

# ADMINISTRATIVE COST TRENDS OF BLUE CROSS BLUE SHIELD PLANS IN 2023



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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

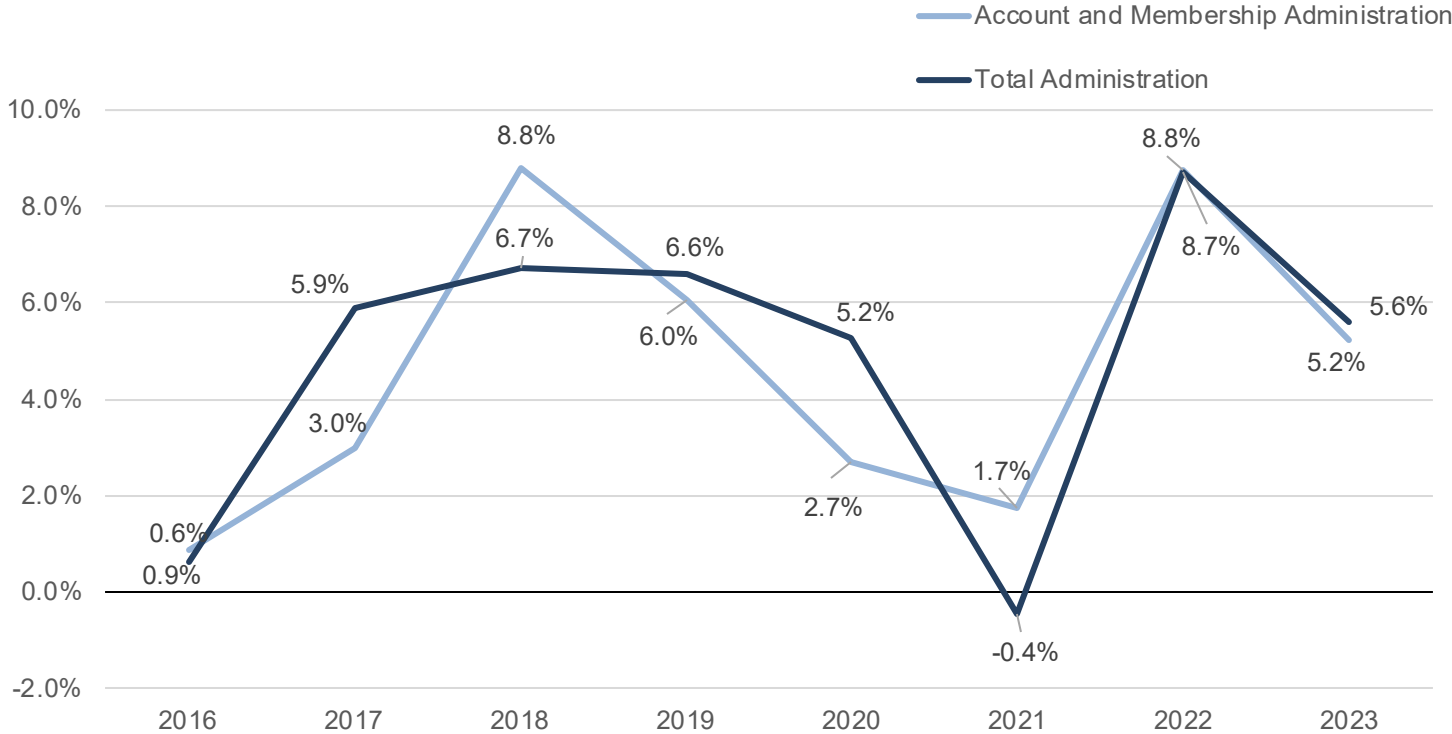
*Racing workboats is our metaphor for health plans striving for performance improvement.*



# TOTAL COST GROWTH SHARPLY DECLINED. A&M ADMINISTRATION GROWTH ALSO DECELERATED.

**Figure 1. Sherlock Benchmark Summary**

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



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

# AMONG CONTINUOUSLY PARTICIPATING PLANS, WHEN MIX IS HELD CONSTANT, COST GROWTH WAS LOWER THAN AS-REPORTED.

**Figure 2. Sherlock Benchmark Summary**

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

Functional Area	2022 Increase		2023 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	3.5%	3.3%	6.0%	6.2%
Medical and Provider Management	6.9%	4.9%	3.5%	3.7%
Account and Membership Administration	10.1%	8.8%	5.6%	5.2%
Corporate Services	5.2%	5.7%	5.9%	5.7%
<b>Total Expenses</b>	7.8%	8.7%	5.9%	5.6%

