

Plan Management Navigator

Analytics for Health Plan Administration



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LARGER HEALTH PLANS' ADMINISTRATIVE COSTS ACCELERATE IN 2017

In 2017, excluding the effect of Miscellaneous Business Taxes, Larger Plans had constant mix administrative cost increases of 5.4%. This increase was exceeded only once since 2010, in 2013, and only by 0.1 percentage points. Interestingly, the growth in Account and Membership Administration was far more modest, at 0.5%, and was exceeded in four of the past eight years. These trends are shown in Figure 1. We have not shown this but, after the effect of the Miscellaneous Business Taxes, PMPM total administrative expense declined by 1.7%.

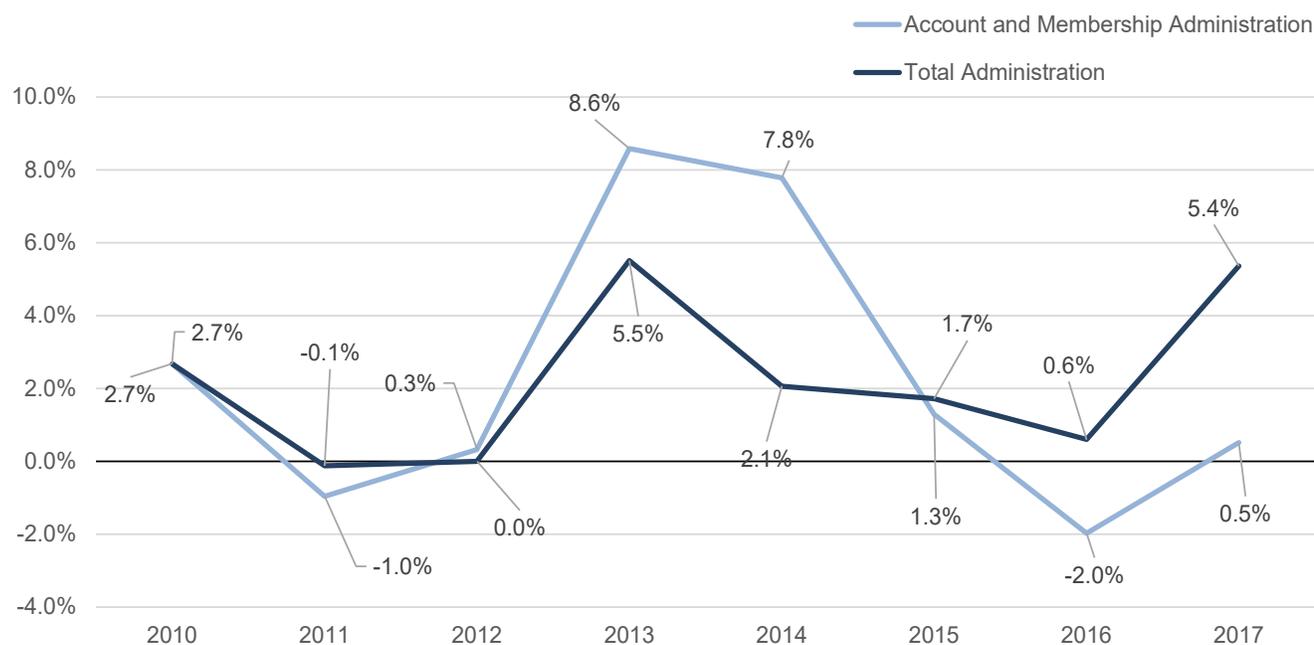
The set of Larger Plans is, for the most part, a subset of the Blue Cross Blue Shield Plan universe. However, it includes one additional Blue Cross Blue Shield Plan. Seven Plans were included with this set, of which six were also participants last year.

Trends Overall and in Expense Clusters

Figure 2 summarizes year-over-year trends on both an as-reported and constant mix plans. The year-over-year acceleration of cost trends was widespread. On an *as-reported* basis, for the six continuously participating Plans, per member costs grew by 7.4% compared with a 1.3% decline in the prior year.

Figure 1. Sherlock Benchmark Summary

Larger Plans Rates of Change for Account and Membership Administration and Total, Constant Mix



The more rapid acceleration in the as-reported growth versus the growth in constant-mix expenses reflects a net shift in favor of high administrative cost products. The effect of the mix change is to reduce as-reported cost trends by 1.9 percentage points.

