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 5 for our invitation to participate in the 2025 Sherlock Benchmarks.

BEST-IN-CLASS BLUE CROSS BLUE SHIELD PLANS: FACTORS OF PERFORMANCE

This analysis of Blue Cross Blue Shield Plans is the second of two analyses of factors that contribute to superior performance among participants in the *Sherlock Benchmarks*. We published the analysis for Independent / Provider – Sponsored plans last week.

Conclusions on Tactical Expenses

This is a very brief summary of our analysis of "Best-in-Class" Blue Cross Blue Shield (Blue) Plans compared with their Blue Peers. The complete document was provided to our participants. Our analysis is based on the 2024 edition of the *Sherlock Benchmarks* reflecting year-ended 2023 financials. The *Sherlock Benchmarks* for Blue Cross Blue Shield Plans is this universe's 26th annual edition.

Best-in-Class Plans had Tactical expenses that were lower by $6.10 PMPM, or by 21%. They had mean PMPM costs of $23.16 compared to $29.25 for the Peer Plans[1]. The Best-in-Class Staffing Ratio was mainly responsible for the lower costs, at 14 FTEs per 10,000 members, compared to Peer Plans at 16. (Figure 1)

The Best-in-Class Staffing Costs per FTE were $112,000 versus $126,000 for the Peer Plans, or lower by 11%. Non-Labor Costs (e.g., those found in Information Systems or Facilities) were approximately $88,000 per FTE for Best-in-Class Plans, which was 2% lower than those of the Peer Plans at $90,000.

It appears that Best-in-Class Plans operate in a culture of conservative administrative expenses since every cluster of Tactical expense was lower than its Peers. Also, almost every functional area was lower than those of the Peer Plans (Figure 2). Similar to previous years, the function contributing most to superior performance was Information Systems. The exceptions to the low cost trend were Claim and Encounter Capture and Adjudication and Corporate Executive and Governance, which were high cost.

Figure 1. Blue Cross Blue Shield Best-in-Class Plans Summary
Sources of Tactical Variances, Mix-Adjusted*

	Non-Labor Costs per FTE	+	Staffing Costs Per FTE	=	Total Costs Per FTE	x	FTEs Per 10k Members	=	Costs PMPM
Best-in-Class Plans	*$88,041*		*$112,388*		*$200,429*		*13.87*		*$23.16*
Peer Plans	$89,723		$126,149		$215,872		16.26		$29.25
Dollar Variance	-$1,682		-$13,761		-$15,443		-2.40		-$6.10
Percent Variance	-1.9%		-10.9%		-7.2%		-14.7%		-20.8%
Percent of Total Variance	3.5%		28.3%		31.8%		68.2%		100.0%
PMPM Dollar Variance	-$0.21		-$1.73		-$1.94		-$4.16		-$6.10

**Tactical expenses exclude Misc. Business Taxes, Sales and Marketing cluster and Medical Management expenses.*

[1] Costs are standardized for member months (i.e. PMPM) even if not stated.

Low Information Systems cost was responsible for about 72% of the Tactical cost advantage. The functions of Corporate Services, Customer Services and Enrollment / Membership / Billing followed in their contribution to low Tactical costs. These three functions composed a further 43% of the difference between the two sets of Plans.

