

Plan Management Navigator

Analytics for Health Plan Administration



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BLUE CROSS BLUE SHIELD PLANS EXPENSES DECLINED IN 2021

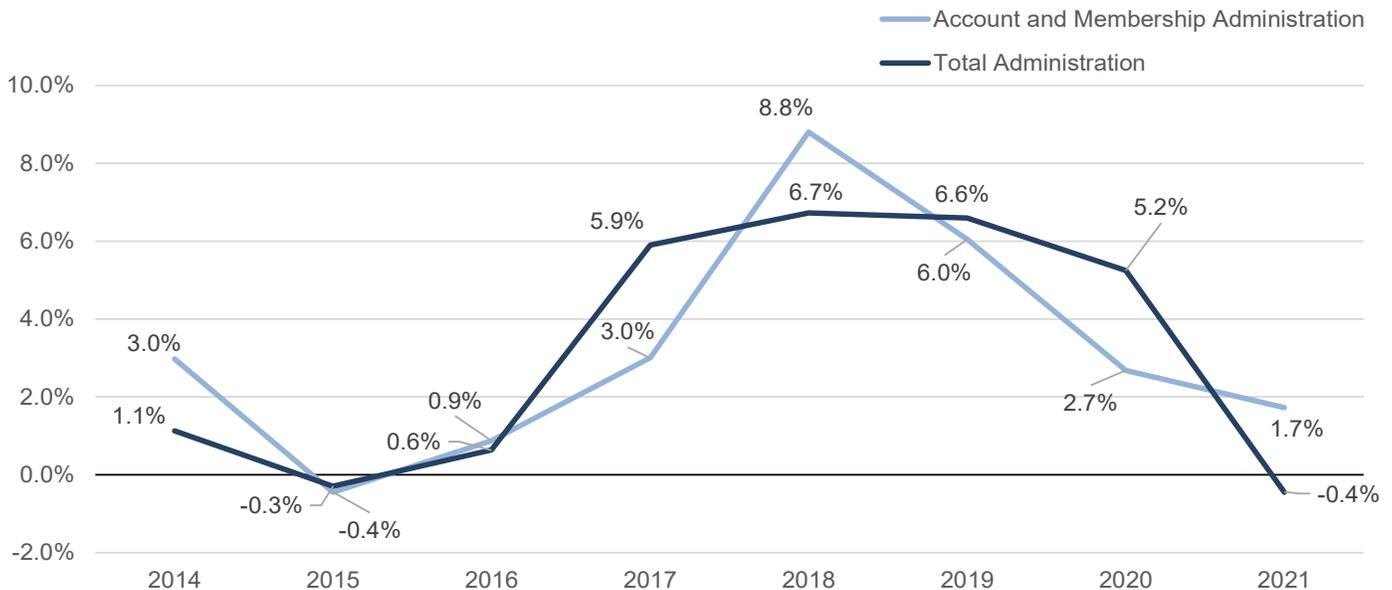
For Blue plans, 2021 reflected trends in membership, the effects of cost management and a redeployment of expenses. Blues experienced a modest decline in costs, the first since 2015. Also, for continuous plans, this was the third year in a row of declines in the rate of growth. Total costs per member per month (PMPM) declined to a median decline of 0.4% from 5.2% in the prior year. The growth in in Account and Membership Administration (representing over 45% of all expenses) fell to 1.7% from 2.7% in 2020. This is shown in Figure 1, reflecting continuously participating plans, after having eliminated the effects of product mix differences between the two years.

Broadly speaking the cost decline entailed a redeployment of resources: Sales and Marketing increased as Corporate Services decreased.

As developed below, the growth in all clusters declined. Of the 16 principle functions, which exclude Miscellaneous Business Taxes, eleven decelerated or declined and five posted increases.

The source of the data used in this analysis is Sherlock Company surveys of sixteen Blue Cross Blue Shield Plans. They collectively serve 49.1 million members with Comprehensive products, or 71% of all members of Blue Cross Blue Shield Plans not served by public companies. These Plans also served 9.6 million people through “Host” relationships with other Plans, plus 7.6 million people through stand-alone dental products. Twelve of the Plans participating in 2022 also participated in 2021.

