

Plan Management Navigator

Analytics for Health Plan Administration



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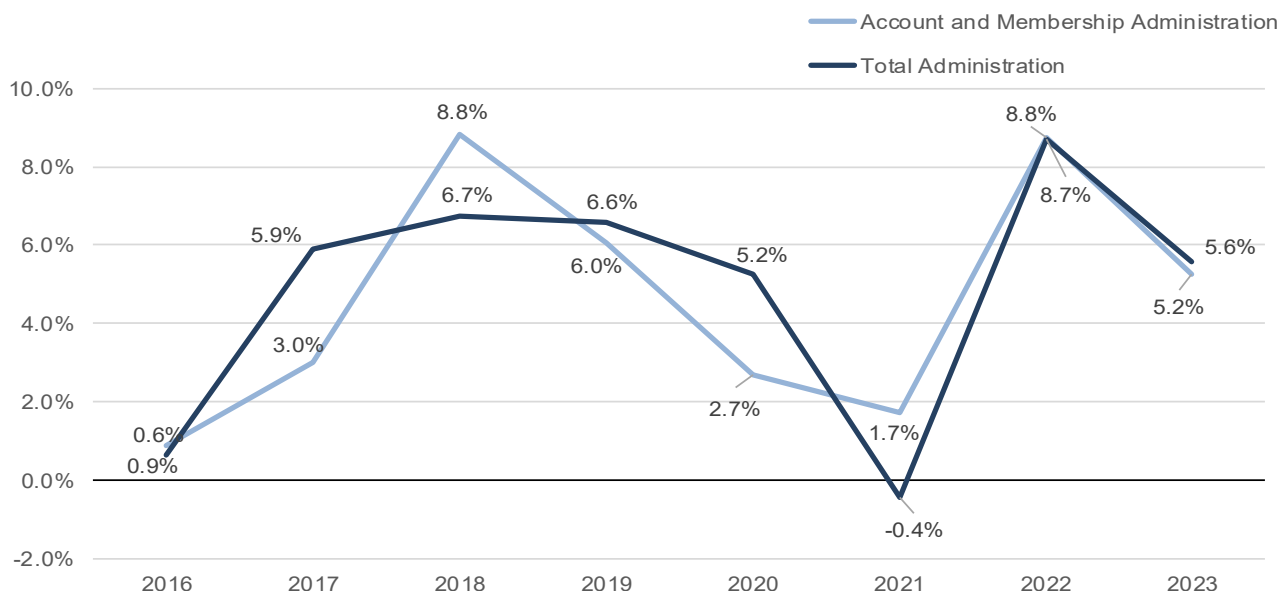
BLUE CROSS BLUE SHIELD PLANS ADMINISTRATIVE EXPENSES GROWTH DECELERATED IN 2023

Blue Cross Blue Shield Plans posted a sharp decline in PMPM expense growth, from 7.8% in 2022 to 5.9% in 2023. This is based on the results of the 11 continuously participating Plans in the *Sherlock Benchmarks*. An even sharper decline was on a constant mix basis: cost growth declined from 8.7% to 5.6%.¹ For context, the U.S. Bureau of Labor Statistics CPI-U price index was 3.4% for the 12-months ended December 2023. The index for Physician Services of Medical Care services declined by 0.6% and Hospital and Related Services increased by 5.6%.

Figure 1 shows a sharp decline in Total Administration from 2022, itself a sharp increase from 2021. This chart reflects continuously participating Plans, after having eliminated the effects of product mix differences between the two years. The growth is, disregarding the effects of higher inflation, similar to the pace of 2017 through 2020. While the 5.6% Constant Mix growth was sharply below last year's rate, it was 0.5 percentage points above the average for the past five years. The growth in Account and Membership Administration (representing over 40% of all expenses) was 5.2%, down from 8.8% in 2022 and 0.3 percentage points higher than the average for the past five years.

Account and Membership Administration had the greatest deceleration in costs, falling 4.6 percentage points on an as-reported basis and 3.5 percentage points on a constant mix basis. In both calculations of rates of change, this cluster was followed by declines in growth in Medical and Provider Management and Corporate Services.

Figure 1. Sherlock Benchmark Summary
Blue Cross Blue Shield Rates of Change for Account and Membership Administration and Total, Constant Mix Median Changes in PMPM Costs



¹ Values differ from earlier reporting due to a restatement by two of the participating Plans.

