

Plan Management Navigator

Analytics for Health Plan Administration



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ADMINISTRATIVE COST TRENDS FOR BLUE CROSS BLUE SHIELD PLANS IN 2018 INCREASED FROM 2017

In 2018, excluding the effect of Miscellaneous Business Taxes, Blue Cross Blue Shield Plans reported administrative cost increases of 6.7% greater than the 5.9% pace in 2017, and continuing the acceleration from earlier this decade. However, as shown in Figure 1, the 2018 trend in Account and Membership Administration was more rapid than any of the prior seven years. Information Systems expense growth was the driver of this cluster and overall expenses: its growth was the highest since 2013, a period of adaptation to the Affordable Care Act.

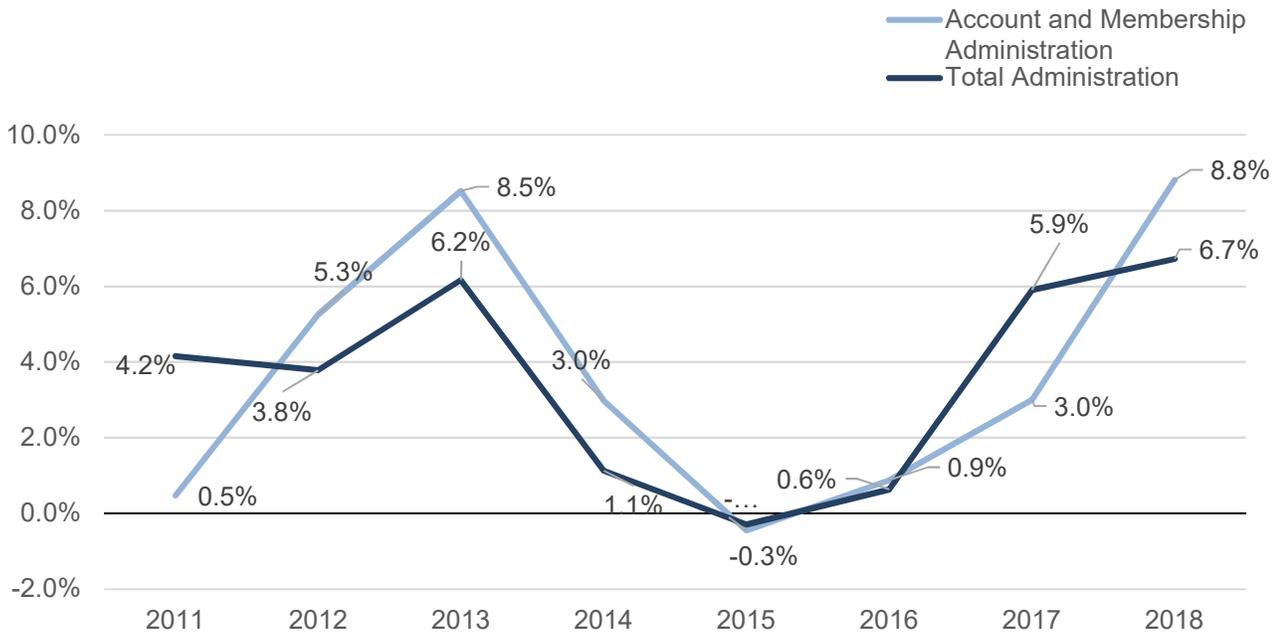
We have not shown this but, after the effect of the Miscellaneous Business Taxes, PMPM total administrative expense increased by 17.9% compared with a decline of 2.3% in the prior year due to the restoration of the Annual Fee on Health Insurance Providers.

Trends and Product Mix Changes

Figure 2 outlines year-over-year trends on both an as-reported and constant mix basis. The year-over-year acceleration of cost trends was widespread. On an as-reported basis, for the 12 continuously participating Plans, per member costs grew by 5.5% compared with 5.1% the prior year.

Figure 1. Sherlock Benchmark Summary

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



Cost trends on an as-reported basis reflected a shift in favor of lower cost products. Overall, this was manifest in lower cost growth on an as-reported basis, 5.5% versus 6.7% when product mix is held constant. The effect of the mix change is to reduce as-reported cost trends by 1.2 percentage points.

