

ADMINISTRATIVE COST TRENDS OF MEDICAID- FOCUSED PLANS IN 2021



Photograph by Jay Fleming.

SHERLOCK BENCHMARKS

Douglas B. Sherlock, CFA
President, Sherlock Company

sherlock@sherlockco.com

October 13, 2022



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; LONG TERM GROWTH FROM ACA

Figure 2. Sherlock Benchmark Summary

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

	2013		2014		2015		2016		2017		2018		2019		2020		2021		2021	Per.	Cml.	Per.
																		Chg.	Chg.	Chg.	Chg.	
Any Health Plan	271,606	87%	283,200	90%	289,903	91%	292,320	91%	296,890	92%	296,206	92%	298,438	92%	299,230	91%	300,887	92%	1,657	1%	29,281	11%
Any Private Plan	201,038	64%	208,600	66%	214,238	67%	216,203	67%	218,209	68%	217,780	67%	220,848	68%	217,896	67%	216,366	66%	-1,530	-1%	15,328	8%
Employment-based	174,418	56%	175,027	55%	177,540	56%	178,455	56%	178,751	55%	178,350	55%	183,005	56%	178,737	55%	178,285	54%	-452	0%	3,867	2%
Direct purchase	35,755	11%	46,165	15%	52,057	16%	51,961	16%	35,499	11%	34,846	11%	33,170	10%	33,869	10%	33,555	10%	-314	-1%	-2,200	-6%
Any Government Plan	108,287	35%	115,470	37%	118,395	37%	119,361	37%	112,151	35%	111,330	34%	110,687	34%	112,925	34%	117,095	36%	4,170	4%	8,808	8%
Medicare	49,020	16%	50,546	16%	51,875	16%	53,372	17%	56,170	17%	57,720	18%	58,779	18%	58,541	18%	60,226	18%	1,685	3%	11,206	23%
Medicaid	54,919	18%	61,650	19%	62,384	20%	62,303	19%	59,814	19%	57,819	18%	55,851	17%	58,778	18%	61,940	19%	3,162	5%	7,021	13%
Military health care	14,016	4%	14,143	4%	14,849	5%	14,638	5%	11,436	4%	11,754	4%	11,755	4%	12,132	4%	11,450	3%	-682	-6%	-2,566	-18%
Uninsured	41,795	13%	32,968	10%	28,966	9%	28,052	9%	25,600	8%	27,462	8%	26,111	8%	28,291	9%	27,187	8%	-1,104	-4%	14,608	-35%
Total	313,401		316,168		318,869		320,372		322,490		323,668		324,549		327,521		328,074		553	0%	14,673	5%