Strategic Expenses were also Generally Lower

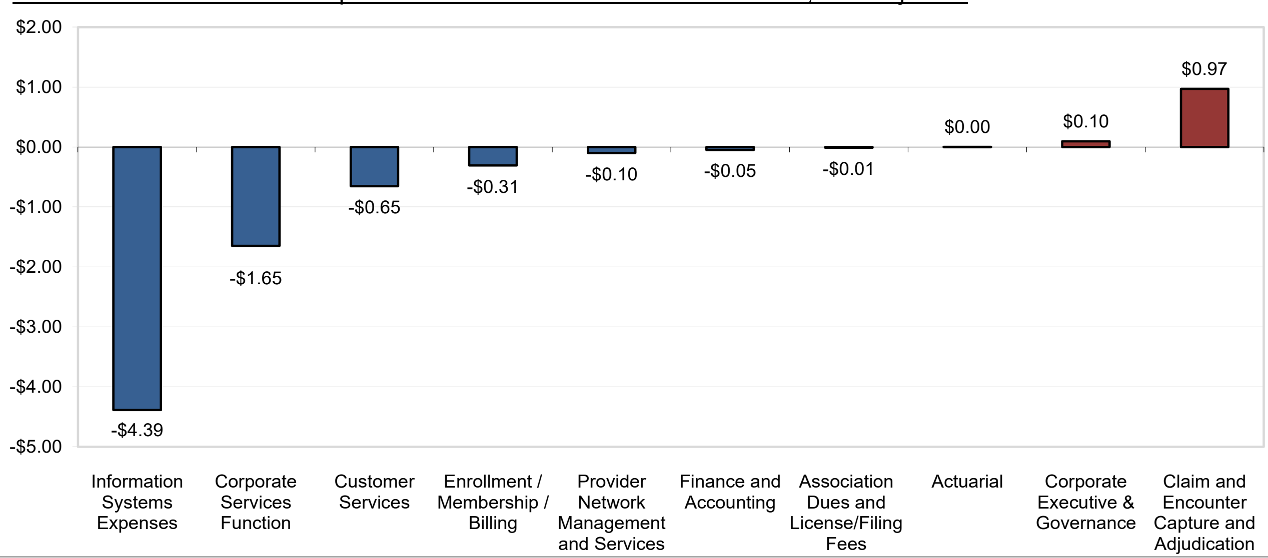
In addition to the Tactical expenses discussed above, Best-in-Class Plans had 4% lower Strategic expenses, which are costs in the Sales and Marketing cluster and the Medical Management function. The Sales and Marketing Cluster of expenses was lower for the Best-in-Class Plans by 8%. Sales and Marketing functional area had costs that were lower for Best-in-Class Plans except for Rating and Underwriting and External Broker Commissions.

Best-in-Class low costs of Sales and Marketing did not appear to negatively affect membership growth. Comprehensive membership for Best-in-Class Plans grew by 2.0% on average, whereas Peer Plans were flat. At the product-mix of the Best-in-Class Plans, the Peer Plans posted a mean membership increase of 1.3%, still slower than Best-in-Class.

Medical Management expenses, on the other hand, were 4% *higher* for Best-in-Class Plans. Despite having higher Medical Management expenses, Best-in-Class Plans had lower gross profit margins at a median of 11% versus 12% for the Peer Plans for *insured products*. (Insured products include Commercial Insured, Medicare Supplement, FEP, Medicare, and Medicaid. Gross profit margins are premiums less health benefits, all divided by premiums). The differences increased when reweighted at the mix of Best-in-Class Plans as Peer Plans' margins were 14%.

Figure 2. Blue Cross Blue Shield Best-in-Class Plans Summary

Functional Area Cluster Components of Low Cost Variance from Mean, Mix-Adjusted



Possible Extraneous Characteristics

We considered five characteristics of the sets of Blue Plans that we thought could contribute to cost differences among Best-in-Class and Peer Plans, aside from sheer performance. These included the effects of scale, cost of living, outsourcing, product mix, and strategic investments in Sales and Marketing and Medical Management.

ECONOMIES OF SCALE

Based on the results of Sherlock Company's 2024 Scale Study, 57% of Blue Cross Blue Shield Plans' Tactical administrative expenses were subject to economies of scale. The median size of the Best-in-Class plans was 80% larger than that of the Peer plans. Using the marginal scale approach described in the November 2024 *Plan Management Navigator*, adjusting the Peer plans to match the size of the Best-in-Class plans caused their PMPM advantage to fall by $2.42 PMPM or 40% of the total difference. While scale was important, as modeled, it explains less than one-half of the cost difference.

COST OF LIVING

Cost of living is unlikely to have contributed to superior performance. The mean wage index for Best-in-Class Plans was lower than Peer Plans by 5%, but the median was *higher* by 1%. (We employ the Hospital Wage Index used by CMS). Adjusting the Peer Plans to match the median cost of living of the Best-in-Class Plans causes their PMPM advantage to fall by $0.16 PMPM, or 3% of the difference.

OUTSOURCING DIFFERENCES

Outsourcing was likely not a major contributing effect for favorable comparisons. The median rate of Outsourcing of Tactical FTEs was lower for Best-in-Class Plans, by 3.8 percentage points, but the mean rate was *higher* by 0.5 percentage points. Best-in-Class Plans' median was higher in the Corporate Services cluster by 6.2 percentage points but was lower in the Account and Membership Administration cluster by 4.9 percentage points. The median for Information Systems functional area was lower for Best-in-Class Plans by 1.8 percentage points.

PRODUCT MIX DIFFERENCES

Our values were adjusted so that product mix did not impact comparisons: product mix was adjusted to eliminate its effect. We describe this method in the next section of this *Navigator*.

