

ADMINISTRATIVE COST TRENDS OF BLUE CROSS BLUE SHIELD PLANS IN 2018



Photograph by Ray K. Saunders.

SHERLOCK BENCHMARKS

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June 12, 2019



TOPICS

- Long term cost trends
- Changes in cluster costs
- Reasons for cost increases
- The effect of taxes
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM

APPENDICES

- Last year's cluster values
- Costs by Market Segment
- Functions in each cluster of expenses
- About the Sherlock Benchmarks

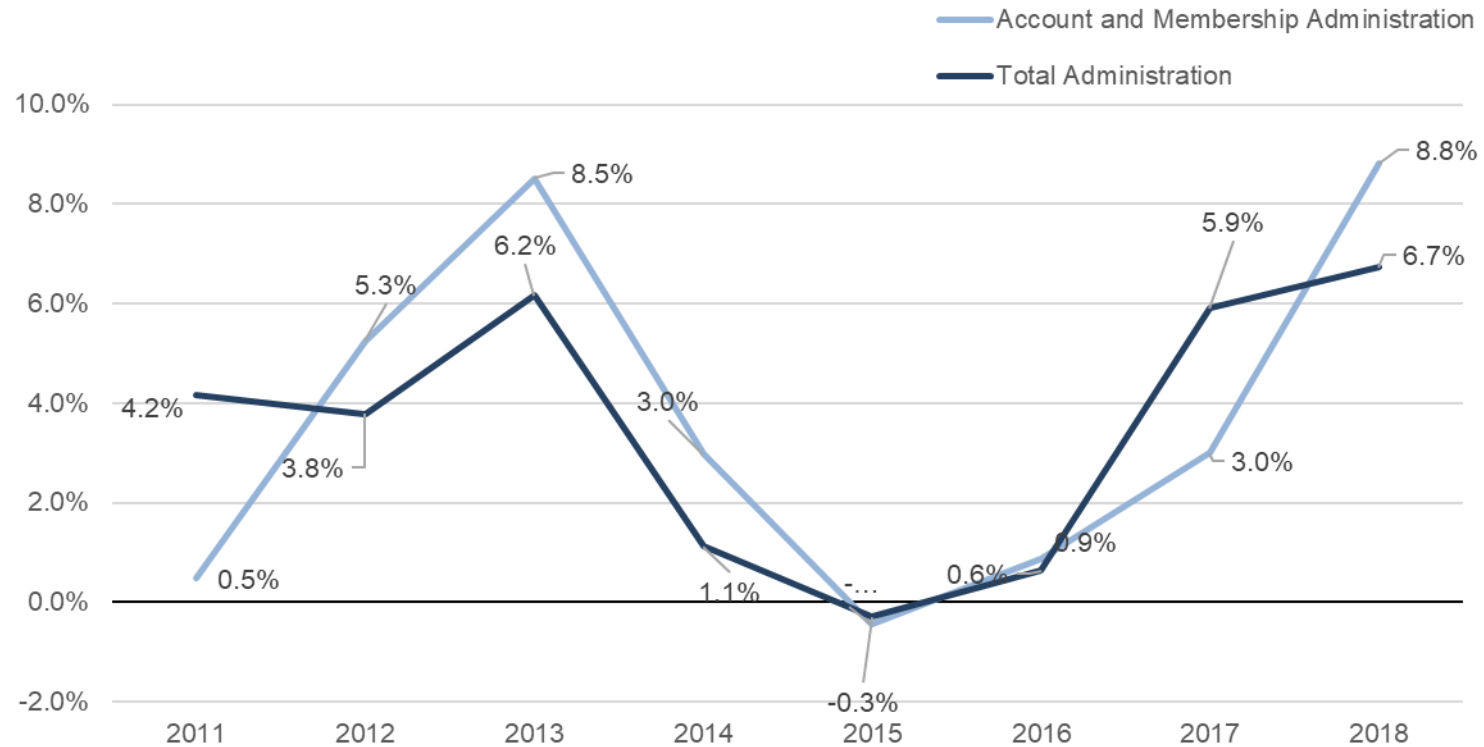
Racing workboats is our metaphor for health plans striving for performance improvement.



