

Plan Management Navigator

Analytics for Health Plan Administration



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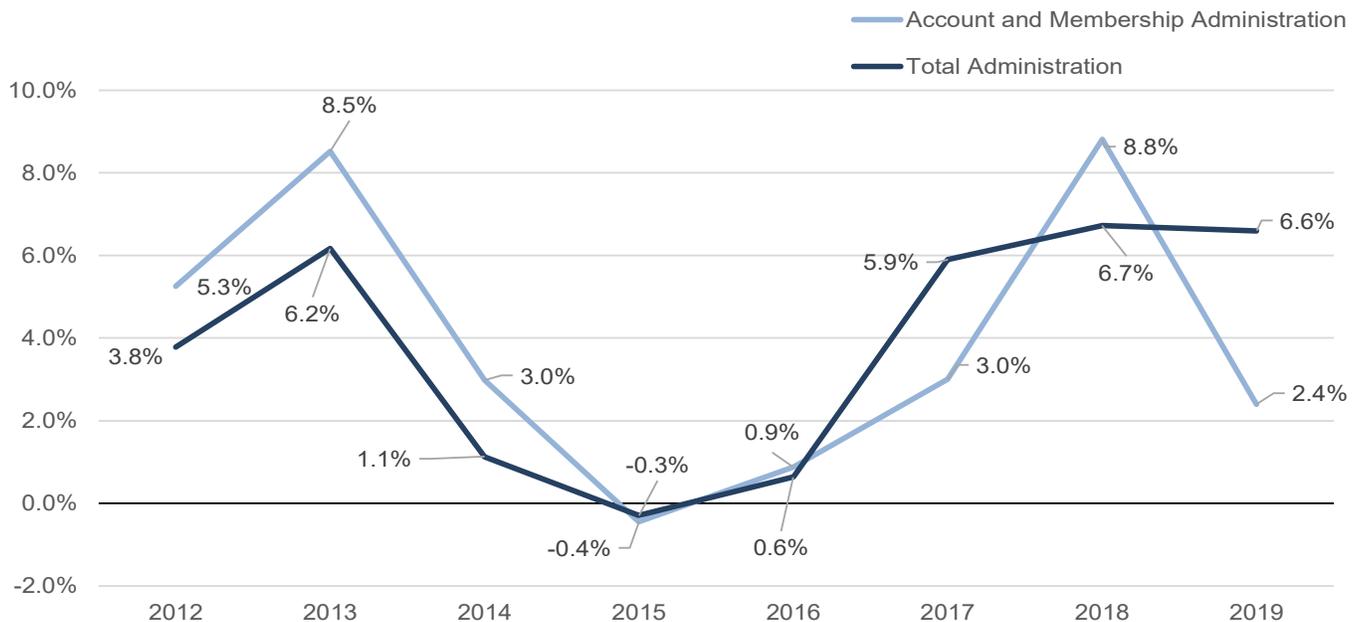
BLUE CROSS BLUE SHIELD PLANS EXPERIENCED FLAT TRENDS IN 2019 TOTAL ADMINISTRATIVE EXPENSE AS CORPORATE SERVICES SURGED

Growth in total administrative expenses per member for Blue Cross Blue Shield Plans in 2019 were similar to last year, increasing at a median rate 6.6%, lower than the increase in 6.7% in 2018. This is shown in Figure 1. But the Account and Membership Administration cluster (representing over 40% of all expenses) sharply decelerated from the prior year, from 8.8% in 2018 to a median rate of 2.4% in 2019.

With the exception of Corporate Services, the growth in all clusters declined. Of the 16 principle functions, only four accelerated. These comparisons exclude the effect of Miscellaneous Business Taxes and eliminate the effect of product mix differences between the two years.

The source of the data used in this analysis is Sherlock Company surveys of nineteen Blue Cross Blue Shield Plans. They collectively serve approximately 50 million members with comprehensive products. These plans also served 11.2 million people through “Host” relationships with other Plans, plus 7.7 million people through stand-alone dental. Of the fourteen Plans that participated in 2020, thirteen participated in the 2019 survey for an 93% repeat participation rate.