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. 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 PMPM 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 mentioned in the introduction. On an as-reported basis, for the 12 continuously participating Plans, per member costs showed 0.0% growth compared with 4.0% the prior year. Cost trends on an as-reported basis reflected a shift in favor of higher cost products in addition to the underlying cost trends. Overall, this was manifest in higher cost growth on an as-reported basis. The effect of the elimination of mix changes between the years is to decrease constant mix cost trends by 0.4 percentage points.

Covid-19 adaptation continued to be a factor in 2021 enrollment trends, notwithstanding declines in restrictions by Federal and state governments. Since most working age people receive health insurance through their employers, commercial 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 3.0% while commercial ASO / ASC was flat among continuously participating Plans. Commercial represents a median of 84.0% of the membership of these continuing Plans. Total Commercial declined at a median rate of 1.5%.

Figure 2. Sherlock Benchmark Summary
Blue Cross Blue Shield Median Changes in Per Member Per Month Expenses

Functional Area	2020 Increase		2021 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	1.1%	3.8%	1.2%	2.4%
Medical and Provider Management	6.5%	7.7%	-1.5%	-2.0%
Account and Membership Administration	3.5%	2.7%	-0.3%	1.7%
Corporate Services	10.2%	9.7%	-5.3%	-6.6%
Total Expenses	4.0%	5.2%	0.0%	-0.4%

A modest but notable factor is that, in one-half the reporting Plans, individual membership increased. Of the twelve continuously participating plans, nine segmented their commercial membership into individual and group, and of those, six reported increases in the proportion of members that were individual. The increase in the median proportion of Individual of the commercial insured business increased by 1.0 percentage point, to 17.9%. Sales and Marketing costs run lower for individual than for the Small and Middle market segments. This could have had the effect of decreasing apparent cost trends.

Products that serve populations less subject to the economic policies related to Covid-19 showed growth. FEP, the product for US government employees, increased at a median rate of 0.6%. Medicare Advantage, whose members are usually retired, increased at a median rate 2.4%. While only four continuous Plans offered Medicaid, membership increased at a median rate of 16.4%.

Blue Plan's relationship with seniors continues to evolve. Approximately 8.0% of all Blue Cross Blue Shield membership in our universe is served by Medicare Supplement or by MA, up from 7.8% in 2020. Of that, in 2020, MA served a median of 38.5% of senior membership. In 2021, that value was 41.5%.

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 in this *Navigator* is largely based on this approach. In addition to holding product mix constant, comparisons also hold the participants constant.

As noted earlier, the change in administrative expenses in 2021 was lower than that of 2020. But the composition of the expense growth is different. All clusters decelerated, shown in Figure 2. The decline in growth in Corporate Services was especially notable, a 16.3 percentage point difference from the prior year. The change in Medical and Provider Management also resulted in a striking 9.7 percentage point difference.

For this presentation of the results of the *Sherlock Benchmarks*, trends in Behavioral Health and Pharmacy Benefits are included, which diminishes the decline in total expense growth.

CORPORATE SERVICES CLUSTER

The most important change in cost trends among continuously participating plans was a sharp decline in the Cluster of Corporate Services. This decline occurred in Finance and Accounting, Corporate Services and Association Dues. The Actuarial function increased and the results for Corporate Executive and Governance were mixed.

In particular, the Corporate Services Function declined at near double-digit rates. It was the only decline over the last five years. Its subfunction Legal's decline was especially notable. While more of the activities were outsourced, and there were more FTEs, a slight increase in compensation but a sharp decline in non-labor, presumably external legal services. This was especially notable in the subfunction of All Other Legal which includes mostly routine legal such as litigation, contract preparation and the chief legal officer. Recall that in the prior year, Blue Cross Blue Shield Plans incurred expenses related to their own and Association-assessed Multi-District Litigation.