For instance, while Commercial Insured membership declined by 3.0%, commercial ASO / ASC increased by 0.6%. Since Commercial represents a median of 81.3% of the membership of these Plans, it dominates the effect of the mix shift. Higher cost Medicare Advantage continued to grow, as did low cost Medicaid. FEP, a low-cost product, generally had slight membership declines.

The shift away from individual dampened growth as well. Of the twelve continuously participating plans, eleven segmented their commercial membership into individual and group, and of those, eight reported declines in the proportion of members that were individual. This effect is partially captured in the constant mix trends.

Fourteen Blue Cross Blue Shield Plans, collectively serving 36.7 million members in comprehensive products participated in this year's study. These plans also served 7.5 million people through "Host" relationships with other plans, as well as 5.8 million people through stand-alone dental. Of the fourteen plans that participated in 2017, twelve participated in the 2018 survey for an 86% repeat participation rate.

Cost Trends Holding Mix Constant

Trends that exclude mix changes are a more accurate representation of real trends in our view so the discussion that follows is largely based on this.

While the change in administrative expenses in 2018 is somewhat higher than that of 2017, the composition of the expense growth is different. In particular, there was a surge in Account and Membership Administration costs. Cost growth in this cluster accelerated from half that of the total to in excess of the total in 2018. The underlying trend in the Account and Membership Administration cluster is important since, as shown in Figure 3, it is by far the largest cluster.

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%

By contrast, every other cluster of expenses declined in growth. Sales and Marketing cost growth declined and it is the second largest cluster. While Corporate Services is relatively small, its cost trend decline was especially steep.

As discussed in later sections, staffing ratios, compensation, non-labor expenses and propensity to outsource all appeared to increase.

ACCOUNT AND MEMBERSHIP ADMINISTRATION

The change in the trend in Account and Membership Administration primarily reflects Information Systems because it represents a high proportion of this cluster's expenses. This function's PMPM increase was in the mid-double-digit range. Together, the rate and weight of the growth in Information Systems explains nearly one-half of the overall increase.

The rate of growth in Information Systems is only slightly lower than the increase in 2013. Recall that at the time the industry was preparing for the implementation of the Affordable Care Act. As such, the 2018 is the second highest increase since 2009.

However, trends in this cluster also reflects changes in the other functional areas. All other functions increased. For instance, Enrollment / Membership / Billing more than doubled in rate of growth and posted the highest increase in nine years. Claim and Encounter Capture and Adjudication grew at low single digits but in its own way that is extraordinary: in the past ten years, PMPM expenses in this function were down or flat five times: the low growth of 2018 was the highest over that period. Customer Services cost rebounded from a decline in 2017 but are well below the low double-digit increases of the early years of the ACA. Partially offsetting this growth are declines in the administrative expenses associated with Pharmacy and Mental Health. These declines tended to be steep.

SALES AND MARKETING

The Sales and Marketing cluster of expenses posted declining cost growth. But this similarity hides significant differences in the composition of the expenses in this cluster. In Sales and Marketing, the fastest growing function in 2017 was Rating and Underwriting. (This area also includes Risk Adjustment expenses.) This year, while in low double digits, this function's cost growth was less than the previous two years. Over each of the past three years, the administrative expenses in Rating and Underwriting exceeded each of the prior seven years.

On the other hand, in 2018 Advertising and Promotion and Marketing expenses were the growth leaders, with increases at high double-digit rates. Advertising cost growth was the highest since 2013 and Marketing costs grew at its fastest rate in the past ten years. Product Development and Market Research is a key subcategory of the Marketing function.

Often, Marketing costs trend with Information Systems and may reflect strategic adaptation. Broker Commissions was by far the slowest growing function. However, the heavy weighting of that function was the most important factor in the growth of this cluster.

MEDICAL AND PROVIDER MANAGEMENT

The Medical and Provider Management clusters of expenses also posted declining cost growth though the difference was slight. The growth of Provider Management and Services was sharply lower while Medical Management / Quality Assurance / Wellness grew slightly slower. Both functions grew faster than their historic trends. Since Medical Management / Quality Assurance / Wellness is by far the larger of the two functions, the growth rates for the cluster were similar to 2017.