Figure 1. Sherlock Benchmark Summary
Blue Cross Blue Shield Rates of Change for Account and Membership Administration and Total, Constant Mix



Trends and Product Mix Changes

Figure 2 shows median year-over-year trends in total administrative expenses and in each cluster of expense. Trends are reported based on as-reported trends from continuously participating Plans and also from these same Plans after the effect of mix change is eliminated, constant mix.

The trends on an as-reported basis were similar to the constant mix trends in the previous section. On an as-reported basis, for the 13 continuously participating Plans, per member costs grew at a median rate of 7.1% compared with 5.5% the prior year.

Cost trends on an as-reported basis reflected a shift in favor of higher cost products. Overall, this was manifest in higher cost growth on an as-reported basis, 7.1% versus 6.6% when product mix is held constant. The effect of the elimination of mix changes between the years is to decrease constant mix cost trends by 0.5 percentage points.

There were shifts in product mix among the continuously participating plans. While commercial Insured membership declined by a median of 1.3%, commercial ASO / ASC increased by 1.5%. Since Commercial represents a median of 81.0% of the membership of these Plans, it dominates Plan product mix. Nevertheless, it declined at a median rate of 0.2%.

The shift away from individual appeared to dampen commercial growth. Of the thirteen continuously participating plans, ten segmented their commercial membership into individual and group, and of those, eight reported declines in the proportion of members that were individual. The decline in the median proportion of Individual of the commercial insured business was 2.0 percentage points, to 22.4%.

Low cost Medicaid and FEP products grew by less than 1%.

The most important driver of mix-related cost increases was in the senior market. While Medicare Supplemental decreased by less than 1%, higher cost Medicare Advantage grew by 6.2%.

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%

Cost Trends Holding Mix Constant

In our view, trends that exclude mix changes are a more accurate representation of real trends so the trend discussion is largely based on this.

While the change in administrative expenses in 2019 was slightly lower than that of 2018, the composition of the expense growth is different. The Corporate Services Cluster was the only cluster to experience an acceleration in growth, shown in Figure 2. In fact, every other cluster declined in growth. The decline in growth in Account and Membership Administration was especially notable. Sales and Marketing and Medical and Provider Management also posted slower growth.

CORPORATE SERVICES

The Corporate Services Cluster posted the fastest growth overall. 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 Human Resources, Facilities, Legal, Purchasing and so forth. Growth in this cluster was chiefly due to Finance and Accounting and Corporate Executive and Governance, the latter of which increased at its second fastest pace in at least five years.

Corporate Executive and Governance was the greatest contributor to this cluster's growth, though it was its second fastest growing function, at a low double-digit rate. It was also the third largest contributor to growth among all of the health plan functions. Among the functions in the Corporate Services cluster, it was the largest or second largest contributor to the increase in costs for eight of the Plans. It represented most of the increase in this cluster for five of them.

Corporate Executive and Governance is defined by the Sherlock Benchmarks as the "activities (that) direct the firm. The function is charged with acting in the health plan's interests and that of its owners and is held accountable to them for the use of corporate assets. This function is limited to executives who are not directly tied to a function or department, as well as Board of Directors costs.... This functional area also includes functions that support Corporate Executive and Governance such as strategic planning and business analysis." This function also includes "Strategic planning and consulting, including mission and strategic direction" and "Management consulting services that are strategic or corporate-wide, as opposed to those specific to certain functions."

Based on the changes in composition of costs in this function, we think Plans made decisions in this function that are focused on their long-term competitiveness. Staffing ratios appear to be sharply up and, since average compensation in this function sharply declined, the additional employees do not appear to be senior leadership so perhaps analytical staff. Outsourcing is usually not high in this function and increased slightly in 2019.

Also, non-labor costs PMPM increased sharply. Non-labor expenses in this functional area are often strategic management consulting. For instance, one Plan engaged a consulting firm in connection with its planning over the next annual, three-year and five-year periods.

