

ADMINISTRATIVE COST TRENDS OF MEDICAID- FOCUSED PLANS IN 2019



Photograph by Ray K. Saunders.

SHERLOCK BENCHMARKS
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October 21, 2020

Revised November 2020



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TOPICS

- Background on Medicaid
- Long term cost trends
- Changes in cluster costs
- Reasons for cost increases
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM
- Comparisons of Medicaid HMO across universes

APPENDICES

- Last year's cluster values
- Functions in each cluster of expenses
- About the *Sherlock Benchmarks*

Racing workboats is our metaphor for health plans striving for performance improvement.



BACKGROUND ON MEDICAID: GROWTH UNDER ACA

Figure 2. Sherlock Benchmark Summary

Health Insurance Coverage in the United States: Census Bureau
(000's)

	2013		2014		2015		2016		2017		2018		2019		2019	Percent	Cml.	Percent
	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%	Change	Change	Change	Change
Any Health Plan	271,606	86.7%	283,200	89.6%	289,903	90.9%	292,320	91.2%	296,890	92.1%	296,206	91.5%	298,438	92.0%	2,232	0.8%	26,832	9.9%
Any Private Plan	201,038	64.1%	208,700	66.0%	214,238	67.2%	216,203	67.5%	218,209	67.7%	217,780	67.3%	220,848	68.0%	3,068	1.4%	19,810	9.9%
Employment-based	174,418	55.7%	175,027	55.4%	177,540	55.7%	178,455	55.7%	178,751	55.4%	178,350	55.1%	183,005	56.4%	4,655	2.6%	8,587	4.9%
Direct purchase	35,755	11.4%	46,165	14.6%	52,057	16.3%	51,961	16.2%	35,499	11.0%	34,846	10.8%	33,170	10.2%	-1,676	-4.8%	-2,585	-7.2%
Any Government Plan	108,287	34.6%	115,470	36.5%	118,395	37.1%	119,361	37.3%	112,151	34.8%	111,330	34.4%	110,687	34.1%	-643	-0.6%	2,400	2.2%
Medicare	49,020	15.6%	50,546	16.0%	51,875	16.3%	53,372	16.7%	56,170	17.4%	57,720	17.8%	58,779	18.1%	1,059	1.8%	9,759	19.9%
Medicaid	54,919	17.5%	61,650	19.5%	62,384	19.6%	62,303	19.4%	59,814	18.5%	57,819	17.9%	55,851	17.2%	-1,968	-3.4%	932	1.7%
Military health care	14,016	4.5%	14,143	4.5%	14,849	4.7%	14,638	4.6%	11,436	3.5%	11,754	3.6%	11,755	3.6%	1	0.0%	-2,261	-16.1%
Uninsured	41,795	13.3%	32,968	10.4%	28,966	9.1%	28,052	8.8%	25,600	7.9%	27,462	8.5%	26,111	8.0%	-1,351	-4.9%	-15,684	-37.5%
Total	313,401		316,168		318,869		320,372		322,490		323,668		324,549		881	0.3%	11,148	3.6%

Source: Health Insurance Coverage in the United States: 2019, <https://www.census.gov/content/dam/Census/library/publications/2020/demo/p60-271.pdf>

