

ADMINISTRATIVE COST TRENDS OF BLUE CROSS BLUE SHIELD PLANS IN 2022



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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

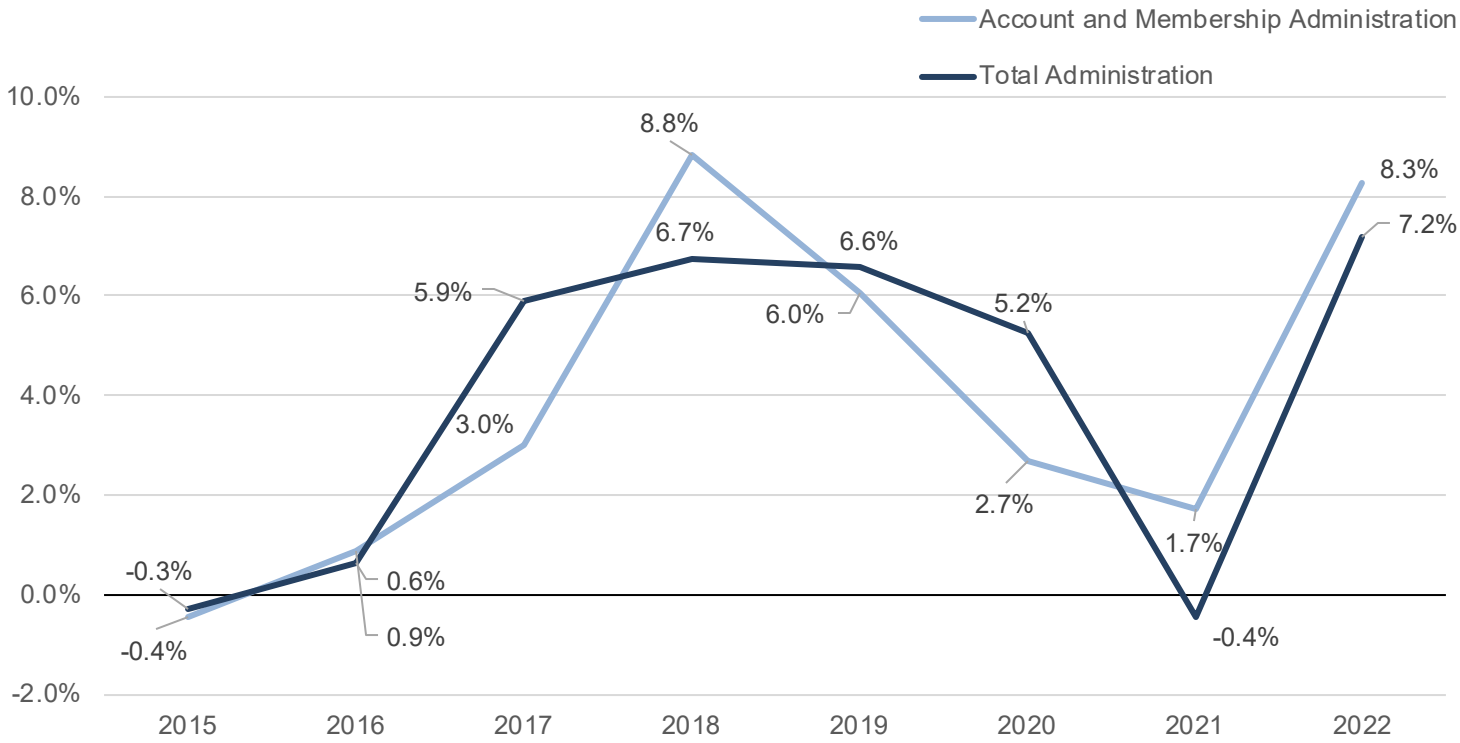
Racing workboats is our metaphor for health plans striving for performance improvement.



TOTAL COSTS SHARPLY ACCELERATED. A&M ADMINISTRATION GROWTH ALSO SURGED.

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 THE SAME AS AS-REPORTED.

