

Plan Management Navigator

Analytics for Health Plan Administration



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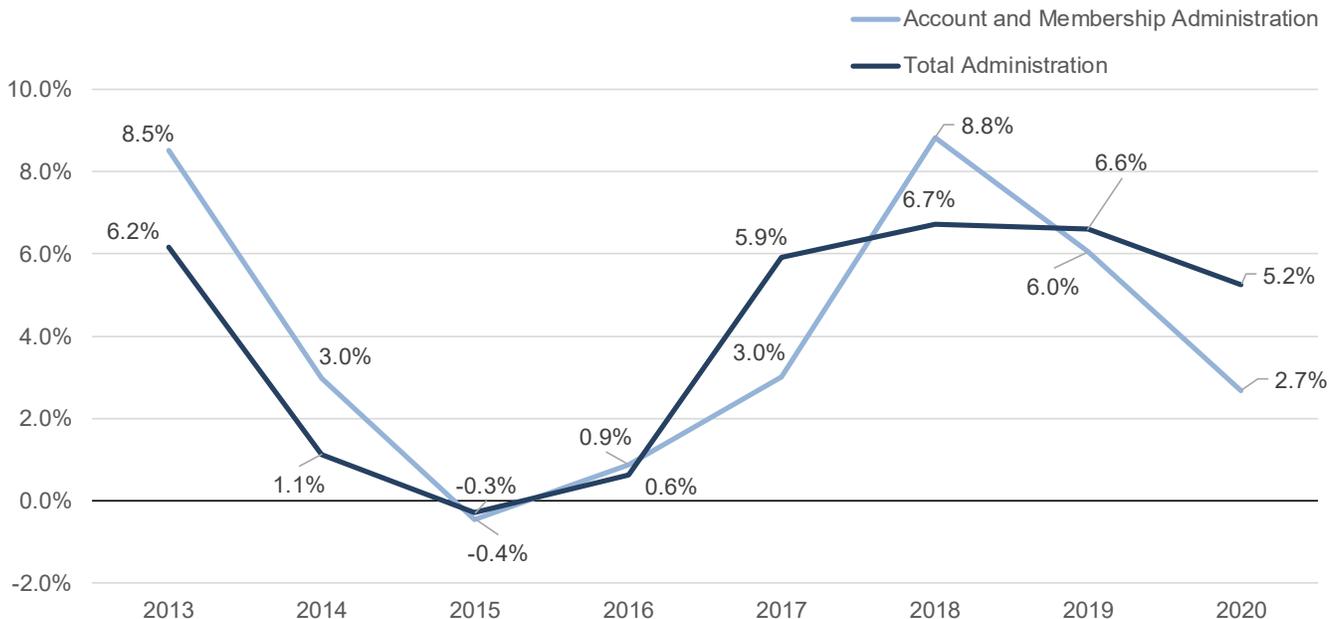
BLUE CROSS BLUE SHIELD PLANS EXPENSE GROWTH DECLINED IN 2020

Expense growth in 2020 for Blue Cross Blue Shield Plans was sharply lower in 2020 compared with 2019. Total costs per member per month (PMPM) growth declined to a median of 5.2% from 6.6% in the prior year, the slowest growth since 2016. The decline in Account and Membership Administration (representing over 45% of all expenses) was even more dramatic, falling to growth of 2.7% from 6.0% in 2019. This is shown in Figure 1, reflecting continuously participating plans, after having eliminated the effects of product mix differences between the two years.¹

As developed below, the growth in all clusters declined, except for Corporate Services. Of the 16 principle functions, which exclude Miscellaneous Business Taxes, seven decelerated and three posted declines.

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



¹ Some rates of growth in 2019 shown in Figure 2 differ from those originally presented in the June 2020 *Plan Management Navigator*. This difference stems from an improvement in how newly introduced products of the Plans are factored into the reweighting of prior year's values, magnified by our reflection of median rates of growth.

The source of the data used in this analysis is Sherlock Company surveys of fourteen Blue Cross Blue Shield Plans. They collectively serve 41.5 million members with Comprehensive products, or 61% of all members of Blue Cross Blue Shield Plans not served by public companies. These plans also served 7.8 million people through “Host” relationships with other Plans, plus 7.8 million people through stand-alone dental. Thirteen of the Plans participating in 2021 also participated in 2020.

