

ADMINISTRATIVE COST TRENDS OF MEDICAID- FOCUSED PLANS IN 2020



Photograph by Jay Fleming.

SHERLOCK BENCHMARKS

Douglas B. Sherlock, CFA
President, Sherlock Company

sherlock@sherlockco.com

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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: SHORT TERM GROWTH DUE TO THE EFFECTS OF COVID-19

Figure 2. Sherlock Benchmark Summary

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

	2013	2014	2015	2016	2017	2018	2019	2020	2020 Chg.	Per. Chg.	Cml. Chg.	Per. Chg.
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%	297,680 91.4%	-758 -0.3%	26,074 9.6%		
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%	216,532 66.5%	-4,316 -2.0%	15,494 7.7%		
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%	177,175 54.4%	-5,830 -3.2%	2,757 1.6%		
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%	34,041 10.5%	871 2.6%	-1,714 -4.8%		
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%	113,337 34.8%	2,650 2.4%	5,050 4.7%		
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%	59,844 18.4%	1,065 1.8%	10,824 22.1%		
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%	57,921 17.8%	2,070 3.7%	3,002 5.5%		
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%	12,162 3.7%	407 3.5%	-1,854 -13.2%		
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%	27,955 8.6%	1,846 7.1%	-13,838 -33.1%		
Total	313,401	316,168	318,869	320,372	322,490	323,668	324,549	325,637	1,088 0.3%	12,236 3.6%		

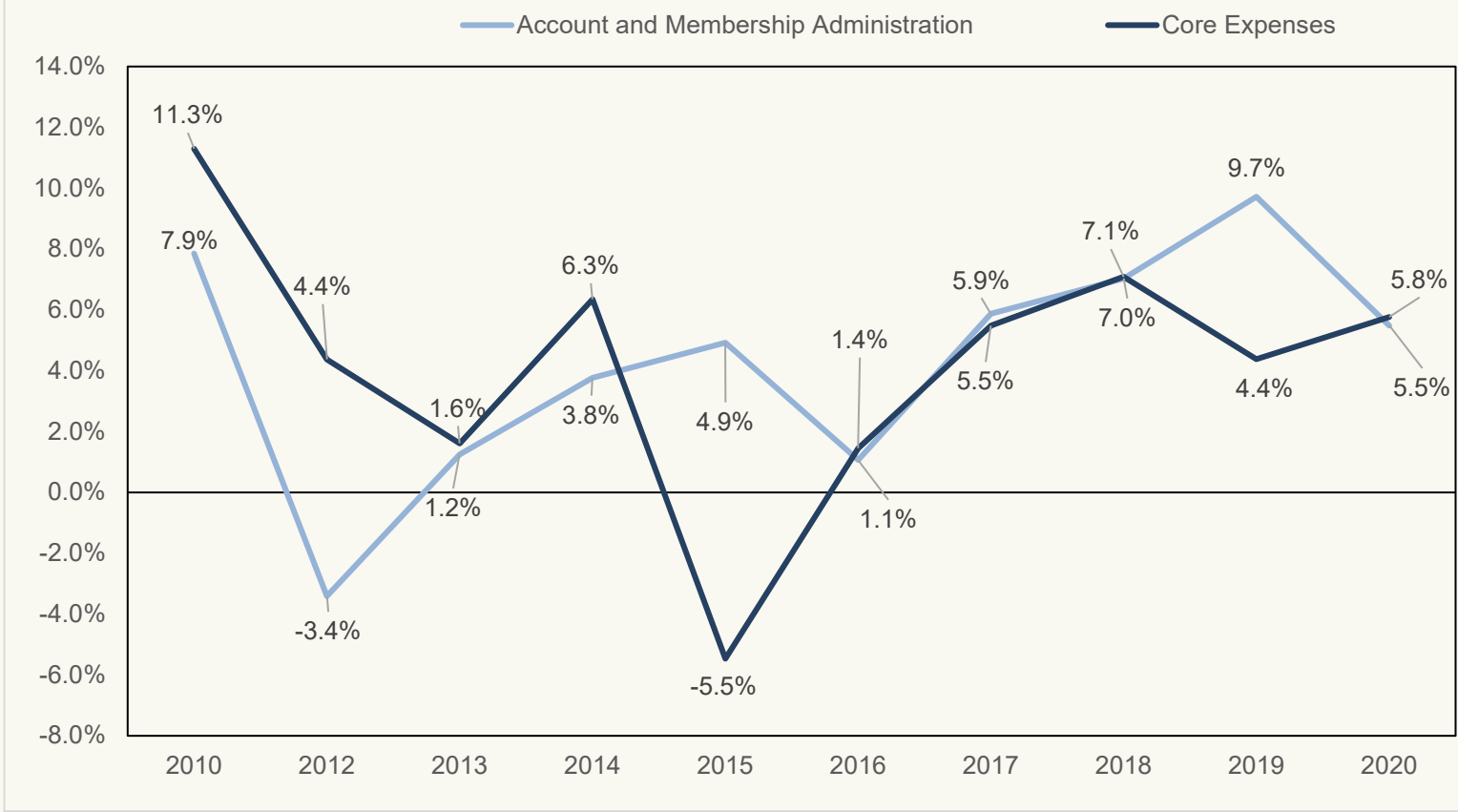
Source: Health Insurance Coverage in the United States: 2020, <https://www.census.gov/content/dam/Census/library/publications/2021/demo/p60-274.pdf>