High cost Medicare Advantage increased at a median rate of 11.9% while low cost Medicaid increased at a median rate of 2.5%. Muting this, while Commercial Insured product membership declined at a 4.6% median rate, ASO/ASC products increased by 2.1%: ASO products are lower cost to administer. Overall, commercial membership declined by 0.3%. Comprehensive membership in continuous Plans declined at a median rate of 0.6%.

Trends that exclude the effect of mix changes are a more accurate representation of trends in our view so the discussion that follows is largely based on this. Customer Services and Claims functions declined while Corporate Executive, Association Dues, Advertising and Promotion, Rating and Underwriting and Medical Management increased sharply.

In the following sections, we will discuss trends with emphasis on their importance to the overall PMPM increase. The most important sources of increase were the functions of Commissions, Medical Management and Corporate Executive and Governance.

MEDICAL AND PROVIDER MANAGEMENT

The growth in Medical and Provider Management cluster costs was at a low double-digit rate, by far, the highest in the past five years. It was also the fastest growing of the Larger Health Plan clusters.

Both Provider Network Management and Services and Medical Management / Quality Assurance / Wellness functions accelerated. While Provider Network Management and Services posted the second fastest growth in the past five years, Medical Management grew faster than any previous year in that period. Because of its relative size, and its more rapid growth, Medical Management was responsible for more than two-thirds of the increase in this cluster of expenses.

Figure 2. Sherlock Benchmark Summary
Larger Plans Median Changes in Per Member Per Month Expenses

Functional Area	2016 Data		2017 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	1.4%	1.6%	7.6%	9.7%
Medical and Provider Management	1.3%	0.4%	11.7%	11.1%
Account and Membership Administration	-1.7%	-2.0%	2.0%	0.5%
Corporate Services	-6.6%	-5.9%	7.4%	5.6%
Total Expenses	-1.3%	0.6%	7.4%	5.4%

SALES AND MARKETING

The increase in Sales and Marketing was at the fastest rate in the past five years. Most of the overall growth in expenses is explained by growth in this cluster. Advertising and Promotion grew especially rapidly, closely followed by Rating and Underwriting.

While broker Commissions grew slower than the Sales and Marketing cluster as a whole, its size made it the dominant source of the cluster's growth.

CORPORATE SERVICES

The cluster of Corporate Services costs increased at its fastest rate over the past five years and sharply accelerated in 2017. The function of Corporate Executive and Governance was the fastest growing functional areas in cost growth. In addition to the CEO and COO, this function includes their staff, including enterprise process improvement and enterprise consulting. While this is among the smallest of the functional areas, it was also the third largest contributor to cost increases.

Association Dues and License/Filing Fees grew at double digit rates but is a small function. It includes insurance filing fees, license fees and dues for associations, excluding those related to lobbying. Finance and accounting increased at mid-double digits, in line with trends over the past three years.

Actuarial and Corporate Services each increased by less than one-half a percent. The modest growth in Corporate Services function is especially notable because it dominates its eponymous cluster. This function includes, and reports on, Human Resources, Legal (including separately reported Compliance, Government Affairs, Outside Litigation and All Other Legal), Facilities, Other Post Employment Benefits, Audit, Purchasing Imaging, Printing and Mailroom and Risk Management.

ACCOUNT AND MEMBERSHIP ADMINISTRATION

While faster than the prior measurement year, this cluster's growth was notably modest, the second slowest growth in the past five years. Indeed, without the effect of growth in Mental Health and Pharmacy - related administrative costs, a 0.1% decline in costs would have resulted.

Enrollment/Membership/Billing was the fastest growing function in this cluster for the second year in a row. Its small size made its effect on overall cluster trends modest.

Information Systems grew at a modest, low single-digit pace. It was the second slowest growth in the past five years.

By contrast, Customer Services and Claim and Encounter Capture and Adjudication posted declines. Customer Service’s decline was in the high single digits while Claim’s decline was in the low single digit. Since these functions retain the manual activities even as automation moves work to Information Systems, and the trends in all these functions are modest, this is consistent with the possibility of successful automation.

