

# Plan Management Navigator

## *Analytics for Health Plan Administration*



Healthcare Analysts

**Douglas B. Sherlock, CFA**  
sherlock@sherlockco.com

**Christopher E. de Garay**  
cgaray@sherlockco.com

**Erin Ottolini**  
erin.ottolini@sherlockco.com

**John Park, CFA**  
jpark@sherlockco.com

**Andrew L. Sherlock**  
asherlock@sherlockco.com

(215) 628-2289

*Please see page 7 for our invitation to participate in the 2022 or license the 2021 Sherlock Benchmarks.*

## LARGER PLANS 2020 ADMINISTRATIVE COSTS ARE LOWER, COMPARED TO BLUES

Larger Blue Cross Blue Shield Plans tended to post lower costs than the universe as a whole. But these results are complicated by the difference in product mixes between the two sets.

The source of the data used in this analysis is from the 2021 Larger Plans edition of the *Sherlock Benchmarks*, a subset of the Blue Cross Blue Shield Plan universe. Of the fourteen total participating BCBS Plans, five were included in the Larger Plans universe.

We expect to follow up with a study of Economies of Scale in coming weeks.

### *Costs of Larger Plans, Expense Clusters as PMPM and Percent of Premium Equivalents*

In 2020, Larger Plans posted median Comprehensive administrative expenses of \$39.86 PMPM. This was 3.6% lower than the Blue Cross Blue Shield median expenses of \$41.36 PMPM, shown in Figure 1. Larger Plans held the largest cost advantage in the Corporate Services cluster with \$5.63 PMPM, lower by 16.3%. We generally find some Economies of Scale within this cluster every year. The average size of the Larger Plan was about 3.6 million compared to the average size of the BCBS Plan at about 2.1 million.

At \$9.07 PMPM for Larger Plans, the Sales and Marketing cluster was lower by 3.4% over Blue Plans. Conversely, Larger Plans had 15.9% higher expenses in Medical and Provider Management to \$6.66 PMPM. Account and Membership Administration was also higher at \$19.07, higher by 1.8%.

### Figure 1. Sherlock Benchmark Summary

Larger Plans Costs by Functional Area Cluster, 2020 Results  
*Median Per Member Per Month Expenses*

Functional Area	Larger Plans				BCBS Median
	25th Percentile	Median	75th Percentile	Coefficient of Variation	
Sales and Marketing	\$7.94	\$9.07	\$9.21	20%	\$9.38
Medical and Provider Management	5.65	6.66	6.81	14%	5.75
Account and Membership Administration	18.40	19.07	19.22	18%	18.74
Corporate Services	5.52	5.63	6.39	22%	6.73
<b>Total Expenses</b>	<b>\$37.16</b>	<b>\$39.86</b>	<b>\$43.24</b>	<b>12%</b>	<b>\$41.36</b>

Figure 2 shows ratios of administrative expenses to premiums or equivalents. Similar to Figure 1, Larger Plans were lower than Blue Plans by 1.4 percentage points at 8.1%. The difference in Sales and Marketing was the largest in favor of Larger Plans at 1.8%, lower by 0.3 percentage points. The advantage in Corporate Services was more modest compared to the PMPM comparison, with Larger Plans at 1.4% and Blues at 1.5%, a 0.1 percentage point difference. Account and Membership was slightly higher for Larger Plans by 0.04 percentage points to 4.1%, while Medical and Provider Management was higher by 0.1 percentage points to 1.5%.

### *Costs of Blue Cross Blue Shield Plans, PMPM and Percent of Premium Equivalents by Product*

PMPM product cost values are shown in Figure 3. The products vary greatly in their per member costs.

For Larger Plans, the median mix of Commercial products was 79% of comprehensive membership with administrative expenses both higher and lower than the median comprehensive products, depending on their financing mechanisms.

For ASO / ASC products, the median member mix was 50%, and their administrative costs were \$28.96 PMPM. Self-insured ASO / ASC products are lower cost compared to 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 to bear the medical cost variance risk: this also means that group Sales and Marketing costs are spread through greater numbers of members. For ASO, Indemnity and PPO costs a median of \$28.92 PMPM, HMO costs \$29.83 while POS costs \$34.50.

The median mix for Commercial Insured Products was 27% with total Commercial Insured costs at \$58.20 PMPM. Commercial Insured HMO, Indemnity & PPO, and POS costs were \$55.47 PMPM, \$58.47 PMPM, and \$64.42 PMPM, respectively.