Finance and Accounting was the fastest growing functional area and a prominent source of cost increase in the Corporate Services Cluster. It grew at low double-digit rates. This function was the second largest contributor to cost growth in this cluster in six Plans and first in two Plans. This function includes Credit Card Fees charged to the plans in connection with premium billing and trends varied by Plan. For the other sub-function, Other Finance and Accounting, including the activities normally associated with this function, in ten Plans, the cost trend was 8% or higher. Staffing ratios increased modestly, and compensation increased at rate greater than inflation. As with Corporate Executive, non-labor costs sharply increased. Some Plans reported increases in vendor costs, including new scopes of efforts and the cost of new software packages.

ACCOUNT AND MEMBERSHIP ADMINISTRATION

Account and Membership Administration cost growth declined overall and in each of its component functions. This cluster includes Enrollment / Membership / Billing, Customer Services, Claim and Encounter Capture and Adjudication and Information Systems. It also includes direct costs associated with prescription drug and behavioral health benefits.

Enrollment / Membership / Billing, Customer Services and Claim and Encounter Capture and Adjudication all declined, PMPM. Also, trends in administrative activities associated with behavioral health and pharmacy diminished overall Account and Membership Administration trends. These activities grew at a mid-single digit rate. Enrollment / Membership / Billing reported its first cost decline in the past eight years. Customer Services and Claims reported cost decreases after last year's gains. The decline in Claims was by less than half a percent.

Information Systems growth was lower than in 2018 but was the second highest in the past five years. Information Systems is this cluster's largest function and increased at a high single-digit rate. It had the third highest cost growth in the last ten years. The sub-function Amortization of Developed Software was especially important to growth. One Plan noted that a new core system led to an internally developed software capitalization increase in its Information Systems subcategory of Applications Amortization and Licensing Expenses. Another Plan has been depreciating previously capitalized expenses in the development of an Enterprise Data Warehouse. That Plan also built out its analytic capabilities.

SALES AND MARKETING

The Sales and Marketing cluster of expenses posted cost growth of roughly one half the pace of 2018. The cluster consists of Rating and Underwriting, Marketing, Sales, External Broker Commissions and Advertising and Promotion. Broker Commissions posted slow growth, at low single-digit rates, but due to its heavy weighting in the Sales and Marketing cluster, was narrowly the most important factor in Sales and Marketing cluster growth. Advertising and Promotion and Sales experienced cost declines compared to last year's growth. The PMPM decline in Sales was only slightly less important than the modest growth for broker Commissions.

Marketing increased at near double-digit rates after posting its fastest growth in a decade last year. Staffing ratios were higher and while outsourcing was slightly higher, compensation was up greater than inflation. Non-labor costs were much higher, whether calculated PMPM or per FTE. This function can have a significant strategic component, paralleling that of Corporate Executive in some organizations.

Rating and Underwriting was the fastest growing functional area in its cluster, at low double digits. It grew at a rate faster than its 10-year average mainly on robust growth in Risk Adjustment expenses. Staffing ratios were higher, though focused on a few Plans with a greater additional commitment. Compensation growth exceeded inflation. Outsourcing decreased and non-labor costs surged. One of the Plans noted increased investment (vendors and internal staffing) to assist in Risk Adjustment calculations while another cited trends in pricing for vendor that conduct chart reviews for Medicare Advantage.

MEDICAL AND PROVIDER MANAGEMENT

The Medical and Provider Management clusters of expenses also posted declining cost growth, though far higher than expenses as a whole. The growth in Provider Management and Services was effectively the same as last year, while Medical Management / Quality Assurance / Wellness experienced its slowest growth since 2016. Since Medical Management / Quality Assurance / Wellness is by far the larger of the two functions, the lower growth for this functional area lowered this cluster's growth.

Provider Network Management and Services' growth was found in all its subfunctions but was especially rapid in Provider Configuration.

The Medical Informatics and Disease Management subfunctions of Medical Management / Quality Assurance / Wellness were exceptions in that both had double digit increases. In Disease Management, one Plan reported that the driver of the increase in 2019 was a new genetic testing program. Another noted an increase in eligible members and vendor rate fees. A third noted an increase in scope of services desired by a key client. These services are related to assistance to members with chronic conditions improving their quality of life through education and the prevention of acute illness.

