

Plan Management Navigator

Analytics for Health Plan Administration



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BLUE CROSS BLUE SHIELD PLANS ADMINISTRATIVE EXPENSES ACCELERATED IN 2022

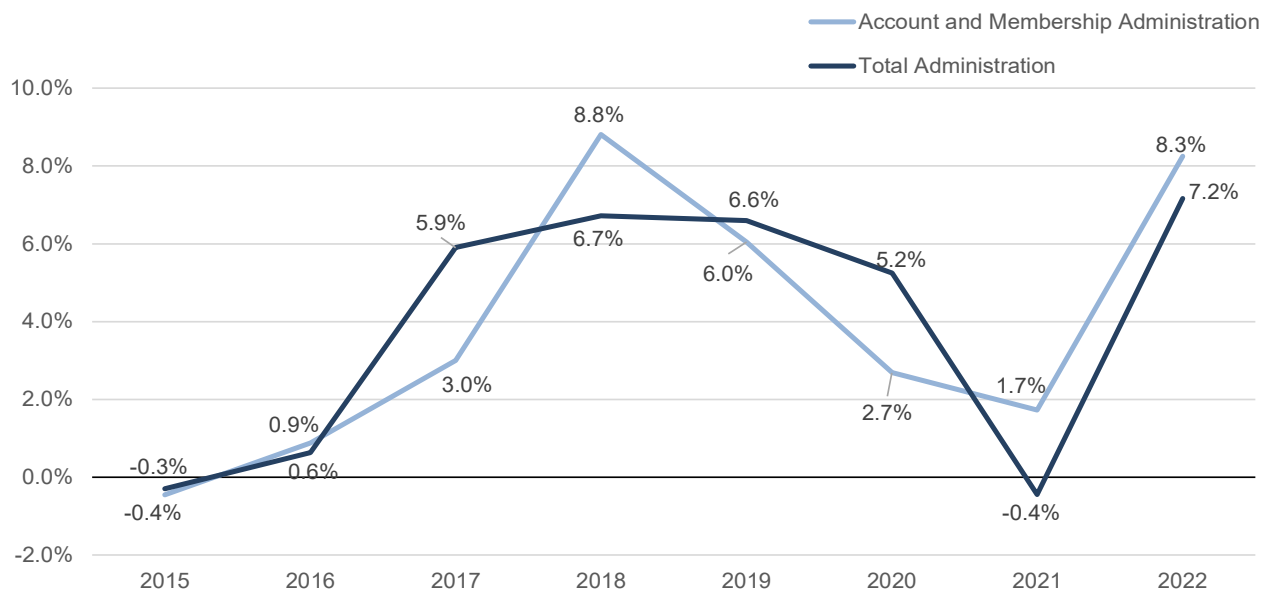
Blue Cross Blue Shield cost growth sharply accelerated in 2022 based on the results of 14 continuously participating Plans in the *Sherlock Benchmarks*. Total per member costs increased from a 0% increase to an increase of 7.2%. After holding the product mix constant, the real cost growth was exactly the same, 7.2%, compared to a 0.4% decline in 2021.

The constant mix increase in costs was higher than recently. Excluding the effect of behavioral health and pharmacy benefits, the constant mix growth was 1.1 percentage points higher than the average over the past five years. The growth in Account and Membership Administration (representing 45% of all expenses) surged 8.3% from 1.7% in 2021. This is shown in Figure 1, reflecting continuously participating Plans, after having eliminated the effects of product mix differences between the two years. The total cost increase is without precedent since 2015, as is the sharpness of the change in trends for Account and Membership Administration.

As developed below, the growth in all clusters increased. Of the 16 principle functions, which exclude Miscellaneous Business Taxes, 14 posted increases while two declined.

Excluding the effect of mix changes, the increase in Information Systems costs was lower than inflation but, because of the size of this functional area, was the most important source of growth. Broker Commissions followed. The fastest growing function was Customer Services, followed by Actuarial. Plan Staffing Ratios increased as did compensation.

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



The as-reported changes were similar with Customer Services growth rate leading and Information Systems being the largest contributor to growth. But, on this basis, Corporate Executive was the second fastest growing function followed by Claim and Encounter Capture and Adjudication and Actuarial.

The source of the data used in this analysis is Sherlock Company surveys of seventeen Blue Cross Blue Shield Plans. They collectively serve 52.2 million members with Comprehensive products, 48% of all members of Blue Cross Blue Shield Plans. This is also 76% of all Blue members of not served by public companies. Participating Plans also served 12.5 million people through “Host” relationships with other Plans, plus 7.4 million people through stand-alone dental products. Fourteen of the Plans participating in 2023 also participated in 2022.