Figure 2. Sherlock Benchmark Summary

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

Functional Area	2021 Increase		2022 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	1.2%	2.4%	3.5%	3.3%
Medical and Provider Management	-1.5%	-2.0%	5.4%	4.4%
Account and Membership Administration	-0.3%	1.7%	9.4%	8.3%
Corporate Services	-5.3%	-6.6%	5.2%	5.7%
Total Expenses	0.0%	-0.4%	7.2%	7.2%

Constant Mix adjusts to exclude product mix differences between years.

SOURCES OF “REAL” GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2022

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	3.3%	Sales ↑	Commissions ↑
Med & Provider	4.4%	Prov. Net. Management ↑	Prov. Net. Management ↑
Acct & Membership	8.3%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>5.7%</u>	Actuarial ↑	Corporate Services ↑
Total	7.2%	Customer Services ↑	Information Systems ↑



SOURCES OF REPORTED GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2022

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	3.5%	Sales ↑	Commissions ↑
Med & Provider	5.4%	Prov. Net. Management ↑	Medical Management ↑
Acct & Membership	9.4%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>5.2%</u>	Corp. Executive Gov. ↑	Corporate Services ↑
Total	7.2%	Customer Services ↑	Information Systems ↑



COMPARED WITH 2021, COSTS WERE 8.9% HIGHER IN 2022. COST TRENDS, CHANGES IN THE PRODUCT MIX AND UNIVERSE WERE RESPONSIBLE. A LOOSE RELATIONSHIP TO PMPM GROWTH.

Figure 3. Sherlock Benchmark Summary
Blue Cross Blue Shield Costs by Functional Area Cluster, 2022 Results
Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2021 Values Median
Sales and Marketing	\$8.98	\$11.31	\$15.61	40%	\$10.60
Medical and Provider Management	5.44	6.78	7.55	22%	5.99
Account and Membership Administration	18.22	20.76	23.12	25%	18.29
Corporate Services	5.36	6.78	8.19	32%	6.23
Total Expenses	\$40.91	\$45.36	\$52.41	24%	\$41.66

PMPMs VARY BY PRODUCT.

Figure 4. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2022 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$54.63	\$67.78	\$73.06	34%
ASO / ASC	\$35.94	\$40.40	\$45.69	38%
Commercial POS				
Insured	\$52.60	\$59.96	\$61.33	12%
ASO / ASC	\$28.78	\$35.01	\$40.76	22%
Indemnity & PPO				
Insured	\$55.94	\$60.77	\$70.32	25%
ASO / ASC	\$26.91	\$32.61	\$39.07	36%
Commercial Insured	\$56.28	\$61.50	\$69.10	14%
Commercial ASO/ASC	\$26.57	\$32.65	\$39.14	35%
FEP	\$26.48	\$31.64	\$34.39	21%
Medicare Advantage				
Individual	\$122.23	\$152.68	\$165.11	25%
Group	\$94.09	\$120.45	\$157.66	32%
Medicare Advantage Total	\$121.23	\$150.25	\$164.39	25%
Medicaid	\$29.91	\$36.86	\$43.99	41%
Medicare Supplemental	\$32.25	\$39.30	\$47.81	32%
Comprehensive Total	\$40.91	\$45.36	\$52.41	24%
Medicare Advantage SNP	\$172.09	\$197.45	\$271.86	48%
Stand-Alone Medicare Part D	\$12.17	\$18.10	\$20.76	40%
Stand Alone Dental	\$2.65	\$3.58	\$7.01	111%



PERCENTS USUALLY ORDERED SIMILARLY TO PMPMs.