CORPORATE SERVICES

The Corporate Services cluster of expenses grew at a rate sharply lower than in prior years. As the smallest cluster, it has the least effect on growth trends. The functions in this cluster include Finance and Accounting, Actuarial, Corporate Services *function*, Corporate Executive & Governance and Association Dues and License / Filing Fees. The Corporate Services function has many subfunctions including HR, Facilities, Legal, Purchasing and so forth.

All of the functions' growth declined with the exception of Finance and Accounting which increased at low-single-digit rates. The Corporate Services function growth was less than 2%, the lowest since 2016, important since it dominates this cluster. Corporate Executive & Governance increased at high single digit rates; while down significantly from last year, it was the second highest increase in nine years. It also contributed more than any other function to the total increase in cost growth in this cluster.

As-Reported Trends

The differences in as-reported and constant mix trends between 2018 and 2017 reflects the shift in product mix noted earlier. Sales and Marketing was especially sensitive to this.

On an as-reported basis, broker Commissions declined for the third year in a row. Over the past 10 years, PMPM Commission costs declined half the time. The trend for Rating and Underwriting, while higher than for the cluster, was sharply lower. We think that this may relate to a deemphasis of individual and small group products as noted earlier. In other words, because these costs are less prominent in ASO/ASC products, the shift in favor of ASO/ASC led to the appearance of lower trends. So, most Sales and Marketing cost trends were more modest on an as-reported basis. Marketing cost trends were the exception, suggesting that these expenses grew more rapidly, PMPM, in the fastest growing products.

Medical and Provider Management cost trends were slightly higher on this basis. Notwithstanding, both Medical Management and Provider Network Management and Services grew faster. (This quirk is possible for median cluster changes when there is dispersion in the underlying functions.)

Account and Membership Administration cost trends, as reported, were higher than in 2017, though lower than reported for 2018 on a constant mix basis. A contributing factor to the more modest growth in as reported expenses was the shift in favor of ASO/ASC. In particular, the costs for Pharmacy and Mental Health administration for ASO/ASC are typically less than 60% of that of Commercial Insured products. The differences in Pharmacy and Mental Health costs between the two products largely explained the differences between cost trends in this cluster. Growth in Enrollment / Membership / Billing, Customer Services, Claim and Encounter Capture and Adjudication and Information Systems Expenses were essentially the same for the constant mix and as-reported presentations.

On an as-reported basis Corporate Services *Cluster* trends were sharply lower than last year, and also lower than on a constant mix basis. Trends for Corporate Services function, Corporate Executive & Governance and Association Dues and License / Filing Fees were all lower on an as-reported basis than on a constant mix basis but Finance and Accounting and Actuarial were higher. Only Actuarial cost growth was higher than last year.

Trends in Factors Driving Costs

The operational drivers provide additional insights to cost trends. The drivers discussed in this section are staffing ratios, compensation, non-labor costs and propensity to outsource.

The following discussion is softer than earlier trend analyses because of the difficulties in adjusting factors such as staffing ratio for mix differences.

For the continuously reporting plans, staffing ratios increased by 6.8% and now have about 19 FTEs per 10,000 members serving the commercial product. This includes the effects of outsourced staffing, discussed later.

The functions with the fastest staffing growth were Advertising and Promotion, Medical Management, Information Systems and Rating and Underwriting. 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.

Compensation, including all benefits except OPEB, increased at a median rate of 3.8%, to a median of \$112,000. Compensation grew especially rapidly in Provider Network Management and Services and Marketing. The functions of Corporate Executive, Actuarial, Marketing and Information Systems were the highest compensated.

We estimate that non-labor costs per FTE increased by 5.2%, based on trends that excluded imputed outsourced staffing. Areas where non-labor cost growth was especially rapid were in Marketing, Rating and Underwriting, Advertising and Promotion and Information Systems.

The mean and median proportions of FTEs that were outsourced are 14.0% and 11.0%. Areas that are heavily outsourced include Rating and Underwriting (especially Risk Adjustment) and Information Systems, which are typically above 20%. The median proportion of FTEs that were outsourced increased by 0.3 percentage points with Information Systems, Rating and Underwriting, Claim and Encounter Capture and Adjudication, Enrollment / Membership / Billing and Advertising and Promotion being especially rapid. By contrast, Marketing was increasingly brought in-house.