As-Reported Trends

Figure 2 shows that the overall cost trends on an as-reported basis were relatively similar to the constant mix growth. In general, the functions contributing to growth were similar as well. But growth is faster in Medical and Provider Management and Account and Membership Administration and slower in Sales and Marketing and Corporate Services. This occurred in an environment in which Medicare Advantage increased as a share of the product mix of these plans.

Greater Medicare Advantage focus probably contributed to faster growth on an as-reported basis in the Medical and Provider Management and Account and Membership Administration clusters. This may owe to the higher health care requirements of the senior population which lead to higher associated administrative expenses. For instance, growth in Customer Services expenses was higher on an as-reported than a constant mix basis.

Sales and Marketing grew slower on an as-reported basis. There were some exceptions to this in that Advertising and Promotion declined less, and Rating and Underwriting and Marketing grew faster. Both of these functions tend to be much higher for Medicare Advantage members.

Corporate Services also grew slower on an as-reported basis. Actuarial was an exception, again perhaps because of the higher health care needs of the senior population. Also, Association Dues and License / Filing Fees grew much faster.

Trends in Factors Driving Costs

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

For the continuously reporting plans, staffing ratios remained about the same at approximately 21 FTEs per 10,000 members serving the Commercial Insured product¹. This includes the effects of outsourced staffing, discussed later.

Functions in which many Plans increased staffing ratios include Rating and Underwriting, Marketing, Medical Management / Quality Assurance / Wellness, Actuarial and Corporate Executive and Governance. Sales, Advertising and Promotion, Claim and Encounter Capture and Adjudication, Information Systems all had general staffing ratio declines.

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.

Compensation, including all benefits except OPEB, increased at a rate of 1.7%, to a mean of \$112,000. Compensation growth was notable in Sales, Advertising and Promotion and Provider Network Management and Services. Compensation declined in Corporate Executive, and Information Systems. None of these trends consider the effect of changes in the types of employees included within each function, though it is notable that the declines are in relatively highly compensated functions.

We estimate that non-labor costs per FTE increased at approximately 8% and PMPM by 10%. Areas with especially high growth in non-labor costs included Rating and Underwriting, Marketing, Provider Network Management and Services, Finance and Accounting and Corporate Executive & Governance.

The mean and median proportions of FTEs that were outsourced² are 10%, respectively. Areas that heavily outsourced included Medical Management and Information Systems, both in the teens. The median proportion of FTEs that were outsourced decreased by less than one percentage point but Sales and Information Systems declined more rapidly than this.

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

Figure 3 shows the values of administrative expenses for all 19 participating Plans. Again, this universe of Blue Cross Blue Shield 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.

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
Sales and Marketing	\$8.42	\$10.58	\$13.07	29%
Medical and Provider Management	5.17	5.66	6.46	15%
Account and Membership Administration	16.98	17.70	19.85	23%
Corporate Services	5.20	6.28	7.51	28%
Total Expenses	\$38.39	\$41.82	\$45.14	17%

² Outsourced FTEs are estimated based on the compensation and non-labor costs of Plans that do not themselves outsource.

The universes differed between the two years. One Plan participating in 2019 declined to participate in 2020 and six new ones joined. So the rates of change shown in Figure 2 are a better measure of trend. For the new Plans and the ones that participated last year, we can know neither their trends, or their changes in product mix.

The total PMPM administrative expenses for the universe as a whole, at a median of \$41.82, was 10.7% higher than last year's values, shown in Appendix A. Corporate Services was higher by 7.6% to \$6.28. Activities include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities like Facilities, Human Resources and Legal.

Sales and Marketing was up by 15.3% to \$10.58. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising. Medical and Provider Management was higher by 14.4% to \$5.66. This group of functions includes Provider Network Management and Services and Medical Management / Quality Assurance / Wellness.

Account and Membership Administration was higher by 11.6% to \$17.70. This cluster includes the central activities of Information Systems, Enrollment, Claims and Customer Services. This is by far the largest cluster of expenses and has an outsized effect on cost trends.

