

ADMINISTRATIVE COST TRENDS OF BLUE CROSS BLUE SHIELD PLANS IN 2020



Photograph by Jay Fleming.

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

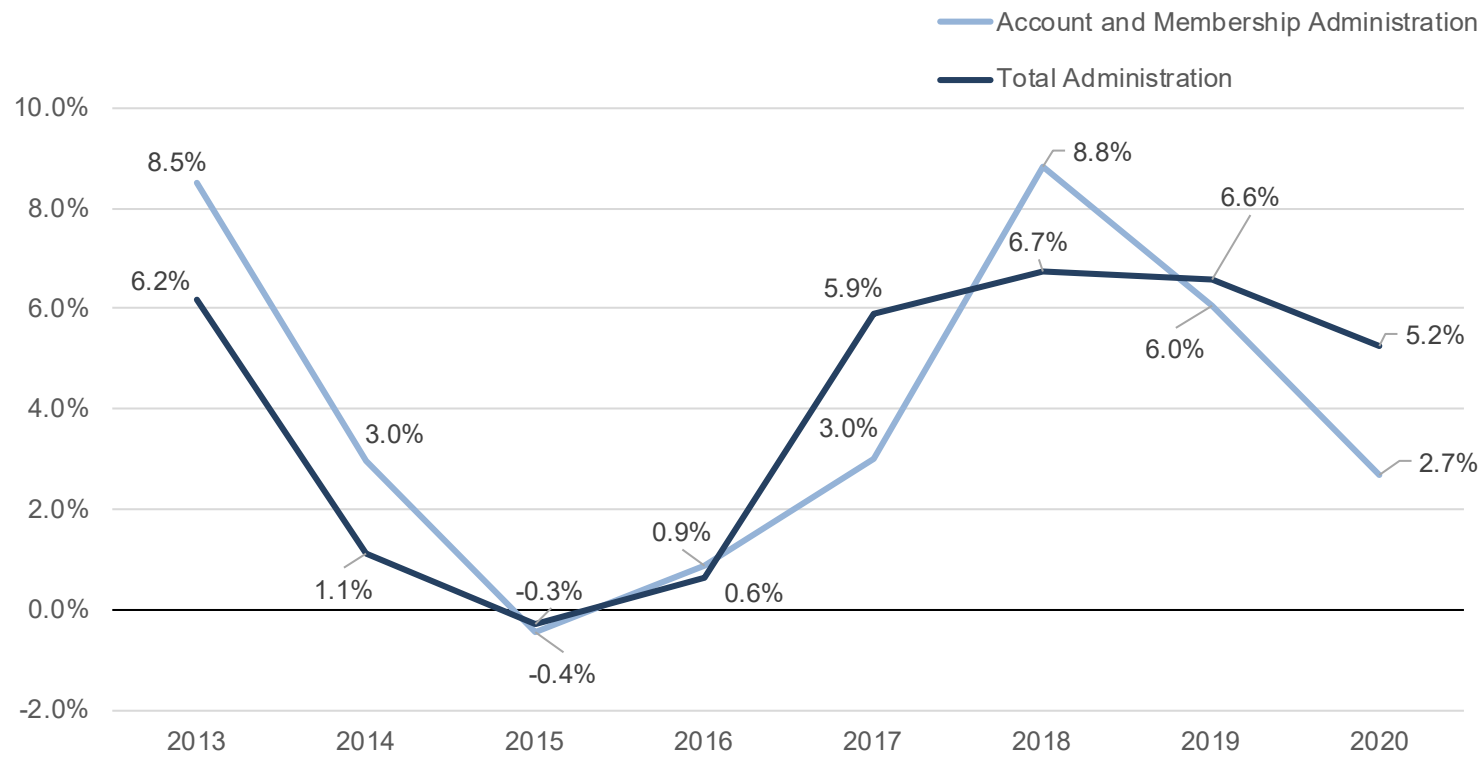
Racing workboats is our metaphor for health plans striving for performance improvement.



