Transcript

Growth in Core Expenses in Medicaid Plans Accelerates in 2020

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<Title Page>

I'm Doug Sherlock. Welcome to our summary of the *Sherlock Benchmarks* for Medicaid plans. This is the final presentation in a series that covers the 2021 results of the *Sherlock Benchmarks*. We will be posting the slides and the transcript of this presentation within 24 hours.

Thank you all for participating in this call. I also thank the plans that participated and our principle contacts in particular. I know that has been a heavy lift because of the COVID-19 environment. Thanks to my colleagues for making this come together.

I very much welcome your questions at the end of this presentation. To speed through it, the audience will be muted during the presentation itself.

We've posted the three previous presentations on our web site, along with transcripts and recordings, so I hope you will access them if the Blue Cross Blue Shield, Independent/Provider-Sponsored, and Medicare - Focused health plan information would be helpful.

The 11 Medicaid-focused plans that are chief the subject of this presentation have a combined revenue of $54 billion. On average, 61% of the membership is Medicaid HMO and Medicaid CHIP. We believe this universe and the resulting data and analysis to be quite robust.

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This year marks the 24th year of the *Sherlock Benchmarks*, and the 19th for the Medicaid-focused universe. Our cumulative experience is 929 health plan years, and includes Independent / Provider – Sponsored Plans, Blue Cross Blue Shield Plans, Medicare Plans as well as Medicaid Plans.

<Slide 2>

I'm going to breeze through this slide. It shows the topics that I will address, and lists some of the appendices. The body of the presentation touches on Medicaid as a government health program, discusses trends among continuing plans and the reasons for them, reports cost ratios and provides comparisons with similar Medicaid products offered by our other universes. Seven out of the eleven plans that participated in the Medicaid benchmarks were repeat participants.

The appendices contain last year's values and a list of all of the functions in each of the products offered by these health plans. That means that administrative expenses are segmented into more than 700 expense/product cells, each of which are separately analyzed. Also, we touch on our methods of surveying, validation, analysis and reporting.

<Slide 3>

Slide 3 shows the US Census Bureau's analysis on health insurance coverage from 2013 through 2020.

Since 2013, the number of people without insurance has declined due to the Affordable Care Act with the proportion of uninsured Americans dropping from 13.3% in 2013 to 8.6% in 2020. Over that period, Medicaid played an integral part contributing approximately three million of the newly covered Americans.

Note, however, that Medicaid reached its peak enrollment in 2015 at 62.4 million and trended lower until 2019. In 2020, the effects of COVID-19 likely increased Medicaid enrollment with an addition of 2.1 million additional people, while Employment-based insurance cratered by 5.8 million.

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According to US Census Bureau:

> “The Families First Coronavirus Response Act required states, as a condition of receiving increased Medicaid funding, to provide continuous coverage for those enrolled in Medicaid. A recent Centers for Medicare & Medicaid Services report showed that Medicaid enrollment increased dramatically in 2020, after declines in enrollment from 2017 to 2019. Specifically, annual Medicaid enrollment during the period February 2020 through January 2021 increased from 34.0 million to 40.2 million among adults aged 19 and older.”

The Families First Coronavirus Response Act was signed into law on March 18, 2020.

This benchmarking study captures administrative cost trends for health plans with a high degree of commitment to Medicaid. Eleven plans participated in the Medicaid edition of the *Sherlock Benchmarks*. They collectively served 11.1 million members in these products. While Medicaid is typically the predominant product, it is not the only product offered by our participants. On average, Medicaid HMO and Medicaid CHIP comprise 61.0% of plan membership in this universe, with Commercial Insured, Commercial ASO and Medicare among the other products. I imagine in some cases the same members served by health plan’s Medicaid MCO products are otherwise served by their commercial products as employment and family circumstances change.

By virtue of their share, we think that the plans here mirror industry trends. The plans that participated in the 2021 *Sherlock Benchmarks*, Medicaid and the other Sherlock universes that we discuss today, we estimate served approximately 11% of all Medicaid members, using the Census Bureau estimates as a denominator.

Having said that, I acknowledge that the participants in all our *Benchmarking* studies are self-selected. That is, on the grounds that “you manage what you measure,” the participants may disproportionately reflect those with an interest in optimizing their costs.

<Slide 4>

This slide summarizes long term administrative cost trends for Medicaid - focused plans. When I speak of growth in costs in this presentation, including this slide, it will

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generally be in *per member* terms, for continuously participating plans, after having reweighted the trends to exclude the effects of any changes in product mix between sequential years.