Note: According to the Census Bureau 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."

GROWTH IN CORE EXPENSES ACCELERATES SLIGHTLY, WHILE ACCOUNT AND MEMBERSHIP SLOWS.

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 ACCELERATED FROM LAST YEAR, WHEN MIX HELD CONSTANT.

Figure 3. Sherlock Benchmark Summary

Medicaid Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2019 Increase		2020 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Medical and Provider Management	8.5%	7.1%	4.2%	2.3%
Account and Membership Administration	10.1%	9.7%	3.6%	5.5%
Corporate Services	-0.4%	-2.3%	4.5%	2.5%
Subtotal: Core Expenses	5.4%	4.4%	4.9%	5.8%
Sales and Marketing	6.0%	5.6%	4.1%	2.2%
Total Expenses	5.8%	5.5%	5.4%	4.3%

The Constant Mix comparison adjusts to exclude product mix differences between years.

SOURCES OF “REAL” GROWTH IN MEDICAID-FOCUSED PLANS ADMINISTRATIVE COSTS IN 2020

	Chg.	Greatest Change	Highest Weight
Med & Provider	2.3%	Prov. Net. Mgmt & Svcs ↑	Medical Management ↑
Acct & Memb	5.5%	Information Systems ↑	Information Systems ↑
Corp. Serv.	2.5%	Corp. Exec. & Gov. ↑	Corporate Svcs Function ↑
Core	5.8%	Corp. Exec. & Gov. ↑	Information Systems ↑
Sales & Mkt.	2.2%	Advertising & Promotion ↑	Commissions ↑
Total	4.3%	Corp. Exec. & Gov. ↑	Information Systems ↑

*Growth in Rx and Behavioral Health administration **increased** Core growth by 0.2 percentage points and Account and Membership Administration by 0.6 percentage points.*



SOURCES OF *REPORTED* GROWTH IN MEDICAID PLANS ADMINISTRATIVE COSTS IN 2020

	Chg.	Greatest Change	Highest Weight
Med & Provider	4.2%	Prov. Net. Mgmt & Svcs ↑	Medical Management ↑
Acct & Memb	3.6%	Enroll. / Member. / Billing ↑	Information Systems ↑
Corp. Serv.	4.5%	Corp. Exec. & Gov. ↑	Corporate Svcs Function ↑
Core	4.9%	Corp. Exec. & Gov. ↑	Information Systems ↑
Sales & Mkt.	4.1%	Advertising & Promotion ↑	Commissions ↑
Total	5.4%	Corp. Exec. & Gov. ↑	Commissions ↑

*Growth in Rx and Behavioral Health administration **increased** Core growth by 0.3 percentage points and Account and Membership Administration by 0.8 percentage points.*



COMPARED WITH 2019, CORE COSTS WERE 5% LOWER IN 2020. COST TRENDS, CHANGES IN THE PRODUCT MIX AND UNIVERSE WERE RESPONSIBLE.

Figure 4. Sherlock Benchmark Summary
Medicaid Plans' Costs by Functional Area Cluster, 2020 Results
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2019 Values Median
Medical and Provider Management	\$7.59	\$9.28	\$11.80	30%	\$8.99
Account and Membership Administration	15.27	19.38	20.82	22%	18.01
Corporate Services	5.64	6.87	7.31	30%	6.69
Subtotal: Core Expenses	\$29.22	\$32.47	\$39.44	23%	\$34.02
Sales and Marketing	\$5.61	\$8.20	\$9.72	45%	\$8.48
Total Expenses	\$35.49	\$41.99	\$47.56	19%	\$42.42

PMPMs VARY BY PRODUCT.

