

ADMINISTRATIVE COST TRENDS OF BLUE CROSS BLUE SHIELD PLANS IN 2019



Photograph by Ray K. Saunders.

SHERLOCK BENCHMARKS

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TOPICS

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

APPENDICES

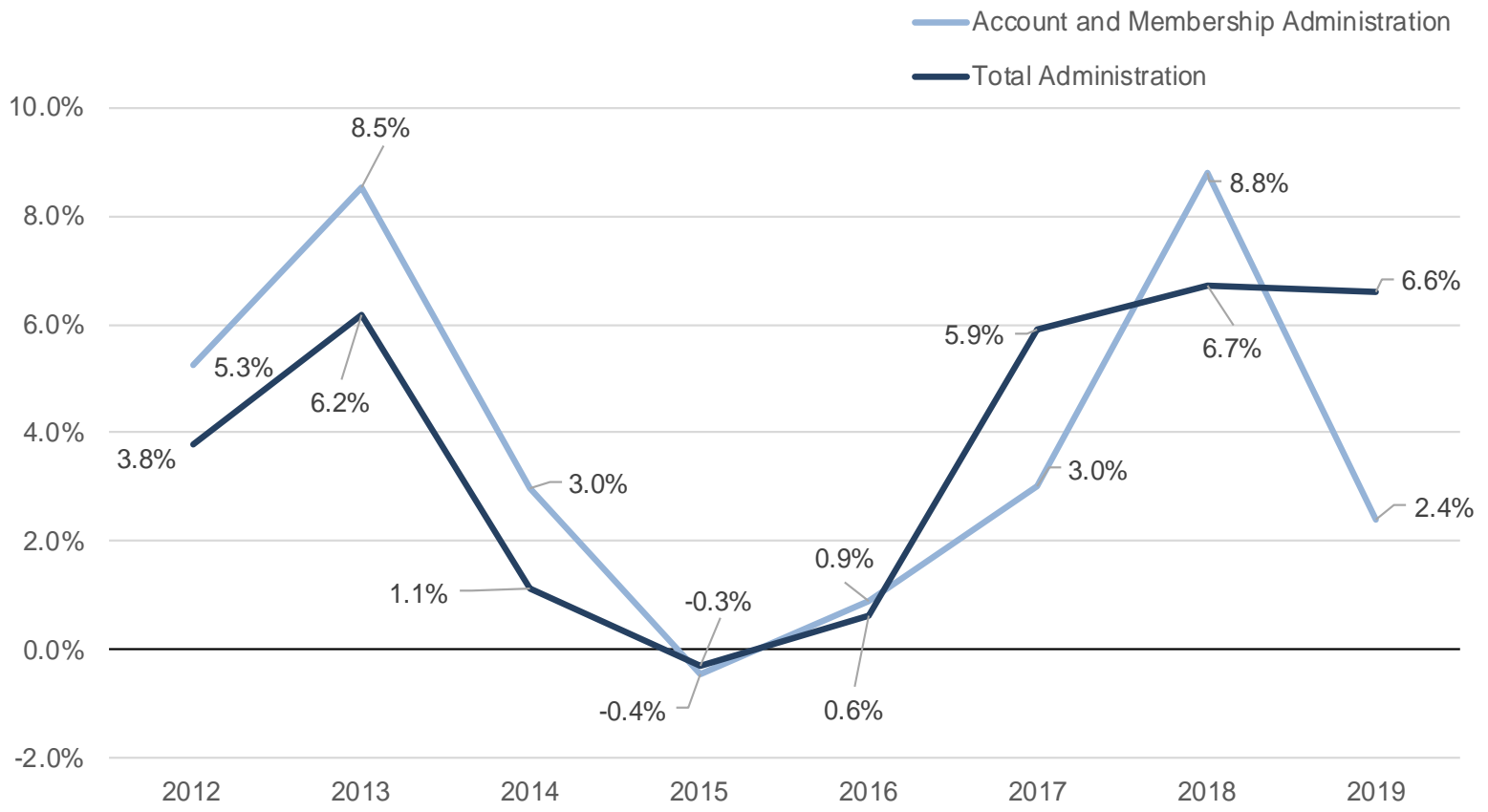
- Last year's cluster values
- Functions in each cluster of expenses
- About the Sherlock Benchmarks

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



FLAT TRENDS IN TOTAL, A&M ADMINISTRATION SHARPLY DECLINED.

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, WHEN MIX HELD CONSTANT COSTS WERE SLIGHTLY LOWER.