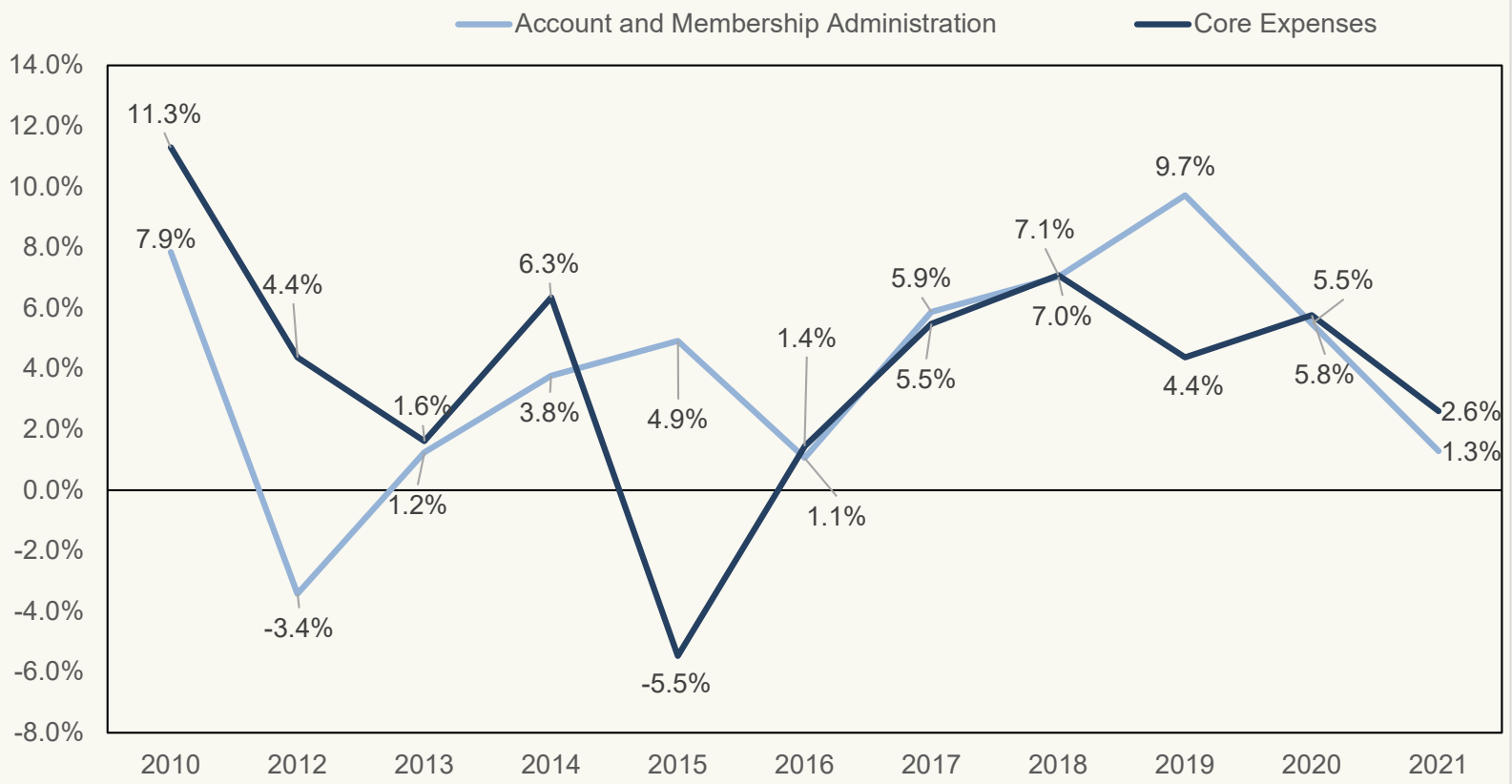
Source: Health Insurance Coverage in the United States: 2021, <https://www.census.gov/content/dam/Census/library/publications/2022/demo/p60-278.pdf>

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 BOTH CORE EXPENSES AND ACCOUNT AND MEMBERSHIP DECELERATE.

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 SLOWED FROM LAST YEAR, WHEN MIX HELD CONSTANT.

Figure 3. Sherlock Benchmark Summary
Medicaid Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2020 Increase		2021 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Medical and Provider Management	4.2%	2.3%	1.2%	1.1%
Account and Membership Administration	3.6%	5.5%	1.9%	1.3%
Corporate Services	4.5%	2.5%	0.5%	0.2%
Subtotal: Core Expenses	4.9%	5.8%	3.0%	2.6%
Sales and Marketing	4.1%	2.2%	-1.3%	1.4%
Total Expenses	5.4%	4.3%	4.0%	4.2%

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

SOURCES OF “REAL” GROWTH IN MEDICAID-FOCUSED PLANS ADMINISTRATIVE COSTS IN 2021

	Chg.	Greatest Change	Highest Weight
Med & Provider	1.1%	Medical Management ↓	Medical Management ↓
Acct & Memb	1.3%	Customer Services ↑	Information Systems ↑
Corp. Serv.	0.2%	Corp. Exec. & Gov. ↑	Corp. Exec. & Gov. ↑
Core	2.6%	Corp. Exec. & Gov. ↑	Information Systems ↑
Sales & Mkt.	1.4%	Commissions ↑	Commissions ↑
Total	4.2%	Corp. Exec. & Gov. ↑	Information Systems ↑

*Growth in Rx and Behavioral Health administration **increased** Total growth by 1.1 percentage points, but **decreased** Account and Membership Administration by 2.2 percentage points. Counterintuitive results stems from one plan’s structural changes.*

SOURCES OF *REPORTED* GROWTH IN MEDICAID-FOCUSED PLANS ADMINISTRATIVE COSTS IN 2021

	Chg.	Greatest Change	Highest Weight
Med & Provider	1.2%	Prov. Net. Mgmt & Svcs ↑	Medical Management ↓
Acct & Memb	1.9%	Customer Services ↑	Information Systems ↑
Corp. Serv.	0.5%	Corp. Exec. & Gov. ↑	Corp. Exec. & Gov. ↑
Core	3.0%	Corp. Exec. & Gov. ↑	Information Systems ↑
Sales & Mkt.	-1.3%	Sales ↓	Advertising and Promotion ↓
Total	4.0%	Corp. Exec. & Gov. ↑	Information Systems ↑