UPTICK IN TOTAL, ACCELERATION IN A&M ADMINISTRATION.

Figure 1. Sherlock Benchmark Summary

Blue Cross Blue Shield Rates of Change for Account and Membership Administration and Total, Constant Mix



Medians. Rates of change hold universe and product mix constant.



AMONG CONTINUOUSLY PARTICIPATING PLANS, ACCELERATION ESPECIALLY WHEN MIX HELD CONSTANT.

Figure 2. Sherlock Benchmark Summary

Blue Cross Blue Shield Median Changes in Per Member Per Month Expenses

Functional Area	2017 Increase		2018 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	3.6%	10.7%	5.4%	8.1%
Medical and Provider Management	9.9%	10.7%	10.0%	10.6%
Account and Membership Administration	3.6%	3.0%	7.4%	8.8%
Corporate Services	9.1%	9.3%	0.6%	1.8%
Total Expenses	5.1%	5.9%	5.5%	6.7%

Constant-Mix adjusts to exclude product-mix differences.

SOURCES OF “REAL” GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2018

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	8.1%	Marketing ↑	Marketing ↑
Med & Provider	10.6%	Medical Management ↑	Medical Management ↑
Acct & Membership	8.8%	Information Systems ↑	Information Systems ↑
Corp. Serv.	<u>1.8%</u>	Corporate Executive ↑	Corporate Executive ↑
Total	6.7%	Marketing ↑	Information Systems ↑



SOURCES OF *REPORTED* GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2018

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	5.4%	Marketing ↑	Marketing ↑
Med & Provider	10.0%	Medical Management ↑	Medical Management ↑
Acct & Membership	7.4%	Information Systems ↑	Information Systems ↑
Corp. Serv.	<u>0.6%</u>	Corporate Executive ↑	Corporate Executive ↑
Total	5.5%	Marketing ↑	Information Systems ↑



AFFORDABLE CARE ACT TAXES

- Miscellaneous Business Taxes (mainly ACA) are ~ 25% of total administrative expenses for commercial insured products. Last year, they were ~ 12%.
- Cost growth without MBT is 6.7%; with is 17.9%.
- Plans posted median Miscellaneous Business Taxes for commercial insured products of \$16.09 in 2018 versus \$5.63 in 2017. In 2012, they reported median PMPM costs of \$2.98.
- For all comprehensive products, MBT trend (constant mix) had been 4-5%, in 2014, costs increased by 369.1%. They declined by 54.9% in 2017 and were up by 122.4% in 2018.
- Costs include Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee, PCORI/CERF fees and an Annual Fee on Health Insurers. Where applicable, the last fee declined from a median of \$7.72 in 2016 to zero in 2017 then climbed to \$10.12 PMPM in 2018.



COMPARED WITH VALUES IN APPENDIX A,
 COSTS WERE 10.0% HIGHER IN 2018. COST
 TRENDS, CHANGES IN THE PRODUCT MIX
 AND THE UNIVERSE WERE RESPONSIBLE.

Figure 3. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2018 Results

Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2017 Values Median
Sales and Marketing	\$7.97	\$9.21	\$10.32	26%	\$8.79
Medical and Provider Management	4.71	5.03	6.02	17%	4.44
Account and Membership Administration	14.08	16.10	22.38	28%	14.66
Corporate Services	4.58	5.92	6.34	37%	6.27
Total Expenses	\$34.12	\$38.51	\$43.22	19%	\$34.99



PMPMs VARY BY PRODUCT.