Costs of Blue Cross Blue Shield Plans, by Cluster, PMPM

Figure 3 shows the values of administrative expenses for all 14 participating Plans. Bear in mind that this universe of Blue Cross Blue Shield Plans differs from that of last year in product mix and in Plans. In this section we'll touch on comparisons with the results reported last year, notwithstanding this limitation. The prior year's values are shown in Appendix A.

Since the universes differed in each year by two Plans between the years, it is not possible to perfectly compare the performance of plans participating this and last year based on these charts. For the new plans and the ones that participated last year, we can know neither their trends, or their changes in product mix.

The actual total PMPM administrative expenses at a median of \$38.51 were 10.0% higher than last year's values, shown in Appendix A. Corporate Services was lower by 5.6% to \$5.92.

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
Sales and Marketing	\$7.97	\$9.21	\$10.32	26%
Medical and Provider Management	4.71	5.03	6.02	17%
Account and Membership Administration	14.08	16.10	22.38	28%
Corporate Services	4.58	5.92	6.34	37%
Total Expenses	\$34.12	\$38.51	\$43.22	19%

Activities include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities like Facilities, HR and Legal.

Sales and Marketing was up by 4.7% to \$9.21. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

But Medical and Provider Management was higher by 13.1% to \$5.03. This group of functions includes Provider Network Management and Services, and Medical Management / Quality Assurance / Wellness.

Also, Account and Membership Administration was higher by 9.8% to \$16.10. This cluster includes the central activities of Information Systems, Enrollment, Claims and Customer Services. The relative size of the Account and Membership Administration cluster of expense helps to explain its influence on overall trend.

Note also that the values appeared slightly more clustered, measured by coefficient of variation. In most cases, and overall, coefficients of variation were lower in 2018. Also, the differences between 75th and 25th percentile values declined by \$1.46. Despite this, the 75th and 25th percentile values expanded in Account and Membership Administration.

Costs of Blue Cross Blue Shield Plans, PMPM by Product

The importance of considering the product cost values is shown in Figure 4. The products vary greatly in their per member costs.

The median mix of Commercial products was 81.3% of the comprehensive membership. Administrative expenses for these costs are both higher and lower than the median comprehensive administrative costs, depending on their financing mechanism, which indirectly bears on the group size.

As a sector, Blue Cross Blue Shield Plans have a heavy commitment to ASO/ASC products, representing a median of 44.7% of comprehensive members. These products' costs are lower than for comparable insured products largely due to the modest per member Sales and Marketing expenses required for large groups that are eligible to use these products. An ASO/ASC group possesses the statistical advantages of larger size, which also means that their Sales and Marketing costs are spread through greater numbers of members. Indemnity and PPO costs \$28.29, HMO costs \$33.39 while POS costs \$26.89.

Without the ability to spread Sales and Marketing costs over more numerous members in each group, commercial insured products are higher than the median for comprehensive products. The single most important insured product is Indemnity and PPO at \$49.84. HMO costs \$52.09 while POS costs \$49.86.

FEP, the Federal Employee Program, is considered an insured product. It serves Federal Employees and dependents under retirement age, but since Blue Cross Blue Shield Association is the prime contractor, it has the low Sales and Marketing cost characteristics of ASO/ASC commercial products. Its costs are \$25.51.

Note that Medicare Supplement is a below average cost product at \$33.61 PMPM. We include this as a comprehensive product in the Sherlock Benchmarks though it pays only when Medicare does not.

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%

Medicare and Medicaid are government-sponsored products serving seniors and the poor. Medicaid costs \$46.08 PMPM. Relatively few Blue Cross Blue Shield Plans provide this product, but its costs are similar to those of insured commercial products.

Medicare products are relatively high cost at \$112.16 and \$206.27 PMPM for Medicare Advantage and Medicare Special Needs Plans respectively. Note that, within Medicare Advantage, group runs higher than individual. Some Sales and Marketing and Enrollment costs would normally be expected to be lower for the group Medicare Advantage business. Group Medicare is apparently in flux in some of the Plans, and in several cases have relatively few members.