The darker of the two lines represents *Core* expenses, which are total expenses less Sales and Marketing. As mentioned earlier, we exclude Sales and Marketing expenses from Core expenses since rules for Medicaid marketing vary from state to state with some being highly constrained. Core expenses have generally increased since 2015, dropped in 2019, but accelerated to 5.8% in 2020 from lower growth in 2019.

The lighter line is the annual rates of increase in Account and Membership Administration, which decelerated from 9.7% in 2019 to 5.5% in 2020. This expense cluster is comprised of Enrollment, Customer Services, Claims and Information Systems. This cluster is of particular interest since it represents 60% of Core expenses. It also composes the direct administrative activities of health plans: enrolling members, fielding calls and processing claims, whether manual or automated through information systems. Plus, it includes administrative costs of behavioral health and pharmacy benefits. In addition to composing some central activities of health plans, this cluster's activities tend not to be quite as subject to economies of scale as finance and accounting or corporate executive and governance.

In the slides that follow, we'll discuss the trends in all four clusters, and touch on the trends of the individual functions. As we will develop, most functions increased and the most important sources of growth were Information Systems, Medical Management and Corporate Services Function.

We will also drill into the expense drivers. By that I mean non-labor expenses, staffing costs and staffing ratios.

<Slide 5>

This slide is a summary of the cost trends for continuously participating plans. These columns are organized by year, 2019 and 2020, showing each cluster's growth.

On the previous slide, we showed increases in per member Core Administrative Expenses, of 5.8%, and in per member Account and Membership Administration, of 5.5% for 2020. They are shown on the fourth column, labeled "Constant-mix", "2020

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Increase", and I have circled them in blue. The fourth and second columns reflect cost trends among *continuously participating* plans, *backing out the effect* of product mix and changes in those plans between the two years. I consider this the real increase. The dark blue arced arrow is to draw your attention to the comparison with prior year's values.

The two columns that are labeled "as-reported" reflect per member trends in continuous plans. The as-reported columns are linked by an unfilled arced arrow.

Core growth rates were faster on a constant-mix compared to as-reported in 2020. This faster growth in Core constant-mix expenses, 5.8% versus 4.9%, suggests a shift in favor of less expensive products, such as Medicaid, and that is what happened.

For continuously participating plans, membership in high cost Medicare Advantage and SNP increased at a median rate of 2.6%, while low cost Medicaid grew more sharply at a median rate of 5.2%. Commercial Total fell by 6.4% and the drop was more pronounced in the Commercial Insured compared to Commercial ASO.

The growth in the Corporate Services cluster was the fastest acceleration in growth regardless of whether it was on an as-reported or constant-mix basis. From a 2.3% decline in the prior year, this cluster accelerated to an increase of 2.5% on a constant-mix basis. Account and Membership experienced a deceleration of cost growth, but it still posted the largest 2020 increase at 5.5%. Medical and Provider Management decelerated to a growth of 2.3%. While not included in Core expenses, Sales and Marketing posted a 2.2% increase.

The as-reported rates of change were parallel to those on a constant mix basis. Corporate Services posted the fastest acceleration. As-reported costs increases slowed for Account and Membership and Medical and Provider Management. The Sales and Marketing cluster growth also slowed on an as-reported basis compared with 2019. The shift in mix towards lower cost products made as-reported *Core* growth rates slower than when mix is held constant.

<Slide 6>

Slide 6 shows the rates of change and the most important reasons for the changes, after eliminating the effect of product mix differences. Again, these are the "real" rates of

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increase, so I will spend a lot of time on this and discuss trends in order of their importance.

Costs in Core expenses increased by 5.8% PMPM. While the rate of growth slowed, year-over-year, the Account and Membership cluster was still the fastest growing cluster in 2020, at 5.5%. By the way, this includes the effect of Behavioral Health and Pharmacy administration. Without these costs, the increase in Account and Membership Administration would have been 4.9% rather than the 5.5%. Meanwhile, Core cost growth would have been 5.6% versus 5.8% including Pharmacy and Behavioral Health.

Information Systems was the fastest growing function and most important source of growth for this cluster. This function's Medicaid Staffing Ratio was higher than last year. Its Non-Labor Costs per FTE and Staffing Costs per FTE, however, were lower. All the Information Systems sub-functions increased except for Applications Maintenance.

Enrollment / Membership / Billing grew at a mid-single digit rate. Enrollment / Membership / Billing Staffing Costs per FTE and Medicaid Staffing Ratios were higher. Conversely, Customer Services and Claim and Encounter Capture and Adjudication posted cost declines, each at a low single-digit rate.