Trends and Product Mix Changes

Figure 2 shows median year-over-year trends in total administrative expenses and in each cluster of expense. In all cases, trends are shown solely from continuously participating Plans, and all trends are in costs per member per month. The “As Reported” values are trends in costs. “Constant Mix” values are also trends in costs but, in calculating growth, prior year values are reweighted to match this year’s product 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 4.0% compared with 7.1% the prior year.

Cost trends on an as-reported basis reflected a shift in favor of lower cost products. Overall, this was manifest in higher cost growth on an as constant basis, 5.2% versus 4.0% when product mix effects are not considered. The effect of the elimination of mix changes between the years is to increase constant mix cost trends by 1.2 percentage points.

Adaptation to Covid-19 was a notable factor in 2020 enrollment trends. Federal and state governments, faced with the acute threat and uncertain magnitude of the coronavirus, shut down much of the US economy during much of 2020. Since most working age people receive health insurance through their employers, commercial

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%

health plan enrollment declined as products in market segments insulated from those economic policies, FEP, Medicaid and Medicare, continued to grow.

Commercial Insured membership declined by a median of 3.9%, commercial ASO / ASC increased by 4.1%. Since Commercial represents a median of 83.1% of the membership of these Plans, it dominates Plan product mix. This shift in favor of self-insured is the most important driver of mix-related cost decreases. Nevertheless, total commercial declined at a median rate of 1.5%.

A modest but notable factor is that, in one-half the reporting Plans, individual membership increased. Of the thirteen continuously participating plans, ten segmented their commercial membership into individual and group, and of those, five reported increases in the proportion of members that were individual. The increase in the median proportion of Individual of the commercial insured business was 2.2 percentage points, to 21.9%. Sales and Marketing costs ran lower than for the other market segment. This could have had the effect of decreasing apparent cost trends.

Products that serve populations less subject to the economic shutdown showed growth. FEP, the product for US government employees, increased at a median rate of 1.1%. Medicare Advantage, whose members are usually retired, increased at a median rate 6.3%. While only four Plans offered Medicaid, membership increased at a median rate of 10.2%.

Blue Plan's relationship with seniors continues to evolve. Approximately 8% of Blue Cross Blue Shield membership is served by Medicare Supplemental or by MA. In 2019, MA served a median of 24.1% of senior membership. In 2020, that value was 30.2%. The averages also increased from 32.7% to 35.4%.

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 approach.

The change in administrative expenses in 2020 was lower than that of 2019, and the composition of the expense growth is different. All clusters decelerated but the Corporate Services, shown in Figure 2. The decline in growth in Account and Membership Administration was especially notable, followed by a significant decline in growth of Sales and Marketing. The following paragraphs analyze the expense clusters in order of their contribution to the overall trend.

For this presentation of the results of the *Sherlock Benchmarks*, Behavioral Health and Pharmacy Benefits are included, which accelerates total expenses by 0.2%

CORPORATE SERVICES

The Corporate Services Cluster posted the fastest growth among the clusters. The functions in this cluster are 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 the Corporate Services function, distantly followed by Corporate Executive and Governance.

The most rapid growth in the Corporate Services function was in Legal and Risk Management. Outside litigation costs soared, perhaps due to Plans' own and Association-assessed Multi-District Litigation. Risk Management also grew rapidly.

Corporate Executive and Governance was the second greatest contributor to this cluster's growth, as well as the second fastest growing function, at a low double-digit rate. Staffing ratios appeared to have increased, as did Compensation. Non-labor expenses decreased. This function includes management consulting services that are strategic or corporate-wide, as opposed to those specific to certain functions.

The Actuarial function was by far the fastest growing function, stemming from a surge in staffing. It is however a small function so its impact was also small.

Finance and Accounting grew at mid-single digit rates but much of it stemmed from a surge among continuing Plans' credit card charges.

ACCOUNT AND MEMBERSHIP ADMINISTRATION

Account and Membership Administration cost growth declined overall, and was the lowest since 2017. The rate decline in 2020 in this cluster, and overall, was primarily due to Information Systems. Information Systems cost growth, at low single-digits, was the lowest since 2014. Operations and Support Services actually declined in 2020 perhaps stemming from modest investment in this function. By contrast, Customer Services accelerated. At low double digits, its per member expenses grew by at the fastest rate since 2014. In fact, growth in Customer Service costs was not much different than the trends in 2013 and 2014 at the time of the implementation of the Affordable Care Act. Enrollment costs declined per member, similar to 2019, perhaps reflecting membership trends exacerbated by the COVID policy initiatives and perhaps reflecting the increasingly importance of technological solutions to this function. Claim and Encounter Capture and Adjudication grew modestly. In addition to the functions noted above, it also includes direct administrative costs associated with prescription drug and behavioral health benefits.