*Constant Mix adjusts to exclude product mix differences between years.*

# SOURCES OF “REAL” GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2023

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	6.2%	Rating and Underwriting ↑	Commissions ↑
Med & Provider	3.7%	Medical Management ↑	Medical Management ↑
Acct & Membership	5.2%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>5.7%</u>	Assoc. Dues & Lic / Fees ↑	Corporate Svcs <i>Function</i> ↑
Total	5.6%	Customer Services ↑	Information Systems ↑



# SOURCES OF REPORTED GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2023

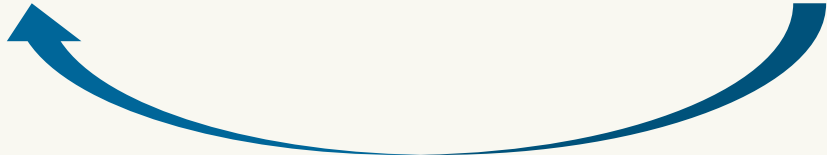
	Chg.	Greatest Change	Highest Weight
Sales & Marketing	6.0%	Rating and Underwriting ↑	Commissions ↑
Med & Provider	3.5%	Prov. Net. Management ↑	Medical Management ↑
Acct & Membership	5.6%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>5.9%</u>	Assoc. Dues & Lic / Fees ↑	Corporate Svcs <i>Function</i> ↑
Total	5.9%	Rating and Underwriting ↑	Information Systems ↑



COMPARED WITH 2022, COSTS WERE 0.6% HIGHER IN 2023. COST TRENDS, CHANGES IN THE PRODUCT MIX AND THE UNIVERSE WERE RESPONSIBLE. A LOOSE RELATIONSHIP TO PMPM GROWTH.

**Figure 3. Sherlock Benchmark Summary**  
Blue Cross Blue Shield Costs by Functional Area Cluster, 2023 Results  
*Median Per Member Per Month Expenses*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>	<b>2022 Values Median</b>
Sales and Marketing	\$8.27	\$11.44	\$14.91	32%	\$11.32
Medical and Provider Management	5.56	6.71	7.84	30%	6.78
Account and Membership Administration	18.82	20.70	22.87	15%	20.76
Corporate Services	5.74	7.02	8.37	31%	6.78
<b>Total Expenses</b>	<b>\$39.48</b>	<b>\$46.59</b>	<b>\$52.22</b>	<b>17%</b>	<b>\$46.32</b>



# PMPMs VARY BY PRODUCT.

**Figure 4. Sherlock Benchmark Summary**  
 Blue Cross Blue Shield Costs by Product, 2023 Results  
 Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
<b>Commercial HMO</b>				
Insured	\$49.19	\$54.84	\$61.25	44%
ASO / ASC	\$31.97	\$36.75	\$42.09	38%
<b>Commercial POS</b>				
Insured	\$44.80	\$55.56	\$65.54	25%
ASO / ASC	\$31.49	\$32.04	\$34.77	16%
<b>Indemnity &amp; PPO</b>				
Insured	\$53.25	\$57.22	\$63.74	25%
ASO / ASC	\$28.08	\$33.35	\$39.69	21%
Commercial Insured	\$54.16	\$58.54	\$63.91	12%
Commercial ASO/ASC	\$28.16	\$33.62	\$39.69	20%
FEP	\$27.79	\$29.77	\$33.64	17%
<b>Medicare Advantage</b>				
Individual	\$117.00	\$138.76	\$174.26	29%
Group	\$101.06	\$122.63	\$151.66	30%
Medicare Advantage Total	\$114.64	\$138.76	\$156.60	27%
Medicaid	\$31.68	\$38.09	\$54.36	39%
Medicare Supplemental	\$37.80	\$43.10	\$48.57	28%
<b>Comprehensive Total</b>	\$39.48	<b>\$46.59</b>	\$52.22	17%
Medicare Advantage SNP	\$251.51	\$272.25	\$295.90	15%
Stand-Alone Medicare Part D	\$12.91	\$19.10	\$20.17	62%
Stand Alone Dental	\$2.69	\$3.49	\$3.92	57%

