Transcript

Growth in Core Costs Slows for Medicaid-Focused Plans in 2021

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<Title Page>

I'm Doug Sherlock. Welcome to our summary of the *Sherlock Benchmarks* for Medicaid plans. Thank you all for participating in this call. I also thank the plans that participated and our principal contacts in particular. I know this has been a heavy lift because of their other commitments. Their responsibilities range from external reporting, targeted cost management projects, more general FP&A and strategic planning. Also, while we seem to be out of the woods on Covid, translating the activities within the plans to the Benchmark classifications may remain more cumbersome because of operational function leadership working remotely.

I also thank my colleagues for making this come together. Each cost translation challenge for each plan has a counterpart at Sherlock Company since the panel tasks us to assure uniformity of reporting, key to the reliability of the Benchmarks. Also, our team develops systems for receiving surveys, compiling them, performing some automated validation, summarizing and then publishing. Plus, validation has components that cannot be automated. I have a great team.

This is the fourth and last in a series of presentations for the 2022 editions of the Benchmarks based on 2021 calendar year results. We will be posting the slides and the transcript of this presentation within 24 hours. 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, so I hope you will access them if the BlueCross BlueShield, Independent/Provider-Sponsored, and Medicare-focused health plan information would be helpful.

The 14 Medicaid-focused plans that are the chief subject of this presentation have a combined revenue of $77 billion, of which Medicaid HMO and CHIP composes an average of 46%. We believe this universe and the resulting analysis and data to be quite robust.

This year marks the 25th year of the *Sherlock Benchmarks*, and the 20th for the Medicaid-focused universe. For the 2022 cycle, our cumulative experience will be 963 health plan years, and will include 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 the appendices. The focus of this presentation is Medicaid plan costs, their trends and their functional expense drivers. We'll also touch on trends in Compensation, Staffing Ratios and Outsourcing that bear on these trends. Finally, we have an interesting analysis comparing the costs of the different universes that provide Medicaid HMO services to their members.

Note that the appendices contain last year's values, and 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 2021. As shown in this slide, based on US Census Bureau analyses, *Health Insurance Coverage in the United States: 2021* (Issued September 2022), the proportion of Americans that were uninsured dropped from 13% in 2013 to 8% in 2021, a 5 percentage point decline, or by 14.6 million people.

Medicaid has historically been integral to this improvement. In 2014, the first year of the Affordable Care Act, Medicaid surged by 12% or by 6.7 million people, increasing from

18% to 19% of the US population. The percent of people uninsured fell from 13% to 10%.

Since 2014, however, Medicaid participation has declined in each year from 2016 through 2019 then increased in 2020 and continued growing in 2021. In 2020, Utah, Idaho, and Nebraska expanded Medicaid, while Oklahoma and Missouri expanded eligibility in 2021. Of the 5.8 million no longer uninsured since 2014, the 290,000 additions to Medicaid beneficiaries composed about 5% of the newly covered people.

Additionally, the effects of COVID-19 likely increased Medicaid enrollment. 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…. 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."

That Act was signed into law on March 18, 2020. As of today, the Covid-19 Public Health Emergency remains in effect. It will continue because the CMS has stated that it will provide states a 60-day notice of the expiration of the Covid-19 Public Health Emergency, and it has not yet done so. Accordingly, as number of Americans without health insurance declined by 14.6 million, Medicaid grew by 7 million or 48% of that decline.

This benchmarking study captures administrative cost trends for health plans with a high degree of commitment to Medicaid. Fourteen plans participated in the Medicaid edition of the *Sherlock Benchmarks*. They collectively served 14.5 million members in various comprehensive products. While Medicaid is typically their predominant product, it is not the only product offered by our participants. On average, Medicaid HMO and CHIP comprise 59% of plan membership in this universe, with Commercial Insured, ASO and Medicare among the other products. I imagine in some cases the same members served by health plan's Medicaid MCO products are sometimes served by their commercial products as employment and family circumstances change.

By virtue of their share in the Medicaid MCO market, we think that the plans here mirror industry trends. We estimate that the plans that participated in the 2022 *Sherlock*

Benchmarks, Medicaid and the other Sherlock universes that we discuss today, served approximately 15% of all Medicaid members.