MEDICAL AND PROVIDER MANAGEMENT

The Medical and Provider Management cluster of expenses also posted declining cost growth, though a smaller decline than other clusters. But growth was greater than expenses as a whole. The growth in Provider Management and Services was higher than 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 Contracting and Provider Audit / Billing Validation.

While Medical Management growth was slower overall, Case Management and especially Nurse Information Line costs sharply increased. Disease Management and Other Medical Management cost growth was also robust.

SALES AND MARKETING

The Sales and Marketing cluster of expenses grew at its slowest pace since 2016. Marketing costs actually declined, the first time since at least 2012. Sales also declined, though barely. Commissions approximated Total expense growth.

The subfunction of Risk Adjustment in Rating and Underwriting also grew, though slower than for the cluster as a whole. Perhaps due to the challenges of communication in a COVID-19 environment, the most rapid growth and greatest acceleration in this cluster was Advertising and Promotion. And while Rating and Underwriting growth was generally modest, it surged in the subfunction of Employer Group Reporting.

As-Reported Trends

Figure 2 shows that the overall cost trends on an as-reported basis were directionally similar to the constant mix growth, though lower overall reflecting a shift in favor of low-cost products. Examples of this shift include the growth of ASO/ASC as against insured and the heightened share of FEP and Medicaid in Plan product portfolios. Overall, and in most cases, the change in growth rates was more dramatic on an as reported basis than on a constant mix basis.

In general, the clusters that contribute to diminished growth were similar though of smaller magnitude. The one exception to this was that the Corporate Services cluster's growth accelerated, compared to declining growth on a constant mix basis. The accelerating growth was chiefly due to the Corporate Services function which sharply accelerated. Actuarial accelerated even faster. All other functions in this cluster decelerated.

The largest difference in the changes was in Sales and Marketing, which grew slower than last year on an as-reported basis, by 2.3 percentage points as against a 1.6 percentage point decline, constant mix. The driver of this was Commissions; while they grew on a constant mix basis, they declined slightly as-reported. This may have stemmed from a shift in favor of self-insured products which typically pay modest commissions to brokers. Marketing costs increased slightly, as opposed to decreasing on a constant mix basis.

The decline in Medical and Provider Management growth was also sharper on an as reported basis. This may also have reflected the growth in self-insured membership. These products tend to have lower Medical Management and Provider Network costs. In addition, FEP has lower Provider Network costs. FEP increased in 2020 as Commercial products declined.

Account and Membership Administration growth declined less sharply than on a constant mix basis. Enrollment costs declined, as they did on a constant mix basis. Customer Services again had its fastest growth since 2014. Information Systems cost growth was very slow: since 2012 only in 2014 was it slower on this basis.

Trends in Factors Driving Costs

The cost trends are consistent with the Plans adapting to the COVID-19 environment. They committed much greater resources to enhancing communication with customers and prospective customers. Examples included (a) Employer Group Reporting, (a) Media and Advertising and Credit Card Fees. They also enhanced communications with their membership by surging Customer Services, and assisted in management of the care in this virtual care environment by increasing Nurse Information Line and also Case Management. Risk Management, with its health insurance purchasing and business continuity planning may also have been affected.

Nevertheless, the Plans had an eye on the future with heightened expenses in Actuarial, Provider Contracting and IS Application and Development. The most notable source of internal financing of these activities was diminished growth in Information Systems, with actual declines in Operations and Support.

COVID-19 occurred as the Multi-District Litigation concluded, which may explain high growth in the Legal functional area.

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 increased by 5.3% to approximately 23 FTEs per 10,000 Commercial Insured members. This includes the effects of outsourced staffing, discussed later. ²

Customer Services had very high increases in staffing ratios and represented most of the staffing ratio increase. Surprisingly, Information Systems was the second greatest contributor to staffing increase. While Operations and Support declined, Security Administration increased staffing growth. Outsourcing tended to decline in this function. Actuarial is among the smallest functional areas but it was also the third largest source of staffing increase. The larger Finance and Accounting functional area increased staffing about the same amount as Actuarial.