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 product costs are reweighted to match this year’s product mix.

The trends on an as-reported basis were similar to the constant mix trends mentioned in the introduction. On an as-reported basis, for the 14 continuously participating Plans, per member costs showed 7.2% growth compared with 0% the prior year. Cost trends on an as-reported basis reflected a shift in product mix to both low and high administrative cost products in addition to the underlying cost trends. The rates of growth in total PMPM costs on an as-reported basis matched the cost growth on a constant mix basis.

Including the effect of Pharmacy and Behavioral Health, per member Constant Mix administrative costs increased by 7.2% as against 7.2% as reported. We consider constant mix growth to be a more reliable way of looking at trend.

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%

The fourteen continuously participating plans posted growth in low cost and high cost to administer products, diminishing the share in the product portfolio of products in the middle. Total Commercial, with median costs of \$41.98, approached the median comprehensive total of \$45.36: the median decline in these products among continuously participating plans was 0.4%. The share of the portfolio fell from a median of 81.4% to 78.8%. It is notable that, as this segment declined, Medicaid and Medicare Advantage each increased.

Among low cost products, within the commercial segment, ASO/ASC products increased at a median rate of 0.8% as Insured declined by 1.9%, emphasizing the low-cost form of products for this segment. Similarly, Medicaid increased at a median rate of 7.1% while only offered by five of the 14 continuous Plans and on average was 7.1% of the product mix.

On the other hand, there was also a shift in favor of high cost products. FEP, which costs are similar to ASO/ASC, declined at a median rate of 0.1% to a median mix of 4.7%. Also, the high administrative cost Medicare Advantage which is offered by all of the continuously participating plans, had membership growth of 7.1% and now represents 3.5% of members. Low cost Medicare Supplemental declined at a median rate of 0.2% to a median of 3.9%.

As an aside, Blue Plans' relationship with seniors continues to evolve. Approximately 8.1% of all Blue Cross Blue Shield membership in our universe is served by Plans' Medicare Supplement or by MA, up from 8.0% in 2021. Of that, in 2021, MA served a median of 41.5% of senior membership. In 2022, that proportion was 42.7%.

Cost Trends Holding Mix Constant

In our view, trends that exclude mix changes are a more accurate representation of real trends in administrative costs. In addition to holding product mix constant, the comparisons in this section also hold the participants constant. So the trend discussion in this *Navigator* is largely based on this approach.

As noted earlier, the change in administrative expenses in 2022 was far greater than in 2021. All clusters accelerated, shown in Figure 2. The growth in Account and Membership Administration was notable because it exhibited fastest growth though the percentage point change was highest in Corporate Services, 12.3%, resulting from 6.6% decline in 2021 to a 5.7% increase in 2022.

For this presentation of the results of the *Sherlock Benchmarks*, trends in Behavioral Health and Pharmacy Benefits are included. In considering the components of administrative cost increase, we comment only on functions that show unambiguous trends, reflecting key measures of central tendencies. Conversely, we do not consider others to be reliably determined. Also, we are reporting median values throughout which has the limitation and virtue of excluding outliers. Finally, it should be noted that each of these Plans operates with a different management approach depending in part on their individual market circumstances. For instance, one Plan may choose to achieve the same efficiencies through Provider Contracting as another achieves using Medical Management so the trends described in measures of central tendency may not capture this nuance.

ACCOUNT AND MEMBERSHIP ADMINISTRATION

The cluster of Account and Membership Administration represented most of the increase in 2022. This cluster also includes Behavioral Health and Prescription Drug benefits that benefit plan sponsors may elect to provide separately from the Plans through other vendors. This cluster is three times the size of Corporate Services, and increased by 8.3%.

The most important source of cost increase was the Information Systems function. While it was the slowest growing function in its cluster of expenses, and was the sixth lowest increase of the 16 functions, its size made its growth the largest source of growth among functions. The Security Administration and Enforcement subfunction grew the most rapidly, mainly on the growth in its staffing. Application Maintenance also grew rapidly, at near double-digit rates. This was evident in both its activities of Benefit Configuration and Other Applications Maintenance. Staffing ratios sharply increased in both activities. The increase in PMPM Information Systems was, however, below average over the past five years.

Customer Services was the fastest growing function in the cluster and, at low double digits, of all functions. Both Member Services and Grievances and Appeals subfunctions grew rapidly. Staffing ratios increased in both subfunctions and compensation increased in Grievances and Appeals above the cost of living.