Other Corporate Services Function activities were also lower. Facilities costs were also lower, apparently stemming from sharply lower non-labor costs. We suppose this may relate to the diminishment of Covid-19 adaptation as well as the greater use of remote working. The direct costs of Covid-19 in the operations of Blue Plans was probably modest in 2020 and appears about one-fourth of that now.

OPEB expenses were also sharply lower. Purchasing costs were also lower. While the number of staff declined, the compensation of those employees was higher. Imaging had a similar causal pattern. Finally, within this function, Risk Management costs sharply increased on a doubling of staff. Non-labor and compensation fell.

The function of Finance and Accounting costs were lower despite a near doubling of Credit Card fees charged to the Plans. The decline in its subfunction of Other Finance and Accounting reflected additional staffing at lower compensation and an increase in outsourcing. This per member decline was unique over the past five years. Association Dues and License/Filing Fees, another function within the Corporate Services cluster, declined.

Corporate Executive function trends were more ambiguous: while the median Plan posted growth in this function, the mean change was a decline. The sharp decline in non-labor expenses appeared to be central as compensation increased less than inflation and staffing ratios increased. Non-labor expenses in the Corporate Executive and Governance area include enterprise management consulting.

Unlike other functions in this cluster, Actuarial expenses grew unambiguously and strongly. While compensation declined slightly, the number of staff increased. Both non-labor and outsourcing also increased.

ACCOUNT AND MEMBERSHIP ADMINISTRATION

Nearly offsetting the Corporate Services cluster decline was an increase in the costs of the cluster of Account and Membership Administration. The increase is modest but the cluster is nearly three times the size of Corporate Services.

Growth came from an unaccustomed source, Claim and Encounter Capture and Adjudication. This function has had slower growth than its cluster for each of the prior four years, at least. Staffing and non-labor in this function appeared to be the chief sources of its growth. In the largest of the subfunctions, Other Claim and Encounter Capture and Adjudication, some increase in compensation was evident along with an increase in staffing and non-labor. Outsourcing also increased. The fastest growing subfunctions were COB and Subrogation, BlueCard Home and Custom Par Fees and Medicare Crossover Fees. The latter two are entirely non-labor and the growing prominence of products for Medicare-eligibles in the product portfolio may have played a role in their growth. The sharp increase in COB and Subrogation seems to arise from a sharp increase in staffing.

Similarly surprising was a slight decline in Information Systems, due to Operations and Support, apparently stemming from a decline in non-labor expenses. One area that sharply increased included the Applications Maintenance subfunction of Benefit Configuration. The surge in the staffing ratio in Benefit Configuration was among the fastest among all Plan activities. Possibly the increasing use of Software as a Service was responsible for the increase in Applications Amortization and Licensing Expenses. The decline in PMPM Information Systems was the first in the past five years.

Enrollment / Membership / Billing costs increased among the Plans, though there was a decline in the staffing ratio. Non-labor and compensation grew.

Indicative of the recovery from Covid-19 adaptation, Customer Services cost trends diverged among the Plans. The staffing ratio for this function declined, which was especially acute in the subfunction of Member Services.

SALES AND MARKETING

The Sales and Marketing cluster of functions grew faster than any other, with the Marketing function growing especially rapidly. The driver of the Marketing function's growth was Product Development and Market Research apparently due to a sharp increase in staffing. On the other hand, Member and Group Communication declined.

Rating and Underwriting also increased with compensation growth being central. Its Employer Group Reporting subfunction grew rapidly, attributable to non-labor cost increases.

Broker commissions increased higher than historic inflation but its size made it the single largest contributor to cluster growth. Sales costs were essentially flat. Compensation growth was high for the Sales function, especially when Internal Commissions are included.

Advertising and Promotion declined in 2021. Staffing increased as non-labor decreased. While Media and Advertising declined, especially in non-labor such as actual advertising expenses for television, billboards print media and the like, Charitable Contributions soared.

MEDICAL AND PROVIDER MANAGEMENT

The per member costs for this cluster declined. While Provider Network Management and Services increased slightly, the far larger Medical Management / Quality Assurance / Wellness declined.