Miscellaneous Business Taxes. This expense is not part of those that give rise to the 5.4% total increase, but the costs declined by 40.3% in 2017. According to the IRS, “The Consolidated Appropriations Act of 2016, Title II, § 201, Moratorium on Annual Fee on Health Insurance Providers, suspended collection of the health insurance provider fee for the 2017 calendar year only.” (Emphasis added.) The median value in the 2016 cycle for participating Plans’ commercial insured business was \$16.97, and was \$9.86 in the 2018 cycle.

Costs of Larger Plans, by Cluster, PMPM

Figure 3 shows the values of administrative expenses for all seven participating Plans. Bear in mind that this universe of Larger Plans differs from that of last year in product mix and the inclusion of one additional Plan. In this section, we’ll touch on comparisons with the results reported last year, notwithstanding this limitation. The prior year’s values are shown in Appendix A.

Since the universes differed, it is not possible to reliably compare the performance of plans participating this and last year based on these charts. For the new plan and the one that participated last year, we can know neither their trends, or their changes in product mix.

The actual total PMPM administrative expenses at \$36.71 were 21.7% higher than last year’s values, shown in Appendix A. Recall that while the universes are different, the organizations that remained emphasized growth in high cost products, especially Medicare Advantage.

Figure 3. Sherlock Benchmark Summary
 Larger Plans Costs by Functional Area Cluster, 2017 Data
 Median Per Member Per Month Expenses

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$7.84	\$8.30	\$11.52	37%
Medical and Provider Management	3.91	4.81	5.18	19%
Account and Membership Administration	13.50	14.81	21.16	27%
Corporate Services	4.36	4.53	5.65	22%
Total Expenses	\$29.82	\$36.71	\$40.99	22%

Medical and Provider was up by 12.7%, to \$4.81. This group of functions includes Provider Network Management and Services and Medical Management.

Account and Membership, at \$14.81 PMPM, increased at 7.7%. This relatively slow growth loosely parallels the slow growth calculated in Figure 2. This cluster includes the central activities of Information Systems, Enrollment, Claims and Customer Services.

Corporate Services increased by 3.9% and was \$4.53. This was also relatively slow when the universes and product mixes are held constant in Figure 2. Activities include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities like Facilities, HR and Legal.

Sales and Marketing increased by only 3.5%, to \$8.30 PMPM. This growth was considerably slower than the 9.7% constant mix constant universe growth. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Overall, costs were more dispersed in 2017 versus 2016. But the driver was Account and Membership Administration: the Standard Deviation of this set's reported PMPM costs increased by 8.7 percentage points. The difference between the 75th and 25th percentile values overall was dominated by the change in this expense cluster as well.

Economies of Scale. Evidence of economies of scale is generally not strong when comparing the Larger Plans with all of the other Blue Cross Blue Shield Plans. But, as with the customary findings of Sherlock Company's scale study, evidence suggestive of economies of scale is only found in the Corporate Services cluster of expenses. *We expect to publish our findings for economies of scale in summary form in Plan Management Navigator in the coming weeks. The detailed version of these are included with subscriptions to its sister newsletter, PULSE.*

Costs of Larger Plans, PMPM by Product

The importance of considering the product cost values is shown in Figure 4. The products vary greatly in their per member costs. Also, the product Coefficients of Variation can be smaller than cluster cost values shown in Figure 3.

The median mix of Commercial products was 82.1% of the membership. Administrative expenses for these costs are both higher and lower than the median comprehensive administrative costs, depending on their financing mechanism, which indirectly reflects group size. The median size of Commercial Insured groups was 29 members compared with 2,844 members in Commercial ASO/ASC groups.

As a sector, Larger Plans have a heavy commitment to ASO/ASC products, representing a median of 47.6% of Comprehensive members. An ASO/ASC group possesses the statistical advantages of larger size associated with the ability to self-insure, which also means that their Sales and Marketing costs are spread through greater numbers of members. Thus, for the ASO/ASC products, Indemnity and PPO costs \$26.45, HMO costs \$27.82 while POS costs \$28.23.

Commercial *insured* products are conversely higher than the median for comprehensive products. The single most important product is Indemnity and PPO at \$51.03. HMO costs \$58.80 while POS costs \$46.19. A median of 36.5% of Comprehensive members are in Commercial Insured products.