SLOWER GROWTH IN TOTAL. A&M ADMINISTRATION GROWTH SHARPLY DECLINED.

Figure 1. Sherlock Benchmark Summary

Blue Cross Blue Shield Rates of Change for Account and Membership Administration and Total, Constant Mix
Median Changes in PMPM Costs



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

AMONG CONTINUOUSLY PARTICIPATING PLANS, WHEN MIX IS HELD CONSTANT COST GROWTH WAS LOWER.

Figure 2. Sherlock Benchmark Summary

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

Functional Area	2019 Increase		2020 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	3.4%	5.5%	1.1%	3.8%
Medical and Provider Management	8.4%	7.9%	6.5%	7.7%
Account and Membership Administration	4.8%	6.0%	3.5%	2.7%
Corporate Services	8.5%	8.7%	10.2%	9.7%
Total Expenses	7.1%	6.6%	4.0%	5.2%

Constant Mix adjusts to exclude product mix differences between years.

SOURCES OF “REAL” GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2020

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	3.8%	Advert & Promotion ↑	Commissions ↑
Med & Provider	7.7%	Provider Net Mgmt & Svcs ↑	Medical Management ↑
Acct & Membership	2.7%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>9.7%</u>	Actuarial ↑	Corporate Services ↑
Total	5.2%	Actuarial ↑	Corporate Services ↑

R_x and Behavioral Health administration increased total growth by 0.2 percentage points



SOURCES OF *REPORTED* GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2020

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	1.1%	Advert & Promotion ↑	Advert & Promotion ↑
Med & Provider	6.5%	Provider Net Mgmt & Svcs ↑	Medical Management ↑
Acct & Membership	3.5%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>10.2%</u>	Actuarial ↑	Corporate Services ↑
Total	4.0%	Actuarial ↑	Corporate Services ↑



COMPARED WITH 2019, COSTS WERE 1.1% LOWER IN 2020. COST TRENDS, CHANGES IN THE PRODUCT MIX AND UNIVERSE WERE RESPONSIBLE.

Figure 3. Sherlock Benchmark Summary
Blue Cross Blue Shield Costs by Functional Area Cluster, 2020 Results
Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2019 Values Median
Sales and Marketing	\$7.39	\$9.38	\$11.55	36%	\$10.58
Medical and Provider Management	5.48	5.75	6.99	14%	5.66
Account and Membership Administration	15.83	18.74	21.43	26%	17.70
Corporate Services	5.52	6.73	7.76	35%	6.28
Total Expenses	\$37.09	\$41.36	\$44.84	24%	\$41.82

PMPMs VARY BY PRODUCT.

Figure 4. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2020 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$55.12	\$63.63	\$68.13	20%
ASO / ASC	\$27.35	\$35.65	\$40.30	65%
Commercial POS				
Insured	\$51.22	\$57.59	\$59.69	16%
ASO / ASC	\$27.73	\$31.38	\$35.48	16%
Indemnity & PPO				
Insured	\$49.50	\$56.14	\$66.81	27%
ASO / ASC	\$25.70	\$29.33	\$35.47	31%
Commercial Insured	\$49.50	\$56.67	\$63.26	15%
Commercial ASO/ASC	\$25.59	\$29.65	\$35.63	31%
FEP	\$23.18	\$30.13	\$32.81	23%
Medicare Advantage				
Individual	\$121.58	\$144.42	\$185.45	44%
Group	\$93.77	\$131.54	\$169.30	52%
Medicare Advantage Total	\$110.52	\$143.79	\$185.45	45%
Medicaid	\$31.52	\$40.48	\$55.56	38%
Medicare Supplemental	\$28.03	\$37.18	\$48.16	44%
Comprehensive Total	\$37.09	\$41.36	\$44.84	24%
Medicare Advantage SNP	\$169.55	\$194.17	\$226.96	34%
Stand-Alone Medicare Part D	\$7.56	\$11.91	\$20.34	52%
Stand Alone Dental	\$2.39	\$3.21	\$4.12	123%



PERCENTS USUALLY ORDERED SIMILARLY TO PMPMs.