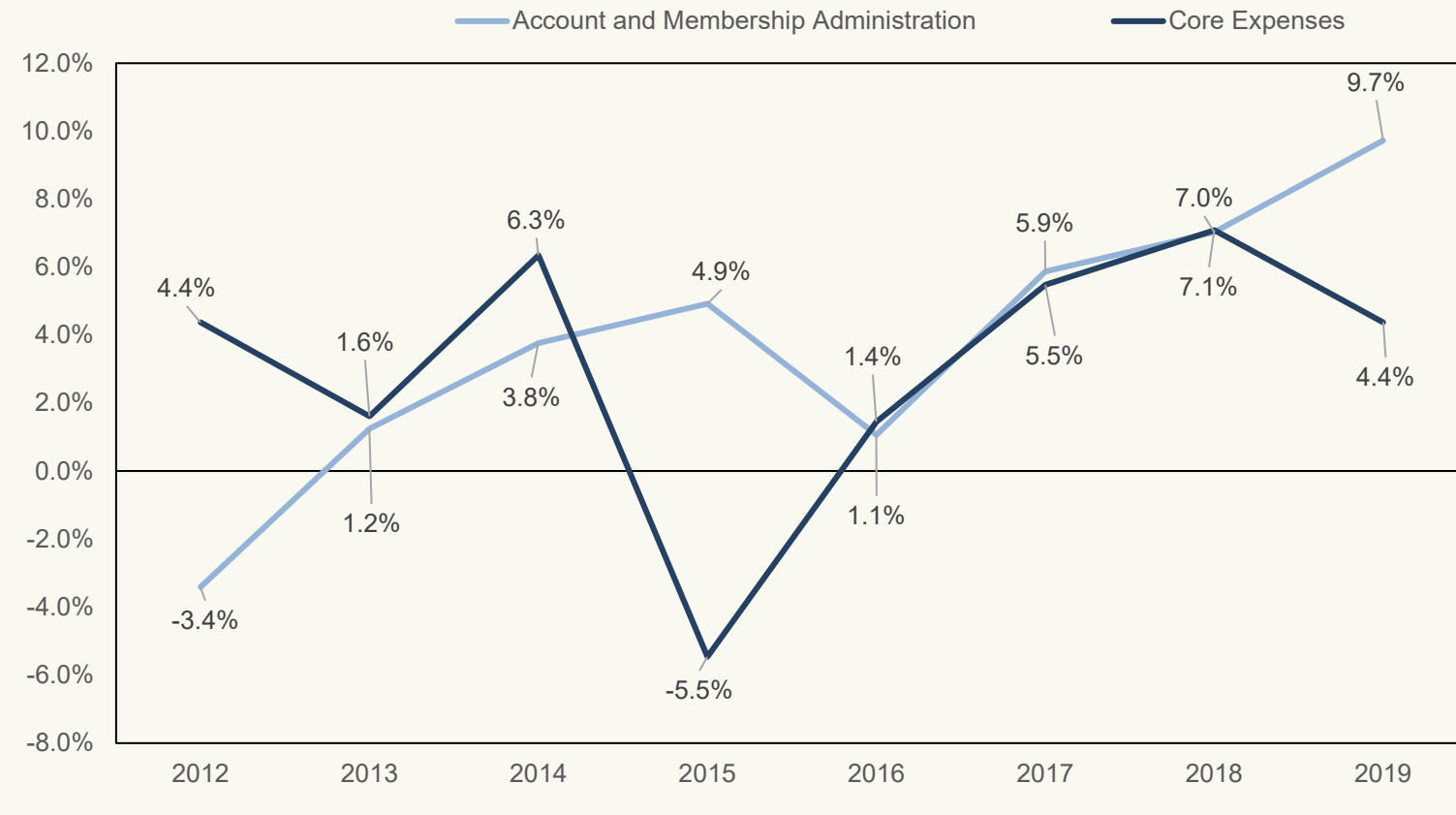
Note: According to the analysis "Individuals are considered to be uninsured if they did not have health insurance coverage at any point during the calendar year."
and "The estimates by type of coverage are not mutually exclusive; people can be covered by more than one type of health insurance during the year."



THE GROWTH IN CORE EXPENSES SLOWS, WHILE A&M GROWTH ACCELERATES.

Figure 1. Sherlock Benchmark Summary

Medicaid Plans Rates of Change for Account and Membership Administration and Core, Constant Mix



Medians. Rates of change hold universe and product mix constant.



AMONG CONTINUOUSLY PARTICIPATING PLANS, GROWTH IN CORE EXPENSES DECELERATED FROM LAST YEAR, ESPECIALLY WHEN MIX HELD CONSTANT.

Figure 3. Sherlock Benchmark Summary

Medicaid Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2018 Increase		2019 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Medical and Provider Management	6.8%	6.9%	8.5%	7.1%
Account and Membership Administration	7.0%	7.0%	10.1%	9.7%
Corporate Services	10.9%	10.1%	-0.4%	-2.3%
Subtotal: Core Expenses	7.1%	7.1%	5.4%	4.4%
Sales and Marketing	5.2%	1.8%	6.0%	5.6%
Total Expenses	7.0%	6.2%	5.8%	5.5%

Constant-Mix adjusts to exclude product-mix differences.