Figure 4. Sherlock Benchmark Summary
Larger Plans Costs by Product, 2017 Data
 Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	\$53.29	\$58.80	\$60.56	21%
ASO / ASC	\$19.99	\$27.82	\$28.93	42%
Commercial POS				
Insured	\$42.37	\$46.19	\$58.37	32%
ASO / ASC	\$27.50	\$28.23	\$28.95	7%
Indemnity & PPO				
Insured	\$43.50	\$51.03	\$56.17	36%
ASO / ASC	\$22.53	\$26.45	\$27.33	22%
Commercial Insured	\$42.97	\$51.03	\$58.16	18%
Commercial ASO/ASC	\$22.40	\$26.95	\$27.52	22%
FEP	\$19.34	\$23.38	\$25.91	19%
Medicare Advantage				
Individual	\$92.91	\$97.98	\$116.95	26%
Group	\$125.21	\$154.28	\$173.61	30%
Medicare Advantage Total	\$90.35	\$95.14	\$122.85	28%
Medicaid	\$34.08	\$46.31	\$58.55	75%
Medicare Supplement	\$26.12	\$35.36	\$45.67	46%
Comprehensive Total	\$29.82	\$36.71	\$40.99	22%
Medicare Advantage SNP	\$175.46	\$180.75	\$186.04	8%
Stand-Alone Medicare Part D	\$10.91	\$18.93	\$35.13	65%
Stand Alone Dental	\$2.75	\$4.26	\$4.90	52%

FEP is considered to be an insured product serving Federal Employees and dependents under retirement age, but since the Blue Cross Blue Shield Association is the prime contractor, it has the low marketing cost characteristics of ASO/ASC commercial products. Its costs are \$23.38 PMPM. The uniformity of the product between the Plans, as subcontractors, may contribute to the low coefficient of variation of 19%.

Note that Medicare Supplement is an approximately average cost product at \$35.36 PMPM. We include this as a comprehensive product in the Sherlock Benchmarks though it pays only when Medicare does not.

Medicare and Medicaid are government-sponsored products serving seniors and the poor. Medicare products are relatively high cost at \$95.14 and \$180.75 PMPM for Medicare Advantage and Medicare Special Needs Plans, respectively. Note that, within Medicare Advantage, group runs *higher* than individual. Some Sales and Marketing and Enrollment costs would normally be expected to be lower for the group Medicare Advantage business. Group Medicare is said to be in flux in some of the Plans and typically has relatively few members. Medicare Advantage costs this year are higher than last year.

Among the Comprehensive insured products, Medicaid products are similar to commercial, at median PMPM values of \$46.31. The specialty products of Stand-Alone Medicare Part D and Stand-Alone Dental were very low cost products at \$18.93 and \$4.26 PMPM, respectively.

Costs of Larger Plans, Percent of Premiums by Product

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 approximately average cost when measured PMPM, at 17.5%, its cost ratio was the highest among the Comprehensive products, which had a median value of 9.1%.

The specialty product, Stand Alone Dental was relatively high cost product at median values of 18.3%. Stand-Alone Medicare Part D however was a low cost product at 8.8% of premiums. Both of these were extremely low cost products on a PMPM basis.

Medicare Advantage costs, while many times higher PMPM, have ratios only 20-30% higher than the median for comprehensive at 11.1%. Group Medicare has higher PMPM costs than Individual, and the relationship is similar at 13.4% and 11.0%, respectively. While Medicare SNP is not considered part of comprehensive for this universe, at 11.6%, it is higher than average for Comprehensive but 5-6 times higher than average when calculated PMPM.

Most other percent of premiums correspond directionally with the PMPM values. FEP is among the lowest cost products on a PMPM basis and, at 4.3%, is the lowest cost product expressed in percents. Medicaid was approximately average in PMPM costs and was, at 11.9%, higher than average.

Commercial ASO products range from 5.9% of premiums to 7.1% of premiums, lower than average PMPM. Commercial insured products, higher than average PMPM, range from 10.6% of premiums to 11.2% of premiums. Lower Sales and Marketing for self-insured groups is key reasons for this difference.

