMO Insured.

Figure 5. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Product, 2023 Results
Percent of Premium and/or Equivalentents

| 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% |

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 11.9% 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 6.1%, these are low because Sales and Marketing plus Enrollment and Billing are spread over many members.

*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 8.6% of premium equivalents, 0.3 percentage points higher than last year. Sales and Marketing was higher by 0.3 percentage points to 2.3% of premium equivalents. Medical and Provider Management declined by 0.1 percentage points to 1.5%. Account and Membership Administration was up by 0.2 percentage point to 3.4% percent of premium equivalents. Corporate Services was also up by 0.1 percentage points to 1.2%.

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 |
|---------------------------------------|----------------------------|---------------|----------------------------|-------------------------------------|
| Sales and Marketing | 2.0% | 2.3% | 2.6% | 32% |
| Medical and Provider Management | 1.3% | 1.5% | 1.7% | 34% |
| Account and Membership Administration | 3.3% | 3.4% | 3.7% | 14% |
| Corporate Services | 1.0% | 1.2% | 1.5% | 24% |
| Total Expenses | 8.1% | 8.6% | 9.2% | 14% |

How We Performed this Analysis

CHARACTERISTICS OF THE INDEPENDENT / PROVIDER - SPONSORED UNIVERSE

This analysis is based on the twenty-seventh annual edition of our performance benchmarks for health plans. The *Sherlock Benchmarks* (*Sherlock Expense Evaluation Report* or *SEER*) represent the cumulative experience of more than 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 22nd analysis of IPS plans is based on a peer group of twelve Independent / Provider - Sponsored plans who collectively serve approximately 9.9 million people, not including specialty and other products. This universe is quite robust. Participants in this year's study serve about 32% of all Independent / Provider - Sponsored members in the Health Plan Alliance. 59% of all members served by Alliance of Community Health Plans participated in the 2023 *Sherlock Benchmarks* excluding those in staff model plans.

Collectively in 2022, the health plan operations of these plans earned annual premiums plus fees of \$47 billion and \$63 billion in premium equivalents for comprehensive products. The total revenues for the group were \$55 billion in 2023. The median plan participating in the *Sherlock Benchmarks* this year served 749,000 people with comprehensive products. The plans were geographically disbursed, serving 18 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 15.1 years.

Collectively, within the comprehensive products, 61% of membership was commercial. Of the commercial members approximately 46% were served through self-insurance arrangements.

Medicare Advantage, with 870,000 members, was offered by twelve plans. It composed 9% of the combined comprehensive membership and 22% of revenues for comprehensive products. With SNP, total Medicare Advantage products represent 25% of total revenues.

Medicare Supplement, offered by seven plans, was 2% of comprehensive members and 1% of revenues for Independent / Provider - Sponsored comprehensive products. In total, 26% of combined plan revenues arises from products sold to seniors.

Medicaid HMO, offered by ten plans, comprised 29% 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.
- Percent of premium ratios are calculated on a premium-equivalent basis. That is, in the case of ASO 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 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 \$6.72 for 2023 compared with \$5.72 for 2022 and \$5.86 in 2021. The 2023 value was 10.4% 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 52 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 2024 *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 2024 edition Brochure is found here.

<https://sherlockco.com/brochure/>

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, 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. Sherlock Benchmark Summary

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

Percent of Premium and/or Equivalent

| 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. 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) 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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