Figure 2. Sherlock Benchmark Summary

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

Functional Area	2018 Increase		2019 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	5.4%	8.1%	3.4%	4.1%
Medical and Provider Management	10.0%	10.6%	8.4%	8.0%
Account and Membership Administration	7.4%	8.8%	4.4%	2.4%
Corporate Services	0.6%	1.8%	8.5%	9.9%
Total Expenses	5.5%	6.7%	7.1%	6.6%

Constant-Mix adjusts to exclude product-mix differences.

SOURCES OF “REAL” GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2019

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	4.1%	Rating & Underwriting ↑	Commissions ↑
Med & Provider	8.0%	Provider Net Mgmt & Svcs ↑	Medical Management ↑
Acct & Membership	2.4%	Information Systems ↑	Information Systems ↑
Corp. Serv.	<u>9.9%</u>	Finance and Accounting ↑	Corporate Executive ↑
Total	6.6%	Finance and Accounting ↑	Information Systems ↑



SOURCES OF *REPORTED* GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2019

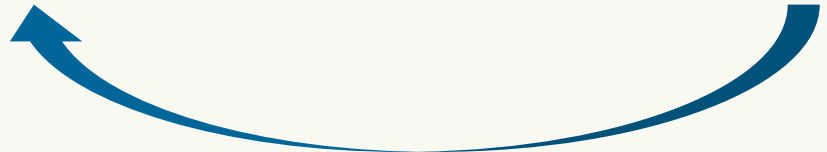
	Chg.	Greatest Change	Highest Weight
Sales & Marketing	3.4%	Rating & Underwriting ↑	Marketing ↑
Med & Provider	8.4%	Provider Net Mgmt & Svcs ↑	Medical Management ↑
Acct & Membership	4.4%	Information Systems ↑	Information Systems ↑
Corp. Serv.	<u>8.5%</u>	Assoc. Dues & Lic / Fees ↑	Corporate Executive ↑
Total	7.1%	Assoc. Dues & Lic / Fees ↑	Information Systems ↑



COMPARED WITH VALUES IN APPENDIX A, COSTS WERE 10.7% 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, 2019 Results
Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2018 Values Median
Sales and Marketing	\$8.42	\$10.58	\$13.07	29%	\$9.17
Medical and Provider Management	5.17	5.66	6.46	15%	4.94
Account and Membership Administration	16.98	17.70	19.85	23%	15.86
Corporate Services	5.20	6.28	7.51	28%	5.84
Total Expenses	\$38.39	\$41.82	\$45.14	17%	\$37.77



PMPMs VARY BY PRODUCT.

Figure 4. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2019 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$50.04	\$58.36	\$62.00	19%
ASO / ASC	\$29.15	\$33.36	\$36.95	46%
Commercial POS				
Insured	\$49.13	\$55.67	\$60.05	17%
ASO / ASC	\$25.20	\$30.46	\$33.02	18%
Indemnity & PPO				
Insured	\$48.26	\$53.84	\$58.23	23%
ASO / ASC	\$25.40	\$28.72	\$35.92	29%
Commercial Insured	\$48.27	\$54.40	\$59.51	13%
Commercial ASO/ASC	\$25.54	\$29.11	\$35.92	28%
FEP	\$23.03	\$27.96	\$32.67	24%
Medicare Advantage				
Individual	\$112.93	\$121.80	\$148.19	36%
Group	\$92.57	\$111.69	\$161.26	44%
Medicare Advantage Total	\$111.61	\$121.80	\$148.29	36%
Medicaid	\$32.31	\$39.02	\$52.59	54%
Medicare Supplemental	\$30.06	\$38.76	\$51.48	34%
Comprehensive Total	\$38.39	\$41.82	\$45.14	17%
Medicare Advantage SNP	\$195.48	\$228.89	\$275.75	34%
Stand-Alone Medicare Part D	\$11.23	\$15.76	\$18.88	40%
Stand Alone Dental	\$2.44	\$3.23	\$5.76	103%



PERCENTS USUALLY ORDERED SIMILARLY TO PMPMs.

Figure 5. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2019 Results

Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	9.8%	11.0%	12.6%	19%
ASO / ASC	6.7%	7.3%	9.8%	33%
Commercial POS				
Insured	9.6%	10.6%	11.5%	18%
ASO / ASC	6.2%	6.4%	9.5%	29%
Indemnity & PPO				
Insured	10.2%	10.7%	11.5%	22%
ASO / ASC	6.7%	8.0%	11.1%	32%
Commercial Insured	10.1%	10.7%	12.0%	11%
Commercial ASO/ASC	6.9%	7.8%	11.2%	33%
FEP	4.3%	5.4%	6.4%	23%
Medicare Advantage				
Individual	11.8%	13.6%	16.7%	43%
Group	7.7%	10.4%	13.5%	54%
Medicare Advantage Total	10.9%	13.5%	16.7%	45%
Medicaid	8.7%	8.8%	10.3%	28%
Medicare Supplemental	15.6%	18.7%	24.1%	37%
Comprehensive Total	8.3%	9.6%	10.9%	23%
Medicare Advantage SNP	9.2%	10.9%	13.8%	40%
Stand-Alone Medicare Part D	8.2%	18.4%	24.4%	57%
Stand Alone Dental	12.8%	18.7%	22.7%	55%



ALL CLUSTERS SLIGHTLY GREW IN COMPARISON TO THE 2018 VALUES, EXCEPT CORPORATE SERVICES WHICH REMAINED THE SAME.