As developed below, Sales and Marketing uniquely accelerated on both an as reported and Constant Mix basis. Of the 16 principle functions, which exclude Miscellaneous Business Taxes, 11 decelerated on a Constant Mix basis while five accelerated. Six accelerated on an as-reported basis.

The theme for 2023 appeared to have been investments in growth and Information Systems. Information Systems growth was third fastest growing function and the most important factor in growth on a Constant Mix Basis, and fourth on an as-reported basis. It was also the leading contributor to cost growth on both bases. Customer Services was the fastest growing function on both bases, affecting the contribution of Account and Membership Administration.

Sales and Marketing was, in addition to being the fastest growing cluster, also the second most important contributor to growth. Rating and Underwriting, Sales and broker Commissions grew especially rapidly.

Plan Staffing Ratios increased significantly as compensation increased modestly.

The source of the data used in this analysis is Sherlock Company surveys of fourteen Blue Cross Blue Shield Plans. They collectively serve 41.3 million members with Comprehensive products, approximately 38% of all comprehensive members of Blue Cross Blue Shield Plans. This is also 59% of all Blue members of not served by public companies. Participating Plans also served 9.3 million people through “Host” relationships with other Plans, plus 7.2 million people through stand-alone dental products. Eleven of the Plans participating in 2024 also participated in 2023.

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.

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%
Total Expenses	7.8%	8.7%	5.9%	5.6%

The Plans that participated in both the 2024 cycle and the 2023 cycle had lower PMPM costs than those that participated only in 2023. The median comprehensive costs for the continuing set were \$44.11 compared with all Plans \$45.36 as originally reported and \$46.32 as revised. (Only one product in the 2023 cycle value was revised: MA Individual was revised downwards by \$0.29 PMPM.)

Including the effect of Pharmacy and Behavioral Health, per member Constant Mix administrative costs increased by 5.6% as against 5.9% as-reported. We consider constant mix growth to be a more reliable way of looking at trend.

The trends on an as-reported basis were similar to the constant mix trends. On an as-reported basis, for the 11 continuously participating Plans, per member costs showed 5.9% growth compared with 7.8% in the prior year. Cost trends on an as-reported basis reflected a shift in product mix to high administrative cost products in addition to the underlying cost trends.

The lower Constant Mix growth reflected the effect of the more rapid growth in high cost to administer products, especially Medicare Advantage. This product's PMPM costs were \$138.76. While Commercial increased at a median rate of 0.6%, Medicare Advantage increased at a median rate of 3.8%. Other low cost products also grew slower than Medicare Advantage including FEP (\$29.77) at 0.5%, Medicare Supplemental (\$43.10) at 0.2% and Medicaid (\$38.09) at 2.3%.

Muting the mix effect that had the effect of amplifying cost growth, within the Medicare product, lower cost Group membership increased at a median rate of 12.0% compared with individual which grew by 5.4%. Within Commercial, Insured, at \$58.54 declined at a median rate of 1.5% as ASO/ASC, at \$33.62 increased by 1.4%.

The commercial share of the continuing Plans' product portfolio decreased by 0.1 percentage points to 78.2%. Medicare Advantage share increased by 0.1 percentage points to a median of 3.5%. Medicaid, offered by only five of the 14 plans, represented an average of 6.5% of members in the 2024 cycle.

As an aside, Blue Plan's relationship with seniors continues to evolve. Approximately 9.0% of all Blue Cross Blue Shield membership in our universe is served by Plans' Medicare Supplement or by MA, up from 8.1% in 2022.

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 *Navigators* is largely based on this approach.

As noted earlier, the change in administrative expenses in 2023 was lower than in 2022. All clusters except Sales and Marketing decelerated, shown in Figure 2. The 5.2% growth in Account and Membership Administration was notable because it exhibited the greatest impact on growth, the third fastest cluster growth as well as the greatest difference in growth from a sharp decline in growth rates. Sales and Marketing grew fastest at 6.2%, uniquely accelerating among clusters and was the second greatest contributor to expense increase.

For this presentation of the results of the *Sherlock Benchmarks*, trends in Behavioral Health and Pharmacy Benefits are included. We include trends in Behavioral Health and Pharmacy (sometimes outsourced by benefit plan sponsors or the Plans themselves), which had the effect of diminishing median Plan growth in the Account and Membership Administration cluster. The effect on Total Cost trends of Pharmacy and Behavioral Health went the opposite direction. The apparently contradictory effects stem from using medians, and the median organizations may differ between the Account and Membership Administration and the Total.

