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Analytics for Health Plan Administration

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Medicaid and the Commercial Market

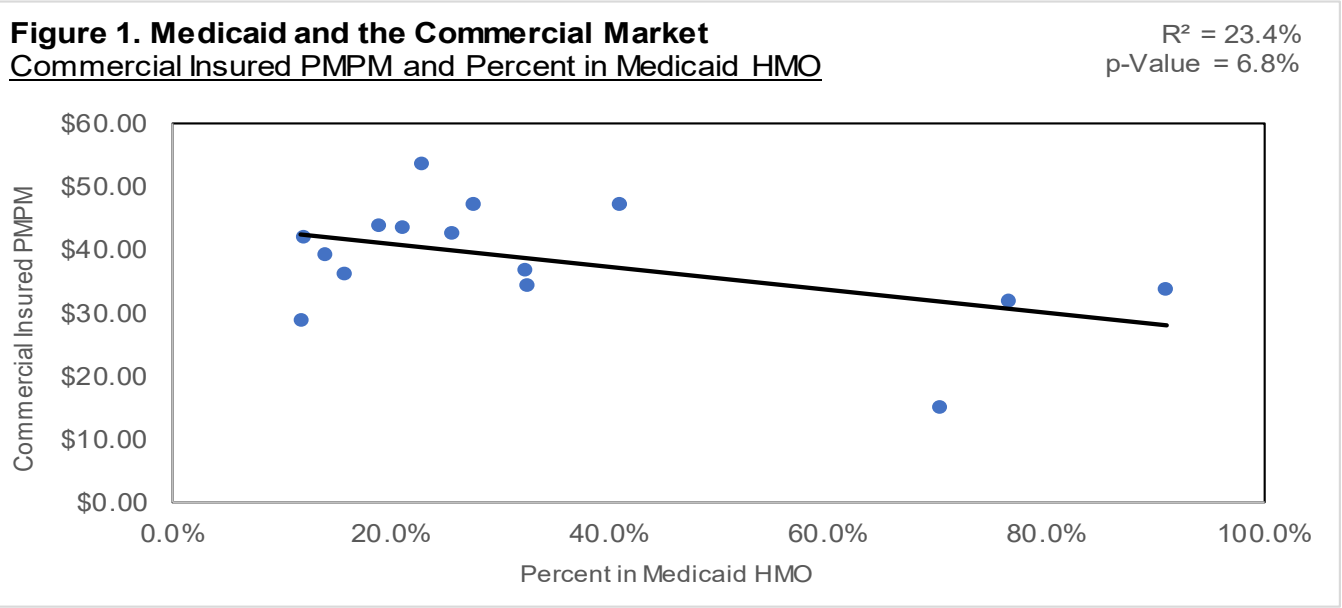
Health plans offering Medicaid sometimes find that product is complementary to products sold to individuals. Medicaid use is usually temporary so it may be that, when not on Medicaid, those members can readily continue as members of plans' individual products. Also, some believe that a focus on Medicaid leads (possibly through offering a uniform product or regulatory scrutiny) to a culture of conservative administration. Either of these potential dynamics could lead to lower costs in Commercial Insured products.

In testing the potential cost advantage of synergies between the products, we analyzed relationships that bear on this possibility. We found that total PMPM costs for Commercial Insured products tended to be less when the percent of members enrolled in Medicaid was greater. We also found that the PMPM Enrollment / Membership / Billing costs for Commercial insured products tended to be less the greater the percent of members enrolled in Medicaid. Also, Commercial insured Sales and Marketing expenses also seem to been affected by high Medicaid participation.

Medicaid Proportion and Commercial Insured Expenses

As shown in Figure 1, the greater the proportion of members in Medicaid, the lower the costs for total PMPM administration in Commercial Insured Products. The relationship explains 23% of the differences between the data points and there is a 7% chance that this relationship would occur as a result of sampling errors.

Figure 1. Medicaid and the Commercial Market
Commercial Insured PMPM and Percent in Medicaid HMO



