Transcript

Growth in Core Expenses Decelerate for Medicaid Plans in 2022

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<Title Page>

I'm Doug Sherlock. Welcome to our summary of the 21st annual *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.

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 which is 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 2023 editions of the Benchmarks based on 2022 calendar year results. We will be posting the slides and the transcript of this presentation within 24 hours. 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.

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.

The 15 Medicaid-focused plans that are the chief subject of this presentation have a combined revenue of $79 billion, of which Medicaid HMO and CHIP composes 65% of comprehensive revenues. We believe this universe and the resulting analysis and data to be quite robust.

The Medicaid benchmarks will conclude our 26th year of the *Sherlock Benchmarks* and our cumulative experience will be approximately 1,000 health plan years, and will include Independent / Provider – Sponsored Plans, Blue Cross Blue Shield Plans, Medicare Plans, Medicaid Plans and our new TPA universe.

<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 administrative costs of the different *Sherlock Benchmarks* 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 2022. As shown in this slide, based on US Census Bureau analyses, *Health Insurance Coverage in the United States: 2022* (just issued last month), the proportion of Americans uninsured dropped from 13% in 2013 to 8% in 2022, a five percentage point decline.

Medicaid has been central 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% in that initial year or by roughly 9 million people.

Peak Medicaid membership was in 2015 at 62.4 million when it served 20% of the US population. In the relatively strong economic environment that immediately followed,

Medicaid participation declined in each year through 2019, to 17%, below pre-ACA levels. Due to Covid-19 adaptation compressing the economy and the temporary suspension of Medicaid eligibility redetermination via the Public Health Emergency declaration, Medicaid participation increased in each year from 2020 to 2022. The increase from 2021 to 2022 was only 0.2% or by about 110,000 members.

Over the past 10 years, Medicaid appears to have been responsible for nearly one-half of the decline in the number of people without health insurance. Because of an aging population, Medicare membership increased far more. While Private health plan membership increased even more than Medicare, direct purchases actually declined despite the ACA exchanges. While this chart is complete through 2022, the 2023 calendar year will reflect the end of the suspension of Medicaid redetermination beginning May 11, 2023. According to Kaiser Family Foundation, about 7.5 million people have been disenrolled from Medicaid, as of September 26, 2023.

This benchmarking study captures administrative cost trends for health plans with a high commitment to Medicaid. Fifteen plans participated in the Medicaid edition of the *Sherlock Benchmarks*. They collectively served 15.5 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 56% 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 provide insight to industry trends. We estimate that the plans that participated in the 2023 *Sherlock Benchmarks*, Medicaid and the other Sherlock universes that we discuss today, served nearly 17% of all Medicaid members.

Having said that, each health plan in all our *Benchmarking* studies decide for themselves whether to participate. That is, on the grounds that "you manage what you measure," the participants may tend to have an interest in optimizing their costs.

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 and after having reweighted plan product costs so that we exclude the effects of any changes in product mix. This chart shows changes using these three conventions.

The darker of the two lines is the annual increase in *Core* administrative expenses, which are total expenses but without Sales and Marketing. We exclude Sales and Marketing expenses from Core expenses to achieve apples-to-apples comparisons. Medicaid marketing rules vary from state to state.

After its nadir in 2015, *growth* in Core expense growth peaked in 2018 and generally decelerated thereafter. Growth slowed in 2022 to 2.4%, from the 2.6% increase 2021.

The lighter line is the annual rates of increase in a cluster of activities we call Account and Membership Administration. As shown on this slide, this cluster's trends have a rough correspondence with Core expense trends, which follows from its representing half of its costs. Growth rates for this cluster peaked in 2019 at an increase of 9.7% slowed the past two years to 5.5% in 2020, and 1.3% in 2021, but bounced back to 5.7% in 2022.

This expense cluster has the following core activities – Enrollment, Customer Services, Claims and Information Systems. Trends in Account and Membership Administration are of particular interest since it composes many 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 other activities such as Finance and Accounting or Corporate Executive and Governance.