Claim and Encounter Capture and Adjudication increased at a low double-digit pace and was the second greatest contributor to total expense growth. This function's growth was double that of the past five years, and exceeded every prior change over that period. Non-labor costs per FTE in this function appeared to be the chief source of its growth. Outsourcing also increased.

The subfunction, Other Claims, the largest of the Claims subfunctions, grew especially rapidly. This function and its comparison to last year includes most of the former Provider Network subfunction of Provider Audit. (Last year's values have been reclassified for comparison purposes.) Next to no increase in compensation was evident but staffing ratios increased.

Blue Card Home and Custom Par increased at near double digit rates. Costs for this subfunction is entirely non-labor.

Enrollment / Membership / Billing grew less than expenses as a whole. Compensation increased below inflation as staffing ratios declined.

CORPORATE SERVICES CLUSTER

The distant second most important Cluster contributing to the change in costs among continuously participating plans was the increase in the Cluster of Corporate Services. It was, at 5.7%, slightly below inflation, and the second fastest rate. All functions in this cluster increased except Association Dues and License / Filing Fees.

More than one half of this cluster was the function of the same name. Its cost growth was nearly three times its average growth over the last five years.

Within the Corporate Services function, there are 10 subfunctions and one of them, Legal, has five subfunctions of its own. Human Resources, Legal, Audit and Purchasing all increased as their staffing ratios increased. Facilities, Risk Management and Other Corporate Services subfunction costs increased due to non-labor and compensation though staffing ratios declined. Risk Management and Other Corporate Services are related since the former arranges for corporate insurance and the latter incurs the cost. OPEB expenses were sharply lower in 2022.

The Actuarial function was the fastest growing function in this cluster and second fastest among all functions. Both its Staffing Ratio and Compensation increased, the latter greater than inflation. Outsourcing declined. Long term, this function's growth has been the highest among all functions.

Finance and Accounting increased slightly. Staffing ratios declined as compensation increased, though below inflation. But its subfunction Credit card fees increased at a double-digit rate. Corporate Executive increased – staffing declined but compensation increased. Outsourcing increased as well in the Corporate Executive functional area.

MEDICAL AND PROVIDER MANAGEMENT

This cluster increased modestly compared with others, by 4.4% PMPM. Both Provider Network Management and Services and Medical Management / Quality Assurance / Wellness per member costs increased. While Provider Network grew faster than cost growth as a whole, Medical Management grew far less than inflation.

The Provider Network Management and Services costs grew fastest, with Provider Contracting apparently a key contributor. Both the Staffing ratio and Compensation appeared to be the drivers for both the function and subfunction. Provider Relations Services growth was modest as non-labor cost trends tempered the effects of higher staffing ratios and compensation.

Medical Management grew relatively modestly. Precertification, Utilization Review and Health and Wellness grew rapidly on increases in Staffing Ratios. Other Medical Management (where medical directors are classified) staffing was essentially unchanged but compensation and non-labor expenses were sharply higher. The other five subfunctions grew more modestly or were ambiguous.

SALES AND MARKETING

The Sales and Marketing cluster grew least rapidly, and posted the fourth slowest growth over the past five years. Its per member increase was 3.3%. The reasons for this appeared to be the combination of low growth in Rating and Underwriting and a notable decline in Advertising and Promotion. The decline in Advertising and Promotion was the largest among all Blue functions, at a mid-single digit rate. Central to this was a plummeting in non-labor costs in Media and Advertising, though Charitable Contributions increased. Rating and Underwriting grew at a near zero pace, the lowest in the past five years. For the function as a whole, the Staffing Ratio appeared to increase as compensation increased somewhat slower than inflation.

Offsetting these two functions' trends, both Broker Commissions and Sales grew at their fastest pace in the past five years, and each of them are larger than Advertising and Promotion.

The Sales function increased at a low double-digit rate with staffing ratios and compensation increasing in Account Services and Other Sales subfunctions. While Broker Commissions are the single greatest function in this cluster, it grew at approximately the inflation rate. Marketing increased at a high single digit rate. Of its subfunctions, Product Development and Market Research and Other Marketing grew rapidly, driven by sharp increases in Staffing Ratios.

For reasons of confidentiality and efficiency the *Sherlock Benchmarks* do not directly ask the reasons for the cost trends. But it is possible that the declines in the Rating and Underwriting subfunction Employer Group Reporting and Advertising and Promotion could be a result of the reverse of the COVID emphasis on media communication in place during a physically isolated time.