STRATEGIC INVESTMENTS

Finally, the strategic investments (Sales and Marketing and Medical Management) could not have affected comparisons because they were excluded from the central part of this analysis. We touch upon Strategic expenses separately.

How We Performed this Analysis

First, we separated Tactical from Strategic expenses in each Plans. “Tactical” costs are costs of Comprehensive products other than those in the Sales and Marketing cluster and Medical Management function, which we refer to as “Strategic. In making Strategic costs less of a focus of this analysis, we are recognizing that they have impacts outside of current period administrative costs. They may have costs most readily associated with longer-term objectives such increasing membership and market share and reducing health care costs.

We then ranked the plans to identify those whose expenses are Best-in-Class. We define “Best-in-Class” Plans as those whose Tactical costs are in the lowest 25th percentile. Plans not in the Best-in-Class subset are referred to as “Peer” plans. To do this, we eliminate the potentially distorting effect of product mix differences on the cost comparisons. Since function costs are reported by product by the plans, we compared each plan against its universe by reweighting the product costs in each function of the Blue universe to match the mix of each Plan. Plans were then ranked by the differences between their expenses and their re-weighted Blue universe costs. We selected the lowest cost Blue Plans as the 25% with the most favorable cost comparisons.

Because each of the Plans included in the dataset and in each of the subsets differ in product mix, we employed a composite approach to summarize the characteristics of each subset. To compare the two sets, we used the Best-in-Class product mix weighting.

After that reweighting, we then isolated and measured the specific contributing functional cost differences to overall Tactical performance. In this way, we identified differences in total, by cluster and by function.

Since Total Costs per FTE and mix-adjusted PMPM costs together imply a mix-adjusted staffing ratio, we were also able to infer the effect of differences in staffing ratios on costs. Outsourced FTEs were included and were inferred from payments to outsourcers. The subset staffing ratios were drawn from the Best-in-Class and Peer Plans respectively, and each subset reflects the same reweighting of Plan values, using the same process as costs as described in the previous paragraph.

Our approach may enable Peer Plans to identify areas where their performance can emulate those of Best-in-Class. Notwithstanding our referring to low-cost Plans as Best-in-Class, we recognize that a health plan’s long-term objective is cost levels that are optimal for its corporate objectives. The implication of a broader notion of performance is that high-cost functions might demonstrate the value of their higher costs through other objective metrics of superior performance. Put a different way, the differences between a Plan’s costs and those of its Best-in-Class peers, if intended to achieve the plan’s corporate goals, represents a form of investment upon which an ROI should be expected.

Contact

This look at the characteristics of Best-in-Class plans has the virtue of being mutually exclusive and collectively exhaustive. Because we have polled the plans to develop this analysis, the data is subject to controls for quality and comparability. While the results are objective and strongly emphasize the quantitative, the process is complex. We hope that you feel free to address any questions to:

Douglas B. Sherlock, CFA
President
Sherlock Company

(215) 628-2289
sherlock@sherlockco.com

Invitation to Participate in the 2025 Sherlock Benchmarking Study

The *Sherlock Benchmarks* are the "gold standard" of health plan administrative benchmarks. The *Sherlock Benchmarks* is a unique window for health plans to gauge with accuracy and granularity whether their administrative costs are competitive with their peers. With the Benchmarks, plans can measure their costs relative to others that are similar in business model, product focus and business mix. They can prioritize the functions that contribute to those differences, and identify cost factors such as staffing ratios, compensation levels and non-labor costs that affect those functions.

The 2025 study will be the 28th consecutive year, reflecting a cumulative experience of over 1,000 health plan years. Health plans serving at least 145 million Americans are either licensees or participants in the *Sherlock Benchmarks* from June 2022. Participating plans have included most Blue Cross Blue Shield plans, large public companies, Independent / Provider-Sponsored health plans, Medicare plans and Medicaid plans.

For the most recent cycle of the *Sherlock Benchmarks*, of the 33 U.S.-based Blue Cross Blue Shield primary licensees, fourteen plans serving approximately 41.3 million people, participated in the Sherlock Benchmarks for Blue Cross Blue Shield Plans.

For the universe of Independent / Provider – Sponsored Plans, twelve plans serving 9.9 million people participated in the most recent cycle. Participants in this year's *Sherlock Benchmarks* serve about 41% of all members in the Health Plan Alliance and 59% of members served by Alliance of Community Health Plans.

Report publication normally begins in late June 2025 but varies by universe. Participation entails efforts on the part of the plans since actionable 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 or 215-628-2289 if you are interested in either participation or licensing. *You will be among good company.*

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