*Growth in Rx and Behavioral Health administration **decreased** Total growth by 2.5 percentage points and Account and Membership Administration by 0.5 percentage points.*



COMPARED WITH 2020, CORE COSTS WERE 7.9% HIGHER IN 2021. COST TRENDS, CHANGES IN THE PRODUCT MIX AND UNIVERSE WERE RESPONSIBLE.

Figure 4. Sherlock Benchmark Summary
 Medicaid Plans' Costs by Functional Area Cluster, 2021 Results
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2020 Values Median
Medical and Provider Management	\$8.26	\$9.88	\$11.71	24%	\$9.28
Account and Membership Administration	15.14	19.71	22.06	32%	19.38
Corporate Services	5.80	6.69	8.56	47%	6.87
Subtotal: Core Expenses	\$28.85	\$35.05	\$41.70	29%	\$32.47
Sales and Marketing	\$4.97	\$7.64	\$10.32	47%	\$8.20
Total Expenses	\$35.39	\$46.42	\$52.62	26%	\$41.99

PMPMs VARY BY PRODUCT.

Figure 5. Sherlock Benchmark Summary

Medicaid Plans' Costs by Product, 2021 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	\$26.09	\$28.57	\$33.60	34%
HMO	26.09	28.56	34.11	34%
CHIP	\$24.20	\$25.30	\$28.92	15%
Medicare Total	\$124.44	\$146.77	\$188.34	25%
Advantage	111.17	120.04	150.18	25%
SNP	\$182.88	\$203.45	\$216.75	44%
Medicare Supplement	\$24.13	\$25.43	\$32.47	18%
Commercial Insured Total	\$45.38	\$49.48	\$55.42	21%
HMO	44.57	48.38	51.99	20%
POS	43.59	54.19	74.98	50%
Indemnity & PPO	\$51.30	\$58.70	\$65.33	42%
Commercial ASO	\$22.16	\$25.04	\$31.71	34%
Commercial Total	\$36.40	\$37.68	\$44.14	16%
Comprehensive Total	\$35.39	\$46.42	\$52.62	26%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	\$24.55	\$26.99	\$31.20	35%
HMO	24.55	27.00	31.20	35%
CHIP	\$21.20	\$22.40	\$24.70	15%



PERCENTS USUALLY ORDERED SIMILARLY TO PMPMs.

Figure 6. Sherlock Benchmark Summary
Medicaid Plans' Costs by Product, 2021 Results
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	6.6%	7.2%	8.6%	22%
HMO	6.6%	7.2%	8.5%	23%
CHIP	11.8%	12.5%	15.8%	22%
Medicare Total	11.2%	12.1%	12.9%	18%
Advantage	10.5%	12.2%	13.9%	30%
SNP	10.1%	11.4%	13.4%	21%
Medicare Supplement	10.3%	11.1%	12.2%	21%
Commercial Insured Total	8.8%	9.6%	10.0%	17%
HMO	8.5%	9.0%	9.7%	17%
POS	6.5%	8.1%	11.5%	55%
Indemnity & PPO	9.7%	10.4%	12.4%	44%
Commercial ASO	5.7%	6.4%	8.2%	32%
Commercial Total	8.4%	8.9%	9.0%	14%
Comprehensive Total	8.1%	8.6%	9.5%	17%

Note: Core Expenses of Medicaid

Medicaid Total	6.3%	6.6%	8.0%	25%
HMO	6.2%	6.6%	8.0%	25%
CHIP	10.1%	10.1%	13.5%	27%

CLUSTERS WERE MIXED COMPARED TO THE 2020 VALUES. CORE EXPENSES WERE HIGHER WITH CORPORATE SERVICES CLUSTER UP. MEDICAL & PROVIDER MANAGEMENT AND ACCOUNT & MEMBERSHIP ADMINISTRATION EACH DECLINED. SALES AND MARKETING CLUSTER WAS LOWER LEADING TO DEPRESSED TOTAL EXPENSES.