Figure 4. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2018 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$45.38	\$52.09	\$63.60	22%
ASO / ASC	\$26.74	\$33.39	\$34.23	35%
Commercial POS				
Insured	\$40.44	\$49.86	\$52.97	17%
ASO / ASC	\$21.68	\$26.89	\$31.95	26%
Indemnity & PPO				
Insured	\$43.57	\$49.84	\$56.28	30%
ASO / ASC	\$23.11	\$28.29	\$34.56	27%
Commercial Insured	\$43.54	\$49.84	\$54.50	17%
Commercial ASO/ASC	\$22.83	\$28.32	\$34.56	27%
FEP	\$22.49	\$25.51	\$31.71	24%
Medicare Advantage				
Individual	\$88.11	\$108.90	\$125.42	42%
Group	\$78.04	\$115.48	\$156.94	44%
Medicare Advantage Total	\$81.40	\$112.08	\$124.79	41%
Medicaid	\$35.03	\$46.08	\$62.39	56%
Medicare Supplemental	\$27.86	\$33.61	\$48.62	37%
Comprehensive Total	\$34.12	\$38.51	\$43.22	19%
Medicare Advantage SNP	\$136.73	\$206.27	\$271.18	66%
Stand-Alone Medicare Part D	\$10.87	\$14.24	\$17.17	31%
Stand Alone Dental	\$2.32	\$3.19	\$4.47	53%



PERCENTS USUALLY ORDERED SIMILARLY TO PMPMs.

Figure 5. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2018 Results

Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	8.5%	9.4%	10.0%	26%
ASO / ASC	6.3%	6.9%	7.2%	33%
Commercial POS				
Insured	8.6%	9.6%	10.4%	20%
ASO / ASC	6.7%	7.0%	8.1%	25%
Indemnity & PPO				
Insured	9.7%	10.8%	11.4%	16%
ASO / ASC	6.6%	7.4%	8.8%	26%
Commercial Insured	9.7%	10.8%	11.1%	12%
Commercial ASO/ASC	6.6%	7.1%	8.8%	26%
FEP	4.3%	5.2%	6.3%	24%
Medicare Advantage				
Individual	9.2%	12.9%	16.0%	54%
Group	7.2%	9.6%	13.2%	47%
Medicare Advantage Total	9.7%	12.5%	15.0%	53%
Medicaid	9.2%	9.3%	12.4%	32%
Medicare Supplemental	14.6%	15.5%	21.4%	32%
Comprehensive Total	8.2%	9.0%	10.4%	15%
Medicare Advantage SNP	8.9%	11.8%	13.9%	45%
Stand-Alone Medicare Part D	9.4%	17.9%	21.4%	46%
Stand Alone Dental	11.4%	17.2%	21.8%	71%



ONLY SALES AND MARKETING CLUSTER GREW IN COMPARISON TO THE 2017 VALUES. THE ORDER OF IMPORTANCE OF THE CLUSTERS IS LIKE THE PMPM MEDIANS.

Figure 6. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2018 Results

Median Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	<i>2017 Values</i> Median
Sales and Marketing	1.8%	2.1%	2.2%	2.0%
Medical and Provider Management	1.1%	1.2%	1.4%	1.3%
Account and Membership Administration	3.5%	4.0%	4.7%	4.0%
Corporate Services	1.3%	1.4%	1.5%	1.6%
Total Expenses	8.2%	9.0%	10.4%	8.9%



BLUES ADMINISTRATIVE COSTS GROW IN 2018



- Blue costs were \$38.51 PMPM versus \$34.99 last year. Actual performance, differences in universe and product mix changes were responsible.
- Expenses increased by 5.5% compared with an increase of 5.1% in 2017. Excluding the effect of product mix differences, costs increased by 6.7% versus 5.9% in 2017.
- Most clusters of expenses declined in growth.
- However, Account and Membership Administration accelerated.
- Growth Information Systems was the single most important reason for administrative expense increases in 2018. The growth in Marketing costs was also an important contributor.
- The shift in favor of products and market segments that are lower cost to administer, such as ASO/ASC, muted the real growth.
- Miscellaneous Business Taxes comprise 25% of PMPM costs for Commercial Insured products.