Perhaps a more important factor for the higher administrative cost of the Blue group product may be that those that are drawn to Group Medicare may have higher health care costs to begin with. The median PMPM health benefit costs of Group Medicare Advantage are \$864 PMPM, 20.5% higher than Medicare Advantage Individual at \$717 PMPM. Medicare Advantage costs this year are higher than last year in each of the two market segments.

The specialty products of Stand-Alone Medicare Part D and Stand-Alone Dental were very low cost products at \$14.24 and \$3.19 PMPM respectively.

Costs of Blue Cross Blue Shield Plans, Percent of Premiums by Product

Many analysts evaluate administrative expenses standardized as a percent of premium. While this is straightforward for fully insured products, in the ratios displayed in Figure 5 and in Figure 6 which follows, “premiums” represents 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.

The product ranking of administrative expenses measured by the percents of premiums corresponds with that of the PMPM costs with some important exceptions. While Medicare Supplemental is below average cost when measured PMPM, at 15.5%, its cost ratio was the highest among the comprehensive products, which had a median value of 9.0%.

The specialty products, Stand-Alone Medicare Part D and Stand Alone Dental, were relatively high cost products at median values of 17.9% and 17.2%, respectively. These were extremely low cost products on a PMPM basis.

Medicare Advantage costs, while three times higher than total PMPM, have ratios only 40% higher than the median for comprehensive at 12.5%. Group Medicare has higher PMPM costs than Individual but the relationship is reversed for the percent of premium: while Individual costs are 12.9%, they are 9.6% for Group.

While Medicare SNP is not considered part of “comprehensive” for the Blue Cross Blue Shield universe, at 11.8%, it is above average for Comprehensive but more than 5 times higher when calculated PMPM.

Again, most other percent of premiums correspond directionally with the PMPM values. FEP is among the lowest cost products on a PMPM basis and, at 5.2%, is the lowest cost product expressed in percents. Medicaid was higher than average in PMPM costs and was, at 9.3%, slightly higher than average.

Commercial ASO/ASC products range from 6.9% of premiums to 7.4% of premiums. Commercial insured products range from 9.4% of premiums to 10.8% of premiums. Lower Sales and Marketing for self-insured groups is key reasons for the lower costs of the ASO/ASC products.

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%

Costs of Blue Cross Blue Shield Plans, Expense Clusters as Percent of Premium

Figure 6 shows the ratios of administrative expenses to premiums or equivalents. 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 reliably used in computations such as sums. Also note that the following discussion also includes changes in values that are obscured by rounding.

Administrative expenses were 9.0% of premiums, essentially the same as last year's equivalent value of 8.9%. Sales and Marketing increased by 0.1% to 2.1% of premium. All other clusters were unchanged or lower. Medical and Provider Management was unchanged at 1.2% of premiums and Account and Membership Administration was also unchanged at 4.0% of premiums. Corporate Services was down by 0.2 percentage points, to 1.4% of premiums.

How We Performed This Analysis

CHARACTERISTICS OF THE BLUE CROSS BLUE SHIELD UNIVERSE

This analysis is based on the twenty-second 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 year end, over 855 health plan years.

Each peer group in the Sherlock Benchmarks is established to be relatively uniform. So, within that constraint, it is open to most Blue Cross Blue Shield 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.

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	Coefficient of Variation
Sales and Marketing	1.8%	2.1%	2.2%	25%
Medical and Provider Management	1.1%	1.2%	1.4%	16%
Account and Membership Administration	3.5%	4.0%	4.7%	28%
Corporate Services	1.3%	1.4%	1.5%	27%
Total Expenses	8.2%	9.0%	10.4%	15%

This 21st analysis of Blue Plans is based on a peer group of fourteen Blue Cross Blue Shield Plans who collectively serve 36.7 million people, excluding Host, specialty and other products. We believe this universe to be quite robust. Participants in this year's study serve 52% of all Blue membership, excluding those served by publicly-traded firms. Collectively in 2018, the health plan operations of these Plans earned annual premiums plus fees of \$106.7 billion.