The PMPM costs in Corporate Services cluster increased by 2.5%, the second highest increase. Corporate Executive and Governance posted the fastest growth in this cluster and in total, by a double-digit rate. This function's Medicaid staffing ratio increased, while Staffing Costs per FTE and propensity to outsource were both lower.

The Corporate Services *Function* was the cluster's most important source of growth due to its relatively large size. All its sub-functions increased, except for Audit and Printing and Mailroom. The Corporate Services Function posted higher Medicaid Staffing Ratios, Propensity to Outsource, and Compensation per FTE. Non-Labor Costs per FTE, however, was lower.

The functions of Finance and Accounting, Actuarial, and Association Dues and License / Filing Fees also increased.

The Medical and Provider Management cluster expenses increased by 2.3%. The Provider Network Management and Services functional area grew at a faster rate than

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Medical Management but Medical Management, due to its greater size, was more important in the cluster's increase.

The Provider Network Management and Services sub-functions of Provider Contracting and Provider Relations Services posted cost increases from the prior year. Other Provider Network Management and Services (report cards, in service, provider newsletters) did not. Provider Network Management and Services Compensation per FTEs increased, while Medicaid Staffing Ratio, Non-Labor Costs, and Outsourcing were lower.

Medical Management / Quality Assurance / Wellness increased on higher Staffing, Non-Labor Costs, and Outsourcing. However, the Medicaid Staffing Ratio for this function was lower.

Of the nine Medical Management subfunctions, all had higher PMPM costs except for three: Precertification, Case Management and Utilization Review. Notably, Nurse Information Line, Health and Wellness and Other Medical Management all increased by double digit rates.

While Sales and Marketing is not included in Core expenses, it is still central to Commercial and Medicare products that are also offered by these Medicaid-focused plans. The Sales and Marketing cluster grew by 2.2%, holding the product mix constant. Advertising and Promotion posted the fastest increase in this cluster, at low double-digit rates, closely followed by Broker Commissions. Broker Commissions were the most important source of cost increase in 2020. By contrast to this external distribution system, the Sales function was the only one to post a decrease.

The remaining Sales and Marketing functional areas increased by single digit rates.

The median Staffing Costs per FTE and Non-Labor Costs per FTE increased from last year. This cluster's Medicaid Staffing Ratio was lower. Note that the rapidly growing areas of Advertising and Promotion and Broker Commissions are predominately non-labor.

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This slide explains the *reported* rates of change, that is, the values with no adjustments for the greater proportion of less costly to administer products as we discussed in connection with slide 5. Like in the prior slide, these trends are based on continuous plans.

For the most part, the greatest changes and highest weights functional areas were the same regardless of constant-mix or as-reported basis.

In the Account and Membership Administration cluster, Information Systems expenses posted slower growth on an as-reported basis and was displaced by the faster growing Enrollment / Membership / Billing function as the greatest *change* within this cluster. Information Systems continued to be the most important source of growth for this cluster and for core functions. For Total Expenses, however, Commissions became the most important driver in cost growth.

Let me close this part of our presentation with a few summary observations about the cost factors that drive the expense trends. All my trend comments are based on continuously participating plans.

The median Core Medicaid staffing ratio was lower by 5% to 21 FTEs per 10,000 Medicaid members. Of the 14 functional areas with staff, half posted increases.

These staffing levels reflect both internal and outsourced staffing. Outsourced staffing is inferred, often calculated by the plans from invoice amounts using historical norms of total costs per FTE, then applied to the Medicaid product by assuming that all products have the same mix of staffing and non-labor costs.

The median Core compensation per FTE increased by 2% to approximately $101,000. Of the 14 functions with staff, 9 experienced increases from a year ago. Compensation for all functions, including Sales and Marketing functions, was about $102,000 per FTE.

Propensity to outsource, at a median of 8% (Core was 9%), was slightly higher than last year for both total and core. Of the 14 functional areas with staff, eight increased outsourcing, while one function was flat from last year.

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To this point, we have focused on rates of change rather than the underlying values of the components of administrative costs. The next few slides speak to the cost values of these activities, though it is necessarily a summary.

Let me offer a word about this universe of plans. For all eleven participating plans, Medicaid HMO and Medicaid CHIP together composed an average of 61% of membership and 52% of revenues for comprehensive products. In comparison, Commercial products represented an average of 30% of membership and 20% of revenues. Combined Medicare Advantage and SNP represents an average of 8% and 18% of members and revenues, respectively.