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

Slide 5>

This slide provides greater detail on the trends, though for a shorter period. The chart is organized by year, 2021 and 2022, 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 comparison years.

On the previous slide, we showed the 2022 increases in per member *Core* Administrative Expenses, of 2.4%, and in per member Account and Membership Administration, of 5.7%. These rates of change are shown on the fourth column, labeled "Constant-mix" under "2022 Increase", and I have circled them in blue. The second column is 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 2.6% Core increase. I consider the second and fourth columns to be the real increases for those years.

The two columns 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. You could reasonably infer that, since costs are segmented by product, 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 2022, cost trends reflected a shift in favor of lower cost products. You can see this in the slower cost growth for Core Expenses on an as-reported basis of 1.8% compared with the 2.4% growth on a constant-mix basis.

The product mix of the plans did change as the plans grew. On average, the plans grew by 5%. Relatively low-cost Medicaid HMO and CHIP, combined, experienced the largest increase at 11%, on average. This outpaced the growth in relatively high-cost Medicare Advantage and SNP combined, which grew by an average of 4%.

The less expensive Medicare Supplement fell by 6%, on average. As a whole Commercial fell by an average of 6% with Insured falling by 6% and Self-Funded ASO dropping by 4%.

As an aside, for all 15 plans in our Medicaid universe, Medicaid HMO and CHIP together comprised an average of 56% of membership and 52% of revenues for comprehensive products. Medicare Advantage and SNP combined comprised an average of 7% of membership and 14% of revenues for comprehensive products. Commercial represented 24% of the revenues and 35% of the comprehensive membership, on average.

Returning to the chart, Account and Membership Administration was the fastest growing Core cluster at 5.7% on a constant-mix basis and grew by 5.5% on an as reported basis. Growth in Medical and Provider Management followed at 2.4% on a constant-mix basis and 1.5% on an as reported basis. Corporate Services increased on a constant-mix basis by 0.5% and 1.5% on an as reported basis. As mentioned previously, Core expenses increased by 2.4% on a constant-mix basis and 1.8% on an as reported basis.

While not included in Core expenses, the Sales and Marketing cluster increased by 9.5% on a constant mix basis and increased by an as reported basis of 4.5%. This reflects the faster growth of Medicaid for which Sales and Marketing expenses are modest. Total expenses, or the sum of Core and Sales and Marketing, grew by 4.9% and 3.7% 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, referred to as Greatest Change. The third column shows the functions that display the greatest percentage changes in PMPM cluster and total costs, irrespective of the size of the function. The fourth column shows the most important *reasons* for the changes, referred to as Highest Weight. These are the functions that contributed most to the cost increases when expressed in dollars. In a sense, they are rates of growth weighted by the size of those expenses.

This slide eliminates the effect of product mix differences. 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.

Overall, you can see that Core costs increased by 2.4%, while Total costs increased by 4.9%, with the growth in Sales and Marketing explaining the difference. The Account

and Membership Administration cluster of expenses posted a PMPM increase of 5.7%, on a constant-mix basis. The cluster's Compensation per FTE, Outsourcing, and Medicaid Staffing Ratio were all higher than the prior year. Non-Labor Costs per FTE, however, were lower.

Far and away, the fastest growing function and most important source of growth in this cluster was Claim and Encounter Capture and Adjudication function, with its sub-function called Other Claims most responsible for growth. Claims function Compensation, Outsourcing, and Staffing Ratio were higher than last year.

I should add that Claims growth was likely overstated because some manually intensive provider auditing activities were moved to this function from Provider Network in the first change in classification in many years. Detail on the cost segmentation into the subfunctions that roll up into each function are in Appendix F of the slides. We'll make the slides available on our website in the next day or so.

Customer Services also contributed to the cluster's increase, but grew at a mid-single digit rate. Both Member Services and Grievances and Appeals sub-functions contributed to growth. Customer Services Staffing Costs per FTE, Staffing Ratios, Non-Labor Costs, and Outsourcing all grew, year-over-year.