The average Plan participating in the Sherlock Benchmarks this year served 2.6 million people and the median membership was 1.6 million. The Plans were geographically disbursed, serving 19 states. Twelve of this year's participants participated in last year.

In addition to the comprehensive members, these Plans also served 19,000 Medicare SNP members, 692,000 members of stand-alone Medicare Part D products and 5.8 million members of Stand-Alone Dental. In addition to these members, collectively, these Plans served 7.5 million additional Blue Cross Blue Shield members through "Host" relationships with other Blue Plans.

Within the Comprehensive products, 82.1% was commercial, or 30.1 million.

Approximately 19.9 million of the commercial members were served under some form of self-insurance arrangement, comprising approximately 66.0% of the total commercial members.

Medicare Advantage, with over 1.0 million members, was offered by 10 Plans. It composed 2.8% of the combined comprehensive membership and 11.0% of revenues for comprehensive products. Groups represented 35.7% of Medicare Advantage membership. With SNP and Stand-Alone Part D, Medicare products represent 12.0% of total revenues.

Medicare Supplement, offered by all 14 Plans, was 5.5% of members and 4.4% of revenues for Blue Cross Blue Shield comprehensive products. Medicaid HMO, offered by three Plans, comprised 3.5% of membership. FEP included 6.0% of total comprehensive members.

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 convention 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 that are 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 values to eliminate the effect of product mix differences between the years.
- 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 mental health while the *Sherlock Benchmarks* do not. Because variation in employer benefit designs and that sometimes the administration of these health services is outsourced by Plans accepting these management responsibilities, the Benchmark reports carve them out. Pages 22 - 24 in Tab 2 of Volume I of the 2019 *Sherlock Benchmarks* reconciles these two presentations.

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- Miscellaneous Business Taxes are a special case among administrative expenses since, short of recapitalization or elimination of commercial insured business, such expenses are impossible to manage. So, expense trends, along with the PMPM and percent of premium ratios, are generally calculated before the effect of Miscellaneous Business Taxes. These taxes are primarily related to the Affordable Care Act. For commercial insured products, the median PMPM value of such taxes is \$16.09 and the mean is \$17.05 or approximately 25% of administrative costs. (As noted earlier, this is sharply higher than in the prior year.) Such costs are essentially nil for ASO/ASC products. By way of comparison, in 2012, the median Miscellaneous Business Tax for commercial insured products was \$2.98 PMPM.
 - The ACA fees include Comparative Effectiveness Research Fees (CERF), Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee and Annual Fee on Health Insurers. The Annual Fee on Health Insurers was the largest generally applicable fee since it applied to all insured business and has a median value of \$10.12. The Risk Adjuster Fee, the second largest fee, has a median value of \$0.39 PMPM. The Exchange User Fee only applies to Exchange members but the median fee for that population is \$23.09 PMPM.
 - On a constant-mix basis, per member Miscellaneous Business Tax costs increased by 122.4% PMPM, compared with a decrease of 54.9% down from the surge of 369.1% in 2014.

Note on the Sherlock Benchmarks

While health plan managers are responsible for the health care for many your members, they manage the administrative services necessary for all of them.

In the current environment, optimizing administrative expenses is a high priority for health plan managers. The surge in expenses of adapting to the Affordable Care Act and the bulge in Exchange and Medicaid members stemming from the ACA have passed. Plus, administrative expense visibility has been heightened by the rhetoric of presidential candidates.

These results are excerpted from the Blue Cross Blue Shield edition of the 2019 *Sherlock Benchmarks*. In addition to the Blue Cross Blue Shield universe, we also survey and report on universes of Independent / Provider – Sponsored Plans, Larger Health Plans, Medicare Advantage Plans and Medicaid Plans. We will be reporting on the results of the other universes in the months that follow.

Accordingly, much more information is available by licensing the *Sherlock Benchmarks*.

Tables of Contents, report formats, citations, quality assurance and other information can be found on the following page.

<https://sherlockco.com/sherlock-benchmarks/>.

In addition, the Sherlock Company website has an application that allows you to try out the Benchmarks for no charge.

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).

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. 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. Sherlock Benchmark Summary

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
 - (1) Provider Configuration
 - (2) Other 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