Note also that the values appeared more scattered in 2019 versus 2018, as measured by the coefficient of variation. Overall and in every cluster except for Account and Membership Administration, coefficients of variation were higher in 2019.

By contrast, dispersion measured by the differences between the 75th and 25th percentile values were narrower. In total, this narrowed by \$1.86 and sharply narrowed in Account and Membership Administration by \$5.54. The other clusters expanded, most notably Sales and Marketing, which expanded by \$2.24.

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 81.7% of the comprehensive membership for all participating Plans. Administrative expenses for these costs are both higher and lower than the median comprehensive administrative products, 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 47.2% of comprehensive members. These products' costs are lower than for comparable insured products largely due to the comparatively modest per member Sales and Marketing expenses required for large groups that are eligible to use these products. An ASO/ASC group necessarily possesses the statistical advantages of larger size to bear the medical cost variance risk: this also means that group Sales and Marketing costs are spread through greater numbers of members. For ASO, Indemnity and PPO costs a median of \$28.72 PMPM, HMO costs \$33.36 while POS costs \$30.46.

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%

Without the ability to spread Sales and Marketing costs over more numerous members in each smaller group and individual, commercial insured products are higher than the median for comprehensive products. Enrollment costs also tend to be higher. The single most important insured product is Indemnity and PPO at median of \$53.84 PMPM. HMO costs \$58.36 while POS costs \$55.67.

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 \$27.96 PMPM.

Note that Medicare Supplemental is a below average cost product at \$38.76 PMPM. We include this as a comprehensive product in the Sherlock Benchmarks though it pays only when fee-for-service Medicare does not.

Medicare and Medicaid are government-sponsored products serving seniors and the poor. Medicaid costs \$39.02 PMPM. Only four of the Blue Cross Blue Shield Plans provide this product. Interestingly, this product on average represents 3% of the membership for those four Plans.

Medicare products are relatively high cost at \$121.80 and \$228.89 PMPM for Medicare Advantage and Medicare Special Needs Plans respectively. (This peer group of Blue Cross Blue Shield Plans excludes Medicare SNP from Comprehensive.) Note that, within Medicare Advantage, Individual runs higher than Group at \$121.80 PMPM versus \$111.69 PMPM. As with commercial products, some Sales and Marketing and Enrollment costs are lower for the Group Medicare Advantage business.

The specialty products of Stand-Alone Medicare Part D and Stand-Alone Dental were very low cost products at \$15.76 and \$3.23 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” represent 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 Supplement is below average cost when measured PMPM, at 18.7%, its cost ratio was the highest among the Comprehensive products, which had a median value of 9.6%.

The specialty products, Stand-Alone Medicare Part D and Stand Alone Dental, were relatively high cost products at median values of 18.4% and 18.7%, respectively. These were extremely low-cost products on a PMPM basis.

Medicare Advantage costs, while almost three times higher than total PMPM, have ratios of 13.5%, more than Comprehensive but to a much less extent. Similar to costs expressed on a PMPM basis, Group Medicare's costs on a percent of premiums basis is lower than Individuals at 10.4% compared to 13.6%, respectively.

While Medicare SNP is not considered part of "Comprehensive" for the Blue Cross Blue Shield universe, at 10.9%, it is above average for Comprehensive but over 5 times higher when calculated PMPM.

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%

Most other percent of premiums ratios for products correspond directionally with the PMPM values. FEP is among the lowest cost products on a PMPM basis and, at 5.4%, is the lowest cost product expressed in percents. Medicaid was lower on a percent of premium basis, at 8.8%, as it was on a PMPM basis.

Commercial ASO/ASC products range from 6.4% of premiums to 8.0% of premiums, and these are lower than average cost on a PMPM basis. Commercial insured products range from 10.6% of premiums to 11.0% of premiums, higher than average, similar to relative PMPM costs. Lower Sales and Marketing for self-insured groups is key reason for the lower costs of the ASO/ASC products.

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 summed. Also note that the following discussion also includes changes in values that are obscured by rounding.