SOURCES OF “REAL” GROWTH IN MEDICAID PLANS ADMINISTRATIVE COSTS IN 2019

	Chg.	Greatest Change	Highest Weight
Med & Provider	7.1%	Prov. Net. Mgmt & Svcs ↑	Medical Management ¹ ↑
Acct & Memb	9.7%	Information Systems ↑	Information Systems ↑
Corp. Serv.	-2.3%	Actuarial ↑	Corporate Svcs Function ² ↓
Core	4.4%	Information Systems ↑	Information Systems ↑
Sales & Mkt.	5.6%	Marketing ↑	Commissions ↑
Total	5.5%	Information Systems ↑	Information Systems ↑

¹ Provider Network Management and Services was the third most important source of growth in Core Expenses.

² Due to its size, the decline in Corporate Services *function* offset the growth in all other functional areas in this cluster.



SOURCES OF *REPORTED* GROWTH IN MEDICAID PLANS ADMINISTRATIVE COSTS IN 2019

	Chg.	Greatest Change	Highest Weight
Med & Provider	8.5%	Provider Net. Mgmt & Svcs ↑	Medical Management ↑
Acct & Memb	10.1%	Information Systems ↑	Information Systems ↑
Corp. Serv.	-0.4%	Corporate Services ↓	Corporate Services ¹ ↓
Core	5.4%	Information Systems ↑	Information Systems ↑
Sales & Mkt.	6.0%	Rating and Underwriting ↑	Commissions ↑
Total	5.8%	Information Systems ↑	Information Systems ↑

¹ Finance and Accounting, Actuarial, Corporate Executive & Governance, and Association Dues and License / Filing Fees increased.



COMPARED WITH VALUES IN APPENDIX A,
CORE COSTS WERE 2% HIGHER IN 2019. COST
TRENDS, CHANGES IN THE PRODUCT MIX AND
THE UNIVERSE WERE RESPONSIBLE.

Figure 4. Sherlock Benchmark Summary
Medicaid Plans' Costs by Functional Area Cluster, 2019 Results
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2018 Results Median
Medical and Provider Management	\$6.46	\$8.99	\$11.44	27%	\$9.07
Account and Membership Administration	14.52	18.01	19.56	25%	17.30
Corporate Services	5.93	6.69	7.51	22%	7.54
Subtotal: Core Expenses	\$29.54	\$34.00	\$36.87	18%	\$33.48
Sales and Marketing	\$4.87	\$8.48	\$11.11	51%	\$8.79
Total Expenses	\$36.30	\$42.42	\$44.94	18%	\$41.39



PMPMs VARY BY PRODUCT.

Figure 5. Sherlock Benchmark Summary

Medicaid Plans' Costs by Product, 2019 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	\$26.92	\$28.74	\$36.06	27%
HMO	\$26.97	\$28.93	\$37.15	30%
CHIP	\$21.52	\$25.14	\$26.45	15%
Medicare Total	\$105.11	\$109.46	\$154.55	58%
Advantage	\$100.61	\$102.09	\$107.31	7%
SNP	\$171.10	\$228.89	\$249.38	33%
Medicare Supplement	\$29.49	\$36.10	\$44.99	56%
Commercial Insured Total	\$43.50	\$51.49	\$61.16	23%
HMO	\$41.45	\$51.35	\$61.83	25%
POS	\$45.34	\$49.92	\$60.55	29%
Indemnity & PPO	\$45.98	\$52.56	\$71.67	47%
Commercial ASO	\$19.27	\$20.75	\$25.50	17%
Comprehensive Total	\$36.30	\$42.42	\$44.94	18%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	\$24.03	\$25.80	\$30.96	25%
HMO	\$24.16	\$26.08	\$31.78	27%
CHIP	\$19.27	\$21.02	\$22.95	12%



PERCENTS *USUALLY* ORDERED SIMILARLY TO PMPMs.