#### **Figure 2. Sherlock Benchmark Summary**

Larger Plans Costs by Functional Area Cluster, 2020 Results  
*Median Percent of Premium Equivalents*

Functional Area	Larger Plans			Coefficient of Variation	BCBS Median
	25th Percentile	Median	75th Percentile		
Sales and Marketing	1.6%	1.8%	2.4%	25%	2.1%
Medical and Provider Management	1.1%	1.5%	1.5%	20%	1.3%
Account and Membership Administration	3.9%	4.1%	4.1%	26%	4.0%
Corporate Services	1.1%	1.4%	1.4%	23%	1.5%
<b>Total Expenses</b>	8.0%	8.1%	10.0%	20%	9.5%

Since Larger Plans are a subset of Blue Cross Blue Shield Plans, FEP (Federal Employee Program) is included in their product portfolio. FEP serves Federal Employees and dependents under retirement age. Similar to ASO / ASC products, FEP has modest Sales and Marketing efforts. Median FEP costs were \$33.12 PMPM, while the median mix was 5% of Comprehensive members.

Medicare Supplement is included as a Comprehensive Product in the *Sherlock Benchmarks* though it pays only when Fee-for-Service Medicare does not. This product's median costs were \$27.13, a relatively low-cost product. The median mix of Medicare Supplement members was 4% of Comprehensive membership.

Medicare and Medicaid are government-sponsored products serving seniors and eligible low-income beneficiaries. Per Member Per Month, Medicaid costs were \$55.56 PMPM and was 2% of comprehensive membership.

Medicare was less of a focus for Larger Plans with a median mix at 1% and median PMPM costs of \$136.25 PMPM. Median costs for Individual and Group Medicare products were \$139.14 PMPM and \$133.65 PMPM, respectively. While not included in Comprehensive products, Medicare Special Needs Plans (SNP) was \$183.89 PMPM with three of the five Larger Plans offering this product.

**Figure 3. Sherlock Benchmark Summary**  
**Larger Plans Costs by Product, 2020 Results**  
 Per Member Per Month

Product	Larger Plans			Coefficient of Variation	BCBS Median
	25th Percentile	Median	75th Percentile		
<b>Commercial HMO</b>					
Insured	\$51.42	\$55.47	\$58.83	21%	\$63.63
ASO / ASC	\$23.02	\$29.83	\$35.66	36%	\$35.65
<b>Commercial POS</b>					
Insured	\$61.55	\$64.42	\$67.29	13%	\$57.59
ASO / ASC	\$32.94	\$34.50	\$36.06	13%	\$31.38
<b>Indemnity &amp; PPO</b>					
Insured	\$54.58	\$58.47	\$61.52	14%	\$56.14
ASO / ASC	\$27.86	\$28.92	\$29.74	5%	\$29.33
Commercial Insured	\$55.13	\$58.20	\$58.54	12%	\$56.67
Commercial ASO/ASC	\$27.86	\$28.96	\$30.33	9%	\$29.65
FEP	\$22.50	\$33.12	\$36.54	32%	\$30.13
<b>Medicare Advantage</b>					
Individual	\$131.77	\$139.14	\$154.34	18%	\$144.42
Group	\$113.56	\$133.65	\$141.12	23%	\$131.54
Medicare Advantage Total	\$122.31	\$136.25	\$154.24	24%	\$143.79
Medicaid	\$43.54	\$55.56	\$61.58	36%	\$40.48
Medicare Supplement	\$26.65	\$27.13	\$36.22	38%	\$37.18
<b>Comprehensive Total</b>	<b>\$37.16</b>	<b>\$39.86</b>	<b>\$43.24</b>	<b>12%</b>	<b>\$41.36</b>
Medicare Advantage SNP	\$155.21	\$183.89	\$239.19	42%	\$194.17
Stand-Alone Medicare Part D	\$8.48	\$15.69	\$21.01	65%	\$11.91
Stand Alone Dental	\$1.97	\$2.85	\$3.75	48%	\$3.21

The specialty products of Stand-Alone Medicare Part D and Stand-Alone Dental were very low cost products at \$15.69 and \$2.85 PMPM, respectively.

As mentioned earlier, Comprehensive Total Costs PMPM was 3.6% lower for Larger Plans compared to Blue Cross Blue Shield. Larger Plans had a cost advantage in Commercial HMO, both in Insured and ASO/ASC. Likewise, they had lower costs in the key Indemnity & PPO ASO/ASC product. Other areas of cost leadership included Medicare Advantage Individual, Medicare Supplement and Stand-Alone Medicare Part D.

Many analysts evaluate administrative expenses standardized as percents of premium. While this is straightforward for fully insured products, in the ratios displayed in Figures 2 and Figure 4 which follows, “premiums” represent 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 generally corresponds with that of the PMPM costs with some important exceptions. While Medicare Supplement is below average cost when measured PMPM, at 16.2%, its cost ratio was the highest among the Comprehensive products, which had a median value of 8.1%.