Administrative expenses were 9.6% of premiums, 0.8 percentage points higher than last year. Sales and Marketing increased by 0.3 percentage points to 2.4% of premium. Medical and Provider Management was slightly higher, by 0.1 percentage points, to 1.3% of premiums and Account and Membership Administration was up by 0.3 percentage points to 4.1%. Corporate Services remained the same, at 1.4% of premiums.

Figure 6. Sherlock Benchmark Summary

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

Median Percent of Premium Equivalents

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

How We Performed This Analysis

CHARACTERISTICS OF THE BLUE CROSS BLUE SHIELD UNIVERSE

This analysis is based on the twenty-third 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, approximately 893 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.

This 22nd analysis of Blue Plans is based on a peer group of twenty Blue Cross Blue Shield Plans who collectively serve approximately 50 million people, not including Host, specialty, and other products. We believe this universe to be quite robust. Participants in this year's study serve about 74% of all Blue membership, excluding those served by publicly-traded firms.

Collectively in 2019, the health plan operations of these Plans earned annual premiums plus fees of more than \$150 billion and more than \$250 billion in premium equivalents. The median Plan participating in the Sherlock Benchmarks this year served 1.8 million people. The Plans were geographically disbursed, serving nearly 30 states. Thirteen of this year's nineteen participants also participated last year.

In addition to the comprehensive members, these Plans also served 33,000 Medicare SNP members, 753,000 members of stand-alone Medicare Part D products and 7.7 million members of Stand-Alone Dental. In addition to these members, collectively, these Plans served 11.2 million Blue Cross Blue Shield members through "Host" relationships with other Blue Plans.

Within the Comprehensive products, 81.7% was commercial. Of the commercial members approximately 63% were served under some form of self-insurance arrangement.

Medicare Advantage, with over 1.5 million members, was offered by 15 Plans. It composed approximately 3% of the Comprehensive membership and 10% of revenues for comprehensive products. Groups represented over 30% of Medicare Advantage membership. With SNP and Stand-Alone Part D, Medicare products represent approximately 11% of total revenues.

Medicare Supplement, offered by all nineteen Plans, was nearly 5% of Comprehensive members and nearly 4% of revenues for Blue Cross Blue Shield comprehensive products. Medicaid HMO, offered by four Plans, comprised 4% of combined membership. FEP served approximately 6% of combined 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 2020 Sherlock Benchmarks reconciles these two presentations.

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- We have excluded Miscellaneous Business Taxes from this analysis so 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, are impractical to manage. These taxes are primarily related to the Affordable Care Act. For commercial insured products, the median PMPM value of such taxes is \$8.09 and the mean is \$8.89 or approximately 14% of administrative costs. By way of comparison, in 2012, the median Miscellaneous Business Tax for commercial insured products was \$2.98 PMPM. The ACA-related taxes and fees include Comparative Effectiveness Research Fees (CERF), Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee and Annual Fee on Health Insurers. The Exchange User Fee was the largest tax, at a median value of \$22.07, but only applies to Exchange members. The second largest fee was CERF, at a median of \$0.23 PMPM for commercial members only, while the Risk Adjuster Fee, also for Exchange members was \$0.29 PMPM. Both the Transitional Reinsurance Fee and the Annual Fee on Health Insurers were \$0.00 PMPM.
 - On a constant-mix basis, per member Miscellaneous Business Tax costs decreased by 53.0% PMPM, compared with a surge of 122.4% last year and decline of 54.9% in 2017.

Note on the Sherlock Benchmarks

With over 43 million people having filed new claims for unemployment since mid-March, the secondary effects of the coronavirus may lead to declines in health plan membership and shifts in product mixes. Commercial membership, especially insured, is especially susceptible to declines, while Medicaid and Medicare Advantage may increase in proportion or even in numbers of enrollees.

The Sherlock Benchmarks can assist in adapting and achieving operational efficiency driven by the recently volatile operating environment. Moreover, the benchmarks can assist in budgeting for changes in membership and product-mix and for projecting for changes in staffing needs.

These results are excerpted from the Blue Cross Blue Shield edition of the 2020 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. Much more information on 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 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, 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. Sherlock Benchmark Summary

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

Median Percent of Premium Equivalent

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. 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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