As-Reported Trends

Figure 2 shows that the overall cost trends on an as-reported basis was similar to the constant mix growth. The similarity stems from the shift in favor of lower cost products like Medicaid and ASO/ASC offset by rapid growth in high-cost Medicare Advantage among the continuously participating plans. Interestingly, each of the clusters grew more rapidly except for Corporate Services, likely illustrating the limitations of medians in explaining trends that reflect differences in Plan operating philosophies. The focus of the following comments concern differences in cost changes between the two sets of calculations that can be plausibly explained by the effect of the underlying cost growth and mix changes.

Account and Membership Administration. This cluster grew more rapidly on an as-reported basis. The faster growth in Customer Services and Claim and Encounter Capture and Adjudication may be associated with the higher health needs of Medicare Advantage members. On the other hand, Enrollment growth was much lower as Medicaid enrollment costs are very modest compared with Commercial.

Information Systems grew slightly faster than the constant mix trend. Recall that both high cost Medicare Advantage and low cost Medicaid grew far faster than the commercial products. It is notable that the actual PMPM costs of the subfunction of Benefit Configuration is much lower for Medicaid and somewhat lower for Medicare Advantage so that, when you back out product mix change, the cost growth is less.

Medical and Provider Management. On an as-reported basis, costs increased more rapidly for this cluster than if mix is held constant. While the cost growth in Provider Network Management and Services was essentially the same on an as-reported or constant mix basis, it was far higher for Medical Management on an as-reported basis. Recall that Medicare Advantage growth was high and its Medical Management expenses are by far the highest. Medical Management is the larger of the two functions in this cluster and so dominates the cluster's cost growth.

Corporate Services. This cost growth was slower on an as reported basis. Except for Corporate Executive and Governance and Finance and Accounting, each of the functions grew slower than on a Constant Mix basis. Corporate Executive was the fastest growing function in this cluster: this includes CEOs of products with P&L responsibilities greater than those of product managers. Actuarial was the second fastest growing functional area in this cluster.

Sales and Marketing. This function was the slowest growing of the functions on an as-reported basis, similar to the constant mix comparisons. It grew faster than on a constant mix basis. The Rating and Underwriting function grew much faster on an as-reported basis. The Risk Adjustment (often chart review) activities in support of Medicare and Medicaid are greater than Commercial and Medicaid's Risk Adjustment expenses are greater than ASO/ASC. Advertising and Promotion also declined less rapidly. All other functions increased more slowly on this basis.

Trends in Factors Driving Costs

The operational drivers provide additional insights to cost trends. The drivers discussed in this section are estimated staffing ratios, compensation, non-labor costs and propensity to outsource. We previously noted their impact on some of the functions themselves.

For the continuously reporting plans, Staffing Ratios increased at a mean rate of 1.9%, excluding the effects of product mix shifts. The median staffing ratio was 19.7 FTEs per 10,000 among the continuous plans and was 20.6 for all Plans. For Commercial Insured, a mainstay set of products, staffing ratios were 22.6 FTEs per 10,000 members for all Plans and 21.8 for continuous Plans. This includes the effects of outsourced staffing, discussed later.¹

Rating and Underwriting, Advertising and Promotion, Customer Services and Actuarial all significantly increased staff, as Finance and Accounting, Corporate Services and Corporate Executive staffing declined.

The median proportions of FTEs that were outsourced² are 12.4% for all Plans versus 12.3% for 2022 among continuously participating Plans. For the set of all Plans, subfunctions that are more than 20% outsourced included Risk Adjustment, Nurse Information Line, Health and Wellness, Payment Integrity and Applications Amortization and Licensing Expenses.

Overall, the percent of FTEs outsourced by continuously participating plans increased by 0.6 percentage points. A few functions substantially increased their outsourcing such as Marketing, Provider Network Management and Services and Corporate Executive & Governance. Substantial declines in outsourcing included Enrollment / Membership / Billing, Finance and Accounting and Actuarial.

Median compensation, including all benefits except OPEB, increased by 5.9% among continuous plans, below inflation. The median was \$130,000 among all Plans. Compensation growth was notable in Advertising and Promotion, Medical Management / Quality Assurance / Wellness and Corporate Executive & Governance. Functions with median compensation levels at least 30% higher than Plans' median included Product Development and Market Research, Other Marketing (including product leaders), Other Medical Management (including medical directors), Security Administration and Enforcement, Actuarial, Legal, Risk Management and Corporate Executive.