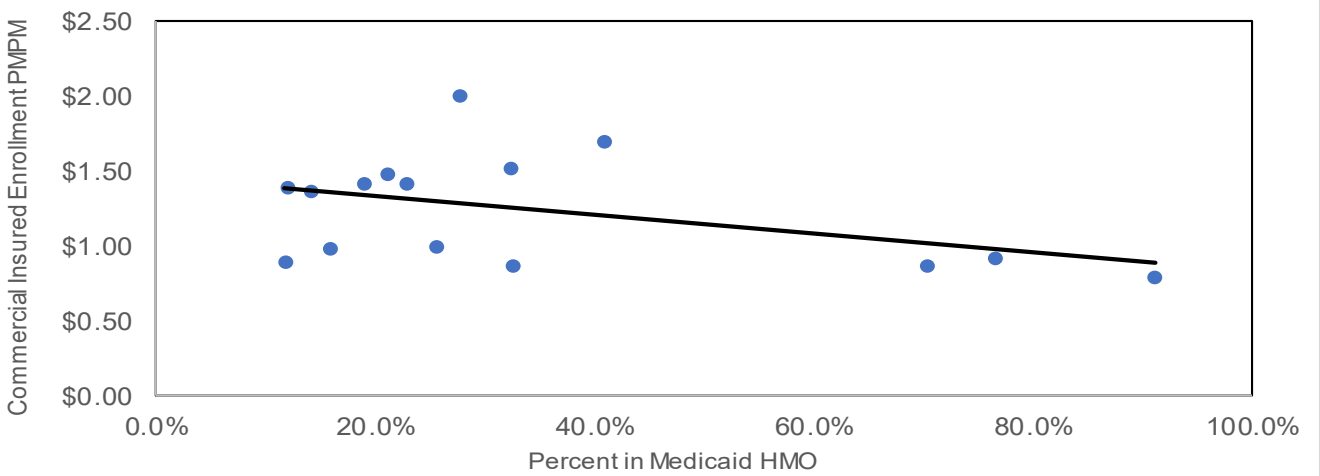
Except as noted below, we did not look at expense relationships in detail. But it is noteworthy that the relationship was absent between the Commercial Insured Account and Membership Administration cluster and the Medicaid share of the plans' product portfolio. So the effect is apparently one that spans the scope of activities performed by health insurers, but is largely outside of this cluster of expenses. These results do not support the theory that a culture of conservative administration is the result of a focus on Medicaid, at least within Information Systems, Claims and Customer Services.

Note that the Commercial Insured product is not the same as the Individual product that we would assume to be most directly affected by Medicaid membership. Individual represents approximately 22% of the Commercial Insured mix for the plans in this analysis. Only a few of the plans with Medicaid reported detailed cost information on their individual products. So the closest we can get to Individual products are the combination of smaller groups and individuals. (Larger groups are often self-insured.) The Commercial Insured products for the plans in this study had an average group size of approximately 32 members so there is a possibility that the use of Commercial Insured rather than Individual understates any measured effects.

Medicaid Proportion and Commercial Insured Enrollment / Membership / Billing Expenses

As shown in Figure 2, the greater the proportion of members in Medicaid, the lower the costs for Enrollment / Membership / Billing in Commercial Insured products. The relationship explains 18% of the differences between the data points and there is a 12% chance that this relationship would

Figure 2. Medicaid and the Commercial Market
Commercial Insured Enrollment Costs PMPM and Percent in Medicaid HMO



occur as a result of sampling errors. Considering the kind of information that Sherlock Company gathers, we recognize that all our statistical results are directional – in this instance, the p-value exceeds our customary 10% threshold.

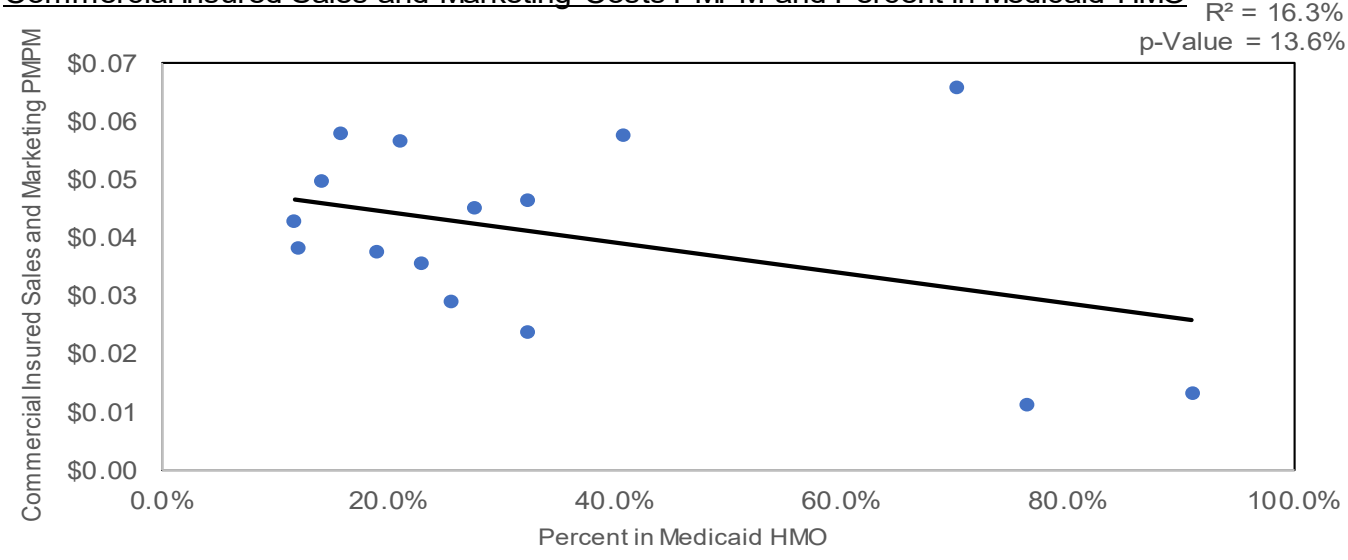
Enrollment / Membership / Billing includes the processing of installation, recording and maintenance of relationships with members and groups, the recording of and changes in demographic information and the development of member materials and the calculation, documentation and the submission to customers of invoices. Among Blue Cross Blue Shield Plans, these activities are more complex for individuals being twice as expensive than for large groups, 50% greater than the middle market and a third higher than for small groups. So, there is a significant advantage to plans if the cost of this function's activities can be reduced from the levels in the individual market.