In considering the *components* of administrative cost increase, we comment only on functions that show unambiguous trends, reflecting key measures of central tendencies. Others we do not consider to be reliably determined for a sense of trend. 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 nearly one-half of the increase in 2023. This cluster is nearly three times the size of Corporate Services, the smallest cluster. Costs increased in this cluster by 5.2%.

Account and Membership Administration was the third fastest growing cluster of expenses. While Customer Services is not the largest function, it continued last year's and 2020's pattern of being the fastest growing. Customer Services was the fastest growing function in the cluster at high single digits. The Grievances and Appeals subfunctions grew rapidly as staffing ratios sharply increased. Member Services staffing ratios also increased.

Information Systems was the third fastest growing function of all administrative expenses. While Information Systems was the second fastest growing function in the cluster, its size made it most of the cluster's increase. The increase in PMPM Information Systems expense was the highest since 2019.

The Applications Acquisition and Development subfunction grew the most rapidly on the growth in its staffing.

Security Administration and Enforcement also grew rapidly, at approximately double-digit rates as Staffing ratios and non-labor increased. While Application Maintenance grew modestly, the subfunction of Benefit Configuration increased sharply due to an increase in its staffing ratio.

Claim and Encounter Capture and Adjudication increased at a modest pace, well below that of the past five years. While staffing ratios increased, compensation and non-labor declined. Outsourcing also increased. The subfunction, Payment Integrity, unique among Claim subfunctions, increased at a rapid rate based on a high staffing ratio increase.

Enrollment / Membership / Billing grew less than cluster expenses as a whole. Compensation increase was less than 1% as staffing ratios increased.

SALES AND MARKETING

The Sales and Marketing cluster grew most rapidly compared with other clusters on a constant mix basis, and posted the fastest growth over the past five years. Its per member increase was 6.2%. The cluster cost increases in the fastest growing Sales and Marketing cluster illustrated broadly based growth. Rating and Underwriting, Sales and Broker Commissions all exceeded the overall trend whereas Marketing and Advertising and Promotion growth was below the cluster: Charitable Contributions growth mitigated declines in Media and Advertising.

Marketing, which declined in 2023, tends to be volatile: it also declined in 2020 and yet was mostly in high single digits over the past five years. Sales growth Exceeded Broker Commission growth for the second year in a row. Advertising and Promotion growth was low single digits: it accelerated from a decline in 2022, and declines also occurred in 2019 and 2021. Broker Commissions were, because of their size, most of the reason for the cluster's growth.

The Risk Adjustment subfunction was among the fastest growing subfunctions of all Blue plan activities. Notably, this is on a constant mix basis so that it backs out the effect of the increasing share of Plan product portfolios attributable to Medicare Advantage. All factors, staffing ratio, compensation and non-labor, contributed. Outsourcing also increased.

CORPORATE SERVICES CLUSTER

Growth in the Corporate Services Cluster was, at 5.7%, tied for the second fastest rate among the clusters. Only Association Dues and License / Filing Fees were higher than the Total trend. This function (which includes ACA taxes and filing fees) may be associated with new product development. Corporate Services Function and Corporate Executive & Governance grew below the median for the cluster, and at about the same rate. Finance and Accounting and Actuarial increased even slower at very low single digits.

The largest share of the growth in this cluster was the function of the same name. Its expenses are more than one-half that of the cluster so dominates the trend. Corporate Services cost growth was below its average growth over the last five years. Within the Corporate Services function, there are 10 subfunctions of which Human Resources, Legal, Purchasing and Risk Management grew well above trend for the function and cluster. Except for HR, staffing ratios increased sharply for these functions though HR's staffing also increased. The Legal area also increased due to outside litigation expenses.

The Actuarial function was essentially flat. Staffing Ratio decreased as compensation increased.

MEDICAL AND PROVIDER MANAGEMENT

The Medical and Provider Management cluster increased slower than any cluster, by 3.7% PMPM on a Constant Mix basis. Each of Provider Network Management and Services and Medical Management / Quality Assurance / Wellness increased at low to mid-single digits. Medical Management grew faster and was far larger than the Provider Network Function. The combination of more rapid growth and much greater cost levels meant that Medical Management was the key factor in the growth of this cluster.

Medical Management growth stemmed from a sharp increase in staffing. The focus seems to have been Disease Management, Health and Wellness and Quality Components. Outsourcing tended to be flat except for Disease Management where it increased.