APPENDIX A. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2017

Appendix A. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2017 Results

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$7.68	\$8.79	\$10.32	36%
Medical and Provider Management	3.91	4.44	5.21	26%
Account and Membership Administration	13.37	14.66	17.51	24%
Corporate Services	4.49	6.27	6.63	38%
Total Expenses	\$30.56	\$34.99	\$41.13	23%

APPENDIX B. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2017

Appendix B. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2017 Results

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.9%	2.0%	2.8%	34%
Medical and Provider Management	1.0%	1.3%	1.4%	28%
Account and Membership Administration	3.5%	4.0%	4.3%	18%
Corporate Services	1.3%	1.6%	1.8%	27%
Total Expenses	8.4%	8.9%	10.3%	17%

APPENDIX C. MARKET SEGMENTS AS A COST FACTOR FOR BLUE PLANS

Sherlock Benchmark Summary

Blue Cross Blue Shield Market Segment Expenses, 2018 Results

Median

	Individual				Group		
	ACA Exchange	ACA Off-Exchange	Non-ACA - Grandfathered	Total	Small Group	Middle Market	Large Group
PMPM							
Sales and Marketing	\$11.50	\$14.04	\$16.39	\$15.07	\$24.84	\$23.29	\$13.52
Total Expenses Including Rx, Behav. Health, Excl. MBT	\$55.52	\$58.61	\$57.37	\$55.32	\$57.59	\$50.16	\$46.03
Sales and Marketing as a Percent of Total	20.7%	24.0%	28.6%	27.2%	43.1%	46.4%	29.4%
Percent of Premium Equivalents							
Sales and Marketing	2.2%	2.8%	4.8%	2.5%	5.5%	5.4%	3.1%
Total Expenses Including Rx, Behav. Health, Excl. MBT	9.1%	11.0%	13.9%	10.0%	13.2%	11.8%	10.7%
<i>Number of Respondents</i>	8	7	5	10	10	8	10

- Comparing ACA compliant plans, Sales and Marketing are lower on Exchange. (We omit User Fees.) On Exchange Account and Membership Administration and Corporate Services Clusters costs are also lower.
- Comparing costs of ACA compliant plans that are Off Exchange to Grandfathered, Account and Membership Administration and Corporate Services Clusters are lower for Grandfathered costs.
- Grandfathered cost less than Small groups since Sales and Marketing costs are less.
- Middle Market costs are less than Small Group chiefly due to lower Sales and Marketing costs, but all clusters are lower.
- Large Groups cost less than Middle Market because of lower Sales and Marketing costs.



APPENDIX D. 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: 86% of Blue and 65% of IPS repeated from last year. 86% of Blues have seven or more years of participation, and 76% of IPS plans have five or more years of participation.
- **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 E. 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 supply estimates of staffing ratios by product.
- The **operational metrics** include operational 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 F. STRONG NETWORK, BROAD ACCEPTANCE

- The Sherlock Benchmarks is in its 22st consecutive year. We expect that our cumulative experience to total approximately 855 plan years by year-end 2019. Expect ~40 plans serving ~51 million members to participate in 2019.
- Since June 2016, health plans serving 171 million insured Americans use the Sherlock Benchmarks, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Of the 34 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving approximately 37 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Of the 15 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, ten are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Most of the largest members of the Health Plan Alliance that are focused on Commercial Insured or ASO are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.



APPENDIX G. FUNCTIONS IN EACH CLUSTER

Appendix G. Sherlock Benchmark Summary

Major Functions Included in Each Administrative Expense Cluster

Sales & Marketing

1. Rating and Underwriting
 - (a) Employer Group Reporting
 - (b) Risk Adjustment
 - (c) 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
 - (c) Provider Audit / Billing Validation
 - (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
9. Customer Services
 - (a) Member Services
 - (b) Printed Materials
 - (c) Grievances and Appeals
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (b) BlueCard Home and Custom Par Fees
 - (c) Medicare Crossover Fees
 - (e) Other Claim and Encounter Capture and Adjudication
11. Information Systems Expenses
 - (a) Operations and Support Services
 - (b) Applications Maintenance
 - (1) Benefit Configuration
 - (2) Other Applications Maintenance
 - (c) Applications Acquisition and Development
 - (1) Amortization of Developed Software
 - (2) Pre-Planning and Project Costs
 - (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) All Other Legal
 - (c) Facilities
 - (d) OPEB
 - (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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