Figure 7. Sherlock Benchmark Summary
 Medicaid Plans' Costs by Functional Area Cluster, 2021 Results
 Percent of Premium Equivalents

2020
 Values

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Medical and Provider Management	1.7%	1.9%	2.4%	27%	1.9%
Account and Membership Administration	3.2%	3.7%	4.2%	24%	3.7%
Corporate Services	1.2%	1.4%	1.7%	39%	1.3%
Subtotal: Core Expenses	6.4%	6.8%	7.9%	22%	6.5%
Sales and Marketing	1.0%	1.6%	1.9%	43%	1.7%
Total Expenses	8.1%	8.6%	9.5%	17%	8.7%

COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicaid HMO Product Characteristics by Universe, 2021 Results

	Medicaid	IPS	Blue	Combined
Core Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$24.55	\$19.28	\$33.42	\$23.68
Median	27.00	22.09	34.02	27.18
75th Percentile	31.20	26.30	34.63	32.10
Coefficient of Variation	35%	31%	5%	33%
<i>Percent of Premiums and Equivalents</i>				
25th Percentile	6.2%	7.6%	10.5%	6.4%
Median	6.6%	8.7%	10.8%	6.9%
75th Percentile	8.0%	9.4%	11.2%	9.2%
Coefficient of Variation	25%	22%	9%	26%
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$26.09	\$21.82	\$35.46	\$25.74
Median	28.56	25.33	35.65	28.69
75th Percentile	34.11	29.57	35.84	34.69
Coefficient of Variation	34%	30%	2%	32%
<i>Percent of Premiums and Equivalents</i>				
25th Percentile	6.6%	8.5%	9.8%	7.1%
Median	7.2%	9.6%	10.2%	7.4%
75th Percentile	8.5%	10.4%	10.6%	9.6%
Coefficient of Variation	23%	20%	11%	23%
Plans Offering Medicaid	14	3	2	19
Medicaid HMO Members (millions)	8.04	0.38	0.67	9.09
Comprehensive Total Members (millions)	14.51	5.48	25.92	45.91



GROWTH IN CORE COSTS SLOWS IN 2021 FOR MEDICAID PLANS



- Membership typically grew. Medicaid HMO, Medicare SNP, and Medicare Advantage grew, while all other products declined.
 - Cost growth decelerated in every Core cluster, as well as in Sales & Marketing.
 - Account & Membership Administration increased, with rapid growth in Customer Services. IS was the most important source of Core and Total growth.
 - Medical & Provider Management grew despite the drop in Medical Management. Provider Network increased on an as reported basis.
 - Corporate Services Cluster grew slightly on Corporate Executive and Governance.
 - Median Core compensation was \$105,000, 19 FTEs per 10k Medicaid Members, 11% of which were outsourced.
- Medicaid Core administrative costs were \$35.05 PMPM versus \$32.47 last year. Actual performance, differences in universes and product mix changes were responsible.
 - Core expenses increased by 3.0% compared with an increase of 4.9% last year. Excluding product mix differences, costs grew by 2.6% versus growth of 5.8% last year.



APPENDIX A. MEDICAID-FOCUSED PLANS' ADMINISTRATIVE COSTS IN 2020

Appendix A. 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
Medical and Provider Management	\$7.59	\$9.28	\$11.80	30%
Account and Membership Administration	15.27	19.38	20.82	22%
Corporate Services	5.64	6.87	7.31	30%
Subtotal: Core Expenses	\$29.22	\$32.47	\$39.44	23%
Sales and Marketing	\$5.61	\$8.20	\$9.72	45%
Total Expenses	\$35.49	\$41.99	\$47.56	19%

APPENDIX B. MEDICARE-FOCUSED PLANS' ADMINISTRATIVE COSTS IN 2020

Appendix B. Sherlock Benchmark Summary
Medicaid Plans' Costs by Functional Area Cluster, 2020 Results
Percent of Premium Equivalent

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

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 Medicare participants from last year did so again this year. Half of the have five or more years of 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 25th consecutive year. We expect that our cumulative experience to total approximately 963 plan years by year-end 2022. Expect ~34 plans serving ~63 million members to participate in 2021.
- Since June 2019, health plans serving more than 210 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, sixteen serving approximately 49.1 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, six are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Four of the 10 largest commercial-focused Health Plan Alliance members are participating in this year's *Sherlock Benchmarks*.