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, it will generally be in *per member* terms, for continuously participating plans, after having reweighted the plan product costs so that we exclude the effects of any changes in product mix.

The darker of the two lines is the annual increase in *Core* administrative expenses, which are total expenses less Sales and Marketing. We exclude Sales and Marketing expenses from Core expenses since rules for Medicaid marketing vary from state to state, with some being highly constrained.

After hitting its nadir in 2015, growth in Core expenses have generally increased. Growth slowed in 2019, accelerated in 2020, and *decelerated* again in 2021, to 2.6%, from 5.8% in the prior year.

The lighter line is the annual rates of increase in a cluster of activities we call Account and Membership Administration. Growth rates for this cluster peaked in 2019 at an increase of 9.7% but has slowed the past two years to 5.5% in 2020, and 1.3% in 2021. As shown on this slide, this cluster's trends have a rough correspondence with Total expense trends.

This expense cluster has following core activities – Enrollment, Customer Services, Claims and Information Systems. This trend in Account and Membership Administration is of particular interest since it composes the core of the direct administrative activities of health plans, enrolling members, fielding member calls and processing claims, whether manual or automated, through information systems. In addition to composing 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 for instance.

In the slides that follow, we'll discuss the trends in this cluster, plus clusters of Sales and Marketing, Medical and Provider Management and Corporate Services. We will also touch on the trends for the underlying functions. We use the same health plans in both comparison years to avoid the distortions from changes in the universe.

We will also drill into the expense drivers, as noted earlier, and outsourcing trends.

<Slide 5>

This slide provides greater detail on the trends, though for a shorter period. This chart is organized by year, 2020 and 2021, showing each cluster's growth. The annual results are subdivided into "as reported" and "constant mix", with the latter backing out the effect of changes in product mix between the two years.

On the previous slide, we showed the 2021 increases in per member *Core* Administrative Expenses, of 2.6%, and in per member Account and Membership Administration, of 1.3%. These rates of change are shown on the fourth column, labeled "Constant-mix", "2021 Increase", and I have circled them in blue. The second column is directly comparable to the fourth column since both hold the mix *and* universe constant. The dark blue arced arrow is to draw your attention to the comparison with prior year's values. You can see last year's 5.8% Core increase I mentioned during the previous slide. I consider the second and fourth columns to be the real increases.

The two columns that are labeled "as-reported", the first and third, reflect per member trends in continuous plans, *without* holding mix constant. The as-reported columns are linked by an unfilled arced arrow. Implicit in the calculations for these columns is that a shift in favor of more expensive products, like Medicare Advantage, would lead to the appearance faster growth, while a shift in favor of less expensive products, like ASO, would result in apparent slower growth.

In 2021, cost trends did indeed reflect a shift in favor of higher cost products. You can see this in the faster cost growth for Core Expenses on an as-reported basis of 3.0% compared with the 2.6% growth on a constant-mix basis.

You can see this shift in the membership growth among the continuously participating plans, which grew by 5% on average. Within senior products, membership in high-cost Medicare Advantage increased at an average rate of 5%, while even higher cost Medicare SNP grew at an average rate of 42%. The less expensive Medicare Supplement fell by 6%, on average.

Within Medicaid, there was a similar shift to more expensive products. The less expensive CHIP decreased by 20% as Medicaid HMO increased by 15%.

Commercial Insured and Commercial ASO each fell by an average of 8%. As a whole, commercial products cost less to administer than other products in these plans' portfolios.

As an aside, for all 14 plans, Medicaid HMO and CHIP combined composed an average of 59% of membership and 46% of revenues for comprehensive products. Medicare Advantage and SNP combined composed an average of 9% of membership and 19% of revenues for comprehensive products. Commercial represented 21% of the revenues and 32% of the comprehensive membership, on average.

Returning to the chart, Account and Membership Administration was the fastest growing Core cluster at 1.3% on a constant-mix basis and grew by 1.9% on an as reported basis. Growth in Medical and Provider Management followed at 1.1% on a constant-mix basis and 1.2% on an as reported basis. Corporate Services increased on a constant-mix basis by 0.2% and 0.5% on an as reported basis. As mentioned previously, Core expenses increased by 2.6% on a constant-mix basis and 3.0% on an as reported basis.