Other functions in which many Plans increased staffing ratios include Rating and Underwriting, Marketing and Corporate Services. While Medical Management / Quality Assurance / Wellness staffing growth was flat, the Staff in the Nurse Information Line and Medical Informatics grew rapidly. Enrollment / Membership / Billing staffing was stable.

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
Sales and Marketing	\$7.39	\$9.38	\$11.55	36%
Medical and Provider Management	5.48	5.75	6.99	14%
Account and Membership Administration	15.83	18.74	21.43	26%
Corporate Services	5.52	6.73	7.76	35%
Total Expenses	\$37.09	\$41.36	\$44.84	24%

² 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.

The median and mean proportions of FTEs that were outsourced³ are 12.3% and 11.4%, respectively similar to last year among continuously participating Plans. Areas that are heavily outsourced included Risk Adjustment, Nurse Information Line, Health and Wellness, Applications Acquisition and Development and Imaging.

A few areas increased, such as Provider Relations Services, Disease Management, Other Claim and Encounter Capture and Adjudication and Actuarial. Other areas fell, such as Risk Adjustment, Nurse Information Line, Health and Wellness, Quality Components, Information Systems as a whole and Operations and Support Services and Finance and Accounting.

Median Compensation, including all benefits except OPEB, increased by 3.2%, to a median of \$110,000. Compensation growth was notable in Other Provider Contracting, Nurse Information Line, Enrollment / Membership / Billing, Customer Services, Legal, Audit, Risk Management and Corporate Executive.

With the decline in commercial membership, Sales and Marketing functions sometimes had compensation declines. Functions with declines in compensation included Risk Adjustment and Other Sales.

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

Figure 3 shows the values of administrative expenses for all 14 participating Plans. 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.

Thirteen plans participated in both 2020 and 2021 so the changes shown in Figure 2 are a better measure of trend. For the new Plan and the ones that participated last year, we can know neither their trends, or their changes in product mix. There are some similarities between calculated trends and differences between annual values.

The total PMPM administrative expenses for the universe as a whole, at a median of \$41.36, was 1.1% lower than last year's values, shown in Appendix A. Corporate Services was higher by 7.1% to \$6.73. Activities in this cluster include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities like Facilities, Human Resources and Legal.

³ Outsourced FTEs are often estimated from invoice amounts of BPOs based on the compensation and non-labor costs of Plans that do not themselves outsource.

Account and Membership Administration was higher by 5.8% to \$18.74. 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.

Medical and Provider Management was higher by 1.7% to \$5.75. This group of functions includes Provider Network Management and Services and Medical Management / Quality Assurance / Wellness.

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%

Sales and Marketing was down by 11.3% to \$9.38. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Note also that the values appeared more scattered in 2020 versus 2019, as measured by the coefficient of variation. Overall, and in every cluster except for Medical and Provider Management, coefficients of variation were higher in 2020.

Similarly, dispersion measured by the differences between the 75th and 25th percentile values were wider. In total, this grew by \$1.00, especially in Account and Membership Administration which widened by \$2.73. Sales and Marketing narrowed by \$0.50, as did Corporate Services, but by only \$0.07.

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 83.1% 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 48.9% 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 \$29.33 PMPM, HMO costs \$35.65 while POS costs \$31.38.

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. Per member Enrollment costs also tend to be higher. The single most important insured product is Indemnity and PPO at median of \$56.94 PMPM. HMO costs \$63.63 while POS costs \$57.59.

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 \$30.13 PMPM.

Note that Medicare Supplemental is a below average cost product at \$37.18 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 \$40.48 PMPM. Only five of the Blue Cross Blue Shield Plans provide this product. Interestingly, this product on average represents 13% of the membership for those five Plans and one of the Plans is new to the market.

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%

Medicare products are relatively high cost at \$143.79 and \$194.17 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 \$144.42 PMPM versus \$131.54 PMPM. 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 \$11.91 and \$3.21 PMPM respectively.

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

Many analysts evaluate administrative expenses standardized as percents 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 17.5%, its cost ratio was the highest among the Comprehensive products, which had a median value of 9.5%.

The specialty products, Stand-Alone Medicare Part D and Stand Alone Dental, were relatively high cost products at median values of 10.2% and 18.1%, respectively. These were extremely low-cost products on a PMPM basis.

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
Sales and Marketing	1.7%	2.1%	2.6%	31%
Medical and Provider Management	1.2%	1.3%	1.5%	17%
Account and Membership Administration	3.7%	4.0%	5.0%	25%
Corporate Services	1.2%	1.5%	1.8%	29%
Total Expenses	8.1%	9.5%	10.3%	20%

Medicare Advantage costs, while over three times higher than total PMPM, have ratios of 15.0%, 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 10.8% compared to 16.8%, respectively.