**Figure 4. Sherlock Benchmark Summary**  
Larger Plans Costs by Product, 2020 Results  
Percent of Premium Equivalents

Product	Larger Plans				BCBS Median
	25th Percentile	Median	75th Percentile	Coefficient of Variation	
<b>Commercial HMO</b>					
Insured	10.5%	11.8%	12.4%	24%	11.1%
ASO / ASC	5.4%	6.0%	7.6%	42%	6.9%
<b>Commercial POS</b>					
Insured	10.3%	10.6%	10.8%	6%	10.6%
ASO / ASC	7.7%	8.6%	9.5%	30%	6.8%
<b>Indemnity &amp; PPO</b>					
Insured	9.9%	10.2%	10.4%	11%	10.4%
ASO / ASC	6.8%	7.3%	7.7%	34%	7.5%
Commercial Insured	10.2%	10.6%	11.6%	15%	10.6%
Commercial ASO/ASC	6.8%	7.1%	7.5%	34%	7.4%
FEP	4.1%	5.6%	5.8%	38%	4.8%
<b>Medicare Advantage</b>					
Individual	15.1%	16.8%	18.5%	16%	16.8%
Group	10.7%	10.9%	11.5%	7%	10.8%
Medicare Advantage Total	13.1%	14.5%	16.6%	23%	15.0%
Medicaid	9.9%	12.3%	13.1%	30%	10.7%
Medicare Supplement	11.9%	16.2%	17.5%	35%	17.5%
<b>Comprehensive Total</b>	8.0%	8.1%	10.0%	20%	9.5%
Medicare Advantage SNP	14.3%	19.9%	21.1%	43%	17.2%
Stand-Alone Medicare Part D	3.7%	11.1%	19.9%	85%	10.2%
Stand Alone Dental	16.1%	18.1%	19.5%	31%	18.1%

---

The specialty products, Stand-Alone Medicare Part D and Stand Alone Dental, were relatively *high* cost products at median values of 11.1% and 18.1%, respectively. These were extremely low-cost products on a PMPM basis.

Medicare Advantage costs, while over three times higher than total PMPM, have ratios that are less than two times greater at 14.5%. Medicare Group and Individual were 10.9% and 16.8%, respectively.

Medicare SNP was almost five times greater than Comprehensive on a PMPM basis, was still high on a Percent of Premium basis at 19.9%.

FEP expenses were 5.6% of premiums, while Medicaid was 12.3%. Total Commercial ASO/ASC admin expenses were 7.1% of premium equivalents, while ASO / ASC products ranged from 6.0% to 8.6% of premium equivalents. Total Commercial Insured was 10.6% of premiums, while its Commercial Insured Products ranged from 10.2% to 11.8%.

Calculated as a percent of revenues, the Larger Plans had lower costs in Commercial HMO ASO/ASC, both of the Indemnity and PPO products, Total Medicare Advantage and Medicare Supplement. Larger Plan products with lower PMPM costs not reflected in the percent comparisons are Commercial HMO Insured, Medicare Advantage Individual and Stand-Alone-Medicare Part D. On the other hand, Indemnity and PPO Insured's lower costs are evident on a percent of premium basis but not on a PMPM basis.

### *Mix Differences and Other Factors*

Mix difference probably reduced the cost advantage shown by Larger Plans. For instance, if both sets are weighted by Larger Plan Mix, Larger Plan Comprehensive PMPM costs were \$42.58, slightly higher than the \$42.18 for Blue plans, or slightly less than 1%. Also, similarly, on a premium equivalent basis, Larger Plans were 9.1% versus 8.9%. (The weighted values differ from the total Comprehensive values because of our use of medians and because not all Plans offer all products.)

Larger plans are more committed to low-cost products such as ASO/ASC, Medicaid and FEP than the Plans as a whole which affects the comparisons. Notably, administrative costs can reflect strategic decisions including for instance investments in Sales and Marketing for growth, investments in Information Systems for eventual operational cost savings or investments in Medical Management to optimize health care costs for members.

The cost of living differences may also have affected comparisons. Larger plans tend to be in larger metro areas with high costs of living. Accordingly, the average wage index was 2.5% higher and the median was 2.1% higher.

### Characteristics

Collectively, Larger Plans served 41 million people under Comprehensive Products. Total Commercial comprised 33 million, or 81% of total members for Larger Plans. Of those Commercial members, about 65% or 22 million were served under self-insured ASO. Medicaid and Medicare Advantage membership totaled 1.7 million and 772,000, respectively. FEP reflected a total of 1.8 million, while Medicare Supplement reflected 1.3 million.