Figure 5. Sherlock Benchmark Summary
Larger Plans Costs by Product, 2017 Data
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Commercial HMO				
Insured	8.7%	10.6%	12.9%	27%
ASO / ASC	4.9%	5.9%	5.9%	23%
Commercial POS				
Insured	8.7%	11.0%	11.3%	30%
ASO / ASC	6.4%	7.1%	7.8%	28%
Indemnity & PPO				
Insured	10.1%	11.2%	12.0%	17%
ASO / ASC	6.2%	7.0%	9.2%	36%
Commercial Insured	9.9%	11.2%	12.2%	16%
Commercial ASO/ASC	6.1%	7.0%	9.2%	36%
FEP	3.9%	4.3%	6.0%	35%
Medicare Advantage				
Individual	9.6%	11.0%	15.1%	36%
Group	12.1%	13.4%	14.4%	21%
Medicare Advantage Total	9.8%	11.1%	15.1%	32%
Medicaid	10.1%	11.9%	13.6%	41%
Medicare Supplement	14.1%	17.5%	21.0%	40%
Comprehensive Total	7.7%	9.1%	10.5%	23%
Medicare Advantage SNP	9.5%	11.6%	13.6%	50%
Stand-Alone Medicare Part D	7.4%	8.8%	16.7%	56%
Stand Alone Dental	11.2%	18.3%	26.3%	48%

Costs of Larger Plans, Expense Clusters as Percent of Premium

Figure 6 shows the ratios of administrative expenses to premiums or equivalents. Administrative expenses were 9.1% of premiums. This was 1.2 percentage points higher than last year's equivalent value of 7.9%.

Sales and Marketing declined by 0.1% to 2.0% of premium. All other clusters were higher: Corporate Services was up by 0.1 percentage points, to 1.2% of premiums. Account and Membership Administration also increased by 0.3 percentage points to 3.8% of premium. Medical and Provider Management was up by 0.3 percentage points to 1.3% of premium.

How We Performed This Analysis

This analysis is based on the twenty-first annual edition of our performance benchmarks for health plans. The *Sherlock Benchmarks* (*Sherlock Expense Evaluation Report* or *SEER*) represent the cumulative experience of 818 health plan years over more than two decades.

Each peer group in the *Sherlock Benchmarks* is established to be relatively uniform. So, within that constraint, we draw from the largest of the Blue Cross Blue Shield Plans to populate this analysis. In addition, we added one more Blue Cross Blue Shield Plan. Collectively, these seven large Blue Cross Blue Shield Plans serve 32.7 million Americans. We believe this universe to be quite robust.

The average Plan participating in the *Sherlock Benchmarks* this year served 4.7 million people and the median membership was 2.7 million. The geographic reach extended from coast to coast.

Figure 6. Sherlock Benchmark Summary
Larger Plans Costs by Functional Area Cluster, 2017 Data
Median Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.0%	2.0%	3.0%	37%
Medical and Provider Management	1.0%	1.3%	1.3%	24%
Account and Membership Administration	3.3%	3.8%	5.4%	26%
Corporate Services	1.1%	1.2%	1.4%	22%
Total Expenses	7.7%	9.1%	10.5%	23%

Six of this year's participants participated in the prior year. In addition to the comprehensive members, these Plans also served 29,000 Medicare SNP members, 362,000 members of stand-alone Medicare Part D products and 4.2 million members of Stand-Alone Dental. In addition to these members, collectively, the Larger Plans served 5.8 million Blue Cross Blue Shield members through "host" relationships with other Blue Plans. Within the Comprehensive products, 81.5% was commercial, or 26.6 million. Approximately 16.1 million of the commercial members were served under some form of self-insurance arrangement, comprising approximately 60.4% of the total commercial members.

Medicare Advantage, with 900,000 million members, was offered by 6 Plans. It composed 3.1% of the combined comprehensive membership and 9.9% of revenues for comprehensive products. With SNP and Stand-Alone Part D, Medicare products represents 11.2% of total revenues. Medicare Supplement, offered by all 7 Plans, was 6.2% of members and 4.9% of revenues for comprehensive products. Medicaid HMO, offered by two Plans, comprised 3.1% of membership. FEP included 6.5% of total comprehensive 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 convention 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 that are 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 set after reweighting each Plan's values to eliminate the effect of product mix differences between the years.
- Percent of premium ratios are calculated on a *premium-equivalent* basis. That is, in the case of ASO/ASC arrangements, we build to a premium from fees by adding them to 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 ratios with those of insured products offered by these plans, and an intuitive appeal to most readers.