While not included in Core expenses, the Sales and Marketing cluster increased by 1.4% on a constant mix basis but posted a *decline* on an as reported basis of 1.3%. This reflects the growth of Medicaid for which Sales and Marketing expenses are modest. Total expenses (Core plus Sales and Marketing) grew by 4.2% and 4.0% on a constant-mix and as reported basis, respectively.

<Slide 6>

Now, I would like to comment on why the expenses in these clusters performed as they did. Slide 6 shows the rates of change and the most important reasons for the changes,

after eliminating the effect of product mix differences. Core costs increased 2.6%, while Total costs increased by 4.2%. Since these are what I consider the "real" rates of increase, I will spend a lot of time on this slide and discuss the trends in order of their importance.

The chart on this slide notes both the speed of growth, Greatest Change, and the effect on the overall PMPM cost increase, Highest Weight. The latter is effectively the growth in expenses, considering the size of those expenses.

The Account and Membership Administration cluster of expenses posted a PMPM increase of 1.3%, on a constant-mix basis. The cluster's compensation per FTE, non-labor costs per FTE, and outsourcing were higher than last year. The cluster's staffing ratio, however, was lower.

The fastest growing function in this cluster was Customer Services, with high non-labor costs per FTE. The Member Services and Printed Materials sub-functions were both higher than last year.

Information Systems, however, was the most important source of this cluster's growth. Information Systems' compensation and non-labor costs were higher, while staffing ratios were lower. The sub-functions of Operations and Support Services and Applications Acquisition and Development both increased year-over-year.

Claims increased at a low single digit rate, while Enrollment / Membership / Billing was lower by low single digits.

For this presentation, we include Behavioral Health and Pharmacy administration in overall cost trends and those of Account and Membership Administration. If these activities had been *excluded*, Total administrative expenses would have increased less, by 3.1% rather than the 4.2% that we show in the bottom row. However, if *excluded*, the increase in Account and Membership Administration would have increased more, 3.5% rather than the 1.3% shown. This apparent contradiction is explained by the effects of a change in the administrative operations of one of the continuous plans' Behavioral Health, combined with our convention of using medians as our preferred measure of central tendency. Using averages does not result in this quirk and the effect of the inclusion of Behavioral health and Pharmacy Administration is to reduce the administrative cost trends. This quirk is also the case on an as-reported basis.

Pharmacy and Behavioral Health administrative costs, PMPM, increased at a median rate of 1.8%. Pharmacy administration increased while Behavioral Health decreased.

Holding constant the product mix, median PMPM expenses in the Medical and Provider Management cluster grew by 1.1%. The cluster's compensation and non-labor costs per FTE were higher over the previous year, but the use of outsourcing was lower.

This cluster's fastest rate of change and highest weight was the *decline* in Medical Management. While this slide shows a *median increase* in the cluster, the *average* rate of change was a slight decline of 0.1%.

The median PMPM costs for Medical Management declined from last year, and as previously mentioned, six of the ten continuous plans posted declines. The Medical Management sub-functions that posted gains were Disease Management, Health and Wellness, Quality Components, and Utilization Review. On the other hand, Case Management, Nurse Information Line, Medical Informatics and Other Medical Management declined. Compensation and non-labor costs were higher for Medical Management, but outsourcing and staffing ratios were lower.

The Provider Network Management and Services functional area grew with the Provider Relations Services sub-function being the driver in higher functional costs. The function's staffing ratio was higher over the prior year.

On a constant-mix basis, the PMPM Corporate Services cluster costs increased by 0.2%. Compensation and outsourcing were higher, but non-labor expenses were lower.

The relatively small Corporate Executive and Governance posted the fastest growing and most important source of this cluster's increase. Corporate Executive and Governance propensity to outsource and staffing ratios were higher, while non-labor costs were lower.

Finance and Accounting and Association Dues and License / Filing fees each increased at a single digit rate.

Conversely, Actuarial and Corporate Services Function each fell at a single digit rate. Six out of nine sub-functions within the Corporate Services function were lower. The

lower sub-functions were Human Resources, Legal, Facilities, Imaging, Printing and Mailroom, and Risk Management.

Overall, Core expenses increased at a median rate of 2.6% on a constant-mix basis from last year with Corporate Executive and Governance representing the fastest growing functional area and Information Systems representing the greatest weight.