Figure 5. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2020 Results

Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	9.5%	11.1%	12.1%	25%
ASO / ASC	6.2%	6.9%	9.2%	53%
Commercial POS				
Insured	10.1%	10.6%	11.2%	19%
ASO / ASC	6.5%	6.8%	9.5%	24%
Indemnity & PPO				
Insured	10.0%	10.4%	11.3%	17%
ASO / ASC	6.9%	7.5%	9.6%	34%
Commercial Insured	10.3%	10.6%	11.6%	15%
Commercial ASO/ASC	6.9%	7.4%	9.6%	35%
FEP	4.2%	4.8%	5.7%	27%
Medicare Advantage				
Individual	13.4%	16.8%	20.9%	46%
Group	9.5%	10.8%	14.6%	64%
Medicare Advantage Total	12.0%	15.0%	20.9%	49%
Medicaid	8.6%	10.7%	12.3%	25%
Medicare Supplemental	15.6%	17.5%	21.7%	30%
Comprehensive Total	8.1%	9.5%	10.3%	20%
Medicare Advantage SNP	13.0%	17.2%	20.5%	37%
Stand-Alone Medicare Part D	3.9%	10.2%	19.0%	73%
Stand Alone Dental	15.6%	18.1%	22.4%	46%



ALL CLUSTERS SLIGHTLY DECLINED IN COMPARISON TO THE 2019 VALUES, EXCEPT CORPORATE SERVICES WHICH GREW AND MEDICAL AND PROVIDER MANAGEMENT REMAINED THE SAME.

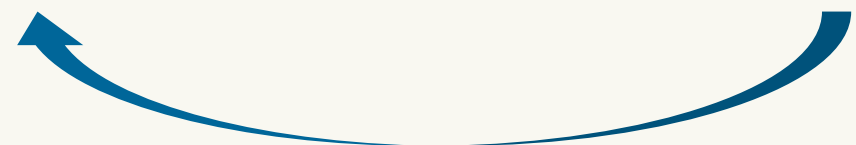
2019
Values

Figure 6. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2020 Results

Median Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Sales and Marketing	1.7%	2.1%	2.6%	31%	2.4%
Medical and Provider Management	1.2%	1.3%	1.5%	17%	1.3%
Account and Membership Administration	3.7%	4.0%	5.0%	25%	4.1%
Corporate Services	1.2%	1.5%	1.8%	29%	1.4%
Total Expenses	8.1%	9.5%	10.3%	20%	9.6%



BLUES ADMINISTRATIVE COST GROWTH DECLINED IN FOR 2020



- Blue costs were \$41.36 PMPM versus \$41.82 last year. Factors were actual performance, differences in universe and product mix changes.
- Expenses increased by 4.0% compared with an increase of 7.1% in 2019. Backing out the effect of product mix differences, costs increased by 5.2% versus 6.6% in 2019.
- Commercial membership declined but favored ASO. Government products grew.
- Sales and Marketing growth declined. Medical and Provider Management declined slightly. Only Corporate Services accelerated and it was modest.
- The decline in Account & Membership Admin. was notable, notwithstanding rapid growth in Customer Services. Modest IS growth esp. Op. & Support.
- The growth in Customer Services and Advertising and Promotion and Nurse Line are indicators that Plans adapted to the COVID-19.
- Actuarial, Pre-Planning Project Cost growth may anticipate future.



APPENDIX A. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2019

Appendix A. 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%



APPENDIX B. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2019

Appendix B. 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%

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 Plans participating this year also participated last year. 79% of Blue participants have done so for ten or more years.
- *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 24th consecutive year. We expect that our cumulative experience to total approximately 929 plan years by year-end 2021. Expect ~36 plans serving ~54 million members to participate in 2021.
- Since June 2018, health plans serving 173 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 33 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving approximately 41.5 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, seven are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Most of the members of the Health Plan Alliance with greater than 300,000 members are participating in this year's Sherlock Benchmarks.

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) Fraud, Waste & Abuse
 - (5) 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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