The decline in Medical Management stemmed from a decline in compensation as well as a decline in staffing. Areas of declines included Case Management, Medical Informatics, Utilization Review and Other Medical Management. In each of these instances except Other Medical Management, the trends in Staffing ratios corresponded with cost trends. In Other Medical Management (which includes Medical Directors), the higher staffing ratio corresponded with a decline in per FTE staffing costs. Precertification and Disease Management costs increased.

The costs for Provider Network Management and Services increased, mainly reflecting a higher staffing ratio. While Provider Contracting declined, Provider Relations Services increased rapidly on a surge in staffing. Excluding the ambiguous effect of Provider Configuration costs, the decline in Provider Contracting costs overcame a slight increase in staffing with decline in average compensation and lower non-labor expenses.

As-Reported Trends

Figure 2 shows that the overall cost trends on an as-reported basis were similar to the constant mix growth: expense growth was modest and typically slower than the prior year. But the faster growth compared with Constant mix (flat versus a decline) reflects a shift in favor of higher-cost products. The key example of this is the decline in overall commercial products and the continuing growth in MA.

In general, the clusters that contribute to diminished cost growth were similar. The sharp decline in the Corporate Services costs dominated the overall trends. Costs were redeployed in a modest increase in Sales and Marketing. Most clusters of functions declined from 2020 but, unlike the Constant Mix comparisons, Sales and Marketing trends were very slightly more rapid.

The As-Reported trends in the Corporate Services cluster were quite similar to the Constant Mix trends, with the decline in the Corporate Services function as central to the overall trend. All functions in this cluster either declined or decelerated.

The largest difference in the changes was in Account and Membership Administration which showed a decline of 0.3% rather than the growth of 1.7% on a Constant Mix basis. The big difference was Enrollment / Membership / Billing which decreased slightly rather than increasing on a Constant Mix basis.

Also notably, Medical and Provider Management which showed a 1.5% decline rather than the decline of 2.0% on a Constant Mix basis. On an as-reported basis, Provider Network Management and Services decreased rather than increased.

As noted previous, Sales and Marketing, grew slightly faster than last year on an as-reported basis. Rating and Underwriting and Marketing both accelerated. Sales declined rather than increasing slightly. Advertising and Promotion were similar to the Constant Mix trends. External Broker Commissions grew slower on an as-reported basis.

Trends in Factors Driving Costs

Our approach to understanding the activities of health plans is quantitative and we do not request prospective information. But some of the trends suggest potential strategic initiatives. So we think that perhaps the increase in Product Development, Actuarial, Employer Group Reporting and Benefit Configuration is potentially associated with the development of new and tailored products. The increase in Claims, especially in its FTE growth, may also be associated with such product development.

The increase in Credit Card fees may be associated with the increasing importance of the individual market as well as acceptance of this payment modality for small and middle market groups, as well as the growth in Medicare Advantage.

At the same time, there was evidence of a recovery from a heavily Covid-effected environment. Thus, the costs of Member and Group Communication, Media and Advertising and Member Services, important in an environment where in person communication is more difficult, all declined. Also the decline in Facilities costs may reflect both the scaling back of special sanitary measures and an increased tendency for employees to work outside of traditional service centers.

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. We noted their impact on the functions themselves earlier.

For the continuously reporting plans, staffing ratios decreased by 1.5% to approximately 23 FTEs per 10,000 Commercial Insured members. This includes the effects of outsourced staffing, discussed later.¹

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.

The median proportions of FTEs that were outsourced are 13.5% versus 12.9% for 2020 among continuously participating Plans. Areas that are more than 20% outsourced included Risk Adjustment, Provider Audit / Billing Validation, Nurse Information Line and Health and Wellness

A few areas significantly increased their outsourcing such as Rating and Underwriting, Provider Audit / Billing Validation, Precertification, Case Management, Nurse Information Line, Quality Components, Medical Informatics and Legal.