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 1.4%, holding the product mix constant.

External Broker Commissions and Rating and Underwriting were the sole drivers in this cluster's increase and, because of the size of the Commissions' function, this function was the main reason in the cluster's increase. It also grew the fastest. The remaining Sales and Marketing functional areas decreased at a low single digit rate.

The Sales and Marketing cluster's propensity to outsource was higher, with the median compensation higher and non-labor costs greater than last year.

Total Expenses, including Sales and Marketing, grew by a median of 4.2% on a constant-mix basis. As with the Core functions alone, Corporate Executive and Governance and Information Systems were the fastest growing and highest weighted functions, respectively, for Total functions.

Note this slide shows *Median* rates of change, which is the reason why growth in Total and Core is faster than the components.

<Slide 7>

This slide describes the reported rates of change, that is, the values with no adjustments for changes in product mix. These trends, again, are based on continuous plans. When a plan reports costs in sequential years, the changes in those costs reflect both real changes and the effect of changes in product mix. As noted earlier, the continuously reporting plans shifted in favor of higher cost products like Medicare SNP so that Core as-reported costs grew faster than when product mix is eliminated, 3.0% versus 2.6% for constant-mix. This section will highlight the key trend differences between the as-reported and constant mix trend calculations.

The Account and Membership cluster posted faster as-reported growth, 1.9% versus 1.3%, on a constant-mix basis. Both Information Systems and Customer Services increased at a slower rate on an as-reported basis, while the decline in Enrollment / Membership / Billing was greater on an as-reported basis. The rate of growth for Claims was similarly modest on both as-reported and constant-mix. Customer Services continued to be the fastest growing function and Information Systems was the greatest weight.

Medical and Provider Management increased by 1.2% on an as-reported basis, marginally faster compared to the constant-mix basis of 1.1%. Provider Network Management and Services increased at a slightly faster rate, making it the faster growing function, while Medical Management posted a slower decline, but was still the greatest weight.

The Corporate Services cluster as-reported growth of 0.5% was slightly faster than the constant-mix increase of 0.2%. The differences for the functional areas from constant-mix to as-reported were insignificant. Corporate Executive and Governance, like on a constant mix basis, continued to be the fastest growing the greatest weight.

Core expenses increased by 3.0% on an as-reported basis compared to 2.6% on a constant-mix basis. The growth posted by Corporate Executive and Governance was still the fastest rate of change, while Information Systems was the most impactful.

Sales and Marketing costs, not included in *Core* expenses, decreased by 1.3% on an as-reported basis and compares to a 1.4% increase on a constant-mix basis. External Broker Commissions flipped from an increase on a constant-mix basis to a decline on an as-reported basis. Marketing, Sales, and Advertising and Promotion experienced faster declines, which were partially offset by the faster increase in Rating and Underwriting. The decline in Sales was the greatest change and the decline in Advertising and Promotion was the greatest weight.

On an as-reported basis, Total Expenses increased at 4.0% with Corporate Executive and Governance the fastest growing cluster and IS the greatest weight. This is the same as for the constant mix analysis.

Let me close this part of our presentation with a few summary observations. All my trend comments are based on the ten continuously participating plans. Cost factors include the effects of outsourced activities in that they are converted to internal FTEs, staffing costs and non-labor expenses.

Overall, median *Core* Medicaid staffing ratio was lower by 7% to 19 FTEs per 10,000 Medicaid members. Of the 14 functional areas with staff, eight posted declines. The staffing ratio reflects both internal and outsourced staffing. Outsourced staffing is inferred, often calculated from invoice amounts by assuming that all products have the same mix of staffing and non-labor costs. The largest percent declines in staffing ratio median values were in Enrollment / Membership / Billing and Information Systems. Total Medicaid staffing ratios also declined by 7% to 20 FTEs per 10,000 members.

The median *Core* compensation per FTE increased by 4% to approximately $105,000. Of the 14 functions with staff, 8 experienced increases from a year ago. Compensation for all functions was about $107,000 per FTE.

Propensity to outsource, at a median of 11% for both Core and Total, was higher than last year by percentage point for both. Of the 14 functional areas with staff, eleven increased outsourcing.

Again, on a constant-mix basis, Corporate Executive and Governance was the fastest growing cluster, followed by Customer Services. Information Systems was the most important source of growth among core and overall functions.