Figure 6. Sherlock Benchmark Summary
Medicaid Plans' Costs by Product, 2019 Results
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	6.8%	7.4%	8.9%	19%
HMO	6.6%	7.3%	8.9%	20%
CHIP	10.5%	10.9%	11.9%	12%
Medicare Total	9.8%	10.6%	11.8%	17%
Advantage	9.4%	10.4%	10.6%	10%
SNP	11.5%	11.7%	14.9%	24%
Medicare Supplement	9.8%	13.0%	18.0%	51%
Commercial Insured Total	8.8%	9.6%	11.2%	16%
HMO	8.1%	9.6%	11.0%	20%
POS	7.7%	7.9%	10.4%	32%
Indemnity & PPO	9.5%	11.7%	13.0%	22%
Commercial ASO	4.4%	5.4%	6.2%	26%
Comprehensive Total	7.8%	8.5%	9.0%	13%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	6.2%	6.7%	8.5%	20%
HMO	6.0%	6.7%	8.5%	21%
CHIP	9.3%	9.5%	9.9%	16%



CORE ADMINISTRATIVE EXPENSES WERE 6.6% OF PREMIUMS, RELATIVELY UNCHANGED FROM LAST YEAR.

Figure 7. Sherlock Benchmark Summary
Medicaid Plans' Costs by Functional Area Cluster, 2019 Results
Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2018 Results Median
Medical and Provider Management	1.5%	1.8%	2.4%	31%	1.7%
Account and Membership Administration	3.1%	3.6%	4.2%	21%	3.1%
Corporate Services	1.3%	1.3%	1.6%	26%	1.6%
Subtotal: Core Expenses	6.0%	6.6%	8.0%	17%	6.6%
Sales and Marketing	1.2%	1.8%	2.1%	46%	1.9%
Total Expenses	7.8%	8.5%	9.0%	13%	8.3%



COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicaid HMO Product Characteristics by Universe, 2019 Results

	Medicaid	IPS	Blue	Combined
Core Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$24.16	\$23.12	\$36.46	\$25.14
Median	26.08	25.97	39.89	27.58
75th Percentile	31.78	50.58	59.55	38.14
Coefficient of Variation	27%	75%	49%	51%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	6.0%	7.2%	8.0%	6.3%
Median	6.7%	8.0%	8.2%	7.9%
75th Percentile	8.5%	8.7%	11.1%	8.8%
Coefficient of Variation	21%	28%	35%	28%
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$26.97	\$25.62	\$39.02	\$27.21
Median	28.93	29.09	43.04	30.38
75th Percentile	37.15	56.59	62.14	40.98
Coefficient of Variation	30%	75%	47%	50%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	6.6%	7.9%	8.6%	7.0%
Median	7.3%	8.8%	8.8%	8.4%
75th Percentile	8.9%	9.8%	11.6%	9.6%
Coefficient of Variation	20%	30%	32%	26%
Plans Offering Medicaid	10	3	3	16
Medicaid HMO Members (millions)	5.36	0.23	1.66	7.24
Comprehensive Total Members (millions)	8.37	4.63	47.41	60.41



GROWTH DECELERATES IN CORE EXPENSES IN MEDICAID PLANS IN 2019



Photograph by Ray K. Saunders.

- Growth in Core administrative expenses tapered in 2019. As-reported increased by 5.4%, constant mix also grew by 4.4%. Both growth rates were lower than in 2019.
- Core costs were \$34.00 versus \$33.48 last year. Total costs were 3% higher at \$42.42 PMPM. Actual performance, differences in universe and mix changes were responsible for the differences between 2019 and 2020 values.
- Growth accelerated in costs of Account and Membership and Medical and Provider Management, and Sales and Marketing. Corporate Services cluster experienced a decline.
- Provider Network Management and Services, Medical Management, Information Systems, and Actuarial posted the fastest increases in core functions, year-over-year. Corporate Services function, Claims, and Enrollment experienced declines.
- Important sources of growth were Information Systems and Medical Management. Corporate Services *function* was a significant offset to growth.
- Non-labor costs per FTE, and the propensity to outsource were lower, while compensation per FTE and inferred Medicaid Staffing Ratios were higher.



APPENDIX A. MEDICAID PLANS ADMINISTRATIVE COSTS IN 2018

Appendix A. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2018 Results

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	\$7.69	\$9.07	\$11.19	25%
Account and Membership Administration	14.73	17.30	19.23	29%
Corporate Services	6.54	7.54	9.33	26%
Subtotal: Core Expenses	\$30.97	\$33.48	\$37.28	21%
Sales and Marketing	\$7.42	\$8.79	\$11.31	42%
Total Expenses	\$40.13	\$41.39	\$45.95	20%