Larger Plans' median mix for premiums for Total Commercial was 55%, while Commercial Insured and ASO were 52% and 5%, respectively. Medicare Supplement represented a median of 4% of premiums, while FEP was 13%. Medicaid and Medicare Advantage was 3% and 2%, respectively.

**Figure 5. Sherlock Benchmark Summary**  
Selected Characteristics of Sherlock Benchmark Universes  
 Results reflect the year ended December 31, 2020.

	Blue Cross Blue Shield	Larger	Independent / Provider- Sponsored	Medicaid	Medicare
<b>Sample Size</b>					
Number of Participants	14	5	19	11	13
Total Membership (000's) <sup>1</sup>	41,477	28,785	9,590	11,124	12,230
Median Membership (000's)	2,143	3,595	346	542	542
Mean Membership (000's)	2,963	5,757	505	1,011	941
<b>Supplemental Content</b>					
Medicaid or Medicare Membership from Other Universes (000's)	NA	NA	NA	675	479
Total Medicaid or Medicare Product Members (000's)	NA	NA	NA	6,616	2,112
<b>Market Mix (Premiums and Fees)</b>					
Commercial <sup>2</sup>					
Median	68.8%	54.7%	46.9%	25.5%	42.2%
Average	63.5%	58.7%	57.7%	21.8%	38.2%
Medicare Advantage					
Median	6.4%	2.3%	17.3%	17.3%	37.5%
Average	10.4%	10.1%	23.5%	17.3%	39.2%
Medicaid Total					
Median	0.0%	2.8%	8.4%	35.8%	10.8%
Average	6.4%	10.3%	12.0%	47.9%	16.5%
<b>Product Mix</b>					
Percent Managed Care (Premiums and Fees) <sup>3</sup>					
Median	17.1%	40.8%	86.7%	88.1%	87.7%
Average	27.9%	46.4%	67.0%	80.3%	77.2%
Percent ASO (Members)					
Median	48.9%	50.0%	31.6%	10.4%	23.7%
Average	49.2%	50.3%	33.3%	14.8%	28.8%
<b>States Served</b>	22	10	20	15	11

<sup>1</sup> Membership reflects only "comprehensive" products which may include commercial and government products.

<sup>2</sup> Commercial excludes FEP.

<sup>3</sup> Managed Care is the sum of Medicare Advantage, Medicaid Total and Commercial HMO.

---

The *Sherlock Benchmarks* (*Sherlock Expense Evaluation Report* or *SEER*) represent the cumulative experience of 929 health plan years. Each peer group in the *Sherlock Benchmarks* is established to be relatively uniform. So, within that constraint, it is open to most Blue Cross Blue Shield Plans, Independent / Provider – Sponsored, Medicare, and Medicaid 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.

Figure 5 highlights the Characteristics of the different universes of the *Sherlock Benchmarks*.

Tables of Contents, report formats, citations, quality assurance and other information can be found on the following page.

<https://sherlockco.com/sherlock-benchmarks>

In addition, the Sherlock Company website has an application that allows you to try out the *Sherlock Benchmarks* for no charge.

If you are interested in licensing these materials or interested in participating in the 2022 cycle, we hope that you will not hesitate to contact us ([sherlock@sherlockco.com](mailto:sherlock@sherlockco.com)).

## INVITATION TO PARTICIPATE IN THE 2022 SHERLOCK BENCHMARKING STUDY

The highly valid, well-populated *Sherlock Benchmarks* provides an unbiased ranking and helps prioritize cost management activities to have the greatest impact on improving your health plan's overall operating performance.

The 2022 study will be the 25<sup>th</sup> consecutive year, reflecting a cumulative experience of 929 health plan years. Since June 2018, health plans serving 173 million insured Americans use the *Sherlock Benchmarks*, including most Blue Cross Blue Shield Plans, public companies and the largest Independent/Provider-Sponsored health plans.

For the most recent cycle of the *Sherlock Benchmarks*, of the 33 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving approximately 41.5 million people, participate in this year's *Sherlock Benchmarks* for Blue Cross Blue Shield Plans. Of the 15 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, seven are participating in this year's Sherlock Benchmarking Study for Independent / Provider –Sponsored health plans. Most of the members of the Health Plan Alliance with greater than 300,000 members are participating in this year's *Sherlock Benchmarks*.

---

The *Sherlock Benchmarks* have been called the “Gold Standard” by leading health care consultants. Report publication begins in late June but varies by universe. Participation entails efforts on your part since useful outputs require relatively granular inputs. However, the cost is relatively modest.

The *Sherlock Benchmarks* are also available to license. Please reach out to Douglas Sherlock at [sherlock@sherlockco.com](mailto:sherlock@sherlockco.com) or 215-628-2289 if you are interested in either participation or licensing. You will be among good company.