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.

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.

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

Figure 3 shows the values of administrative expenses for all 17 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. In some ways, the changes parallel the trends in Figure 2 as there are some similarities between calculated trends and differences between annual values.

Fourteen plans participated in both 2022 and 2023 so the changes shown in Figure 2 are a better measure of trend. Of the 16 Plans that participated in 2022, 14 continued to participate in 2023. In addition, three Plans that did not participate in 2022 elected to do so in 2023. In comparing the respective universes, both their product costs and product mix differed.

The total PMPM administrative expenses for the universe as a whole, at a median of \$45.36, was 8.9% higher than last year's values, shown in Appendix A. Sales and Marketing was up by 6.7% to \$11.31. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Corporate Services was higher by 8.8% to \$6.78. 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 13.1% to \$6.78. This group of functions includes Provider Network Management and Services and Medical Management / Quality Assurance / Wellness.

Account and Membership Administration was higher by 13.5% to \$20.76. This cluster includes the central activities of Information Systems, Enrollment, Claims and Customer Services. This is by far the largest cluster of expenses and it has an outsized effect on cost trends.

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
Sales and Marketing	\$8.98	\$11.31	\$15.61	40%
Medical and Provider Management	5.44	6.78	7.55	22%
Account and Membership Administration	18.22	20.76	23.12	25%
Corporate Services	5.36	6.78	8.19	32%
Total Expenses	\$40.91	\$45.36	\$52.41	24%

Measured by the coefficient of variation the values appeared more clustered in 2022 versus 2021. Overall, and in every cluster except for Medical and Provider Management, which was unchanged, coefficients of variation were lower in 2022 versus 2021. In total, it declined by 3.3 percentage points to 24%.

On the other hand, dispersion measured by the differences between the 75th and 25th percentile values increased. In total, this increased by \$5.09 though Account and Membership Administration declined. The other clusters were more dispersed, though the effect of higher dollar values for function costs contributed.

Costs of Blue Cross Blue Shield Plans, PMPM by Product

Earlier we emphasized comparisons that held product mix constant. We did this by reweighting product costs in the prior year to match that of the current year. The importance of considering the product cost values is shown in Figure 4 because products vary greatly in their per member costs.

The median mix of Commercial products was 78.4% of the comprehensive membership for all of the participating Plans. Administrative expenses for Commercial 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 46.8% 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 in bearing the medical cost variance risk: this also means that group Sales and Marketing costs are spread through greater numbers of members. For ASO/ASC, Indemnity and PPO costs a median of \$32.61 PMPM, HMO costs \$40.40 while POS costs \$35.01.

By contrast, without the ability to spread Sales and Marketing costs over more numerous members in each smaller group or individual sold, 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 a median of \$60.77 PMPM. HMO costs \$67.78 while POS costs \$59.96.

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 and directly assumes certain distribution and enrollment costs, the Plans incur the low Sales and Marketing cost characteristic of ASO/ASC commercial products. Its costs are \$31.64 PMPM.

Note that Medicare Supplemental is a below average cost product at \$39.30 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 \$36.86 PMPM. Only eight of the Blue Cross Blue Shield Plans in our set provide this product. Interestingly, this product represents a median of 14.9% of the membership for those eight Plans.

Medicare products are relatively high cost at \$150.25 and \$197.45 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 \$152.68 PMPM versus \$120.45 PMPM. As with commercial products, some Sales and Marketing and Enrollment costs are lower for the Group Medicare Advantage business.

The specialty products of Stand-Alone Medicare Part D and Stand-Alone Dental were very low cost products at median values of \$18.10 and \$3.58 PMPM respectively.

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%

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” are expressed as premium equivalents in self-insured products. We calculate premium *equivalents* as the sum of fees to self-insured groups plus the health benefits associated with those groups.

The product ranking of administrative expenses measured by the percents of premiums corresponds with that of the PMPM costs with some important exceptions. While Medicare Supplement is below average cost when measured PMPM, at 18.8%, its cost ratio was the highest among the Comprehensive products, which had a median value of 8.9%. This product serves as a secondary payor but may include some expenses normally associated with being a primary payor.

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%

The specialty products, Stand-Alone Medicare Part D and Stand Alone Dental, were relatively high cost products at median values of 19.2% and 20.3%, respectively. These were extremely low-cost products on a PMPM basis.

Medicare Advantage costs, while two and a half times higher than Commercial Insured PMPM, have administrative ratios of 16.2%, 45% 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 16.6%.