While Medicare SNP is not considered part of "Comprehensive" for the Blue Cross Blue Shield universe, at 17.2%, it is above average for Comprehensive but nearly 5 times higher when calculated PMPM.

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 4.8%, is the lowest cost product expressed in percents. Medicaid was narrowly higher than average on a percent of premium basis, at 10.7%, and was narrowly lower on a PMPM basis.

Commercial ASO/ASC products range from 6.8% of premiums to 7.5% of premiums, and these are lower than average cost on a PMPM basis. Commercial Insured products range from 10.4% of premiums to 11.1% 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 9.5% of premiums, 0.1 percentage points lower than last year. Sales and Marketing decreased by 0.3 percentage points to 2.1% of premium. Medical and Provider Management was slightly higher, by 0.1 percentage points, to 1.3% of premiums as did Corporate Services to 1.5% of premiums. Account and Membership Administration was down by 0.1 percentage points to 4.0%.

How We Performed this Analysis

CHARACTERISTICS OF THE BLUE CROSS BLUE SHIELD UNIVERSE

This analysis is based on the twenty-fourth 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 929 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 23rd analysis of Blue Plans is based on a peer group of fourteen Blue Cross Blue Shield Plans who collectively serve approximately 41.5 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 61% of all Blue comprehensive membership, excluding those served by publicly-traded firms.

Collectively in 2020, the health plan operations of these Plans earned annual premiums plus fees of nearly \$130 billion and nearly \$230 billion in premium equivalents. The median Plan participating in the *Sherlock Benchmarks* this year served 2.1 million people. The Plans were geographically disbursed, serving 22 states. Thirteen of this year's fourteen participants also participated last year.

In addition to the comprehensive members, these Plans also served 36,000 Medicare SNP members, 600,000 members of stand-alone Medicare Part D products and 7.8 million members of Stand-Alone Dental. In addition to these members, collectively, these Plans served 7.8 million Blue Cross Blue Shield members through "Host" relationships with other Blue Plans.

Within the Comprehensive products, 80.6% was commercial. Of the commercial members approximately 65.4% were served under some form of self-insurance arrangement.

Medicare Advantage, with over 1.2 million members, was offered by 12 Plans. It composed approximately 3% of the Comprehensive membership and 10% of revenues for comprehensive products. Groups represented 41.9% of Medicare Advantage membership. With SNP and Stand-Alone Part D, Medicare products represent approximately 11% of total revenues.

Medicare Supplement, offered by all fourteen Plans, was 4.8% of Comprehensive members and 3.8% of revenues for Blue Cross Blue Shield comprehensive products. Medicaid HMO, offered by five Plans, comprised 5.9% of combined membership. FEP served 5.8% 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.

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- 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 of 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.
 - 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 \$19.50 compared with \$8.09 in 2019. The 2020 value was more than 25% of total administrative costs for this set of products.
 - COVID-19 adaptation had costs that are fully reflected in the administrative expenses reported here. They were apparently modest; only four Plans reported them, and the median amount they reported was \$0.43 PMPM and the average cost was \$0.33. Information Systems expenses represented nearly half of those costs, which were primarily in Operations and Support Services. Facilities was a distant second. The reported COVID-19 expense amounts to approximately 1% of total administration and 0.1% of premium equivalents.

Note on the Sherlock Benchmarks

Federal and state governments, faced with the acute threat and uncertain magnitude of the coronavirus, shut down much of the US economy in early 2020. Since most working age people receive health insurance through their employers, we had anticipated that health plan enrollment would decline, and that the remaining membership would shift towards Medicaid. Instead, based on overall cost trends and on the reported COVID-19 adaptation costs of the Plans, the effect was relatively modest.

The *Sherlock Benchmarks* for Blue Cross Blue Shield Plans provide a window to health plan adaptation to this event and to how the Plans built for the future on this foundation. The 14 Plans participating in 2021 served over 41 million people in 2020, or 61% of the Blue Cross Blue Shield members not served by publicly-traded companies. Since 13 of them also participated last year, these Plans provide a unique insight on health plan adaptation.

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 *Plan Management Navigator* results are excerpted from the Blue Cross Blue Shield edition of the 2021 *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, 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. 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. 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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