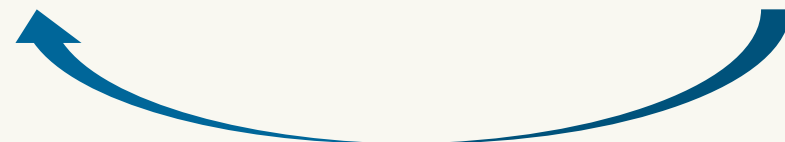
Figure 6. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2019 Results

Median Percent of Premium Equivalent

*2018
Values*

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Sales and Marketing	1.9%	2.4%	3.1%	34%	2.1%
Medical and Provider Management	1.2%	1.3%	1.6%	23%	1.2%
Account and Membership Administration	3.6%	4.1%	4.9%	26%	3.8%
Corporate Services	1.2%	1.4%	1.8%	36%	1.4%
Total Expenses	8.3%	9.6%	10.9%	23%	8.8%



BLUES ADMINISTRATIVE COSTS EXPERIENCED FLAT TRENDS IN 2019



- Blue costs were \$41.82 PMPM versus \$37.77 last year. Actual performance, differences in universe and product mix changes were responsible.
- Expenses increased by 7.1% compared with an increase of 5.5% in 2018. Backing out the effect of product mix differences, costs increased by 6.6% versus 6.7% in 2018.
- The shift in favor of Medicare Advantage products amplified reported growth.
- All clusters of expenses declined in growth, except Corporate Services cluster. Corporate Executive and Finance and Accounting were central.
- However, Account and Membership Administration sharply decelerated, notwithstanding rapid IS growth.
- The growth in Corporate Executive, Marketing and Information Systems suggests the effects of investment in adaptation to the future.



APPENDIX A. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2018

Appendix A. 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	\$7.83	\$9.17	\$10.24	27%
Medical and Provider Management	4.69	4.94	5.57	15%
Account and Membership Administration	13.74	15.86	22.15	28%
Corporate Services	4.39	5.84	6.20	23%
Total Expenses	\$33.68	\$37.77	\$42.29	16%

APPENDIX B. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2018

Appendix B. 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%	26%
Medical and Provider Management	1.1%	1.2%	1.4%	17%
Account and Membership Administration	3.5%	3.8%	4.7%	29%
Corporate Services	1.3%	1.4%	1.5%	21%
Total Expenses	8.2%	8.8%	10.2%	16%

APPENDIX C. CAREFUL QUALITY ASSURANCE

- ***Voluntary*** – Since providers are users, they have stake in the metrics. Other than required metrics, scope is also voluntary.
- ***Strong definitions*** – Developed with participants. Activities and cost centers listed, supported by ongoing clarifying discussions.
- ***Highly granular*** - Ready identification of outliers, as well as drill-down capabilities.
- ***Practice effect*** – High percent of repeaters: 93% of Blue repeated from last year. 75% of Blues have ten 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 D. SUMMARY OF THE REPORTS AND GUIDELINES

- The **financial metrics** report analyzes costs segmented by function and by product. They are standardized by PMPMs and by Percent.
- The **staffing and compensation** report analyzes the staffing ratios, per employee compensation and propensity to outsource. We 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 E. STRONG NETWORK, BROAD ACCEPTANCE

- The Sherlock Benchmarks is in its 23rd consecutive year. We expect that our cumulative experience to total approximately 893 plan years by year-end 2019. Expect ~37 plans serving ~68 million members to participate in 2019.
- Since June 2017, health plans serving 182 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, twenty serving approximately 50 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Of the 16 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, seven 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 F. FUNCTIONS IN EACH CLUSTER

Appendix F. 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
 - (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
 - (d) 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) Applications Amortization and Licensing Expenses
 - (2) Pre-Planning Project Costs
 - (d) Security Administration and Enforcement

Corporate Services

12. Finance and Accounting
 - (a) Credit Card Fees
 - (b) 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 & Governance
16. Association Dues and License / Filing Fees



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