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- Expenses exclude capital costs and investment income. Excluded expenses include interest and similar debt capital costs and other capital formation costs (debt or equity), including 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 mental health while the *Sherlock Benchmarks* do not. Because variation in employer benefit designs and the propensity of the administration of these health services to be outsourced by Plans accepting these management responsibilities, the *Benchmark* reports carve them out. Pages 22 - 24 in Tab 2 of Volume I of the 2018 *Sherlock Benchmarks* reconciles these two presentations.
 - Miscellaneous Business Taxes are a special case among administrative expenses since, short of recapitalization or elimination of commercial insured business, such expenses are impossible to manage. So, expense trends, along with the PMPM and percent of premium ratios, are generally calculated *before* the effect of Miscellaneous Business Taxes. These taxes are primarily related to the Affordable Care Act. For commercial insured products, the median PMPM value of such taxes is \$9.86 and the mean is \$10.77 or approximately 17% of administrative costs. (As noted earlier, this is sharply lower than in the prior year.) Such costs are essentially nil for ASO/ASC products. By way of comparison, in 2010, the median Miscellaneous Business Tax for commercial insured products was \$2.38 PMPM.

The ACA fees include Comparative Effectiveness Research Fees (CERF), Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee and Annual Fee on Health Insurers. The Annual Fee on Health Insurers was formerly the largest generally applicable fee since it applied to all insured business and had a median value of \$7.55. The Risk Adjuster Fee, the second largest fee, has a median value of \$0.21 PMPM. The Exchange User Fee only applies to Exchange members but the median fee for that population is \$23.18 PMPM.

On a constant-mix basis, per member Miscellaneous Business Tax costs decreased by 40.3% PMPM, compared with a decrease of 1.7%. This compares with the surge of 632.2% in 2014.

Note on the Sherlock Benchmarks

These results are excerpted from the Larger health plan edition of the 2017 *Sherlock Benchmarks*. The results are based on our detailed surveys of 2018 operating parameters of seven of the largest Blue Cross Blue Shield Plans. Accordingly, much more information is available by licensing the *Sherlock Benchmarks*.

Information about the Benchmarks are found here:

<https://sherlockco.com/sherlock-benchmarks/>. Tables of Contents, report formats, citations, QA and other information can be found here. In addition, we have an application that allows you to try out the benchmarks for no charge.

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).

Health plan managers endeavor to achieve optimal costs. If that is achieved, favorable health care trends amplify operating profits and mute operating losses. Managing what you measure facilitates your achievement of that goal. In a competitive environment, measurement implies comparison with the leaders of your industry.

The Sherlock Benchmarks reflect over 818 health plan years of experience over 21 consecutive years. Thus, planning, budgeting and cost benefit analyses are credibly informed by the Sherlock Benchmarks.

In addition to the Larger universe, we also survey and report on universes of Independent / Provider – Sponsored Plans, Blue Cross Blue Shield Plans, Medicare Advantage Plans and Medicaid Plans.

Appendix A. Sherlock Benchmark Summary

Larger Plans Costs by Functional Area Cluster, 2016 Data

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$7.79	\$8.02	\$8.13	37%
Medical and Provider Management	3.92	4.27	4.50	19%
Account and Membership Administration	13.20	13.75	15.35	18%
Corporate Services	3.61	4.36	5.15	23%
Total Expenses	\$27.91	\$30.17	\$33.02	21%

Appendix B. Sherlock Benchmark Summary

Larger Plans Costs by Functional Area Cluster, 2016 Data

Percent of Premium Equivalent

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.0%	2.1%	2.1%	29%
Medical and Provider Management	0.9%	1.0%	1.2%	26%
Account and Membership Administration	3.3%	3.5%	4.1%	13%
Corporate Services	1.0%	1.0%	1.3%	18%
Total Expenses	7.3%	7.9%	8.8%	15%

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