Enrollment / Membership / Billing was higher by a low single-digit rate. Compensation, Non-Labor Costs, and Staffing Ratio were higher, while Outsourcing was lower. Both sub-functions of Enrollment *&* Membership and Billing contributed to the year-over-year increase.

Conversely, Information Systems declined, though by less than 1%. The decline in Staffing Ratios and slight drop in Compensation were most responsible for the function's decline. The IS sub-functions of Operations and Support Services and Security Administration and Enforcement likely drove the IS decline from last year.

For this presentation, unlike in the Benchmarks themselves, we include Behavioral Health and Pharmacy administration in both total and Account and Membership Administration. If these activities had been excluded, Core administrative expenses would have increased by 1.6% rather than the 2.4% that we show in this slide. If excluded from Account and Membership, the cluster would have increased by 4.4% rather than the 5.7% shown.

Expenses in the Medical and Provider Management cluster grew by 2.4%. Growth was mainly driven by higher Non-Labor Costs per FTE and Outsourcing. Staffing Ratio and Compensation, however, were lower.

The Provider Network Management and Services functional area grew the fastest and was the most important source of growth in this cluster. The function's Staffing Ratio and Non-Labor Costs were higher than the prior year. The sub-functions of Provider Relations Services and Provider Contracting were the drivers of this function's growth.

Medical Management / Quality Assurance / Wellness expenses also increased, but at a rate that was one-fourth that of Provider Network Management. Notable sub-function growth within Medical Management were Precert., Case Management, Health and Wellness, U/R, and Other Medical Management. That "Other" subfunction is home to plans' medical directors. This functions tendency to outsource increased over last year.

The Corporate Services cluster's costs increased by 0.5%. Non-Labor Costs per FTE was higher than last year for this cluster. Actuarial was the cluster's fastest growing functional area, with Compensation per FTE and Staffing Ratios higher than the prior year.

The Corporate Services *function* followed Actuarial in its rate of growth and was the most important source of growth for the Corporate Services cluster. Corporate Services sub-functions that posted unambiguous increases from last year included HR, Audit, Printing and Mailroom, Risk Management, and Other Corporate Services. That last subfunction includes corporate insurance. This function's Staffing Costs per FTE and Non-Labor Costs per FTE were above the prior year.

Conversely, some functions posted cost declines. They included Finance and Accounting, Corporate Executive and Governance, and Association Dues and License / Filing Fees.

As noted earlier, Core expenses increased at a median rate of 2.4% on a constant-mix basis from last year. Claims represented both the fastest growing and most impactful functional area.

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 increased by 9.5% PMPM, holding the product mix constant. The Sales and Marketing cluster's Compensation per FTE and propensity to Outsource were higher, year-over-year.

Advertising and Promotion was the fastest growing function and was most important to Sales and Marketing growth. Median Staffing Costs per FTE was higher than the prior year.

Broker Commissions grew at a mid single-digit rate as Sales increased slightly. Conversely, Rating and Underwriting and Marketing functions each fell, year-over-year.

Total Expenses, including Sales and Marketing, grew by a median of 4.9% on a constant-mix basis. As with the Core functions alone, Claims growth was fastest and largest source of growth for Total functions.

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

<Slide 7>

This slide shows and analyses the reported rates of change, that is, the growth with no adjustments for changes in product mix. These trends, again, are based on continuous plans.

When a health 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 lower cost products like Medicaid so that Core as-reported costs of 1.8% shown here were lower than the 2.4%when product mix is eliminated. This section will note this growth but also highlight the key trend differences between the as-reported and constant mix trend calculations.

The Account and Membership cluster posted slower as-reported growth, 5.5% versus 5.7%, on a constant-mix basis. As-reported Information Systems experienced faster

declines in this rendering, while Claims, Customer Services, and Enrollment / Membership / Billing posted slower increases.