APPENDIX B. MEDICAID PLANS ADMINISTRATIVE COSTS IN 2018

Appendix B. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2018 Results

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	1.5%	1.7%	2.6%	39%
Account and Membership Administration	2.9%	3.1%	4.1%	38%
Corporate Services	1.4%	1.6%	1.9%	38%
Subtotal: Core Expenses	5.9%	6.6%	8.3%	34%
Sales and Marketing	1.3%	1.9%	2.1%	46%
Total Expenses	7.6%	8.3%	9.6%	32%



APPENDIX C. CAREFUL QUALITY ASSURANCE

- *Voluntary* – Since providers are users, they have stake in the metrics. Other than required metrics, scope is also voluntary.
- *Strong definitions* – Developed with participants. Activities and cost centers listed, supported by ongoing clarifying discussions.
- *Highly granular* - Ready identification of outliers, as well as drill-down capabilities.
- *Practice effect* – High percent of repeaters: 80% of Medicaid plans repeated from last year. All ten plans have three or more years of participation (note this not continuous participation).
- *Checks* - In survey instrument and in analytical module; Anomalies investigated.
- *Data Validation* – Reconciled to audit. Preliminary results provided for proofing.
- *Business model* - No conflicts of interest; no “Tragedy of the Commons.”



APPENDIX D. SUMMARY OF THE REPORTS AND GUIDELINES

- The **financial metrics** report analyzes costs segmented by function and by product. They are standardized by PMPMs and by Percent.
- The **staffing and compensation** report analyzes the staffing ratios, per employee compensation and propensity to outsource. We supply estimates of staffing ratios by product.
- The **operational metrics** include operational metrics unique to particular functions such as the average speed of answer in member services and the time between claim receipt and payment approved. While completion of many of these metrics is optional, you will receive the results of your universe.
- **Medical management** metrics are comprised of results for all universes. These include the costs to manage various cases and diseases. This is optional like the operational metrics.
- **Health care utilization** metrics are also comprised of results for all universes. Unit cost and volumes are provided for each product for 40 health care services and products.
- The **CFO Letter** summarizes and analyzes the financial metrics, staffing, and compensation reports. After eliminating the effect of product mix differences, variances from norms are identified and functions are ranked in order of importance. We calculate the value of the factors of staffing ratios, compensation and non-labor costs, and their relative contribution to each functional variance.
- The **Common Guidelines** provide detailed definitions of activities and calculation notes.



APPENDIX E. STRONG NETWORK, BROAD ACCEPTANCE

- The Sherlock Benchmarks is in its 23rd consecutive year. We expect that our cumulative experience to total approximately 893 plan years by year-end 2019. Expect 35 plans serving 63 million members to participate in 2019.
- Since June 2017, health plans serving 182 million insured Americans use the Sherlock Benchmarks, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Of the 34 U.S.-based Blue Cross Blue Shield primary licensees, nineteen serving approximately 50 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Of the 16 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 largest members of the Health Plan Alliance that are focused on Commercial Insured or ASO are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.



APPENDIX F. FUNCTIONS IN EACH CLUSTER

Appendix F. Sherlock Benchmark Summary

Major Functions Included in Each Administrative Expense Cluster

Sales & Marketing

1. Rating and Underwriting
 - (b) Risk Adjustment
 - (c) All 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
 - (d) 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
 - (a) Enrollment and Membership
 - (b) Billing
9. Customer Services
 - (a) Member Services
 - (b) Printed Materials and Other
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (e) Other Claim and Encounter Capture and Adjudication
11. Information Systems Expenses
 - (a) Operations and Support Services
 - (b) Applications Maintenance
 - (1) Benefit Configuration
 - (2) All Other Applications Maintenance
 - (c) Applications Acquisition and Development
 - (d) Security Administration and Enforcement

Corporate Services

12. Finance and Accounting
 - (a) Credit Card Fees
 - (b) All Other Finance and Accounting
13. Actuarial
14. Corporate Services Function
 - (a) Human Resources
 - (b) Legal
 - (1) Compliance
 - (2) Government Affairs
 - (3) Outside Litigation
 - (4) All Other Legal
 - (c) Facilities
 - (e) Audit
 - (f) Purchasing
 - (g) Imaging
 - (h) Printing and Mailroom
 - (i) Risk Management
 - (j) Other Corporate Services Function
15. Corporate Executive and Governance
16. Association Dues and License/Filing Fees



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