Bear in mind that this universe of Medicaid-focused plans differs from that of last year in product mix and in populations. There were three plans that dropped out of the universe from a year ago, which were replaced with four new ones. Therefore, it is not possible to perfectly compare the performance of plans participating in this and last year based on this slide. For the new plans, and the ones that only participated last year, we can know neither their trends, or their changes in product mix.

For all 11 participating plans in this year's study, the median core PMPM value of $32.47, 5% lower than last year's median of $34.02. The prior year values are shown in Appendix A to this presentation and are also excerpted on this page.

Account and Membership Administration increased by 8% to a median of $19.38. This cluster is about 60% of core costs and 46% of the total costs to deliver coverage products to this universe. The functions in this cluster are the central elements of Enrollment, Customer Services, Claims and Information Systems.

The Corporate Services Cluster posted a median PMPM cost of $6.87 and was higher by 3% from last year. Medical and Provider Management cluster's costs was $9.28 and was 3% greater than the prior year. Sales and Marketing was 3% lower, with a median PMPM cost of $8.20, while total expenses were at a median of $41.99, lower by 1%.

Dispersion in Core Expenses, as measured by the Coefficient of Variation, widened compared to last year. The dispersion in Account and Membership Administration narrowed, while dispersion in Medical and Provider Management and Corporate Services increased.

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Dispersion in Total Expenses became more scattered, while dispersion in the Sales and Marketing decreased.

Measured by the change in the difference between 25th and 75th percentiles, all clusters besides Medical and Provider Management and Sales and Marketing widened. Core Expenses and Total Expenses widened.

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As we discuss in previous slides, we believe that analyses that reduce or eliminate the effect of product mix is a better way of understanding trends. This slide illustrates why. Note that this slide *includes* Sales and Marketing except for the measures noted at the bottom.

Among the Medicaid universe Medicaid products are relatively low cost with Medicaid HMO at $29.40 PMPM and Medicaid CHIP at $25.98 PMPM. By contrast, Medicare products are relatively high cost at $112.90 and $204.44 PMPM for Medicare Advantage and Medicare Special Needs Plans, respectively.

Medicare Supplement is a product sold to seniors in lieu of Medicare Advantage. It is a lower than average cost product at $24.43 PMPM. We include this as a comprehensive product in the *Sherlock Benchmarks* though it pays only when Medicare does not. Only three of the 11 plans offer this low-cost product.

The Commercial Insured HMO, POS, and Indemnity median costs were $52.90, $60.07, and $58.01, respectively. These products have about one-half the per member cost of Medicare Advantage loosely comporting with their relative health care costs.

Self-insured Commercial ASO products are about half the cost of the insured Commercial products. An ASO group possesses the statistical advantages of larger size, which allows the sponsor to self-insure. It also means that their Sales and Marketing costs are spread through a greater number of members, driving down per member Sales and Marketing and Enrollment costs. The Median Commercial ASO product was $23.01.

There is a note at the bottom that relates Medicaid products to some of the earlier slides on trends in aggregate and by cluster of functions. It also relates to slide number 12

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which compares administrative expenses across various universes. Per Member Per Month *Core* Medicaid expenses were $28.02 PMPM. Medicaid HMO and Medicaid CHIP were $28.02 and $23.68, respectively. Note the very modest differences between the median total costs at the top of the figure and the Core expenses expressed in the note at the bottom. These Sales and Marketing costs for Medicaid are typically modest, but we do include Rating and Underwriting, including Risk Adjustment, within this cluster. You can get a rough sense of Medicaid Sales and Marketing by subtracting the values in the note from the values in the body of the chart.

<Slide 10>

This is similar to the previous slide, only expressed in percent of premium equivalents. By premium equivalent I mean, for a denominator, we have added medical expenses to the fees on self-insured relationships.

Medicaid HMO was lower than comprehensive total on both a PMPM and percent of premium basis, at 8.2%. Medicaid CHIP was lower than comprehensive total on a PMPM basis but, at 11.5%, is higher than average on a percent of premium basis.

Medicare SNP, the highest cost product on a PMPM basis, is also the highest on a percent of premium basis at 14.5%, but this difference relative to other products is far less than on a PMPM basis. Meanwhile, Medicare Advantage expenses, while over two times greater than Commercial HMO Insured products on a PMPM basis, is only somewhat higher on a percent of premium basis at 10.7% versus the commercial insured median of 9.3%.

While Medicare Supplement is below comprehensive total when measured on a PMPM basis, at 9.0%, its cost ratio was slightly greater than comprehensive total.