Median Compensation, including all benefits except OPEB, increased by 0.8%, to a median of \$114,000 among continuing plans. Compensation growth was notable in Other Marketing and Medical Informatics. Declines were notable in Account Services in the Sales function, COB and Subrogation, Benefit Configuration, Pre-Planning Project Costs and Other Finance and Accounting.

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

Figure 3 shows the values of administrative expenses for all 16 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.

The shift towards higher cost products was partly obscured by the differences between the universes that participated in 2021 and 2022. Of the 14 Plans that participated in 2021, 12 continued to participate in 2022. In addition, four Plans that did not participate in 2021 elected to do so in 2022. In comparing the respective universes, both their product costs and product mix differed.

Twelve plans participated in both 2021 and 2022 so the changes 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. However, there are some similarities between calculated trends and differences between annual values.

Figure 3. Sherlock Benchmark Summary
Blue Cross Blue Shield Costs by Functional Area Cluster, 2021 Results
Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$7.45	\$10.60	\$13.05	44%
Medical and Provider Management	5.08	5.99	7.04	22%
Account and Membership Administration	16.14	18.29	21.27	26%
Corporate Services	5.16	6.23	7.59	33%
Total Expenses	\$37.07	\$41.66	\$43.48	27%

² Outsourced FTEs are often estimated from invoice amounts of BPOs and other similar vendors based on the compensation and non-labor costs of Plans that do not themselves outsource.

The total PMPM administrative expenses for the universe as a whole, at a median of \$41.66, was 0.7% higher than last year's values, shown in Appendix A. Sales and Marketing was up by 13.0% to \$10.60. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Corporate Services was lower by 7.4% to \$6.23. Activities in this cluster include Corporate Executive, Actuarial, Finance and Accounting, and the Corporate Services *function*, a group of other activities like Facilities, Human Resources and Legal.

Medical and Provider Management was higher by 4.2% to \$5.99. This group of functions includes Provider Network Management and Services and Medical Management / Quality Assurance / Wellness.

Account and Membership Administration was lower by 2.4% to \$18.29. 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.

Measured by the coefficient of variation the values appeared more scattered in 2021 versus 2020. Overall, and in every cluster except for Corporate Services, coefficients of variation were higher in 2021 versus 2020.

By contrast, dispersion measured by the differences between the 75th and 25th percentile values were narrower. In total, this declined by \$1.35 and Account and Membership Administration also declined. The other clusters were more dispersed.

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 83.4% of the comprehensive membership for all of the 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 reflects group size.

As a sector, Blue Cross Blue Shield Plans have a heavy commitment to ASO/ASC products, representing a median of 49.6% 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 \$29.55 PMPM, HMO costs \$35.56 while POS costs \$37.52.

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 \$55.10 PMPM. HMO costs \$52.94 while POS costs \$54.56.

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 \$28.02 PMPM.

Figure 4. Sherlock Benchmark Summary
Blue Cross Blue Shield Costs by Product, 2021 Results
Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$51.13	\$52.94	\$68.62	30%
ASO / ASC	\$29.71	\$35.56	\$38.63	40%
Commercial POS				
Insured	\$46.15	\$54.46	\$62.32	18%
ASO / ASC	\$29.65	\$37.52	\$38.87	18%
Indemnity & PPO				
Insured	\$51.11	\$55.10	\$63.36	29%
ASO / ASC	\$23.75	\$29.04	\$36.79	26%
Commercial Insured	\$52.26	\$54.10	\$59.81	19%
Commercial ASO/ASC	\$23.54	\$29.55	\$37.15	26%
FEP	\$23.50	\$28.02	\$32.14	21%
Medicare Advantage				
Individual	\$113.41	\$157.67	\$168.08	47%
Group	\$104.48	\$147.23	\$174.11	54%
Medicare Advantage Total	\$113.20	\$145.39	\$172.57	48%
Medicaid	\$27.47	\$36.60	\$38.35	38%
Medicare Supplemental	\$30.12	\$35.18	\$41.63	45%
Comprehensive Total	\$37.07	\$41.66	\$43.48	27%
Medicare Advantage SNP	\$141.70	\$192.56	\$200.73	39%
Stand-Alone Medicare Part D	\$8.86	\$16.09	\$19.38	115%
Stand Alone Dental	\$2.56	\$3.23	\$3.67	139%

Note that Medicare Supplemental is a below average cost product at \$35.18 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 \$36.60 PMPM. Only five of the Blue Cross Blue Shield Plans provide this product. Interestingly, this product represents a median of 15.5% of the membership for those five Plans.