The Provider Network Management and Services costs grew less rapidly than Medical Management, and also well below the five-year average for the function. Its only subfunction with meaningful growth was Provider Relations Services which sharply increased, driven by higher staffing.

As-Reported Trends

Figure 2 shows that the overall cost trends, on an as-reported basis, was 5.9%, similar but somewhat higher than the constant mix growth of 5.6%. As noted above, the lower Constant Mix growth reflected the effect of the more rapid growth in products that are more costly to administer, especially Medicare Advantage. Moreover, some low cost products grew slower, such as FEP, Medicare Supplemental and Medicaid. The effect of this was mitigated by faster growth in lower cost segments within the low costs products: ASO grew faster than Insured among Commercial and Group grew faster than Individual in Medicare Advantage.

The focus of the following comments concern *differences* in cost changes between the two sets of calculations that may be explained by the effect of mix changes, in addition to the underlying cost growth. We omit trends that are explained in the Constant Mix discussion above.

Account and Membership Administration. This cluster grew more rapidly on an as-reported basis. The much faster growth in Enrollment/Membership/Billing comports with the high cost Medicare Advantage products being primarily an individual product. The faster growth in Claim and Encounter Capture and Adjudication may be associated with the higher health needs of Medicare Advantage members.

Sales and Marketing. This function was the fastest growing of the functions on an as-reported basis, similar to the constant mix comparisons. It grew slower than on a constant mix basis. All functions grew more rapidly on this basis, except for broker Commissions which grew slightly more slowly: Medicare Advantage appears less likely to be sold through brokers, possibly explaining this. Both Marketing and Advertising and Promotion appeared to grow much more rapidly on an as-reported basis, again possibly attributable to growth in the Medicare product.

Corporate Services. This cost growth was 0.2 percentage points faster on an as reported basis. Both Actuarial and Corporate Services were significantly faster on an as-reported basis.

Medical and Provider Management. On an as-reported basis, costs increased 0.2 percentage points slower for this cluster than if mix is held constant. The cost growth in Provider Network Management and Services was higher on a constant mix basis, possibly reflecting the rapid growth in the Medicare Advantage product. Surprisingly, the growth in Medical Management was 0.2 percentage points lower on an as-reported basis. Medical Management is the larger of the two functions in this cluster and so dominates the cluster's cost growth.

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 excluding Behavioral Health and Pharmacy. We previously noted their impact on some of the functions themselves.

For continuously participating plans, cost growth is entirely explainable by staffing ratios that increased by 4.7% to 20.84 FTEs per 10,000. Trends in both costs and staffing are adjusted to exclude the effect of mix changes. The median staffing ratio was 20.88 FTEs per 10,000 among all Plans. This includes the effects of outsourced staffing, discussed later.²

² The staffing ratio for the commercial products is estimated based on Plan reports for their comprehensive products. Also, since the Plans report all PMPM costs for each function by product, we can estimate product staffing costs for any given product 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.

Staffing declined in several areas including Marketing, Advertising and Promotion, Information Systems, Actuarial and the Corporate Services Function. Conversely, Rating and Underwriting, Sales, Provider Network, Medical Management, Enrollment, Claims and Finance and Accounting. For Commercial Insured, a mainstay set of products, staffing ratios were 22.55 FTEs per 10,000 members for all Plans and 21.53 for continuous Plans. These exclude staffing for Rx and Behavioral Health benefits.

Compensation per FTE increased by 1.3% as non-labor costs per FTE declined by 0.9%. The median internal compensation was \$ \$122,000 among all Plans. Compensation growth was notable in Risk Adjustment, Advertising and Promotion, Provider Configuration, Payment Integrity, Pre-Planning and Project Costs, Risk Management and the Other Corporate Services Function.

Some functions or subfunctions had median compensation levels at least 30% higher than Plans' median. They include Other Marketing, Other Sales, Medical Informatics, Other Medical Management, Security Administration and Enforcement, Actuarial, Human Resources, Legal, Government Affairs, All Other Legal, Risk Management and Corporate Executive & Governance.

The median proportions of FTEs that were outsourced³ are 12.5% for all Plans and for continuously participating Plans. For the set of all Plans, subfunctions that are more than 20% outsourced included Rating and Underwriting, Risk Adjustment, Nurse Information Line and Health and Wellness.