Figure 5. Sherlock Benchmark Summary

Medicaid Plans' Costs by Product, 2020 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	\$27.56	\$29.40	\$37.98	28%
HMO	27.85	29.40	39.24	28%
CHIP	\$21.76	\$25.98	\$28.68	50%
Medicare Total	\$110.09	\$124.88	\$170.61	43%
Advantage	101.72	112.90	126.78	32%
SNP	\$183.05	\$204.44	\$288.43	38%
Medicare Supplement	\$20.08	\$24.43	\$29.58	38%
Commercial Insured Total	\$45.71	\$52.27	\$61.88	20%
HMO	43.57	52.90	59.07	21%
POS	47.97	60.07	74.84	34%
Indemnity & PPO	\$43.18	\$58.01	\$82.79	50%
Commercial ASO	\$18.10	\$23.01	\$28.98	31%
Comprehensive Total	\$35.49	\$41.99	\$47.56	19%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	\$25.26	\$28.02	\$33.91	29%
HMO	25.62	28.02	35.78	29%
CHIP	\$17.86	\$23.68	\$25.58	56%



PERCENTS USUALLY ORDERED SIMILARLY TO PMPMs.

Figure 6. Sherlock Benchmark Summary
Medicaid Plans' Costs by Product, 2020 Results
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	6.8%	8.4%	9.1%	19%
HMO	6.8%	8.2%	9.2%	19%
CHIP	10.9%	11.5%	15.6%	60%
Medicare Total	10.3%	11.5%	13.4%	32%
Advantage	10.5%	10.7%	13.3%	39%
SNP	10.3%	14.5%	18.1%	36%
Medicare Supplement	8.9%	9.0%	12.4%	36%
Commercial Insured Total	8.8%	9.3%	10.0%	15%
HMO	8.1%	9.2%	11.0%	21%
POS	7.2%	8.8%	11.4%	40%
Indemnity & PPO	8.6%	9.9%	15.4%	49%
Commercial ASO	4.6%	6.3%	7.8%	33%
Comprehensive Total	8.0%	8.7%	9.3%	14%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	6.3%	7.3%	8.4%	21%
HMO	6.2%	7.1%	8.4%	22%
CHIP	8.9%	10.1%	14.7%	67%

MEDIAN CORE EXPENSES WERE LOWER BY 0.12 PERCENTAGE POINTS. MEDICAL AND PROVIDER MANAGEMENT AND ACCOUNT AND MEMBERSHIP CLUSTERS WERE HIGHER. NOTE, HOWEVER, THAT AVERAGE CORE EXPENSES WERE *HIGHER*.

Figure 7. Sherlock Benchmark Summary
 Medicaid Plans' Costs by Functional Area Cluster, 2020 Results
 Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2019 Values Median
Medical and Provider Management	1.7%	1.9%	2.5%	28%	1.8%
Account and Membership Administration	3.1%	3.7%	4.1%	20%	3.6%
Corporate Services	1.1%	1.3%	1.6%	22%	1.3%
Subtotal: Core Expenses	6.2%	6.5%	8.5%	20%	6.7%
Sales and Marketing	1.0%	1.7%	2.2%	43%	1.8%
Total Expenses	8.0%	8.7%	9.3%	14%	8.5%

COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicaid HMO Product Characteristics by Universe, 2020 Results

	Medicaid	IPS	Blue	Combined
Core Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$25.62	\$22.07	\$41.55	\$24.36
Median	28.02	26.35	45.74	28.85
75th Percentile	35.78	33.07	49.93	37.50
Coefficient of Variation	29%	25%	26%	31%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	6.2%	8.0%	11.3%	6.7%
Median	7.1%	9.6%	12.0%	8.4%
75th Percentile	8.4%	11.3%	12.8%	10.3%
Coefficient of Variation	22%	26%	18%	28%
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$27.85	\$24.57	\$41.83	\$26.51
Median	29.40	27.73	46.02	29.91
75th Percentile	39.24	37.79	50.21	40.90
Coefficient of Variation	28%	27%	26%	29%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	6.8%	8.5%	10.6%	7.2%
Median	8.2%	10.2%	11.5%	9.1%
75th Percentile	9.2%	13.0%	12.4%	10.2%
Coefficient of Variation	19%	28%	22%	27%
Plans Offering Medicaid	11	6	2	19
Medicaid HMO Members (millions)	5.94	0.43	0.25	6.62
Comprehensive Total Members (millions)	11.12	6.22	20.56	37.90