Medicare products are relatively high cost at \$145.39 and \$192.56 PMPM for Medicare Advantage and Medicare Special Needs Plans respectively. (The Blue Cross Blue Shield Plan peer group excludes Medicare SNP from Comprehensive.) Note that, within Medicare Advantage, Individual runs higher than Group at \$157.67 PMPM versus \$147.23 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 \$16.09 and \$3.23 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 17.0%, its cost ratio was the highest among the Comprehensive products, which had a median value of 8.7%.

The specialty products, Stand-Alone Medicare Part D and Stand Alone Dental, were relatively high cost products at median values of 18.3% and 17.8%, respectively. These were extremely low-cost products on a PMPM basis.

Medicare Advantage costs, while nearly three times higher than Commercial Insured PMPM, have ratios of 14.8%, less than 50% greater than Commercial Insured. Similar to costs expressed on a PMPM basis, Group Medicare’s costs on a percent of premiums basis is 10.8% compared with Individuals at 15.7%.

While Medicare SNP is not considered part of “Comprehensive” for the Blue Cross Blue Shield universe, at 9.0%, it is slightly less than Commercial Insured but nearly four 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 4.7%, is the lowest cost product expressed in percents. Medicaid was higher than average on a percent of premium basis, at 10.2%, and was lower on a PMPM basis.

Commercial ASO/ASC products range from 6.7% of premiums to 7.4% of premiums, and these are lower than average cost on a PMPM basis as well as on a percent of premium basis. Commercial Insured products range from 9.3% of premiums to 10.6% of premiums, higher than average, similar to relative PMPM costs. Lower Sales and Marketing for self-insured groups is a key reason for the lower costs of the ASO/ASC products.

Figure 5. Sherlock Benchmark Summary
Blue Cross Blue Shield Costs by Product, 2021 Results
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	7.9%	9.3%	10.8%	25%
ASO / ASC	5.8%	6.7%	7.5%	28%
Commercial POS				
Insured	8.3%	9.8%	10.4%	16%
ASO / ASC	6.3%	7.4%	8.6%	23%
Indemnity & PPO				
Insured	9.8%	10.6%	11.4%	21%
ASO / ASC	6.0%	7.0%	8.4%	171%
Commercial Insured	9.5%	10.3%	11.3%	20%
Commercial ASO/ASC	6.1%	6.9%	8.4%	173%
FEP	3.9%	4.7%	5.8%	27%
Medicare Advantage				
Individual	11.7%	15.7%	18.5%	49%
Group	10.3%	10.8%	14.1%	65%
Medicare Advantage Total	11.6%	14.8%	18.5%	51%
Medicaid	8.1%	10.2%	11.5%	27%
Medicare Supplemental	14.5%	17.0%	22.2%	36%
Comprehensive Total	7.6%	8.7%	9.5%	22%
Medicare Advantage SNP	7.8%	9.0%	11.3%	37%
Stand-Alone Medicare Part D	7.5%	18.3%	22.0%	58%
Stand Alone Dental	13.0%	17.8%	22.4%	38%

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. As with the previous section, the term “premiums” refers to premium equivalents.

Administrative expenses were 8.7% of premiums, 0.8 percentage points lower than last year. Sales and Marketing decreased by 0.1 percentage points to 2.1% of premium. Medical and Provider Management was unchanged at 1.3% of premiums. Corporate Services declined 0.1 percentage points to 1.3% of premiums. Account and Membership Administration was down by 0.3 percentage points to 3.7% percent of premiums.

How We Performed this Analysis

CHARACTERISTICS OF THE BLUE CROSS BLUE SHIELD UNIVERSE

This analysis is based on the twenty-fifth 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, more than 950 health plan years.