Overall, the percent of FTEs outsourced by continuously participating plans was unchanged from last year. A few functions substantially increased their outsourcing such as Rating and Underwriting and Claim and Encounter Capture and Adjudication. On the other hand, outsourcing declined in Information Systems and Corporate Executive & Governance.

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

Figure 3 shows the values of administrative expenses for all 14 participating Plans. This universe of Blue Cross Blue Shield Plans differs from that of last year in product mix and in Plans. In this section we will touch on comparisons with the results reported last year, notwithstanding this limitation.

Eleven plans participated in both 2023 and 2024 so the changes shown in Figure 2 are a better measure of trend. Of the 17 Plans that participated in 2023, 11 continued to participate in 2024. In addition, three Plans that did not participate in 2023 elected to do so in 2024. Notwithstanding, in some ways, the changes parallel the trends in Figure 2 as there are some similarities between calculated trends and differences between annual values.

³ 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 median value for PMPM costs was \$46.59, 0.6% higher than last year's value of \$46.32 shown in Appendix A. (Values differ slightly from last year's published results because of a post-publication revision. While cluster medians changed by \$0.01 or less, last year's total value was originally reported as \$45.36.) Corporate Services PMPM was the greatest increase, followed by Sales and Marketing. Medical and Provider Management declined as did Account and Membership Administration.

Sales and Marketing was up by 1.1% to \$11.44. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Medical and Provider Management was lower by 1.0% to \$6.71. This group of functions includes Provider Network Management and Services and Medical Management / Quality Assurance / Wellness.

Account and Membership Administration PMPM cost was lower by 0.3% to \$20.70. 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.

Corporate Services was higher by at 3.6% to \$7.02 PMPM 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.

Coefficients of Variation (Standard Deviation divided by the mean) declined in total and in most clusters. Using this dispersion metric the values appeared more clustered in 2023 than in 2022. In total, it declined by 6.5 percentage points to 17%. Account and Membership Administration declined more, by 9.6 percentage points to 15% as Sales and Marketing declined by 7.9 percentage points to 32%. Medical and Provider Management increased by 8.0 percentage points to 30%.

On the other hand, dispersion measured by the differences between the 75th and 25th percentile values increased in total but decreased in half of the clusters. In total, this increased by \$1.25 with both Sales and Marketing and Medical and Provider Management increasing. Notably, Account and Membership Administration decreased by \$1.09. Corporate Services was also more clustered.

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

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

Costs of Blue Cross Blue Shield Plans, PMPM by Product

Earlier we emphasized trend comparisons that held product mix constant. We held mix constant 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 administrative costs.

A comparison between Figure 4 published last year and this year's Figure 4 shows that, of the eleven comprehensive products, seven are lower including five of the commercial products. Four are higher including Group Medicare, Medicaid, Medicare Supplement and Indemnity and PPO ASO/ASC.

The median mix of Commercial products was 78.8% of the comprehensive membership for all 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 48.3% 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 \$33.35 PMPM, HMO costs \$36.75 while POS costs \$32.04.

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 cost more 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 \$57.22 PMPM. HMO costs \$54.84 while POS costs \$55.56.

FEP, the Federal Employee Program, is considered an insured product. It serves Federal Employees and dependents below 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 \$29.77 PMPM.

Note that Medicare Supplemental is a below average cost product at \$43.10 PMPM. We include this as a comprehensive product in the *Sherlock Benchmarks* though it pays only when fee-for-service Medicare does not.

Medicare products are relatively high cost at \$138.76 and \$272.25 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 \$138.76 PMPM versus \$122.63 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 \$19.10 and \$3.49 PMPM respectively.

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
Commercial HMO				
Insured	\$49.19	\$54.84	\$61.25	44%
ASO / ASC	\$31.97	\$36.75	\$42.09	38%
Commercial POS				
Insured	\$44.80	\$55.56	\$65.54	25%
ASO / ASC	\$31.49	\$32.04	\$34.77	16%
Indemnity & PPO				
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%
Medicare Advantage				
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%
Comprehensive Total	\$39.48	\$46.59	\$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%

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 20.4%, 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, 2023 Results
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	8.3%	9.4%	10.9%	47%
ASO / ASC	5.3%	6.7%	7.7%	37%
Commercial POS				
Insured	8.5%	8.9%	9.1%	25%
ASO / ASC	5.8%	6.5%	7.5%	27%
Indemnity & PPO				
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%
Medicare Advantage				
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%
Comprehensive Total	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%

The specialty products, Stand-Alone Medicare Part D and Stand Alone Dental, were relatively high cost products at median values of 16.5% and 14.0%, respectively. These were extremely low-cost products on a PMPM basis.