Plans that serve people who move between Medicaid and Commercial Individual are especially well-equipped to reduce these costs since both products may share a common provider network, affecting the benefit design aspects of the enrollment process and as memorialized in the member materials. Moreover, costs may be saved from the recording of demographic information if the member is already in the plan's enrollment system.

Medicaid Proportion and Commercial Insured Sales and Marketing Expenses

If Medicaid members can readily transfer to individual commercial products, then perhaps the entire process of onboarding of members is less expensive. As shown in Figure 3, the greater the proportion of members in Medicaid, the lower costs

Figure 3. Medicaid and the Commercial Market



for Sales and Marketing administration in Commercial Insured Products. The relationship explains 16% of the differences between the data points and there is a 14% chance that this relationship would occur as a result of sampling errors. As with Enrollment / Membership / Billing the p-value exceeds our customary 10% threshold.

The Sales and Marketing cluster of expenses consists of the functions Rating and Underwriting, Marketing, Sales, Commissions and Advertising and Promotion. A member having a satisfactory experience with a health plan's Medicaid offering would not require as much encouragement to join the Commercial Insured product as someone who is unfamiliar with it. In addition, the information gleaned through the Medicaid risk-adjustment process (found in Rating and Underwriting) would be directly applicable to the converting commercial member.

How we Performed This Analysis

The source of the data employed in this analysis was from the 2018 Sherlock Benchmarking Study. The plans in these analyses are selected from 40 that participated in 2018. All data is from calendar year 2017. Costs are expressed in PMPM in this analysis.

The *Sherlock Benchmarks* primarily segment each function's costs into products, one of them being Medicaid. Commercial products are segmented into HMO, POS and Indemnity and PPO products, each of which is further segmented into Insured and ASO/ASC. In the same study, we also gathered cost and membership information on Market Segments including the Individual Market. Since not all firms are able to break out Market Segments out, this is optional and response rates are too low to be useful for this context.

For this reason, we have used Commercial Insured as an admittedly imperfect indicator of the Individual Market. The plans reported varying commitment to the Individual Market, regardless of their ability to supply detailed financial metrics. As noted above, on average only about 22% of Commercial Insured members were served in Individual products.

Of the 40 participating plans, only 15 have Medicaid membership proportions in excess of 10% the total for the plan, which we arbitrarily established as the threshold for this study. We thought that very small Medicaid proportions would be unlikely to create the systematic effects that we are seeking to identify. Of those 40 plans, one had neither commercial nor Medicaid, 21 lacked any Medicaid membership and three more plans offered Medicaid to fewer than 10% of all members.

An indicator of the plausibility of the supposed migration between Medicaid and the Individual Market was the slope of the regression line in the growth rates between the two products. As noted above, few of the plans reported cost information for the Individual Market, but more supplied their numbers and growth of Individual and Medicaid members. We do not show this but, for the twelve reporting plans (again excluding those plans with a low proportion of Medicaid), the slope was in fact negative, with an R^2 of 24% and a p-value of 11%. The inverse relationship means that the faster the decline in Medicaid, the faster the growth in Individual.

Participation in the 2019 Sherlock Benchmarks

We hope that your health plan will consider participating in the 2019 Sherlock Benchmarks. In a competitive environment, "managing what you measure" implies comparison with the leaders of your industry. We offer what many call the Gold Standard for health plan benchmarks. Health plans serving at least 171 million insured people are current and active users of the Sherlock Benchmarks.

The survey forms for our Medicaid and Medicare universes will go out in early June. We hope that you will reach out to us for any questions on participation.

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