<Slide 8>

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 values of these activities, though it is necessarily a summary. This slide contains the results of the entire set of plans in this universe as well as the change from prior years. For the reasons of product mix and universe differences, it can be misleading to compare year-over-year changes. But, for completeness, we touch on the comparisons anyway.

For all 14 participating plans, Median Core administrative expenses were $35.05 PMPM, 7.9% higher than last year's median of $32.47, shown to the right.

Account and Membership Administration is the largest cluster of expenses. Comprised of activities central to health plan operations, it increased by 1.7% to a median of $19.71 PMPM. This cluster's size means that it has a substantial effect on overall trend. This cluster includes the Information Systems, Enrollment, Claims and Customer Services.

Medical and Provider Management costs per member per month was $9.88 PMPM, 6.5% higher than last year's value of $9.28. This group of functions includes Provider Network Management and Services and Medical Management.

The Corporate Services cluster costs were *lower* PMPM than last year at $6.69 versus $6.87, a drop of 2.7%. Activities include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities that include Facilities, HR and Legal.

The Sales and Marketing cluster fell by 6.9% to a median of $7.64 PMPM. Sales and Marketing functional areas include Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Median Total Expenses increased by 10.6% to $46.42 PMPM from $41.99 PMPM.

Dispersion in Core Expenses, measured by the Coefficient of Variation, generally widened compared to last year. Corporate Services cluster experienced the largest increase in dispersion, followed by Account and Membership and Sales and Marketing. Medical and Provider Management was the only cluster to narrow in dispersion. Both Core and Total increased in dispersion.

Measured by the change in the difference between 25th and 75th percentiles, all clusters increased except for Medical and Provider Management. Core and Total Expenses widened.

<Slide 9>

As you know, we favor an approach to understanding costs that reduce or eliminate the effect of product mix. This slide illustrates that one needs to take account the very different administrative requirements for each product to understand and compare expenses. Note that this slide includes Sales and Marketing except for the measures noted at the bottom.

For all fourteen participating plans, median cost for Medicaid HMO was $28.56 PMPM and, for Medicaid CHIP, was $25.30 PMPM.

Please see the note at the foot of this chart. Per Member Per Month *Core* expenses for Medicaid HMO and CHIP combined was $26.99. Core Medicaid HMO was $27.00 and Medicaid CHIP was $22.40.

Medicare joins Medicaid as government-sponsored products. They serve seniors and the low-income population, respectively. There is some overlap between them in the case of Medicare Special Needs Plans ("SNP") products, which have many members that are dually eligible for both programs.

Medicare products are relatively high cost to administer at $203.45 PMPM for Medicare SNP and $120.04 PMPM for Medicare Advantage.

Note that Medicare Supplement has lower costs than the median for comprehensive total at $25.43 PMPM. We include this as a comprehensive product in the *Sherlock Benchmarks* though it pays only when Medicare does not. Five plans in the Medicaid universe offer the product.

Commercial administrative expenses are both higher and lower than the median comprehensive total. The costs of Commercial Insured products are accordingly higher than the median for comprehensive products. This bifurcation depends on their financing mechanism and indirectly bears on group size. An ASO group possesses the statistical advantages of larger size, which also means that their Sales and Marketing costs are spread through greater numbers of members. Because of the modest per member Sales and Marketing expenses required for large groups ASO products have a median cost of $25.04 PMPM.

The single most important Commercial Insured product is HMO at $48.38 PMPM. POS was $54.19 PMPM, while Indemnity and PPO was $58.70.

Median Commercial Total costs PMPM were $37.68.

<Slide 10>

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

The ranking the various products' administrative expenses by the percent of premiums is generally similar to the ranking of the PMPM costs. Often, administrative activities correspond with the health care needs of the population each product serves.

Medicaid HMO was lower than comprehensive total on both a PMPM and percent of premium basis, at 7.2%. Medicaid CHIP was lower than comprehensive total on a PMPM basis, but at 12.5% is higher than average on a percent of premium basis. In the note at the bottom of the slide, Core Medicaid HMO and Medicaid CHIP were 6.6% and 10.1% of premiums, respectively.

Medicare SNP, the highest cost product on a PMPM basis, is higher than most products at 11.4% of premiums, 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 12.2%.