Medicare Advantage costs, while two and a half times higher than Commercial Insured HMO PMPM, have administrative ratios of 12.9%, 37% greater than Commercial Insured HMO. Group Medicare's costs on a percent of premiums basis is 9.9% is only 5% greater than Commercial Insured HMO; the relative PMPM is 2.2.

While Medicare SNP is not considered part of "Comprehensive" for the Blue Cross Blue Shield universe, at 16.5%, it is 1.8 times Commercial HMO insured but 5 times higher on a PMPM basis. Medicaid was higher than average on a percent of premium basis, at 9.9%, but was lower on a PMPM basis.

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 5.2%, is the lowest cost product when expressed in percent.

Commercial ASO/ASC products range from 6.5% of premiums to 6.9% 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 8.9% of premiums to 10.2% 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 meaningfully summed. Also, the following discussion also includes changes in values that are obscured by rounding. Again, this year's universe differs from last year's in participants and product mix.

The percent of premium equivalents devoted to total administration, at 8.9% was identical to last year's value. The mix of costs changed slightly with Sales and Marketing increasing by 0.1 percentage points to 2.3% of premium equivalents. All other clusters remained exactly the same: Medical and Provider Management was 1.3% of Premium Equivalents, Account and Membership Administration was 3.9% percent of premium equivalents and Corporate Services was also unchanged at 1.3% of premium equivalents.

Figure 6. Sherlock Benchmark Summary

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

Median Percent of Premium Equivalents

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

How We Performed this Analysis

CHARACTERISTICS OF THE BLUE CROSS BLUE SHIELD UNIVERSE

This analysis is based on the twenty-seventh annual edition of our performance benchmarks for health plans. The *Sherlock Benchmarks* (*Sherlock Expense Evaluation Report* or SEER) represent the cumulative experience of 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 26th analysis of Blue Plans is based on a peer group of fourteen Blue Cross Blue Shield Plans who collectively serve approximately 41.3 million members, not including Host, specialty, and other products. This universe is quite robust. Participants in this year's study serve about 38% of all Blue Cross Blue Shield members. Excluding those served by publicly-traded firms, the participants in this year's study serve 59% of all Blue comprehensive membership.

Collectively in 2023, the health plan operations of these Plans earned annual premiums plus fees of \$147 billion and \$211 billion in premium equivalents for comprehensive products. The total revenues for the group were \$151 billion in 2023. The median Plan participating in the *Sherlock Benchmarks* this year served 1.7 million people with comprehensive products. The Plans were geographically disbursed, serving 22 states. Eleven of this year's fourteen 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 57,523 Medicare SNP members, 591,040 members of stand-alone Medicare Part D products and 7.2 million members of Stand-Alone Dental. In addition to these members, the Plans served 9.3 million Blue Cross Blue Shield members through "Host" relationships with other Blue Plans.

Collectively, within the comprehensive products, 80.1% was commercial. Of the commercial members approximately 63.3% were served through self-insurance arrangements.

Medicare Advantage, with 1.6 million members, was offered by 11 Plans. It composed 3.8% of the combined comprehensive membership and 13.8% of revenues for comprehensive products. Members in groups represented 36.2% of Medicare Advantage membership. With SNP and Stand-Alone Part D, Total Medicare Advantage products represent 14.7% of total revenues.

Medicare Supplement, with 2.2 million members, was offered by all fourteen Plans, was 5.2% of comprehensive members and 3.6% of revenues for Blue Cross Blue Shield comprehensive products. In total, 18.3% of combined Plan revenues arises from products sold to seniors.

Medicaid HMO, offered by 5 Plans, comprised 6.0% of combined comprehensive membership and 8.6% of comprehensive revenues. FEP served 4.9% of combined members and 9.7% of combined comprehensive revenues.

REPORTING CONVENTIONS

We employ some 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 premium rates 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 and revenues 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 2024 *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 \$8.84 for 2023, compared with \$10.19 for 2022, \$7.69 in 2021 and \$19.50 in 2020. The 2023 value was more than 13% 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 52 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 and 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 2024 *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 2024 edition Brochure is found here.

<https://www.sherlockco.com/brochure/>

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, 2022 Results

Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
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%
Total Expenses	\$40.91	\$46.32	\$52.41	24%

Appendix B. 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%

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) 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