Administrative expenses on a percent of premium basis for Commercial POS, HMO, and Indemnity and PPO were 8.8%, 9.2%, and 9.9%, respectively. These ratios, like the PMPMs, were higher than comprehensive total of 8.7%.

Administrative expenses of Commercial ASO products are 6.3% on a premium equivalent basis. It is also relatively low cost when measured on a PMPM basis. The lower Sales and Marketing for self-insured groups is key reason for this difference.

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<Slide 11>

This slide shows the administrative expenses by cluster of functions, expressed in percent. Core administrative expenses decreased by 0.12 percentage points to 6.5% compared with last year's median. Corporate Services cluster fell by 0.02 percentage points to 1.3%. Medical and Provider Management was up by 0.16 percentage points to 1.9%, while Account and Membership Administration was higher by 0.09 percentage points to 3.7%.

Total expenses, including Sales and Marketing, had a median percent of premium of 8.7%, 0.28 percentage points higher than the prior year. Sales and Marketing declined by 0.12 percentage points to a median of 1.7%.

<Slide 12>

The health plans participating in our benchmarking studies segment their costs by product. So, we can compare the same products *across* universes. By most metrics, Medicaid-focused plans generally have costs that are lower than their peers for Medicaid HMO. Low costs using administrative cost metrics may well indicate the advantages of focus.

Blue Cross Blue Shield Plans median core costs were $45.74 PMPM, or $17.72 greater than Medicaid-focused plans and, at 12.0% of premiums, were 4.9 percentage points higher. Likewise, Blue Cross Blue Shield Plans had Total median Medicaid expenses of $46.02 PMPM and was $16.62 higher than of Medicaid plans. Blue Plans' total Medicaid administrative expenses as a percent of premiums, at 11.5%, was higher by 3.3 percentage points.

Independent / Provider – Sponsored plans' Medicaid costs relative to the Medicaid focused plans were more ambiguous. Their median core costs were $1.66 PMPM *lower* than the Medicaid-focused plans. On a percent of premium basis, however, IPS plans' core costs were higher by 2.5 percentage points to a median of 9.6%. Total expenses, which includes Sales and Marketing, was lower by $1.67 PMPM, but higher on a percent of premium basis by 2.0 percentage points to 10.2%.

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Let me close by summarizing. The core cost trends grew by 5.8% (constant-mix) or 4.9% (as-reported). Cost growth decelerated for every expense cluster besides the Corporate Services cluster. Growth in Sales and Marketing, while not a core cluster, slowed to an increase of 2.2% on a constant-mix basis from 5.6% in the prior year.

The Corporate Executive and Governance function was the fastest growing cluster, while the Information Systems function was the most important source of cost growth. Within the Sales and Marketing cluster, Advertising and Promotion was the fastest growing, while Broker Commissions was largest growth driver.

For continuously participating plans, the median Core Medicaid staffing ratio was lower by 5% to 21 FTEs per 10,000 Medicaid members. Of the 14 functional areas with staff, half posted increases.

Median core compensation per FTE increased but varied by function. Including the functions within the Sales and Marketing cluster, 9 of the 14 functions with staff experienced increases from a year ago.

The median Core compensation per FTE increased by 2% to approximately $101,000. Of the 14 functions with staff, 9 experienced increases from a year ago. Compensation for all functions was about $102,000 per FTE.

Propensity to outsource, at a median of 8% (Core was 9%), was higher than last year for both total and core. Of the 14 functional areas with staff, eight increased outsourcing, while one function was flat from last year.

In closing, this presentation, (transcript and slides) will be posted on our web site in the next few hours. In addition to these slides, we will include last year's values and some descriptive materials.

You will also find the presentations on Blue Cross Blue Shield, Independent / Provider – Sponsored, and Medicare-focused trends. Please contact me for information on licensing these universes. Additional information, including tables of contents on the benchmarks themselves are found on the website. Reach out if you have any questions.

Thank you for your attention to our presentation. Now I would like to open this for questions.

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Questions and Answers

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I want to close by hoping that you are all returning to your pre-COVID lives and that you and yours were not too severely affected. If you were, it is our hope that you or they made a speedy and complete recovery.

Thank you again for your participation in this web conference.

Once again, I want to thank everyone involved in the 19th annual edition of the Medicaid benchmarks for their insights and hard work. Participation pays off in lower costs for the plans but we hope that the results benefits the industry as a whole.

This is Douglas Sherlock of Sherlock Company.

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