While Medicare SNP is not considered part of "Comprehensive" for the Blue Cross Blue Shield universe, at 12.1%, it is a percentage point greater than Commercial Insured but more than three 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 5.3%, is the lowest cost product when expressed in percent. Medicaid was lower than average on a percent of premium basis, at 8.4%, and was also lower on a PMPM basis.

Commercial ASO/ASC products range from 6.5% 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 9.0% of premiums to 11.2% 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.

Costs of Blue Cross Blue Shield Plans, Expense Clusters as Percent of Premium

Figure 6 shows the ratios of administrative expenses to premium 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 8.9% of premium equivalents, 0.2 percentage points higher than last year. Sales and Marketing increased by 0.2 percentage points to 2.2% of premium equivalents. Medical and Provider Management was unchanged at 1.3%. Corporate Services was unchanged at 1.4%. Account and Membership Administration was up by 0.1 percentage point to 3.9% percent of premium equivalents.

Figure 6. Sherlock Benchmark Summary**Blue Cross Blue Shield Costs by Functional Area Cluster, 2022 Results***Median Percent of Premium Equivalents*

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

How We Performed this Analysis

CHARACTERISTICS OF THE BLUE CROSS BLUE SHIELD UNIVERSE

This analysis is based on the twenty-sixth 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 October, more than 1,000 health benefit organization years.

Each peer group in the *Sherlock Benchmarks* is established to be relatively uniform. So, within that constraint, participation is open to 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 25th analysis of Blue Plans is based on a peer group of seventeen Blue Cross Blue Shield Plans who collectively serve approximately 52.2 million people, not including Host, specialty, and other products. This universe is quite robust. Participants in this year's study serve about 48% of all Blue Cross Blue Shield members. Excluding those served by publicly-traded firms, the participants in this year's study serve 76% of all Blue comprehensive membership.

Collectively in 2022, the health plan operations of these Plans earned annual premiums plus fees of \$186 billion and \$316 billion in premium equivalents for comprehensive products. The total revenues for the group were \$189 billion in 2022. The median Plan participating in the *Sherlock Benchmarks* this year served 2.1 million people with comprehensive products. The Plans were geographically disbursed, serving 26 states. Fourteen of this year's seventeen participants also participated last year. The average participation experience in the Blue Cross Blue Shield universe of the *Sherlock Benchmarks* is 15.5 years.

In addition to the comprehensive members, these Plans also served 46,000 Medicare SNP members, 743,000 members of stand-alone Medicare Part D products and 7.4 million members of Stand-Alone Dental. In addition to these members, the Plans served 12.5 million Blue Cross Blue Shield members through "Host" relationships with other Blue Plans.

Collectively, within the comprehensive products, 78.9% was commercial. Of the commercial members approximately 62.5% were served through self-insurance arrangements.

Medicare Advantage, with 1.8 million members, was offered by 16 Plans. It composed 3.4% of the combined comprehensive membership and 11.6% of revenues for comprehensive products. Members in groups represented 29.0% of Medicare Advantage membership. With SNP and Stand-Alone Part D, Total Medicare Advantage products represent 12.3% of total revenues.

Medicare Supplement, offered by all seventeen Plans, was 4.6% of comprehensive members and 3.1% of revenues for Blue Cross Blue Shield comprehensive products. In total, 15.4% of combined Plan revenues arises from products sold to seniors.

Medicaid HMO, offered by 8 Plans, comprised 7.6% of combined membership. FEP served 5.4% 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 measure of central tendency 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 product costs to eliminate the effect of product mix differences between their 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.

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- 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 behavioral health while the *Sherlock Benchmarks* do not. Because of variation in contracting by employers for these benefits and that the administration of these health services is sometimes outsourced by Plans who accept these management responsibilities, the Benchmark reports carve them out. Pages 22 - 24 in Tab 2 of Volume I of the 2023 *Sherlock Benchmarks* reconciles these two presentations.
 - 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 \$10.19 for 2022 compared with \$7.69 in 2021 and \$19.50 in 2020. The 2022 value was nearly 16% of total administrative costs for this set of products.

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 and TPAs.

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 2023 *Sherlock Benchmarks*. We will be reporting on the results of the other universes in the months that follow. Detailed 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 2023 edition Brochure is found here.

<https://sherlockco.com/docs/Brochure/2023%20Benchmarks%20Brochure.pdf>

In addition, the Sherlock Company website has an application that allows you to try out the Benchmarks free of 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, 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. 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. 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