While Medicare Supplement is below comprehensive total when measured on a PMPM basis, at 11.1%, its cost ratio was greater than comprehensive total.

Administrative expenses on a percent of premium basis for Commercial POS, HMO, and Indemnity and PPO were 9.6% as a group, higher than comprehensive total of 8.6%.

Administrative expenses of ASO products was 6.4%, again 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. The median Commercial Percent of Premiums was 8.9%.

<Slide 11>

This slide shows the administrative expenses by cluster of functions, expressed in percent. Core administrative expenses increased by 0.25 percentage points to 6.8% compared with last year's median, shown to the right.

Corporate Services cluster increased by 0.10 percentage points to 1.4%. Medical and Provider Management fell by 0.03 percentage points to 1.9%, while Account and Membership Administration also dropped by 0.03 percentage points to 3.7%.

Total expenses, including Sales and Marketing, had a median percent of premium of 8.6%, 0.11 percentage points lower than the prior year. Sales and Marketing declined by 0.05 percentage points to a median of 1.6%.

<Slide 12>

As you know, all the health plans participating in the *Sherlock Benchmarks* segment their costs by product. This makes it possible for us to compare the same products *across* universes, such as IPS and Blue Cross Blue Shield. Collectively, these plans serve 9.1 million Medicaid HMO members or approximately 15% of all eligible beneficiaries.

Most of the comparisons generally align with the conclusion that focus helps drive down Medicaid health plan administrative costs. For instance, Blue Cross Blue Shield Plans Median core costs were $34.02 PMPM, or $7.02 greater than Medicaid-focused plans and, at 10.8% of premiums, were 4.2 percentage points higher. Likewise, Blue Cross Blue Shield Plans had total median Medicaid expenses of $35.65 PMPM and was $7.09 higher than of Medicaid plans. Blue Plans' total Medicaid administrative expenses as a percent of premiums, at 10.2%, was higher by 3.0 percentage points.

Independent / Provider – Sponsored plans' Medicaid costs relative to the Medicaid focused plans were more ambiguous. IPS plans' core costs were higher by 2.1 percentage points to a median of 8.7%. Also, Total expenses which includes Sales and Marketing was higher on a percent of premium basis by 2.4 percentage points to 9.6%. However, their median core costs were $4.91 PMPM lower than the Medicaid-focused plans, to $22.09. Total expenses was also lower by $3.23 PMPM to $25.33.

<Slide 13>

Let me close by summarizing.

The *Core* cost trends grew by 2.6% on a constant-mix basis or 3.0% as-reported. Growth in all Core clusters decelerated, as well as the Sales and Marketing cluster. The Account

and Membership cluster experienced the largest deceleration in growth, but costs grew anyway with IS, Customer Services and Corporate Executive being central to plan cost growth.

Median *Core* staffing ratios declined by 7% to 19 FTEs per 10,000 Medicaid HMO members. Total Medicaid staffing ratios also fell by 7% to 20 FTEs per 10,000 members. Of the 14 functional areas with staff, eight declined. The largest decreases in median Medicaid Staffing Ratio values were in Enrollment / Membership / Billing and Information Systems. Membership increased and shifted in favor of higher cost products.

The median *Core* compensation per FTE was approximately $105,000, up by 4% from last year, while Total Compensation per FTE was $107,000. Compensation in eight of the 14 functions with staffing increased, led by Corporate Executive and Governance.

Overall propensity to outsource for *Core* functions was higher to 11% of FTEs outsourced. Eleven of the fourteen functional areas with staff increased outsourcing. Actuarial and Corporate Executive and Governance were functions that experienced the largest increases in outsourced employees.

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

You will also find our earlier presentations of Blue Cross Blue Shield, Independent / Provider – Sponsored, and Medicare-focused plans on our website. 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.

Once again, I thank the participating plans and our contacts in those plans for their efforts. I appreciate your participation under circumstances in which it is challenging to access any siloed information, and as you meet other company obligations. We truly appreciate your implied compliment that we meet your high "insight to effort" requirements.

Since the subject matter of this web conference is free of charge and beneficial to health plans that do not or cannot participate in the study, I hope you share my gratitude.

Now I would like answer, as best as I can, any questions you may have on the trends or execution of this analysis.

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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 20th 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.