CORE COST GROWTH ACCELERATES IN 2020 FOR MEDICAID PLANS



- Medicaid Core administrative costs were \$32.47 PMPM versus \$34.02 last year. Actual performance, differences in universes and product mix changes were responsible.
- Core expenses increased by 4.9% compared with an increase of 5.4% in 2019. Excluding product mix differences, costs grew by 5.8% versus growth of 4.4% in 2019.
- Membership grew slightly in continuous plans. While Commercial products fell, Medicaid and Medicare both grew, and Medicaid grew more rapidly.
- Cost growth decelerated in every core cluster of functions, except Corporate Services. Sales and Marketing growth also slowed.
- The increase in Account & Membership Admin. was most notable. The increase in IS was the most important source of Core growth.
- Other important sources of Core growth include Corporate Services Function, Corporate Executive and Governance, and Medical Management.
- The Median Core Medicaid staffing ratio fell, while Outsourcing and Compensation was higher.



APPENDIX A. MEDICAID – FOCUSED PLANS ADMINISTRATIVE COSTS IN 2019

Appendix A. 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
Medical and Provider Management	\$6.46	\$8.99	\$11.44	27%
Account and Membership Administration	14.52	18.01	19.56	25%
Corporate Services	5.94	6.69	7.51	22%
Subtotal: Core Expenses	\$29.54	\$34.02	\$36.87	18%
Sales and Marketing	\$4.87	\$8.48	\$11.11	52%
Total Expenses	\$36.30	\$42.42	\$44.94	18%

APPENDIX B. MEDICAID – FOCUSED PLANS ADMINISTRATIVE COSTS IN 2019

Appendix B. 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
Medical and Provider Management	1.5%	1.8%	2.4%	31%
Account and Membership Administration	3.1%	3.6%	4.2%	21%
Corporate Services	1.3%	1.3%	1.6%	26%
Subtotal: Core Expenses	6.0%	6.7%	8.0%	17%
Sales and Marketing	1.2%	1.8%	2.1%	46%
Total Expenses	7.8%	8.5%	9.0%	13%

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: Most Medicare participants from last year did so again this year. 62% of plans have three or more years of participation, while 4 have ten or more years of experience.
- *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 24th consecutive year. We expect that our cumulative experience to total approximately 929 plan years by year-end 2021. Expect 36 plans serving 54 million members to participate in 2021.
- 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.
- 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 Benchmarking Study 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.



APPENDIX F. FUNCTIONS IN EACH CLUSTER

Appendix C. Sherlock Benchmark Summary

Functions Included in Each Administrative Expense Cluster

Core Functions:

Provider & Medical Management

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

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

Enrollment / Membership / Billing

- (a) Enrollment and Membership
- (b) Billing

Customer Services

- (a) Member Services
- (b) Printed Materials and Other

Claim and Encounter Capture and Adjudication

- (a) Coordination of Benefits (COB) and Subrogation
- (e) Other Claim and Encounter Capture and Adjudication

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

Finance and Accounting

- (a) Credit Card Fees
- (b) All Other Finance and Accounting

Actuarial

Corporate Services Function

- (a) Human Resources
- (b) Legal
 - (1) Compliance
 - (2) Government Affairs
 - (3) Outside Litigation
 - (4) Fraud, Waste, and Abuse
 - (5) All Other Legal

(c) Facilities

- (e) Audit
- (f) Purchasing
- (g) Imaging
- (h) Printing and Mailroom
- (i) Risk Management
- (j) Other Corporate Services Function

Corporate Executive and Governance

Association Dues and License/Filing Fees

Non-Core Functions:

Sales & Marketing

Rating and Underwriting

- (b) Risk Adjustment
- (c) All Other Rating and Underwriting

Marketing

- (a) Product Development and Market Research
- (b) Member and Group Communication
- (c) Other Marketing

Sales

- (a) Account Services
- (b) Internal Sales Commissions
- (c) Other Sales

External Broker Commissions

Advertising and Promotion

- (a) Media and Advertising
- (b) Charitable Contributions



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