Figure 5. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Product, 2022 Results
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	9.6%	11.2%	13.7%	29%
ASO / ASC	5.4%	7.3%	8.4%	28%
Commercial POS				
Insured	8.9%	9.0%	10.4%	17%
ASO / ASC	6.0%	6.5%	7.4%	21%
Indemnity & PPO				
Insured	9.9%	11.2%	11.5%	15%
ASO / ASC	6.4%	7.4%	9.0%	24%
Commercial Insured	10.1%	11.1%	11.5%	13%
Commercial ASO/ASC	6.4%	7.1%	9.0%	23%
FEP	4.4%	5.3%	6.2%	27%
Medicare Advantage				
Individual	12.1%	16.6%	17.6%	28%
Group	7.5%	10.8%	13.6%	34%
Medicare Advantage Total	12.0%	16.2%	17.3%	28%
Medicaid	7.3%	8.4%	10.4%	31%
Medicare Supplemental	15.5%	18.8%	25.1%	30%
Comprehensive Total	8.2%	8.9%	10.0%	15%
Medicare Advantage SNP	8.8%	12.1%	16.5%	48%
Stand-Alone Medicare Part D	11.1%	19.2%	24.4%	52%
Stand Alone Dental	13.3%	20.3%	23.1%	56%

ALL CLUSTERS INCREASED IN COMPARISON TO THE 2021 VALUES, ESPECIALLY ACCOUNT AND MEMBERSHIP ADMINISTRATION AND SALES AND MARKETING. LITTLE RELATIONSHIP TO COST TRENDS.

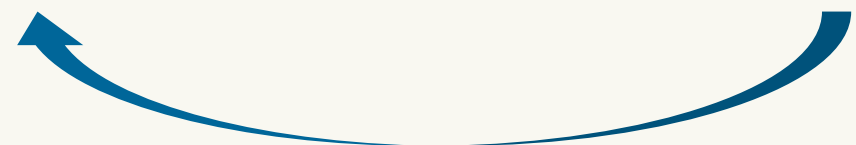
Figure 6. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2022 Results

Median Percent of Premium Equivalents

*2021
Values*

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Sales and Marketing	1.8%	2.2%	3.0%	30%	2.1%
Medical and Provider Management	1.1%	1.3%	1.6%	21%	1.3%
Account and Membership Administration	3.6%	3.9%	4.9%	21%	3.7%
Corporate Services	1.1%	1.4%	1.6%	25%	1.3%
Total Expenses	8.2%	8.9%	10.0%	15%	8.7%



BLUES ADMINISTRATIVE COSTS: ACCELERATED IN 2022



- Blue Plan costs were \$45.36, compared with \$41.66 last year.
- Expenses accelerated from 0% in 2021 to 7.2% in 2022. Holding product mix constant, costs increased by 7.2% versus a 0.4% *decline* in 2021.
- Product mix shifted towards higher and lower cost products. Commercial share declined as Medicare and Medicaid grew.
- Customer Services and Actuarial were the fastest growing functions. IS and Commissions had the greatest impact.
- Account and Membership Admin. Cluster grew fastest and was responsible for greatest increase. Claims grew 2nd fastest in cluster.
- Corp. Services Cluster was second fastest, in line with inflation. Corp. Service function had greatest impact.
- M&P grew modestly. Provider Network grew significantly, on Provider Contracting. Med. Management grew less than inflation.
- Sales and Marketing grew least rapidly: low growth in R&U, sharp decline in Advertising and Promotion.
- Staffing Ratio and compensation both increased. Outsourcing grew.

APPENDIX A. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2021

Appendix A. 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%

APPENDIX B. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2021

Appendix B. 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%

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: 82% of Blue Plans participating this year also participated last year. 71% 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 calculate estimates of staffing ratios by product.
- The **operational metrics** include 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 26th consecutive year. We expect our cumulative experience to total approximately 1,000 plan years. Expect more than 30 organization serving 63 million members to participate in 2023.
- Since June 2020, health plans serving more than 208 million insured Americans use the Sherlock Benchmarks, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Of the 34 U.S.-based Blue Cross Blue Shield primary licensees, seventeen serving approximately 52.2 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Health plans serving 57% members of those served by the Alliance of Community Health Plans participating in this year's Sherlock Benchmarking Study for Independent / Provider – Sponsored health plans. This ratio excludes ACHP's staff model plans
- Health plans serving 36% of those served by the Health Plan Alliance 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) 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) Payment Integrity
 - (e) 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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