Each peer group in the *Sherlock Benchmarks* is established to be relatively uniform. So, within that constraint, participation in this set 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 24th analysis of Blue Plans is based on a peer group of sixteen Blue Cross Blue Shield Plans who collectively serve approximately 49.1 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 71% of all Blue comprehensive membership, excluding those served by publicly-traded firms.

Figure 6. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2021 Results
Median Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	1.7%	2.1%	2.7%	40%
Medical and Provider Management	1.1%	1.3%	1.4%	21%
Account and Membership Administration	3.5%	3.7%	4.4%	23%
Corporate Services	1.1%	1.3%	1.5%	27%
Total Expenses	7.6%	8.7%	9.5%	22%

Collectively in 2021, the health plan operations of these Plans earned annual premiums plus fees of \$158 billion and nearly \$280 billion in premium equivalents for Comprehensive products only. The total revenues for the group were \$162 billion in 2021. The median Plan participating in the *Sherlock Benchmarks* this year served 2.2 million people. The Plans were geographically disbursed, serving 24 states. Twelve of this year's sixteen participants also participated last year.

In addition to the comprehensive members, these Plans also served 38,000 Medicare SNP members, 651,000 members of stand-alone Medicare Part D products and 7.6 million members of Stand-Alone Dental. In addition to these members, collectively, these Plans served 9.6 million Blue Cross Blue Shield members through "Host" relationships with other Blue Plans.

Collectively, within the Comprehensive products, 80.5% was commercial. Of the commercial members approximately 64.2% were served under some form of self-insurance arrangement.

Medicare Advantage, with over 1.6 million members, was offered by 15 Plans. It composed 3.3% of the Comprehensive membership and 11.9% of revenues for comprehensive products. Members in groups represented 31.3% of Medicare Advantage membership. With SNP and Stand-Alone Part D, Total Medicare Advantage products represent 12.6% of total revenues.

Medicare Supplement, offered by all sixteen Plans, was 4.7% of Comprehensive members and 3.4% of revenues for Blue Cross Blue Shield Comprehensive products. Medicaid HMO, offered by five Plans, comprised 6.5% of combined membership. FEP served 5.0% 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 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 their years.

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- 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 2021 *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, and they may vary based on public policy. For Commercial Insured products, the median PMPM value of such taxes is \$7.69 compared with \$19.50 in 2020. The 2021 value was more than 12% of total administrative costs for this set of products.
 - Covid-19 adaptation costs were fully reflected in the administrative expenses reported here. They were apparently modest; only three Plans reported them for the 2022 cycle reflecting 2021 results. Their costs averaged \$0.10 with a median of \$0.08, with Customer Services representing a plurality of their reported costs. In the prior year’s cycle, 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 2020 costs, which were primarily in Operations and Support Services. Facilities was a distant second.

Note on the Sherlock Benchmarks

The *Sherlock Benchmarks* are the health plan industry's metrics informing the management of administrative activities. They are based on validated surveys of health plans serving 60 million Americans and provide costs and their drivers on key administrative activities.

The Benchmarks are reported in multiple universes of health plans: Larger Plans, Blue Cross Blue Shield, Independent / Provider-Sponsored, Medicare, Medicaid.

The *Sherlock Benchmarks* are the "gold standard" of health plan administrative cost benchmarks. Health plans use them to determine whether their administrative costs are competitive, to prioritize for improvement among numerous specific activities and to identify cost drivers such as staffing ratios that, overall and within functions, can help implement those improvements.

These *Plan Management Navigator* results are excerpted from the Blue Cross Blue Shield edition of the 2022 *Sherlock Benchmarks*. 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 <https://sherlockco.com/sherlock-benchmarks/>

Our 2022 edition Brochure is found here.

<https://sherlockco.com/docs/Brochure/Sherlock%20Benchmarks%20Digital%20Brochure%20S%20June%202022.pdf>

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

<https://sherlockco.com/test-drive/>

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)

You will be among good company.

Appendix A. 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%

Appendix B. 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%

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