Population

Benefit Plan Sponsor

Scope



# PERCENTS: EFFECTS OF SPONSOR, POPULATION AND SCOPE.

**Figure 5. Sherlock Benchmark Summary**

Blue Cross Blue Shield Costs by Product, 2023 Results  
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
<b>Commercial HMO</b>				
Insured	8.3%	9.4%	10.9%	47%
ASO / ASC	5.3%	6.7%	7.7%	37%
<b>Commercial POS</b>				
Insured	8.5%	8.9%	9.1%	25%
ASO / ASC	5.8%	6.5%	7.5%	27%
<b>Indemnity &amp; PPO</b>				
Insured	9.2%	10.2%	11.5%	15%
ASO / ASC	6.1%	6.9%	7.5%	18%
Commercial Insured	9.4%	10.0%	11.3%	13%
Commercial ASO/ASC	6.2%	6.9%	7.1%	17%
FEP	4.4%	5.2%	5.8%	30%
<b>Medicare Advantage</b>				
Individual	11.7%	13.2%	17.2%	31%
Group	7.9%	9.9%	12.8%	33%
Medicare Advantage Total	11.3%	12.9%	15.6%	29%
Medicaid	9.0%	9.9%	10.3%	26%
Medicare Supplemental	16.7%	20.4%	22.5%	28%
<b>Comprehensive Total</b>	8.2%	8.9%	9.6%	20%
Medicare Advantage SNP	12.4%	16.5%	19.3%	38%
Stand-Alone Medicare Part D	9.0%	16.5%	26.1%	59%
Stand Alone Dental	11.8%	14.0%	20.9%	63%

Population  
2.5x → 1.4x

Benefit Plan Sponsor  
1.7x → 1.5x

Scope  
Low → High

# THE PERCENT OF PREMIUM EQUIVALENTS WAS 8.9%, IDENTICAL TO LAST YEAR'S. MIX OF COSTS CHANGED SLIGHTLY WITH SALES AND MARKETING INCREASING.

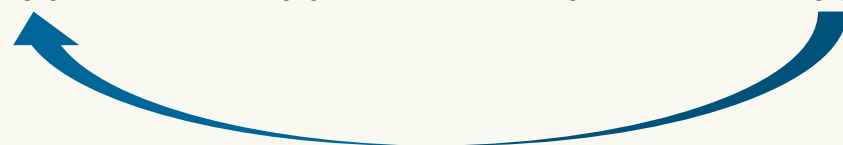
**Figure 6. Sherlock Benchmark Summary**

Blue Cross Blue Shield Costs by Functional Area Cluster, 2023 Results

*Median Percent of Premium Equivalents*

*2022  
Values*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>	<b>Median</b>
Sales and Marketing	1.8%	2.3%	2.6%	24%	2.2%
Medical and Provider Management	1.1%	1.3%	1.4%	26%	1.3%
Account and Membership Administration	3.7%	3.9%	4.5%	25%	3.9%
Corporate Services	1.1%	1.3%	1.4%	46%	1.4%
<b>Total Expenses</b>	8.2%	8.9%	9.6%	20%	8.9%



# BLUES ADMINISTRATIVE COSTS: DECELERATED IN 2023



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- Blue Plan costs were \$46.59, compared with \$46.32 last year.
- Expenses decelerated to 5.9% from 7.8% in 2022. Holding product mix constant, cost growth dropped to 5.6% versus 8.7% in 2022.
- Product mix shifted towards higher cost products. Commercial share declined as Medicare grew.
- Sales and Marketing cluster grew fastest, due to R&U, Sales and Commissions.
- Account and Membership Admin. Cluster was third fastest growing cluster. But Customer Services and Information Systems were fastest and most impactful among all functions both in the cluster and in total.
- Corp. Services Cluster grew second fastest. Corp. Service *function* had greatest impact. Only Association Dues and License and Filing fees grew faster than the total.
- M&P grew modestly. Both Provider Network and Medical Management grew. Medical Management was key.
- Staffing Ratio increased, Comp. grew modestly. Outsourcing grew slightly.

# APPENDIX A. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2022

## Appendix A. Sherlock Benchmark Summary

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

*Median Per Member Per Month Expenses*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Sales and Marketing	\$8.98	\$11.32	\$15.61	40%
Medical and Provider Management	5.44	6.78	7.55	22%
Account and Membership Administration	18.22	20.76	23.36	25%
Corporate Services	5.36	6.78	8.13	31%
<b>Total Expenses</b>	<b>\$40.91</b>	<b>\$46.32</b>	<b>\$52.41</b>	<b>24%</b>

# APPENDIX B. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2022

## Appendix B. Sherlock Benchmark Summary

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

*Median Percent of Premium Equivalents*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
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%
<b>Total Expenses</b>	<b>8.2%</b>	<b>8.9%</b>	<b>10.0%</b>	<b>15%</b>

# 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: 79% 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 27<sup>th</sup> consecutive year. We expect our cumulative experience to total more than 1,000 plan years. Expect ~ 30 organizations serving 52 million members to participate in 2024.
- Since June 2021, health plans serving 200 million insured Americans use the *Sherlock Benchmarks*, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Of the 33 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving approximately 41.3 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Health plans serving 58% 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 41% of members 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) Independent Dispute Resolution Fees
    - (6) 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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