Medical and Provider Management increased by 1.5% on an as-reported basis, slower than its constant-mix growth of 2.4%. Both functional areas of Provider Network Management and Medical Management / Quality Assurance / Wellness grew at slower rates on an as-reported basis.

The Corporate Services cluster's costs increased by 1.5% on an As-Reported basis. This was unique among clusters in that it was faster than the 0.5% increase on a Constant Mix basis. As-Reported cost growth in each function either increased more slowly or declined more rapidly than on a Constant Mix basis. Illustrating that organizations arrive at their own trends quite differently, the mean change for the Corporate Services cluster would have indicated a slower growth rate from an as-reported compared to constant-mix, similar to the other clusters.

Actuarial and Corporate Services Functional area growth slowed on an As-Reported basis, while Finance and Accounting, Corporate Executive and Governance, and Association Dues and License Filing Fees declined at faster rates.

The plans reported Core expenses growth of 1.8% lower than the 2.4% that eliminates the effect of the shift in favor of lower cost products. Similarly to the constant-mix calculation, Claims was still the fastest growing and most impactful functional area.

Sales and Marketing costs, which are not Core in this universe, increased by 4.5% on an as-reported basis, dramatically lower than the 9.5% increase on a constant-mix basis. Sales flipped from a slight increase to a low single-digit decline on an as-reported basis. Advertising and Promotion increased at a faster rate on an as-reported basis, while the increase in Broker Commissions sharply decelerated. Rating and Underwriting slightly accelerated its decline as Marketing slowed its modest Constant Mix drop on an As-Reported basis.

On an as-reported basis, Total Expenses increased by 3.7% with Claims the fastest growing and highest weighted function. While the size of the differences between the two presentations are significant, each of the fastest growing and most important function contributors are 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.

The Core Medicaid staffing ratio was higher by 7% to a median over 20 FTEs per 10,000 Medicaid members. Of the 14 functional areas with staff, nine posted ratio increases over the prior year. To be clear, this reflects 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 each product has the same mix of staffing and non-labor costs.

The Core compensation per FTE was marginally lower by 0.1% to a median of $104,000. Of the 14 functions with staff, 11 experienced increases from a year ago. Including Sales and Marketing staff, Compensation per FTE increased slightly to $106,000 per FTE.

Staff that was outsourced, at a median of 11% for Core, was 1.6 percentage points higher than last year. Of functional areas with staff, seven increased their use of outsourced staff.

<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 summarize the actual cost values of these activities. Unlike earlier slides, this slide contains the results of the *entire set* of plans in this universe. For reference, it also shows the costs from prior years. As we demonstrated earlier, it can be misleading to compare year-over-year changes without adjusting for product mix changes. To this complexity, we are adding differences in the Benchmark participation.

For all 15 participating plans, Core administrative expenses were a median of $36.41 PMPM, 3.9% higher than last year's median of $35.05, shown to the right.

Account and Membership Administration is the largest cluster of expenses. Comprised of activities central to health plan operations, it was 6.3% lower than last year, to a median of $18.21 PMPM. At half of core expenses, this cluster's size means that it has a

substantial effect on overall cost trends. This cluster includes Information Systems, Enrollment, Claims and Customer Services.

Medical and Provider Management costs per member per month was $9.82 PMPM, 0.6% lower than last year's $9.88. This group of functions includes Provider Network Management and Services and Medical Management / Quality Assurance / Wellness.

The Corporate Services cluster costs were higher than last year at $7.76 PMPM versus $6.69 last year, by 16.0%. 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 PMPM costs declined by 2.7% to a median of $7.43 PMPM. Sales and Marketing functional areas include Rating and Underwriting, Sales, Marketing, broker Commissions and Advertising.

Median Total Expenses were 7.3% less, to $42.59 PMPM from $45.96 PMPM.

Measured by the Coefficient of Variation, the dispersion in Core Expenses, increased compared to last year. Medical and Provider Management experienced the largest increase in dispersion, followed by Account and Membership Administration. However, the coefficient for the Corporate Services cluster decreased. Sales and Marketing cluster also decreased its dispersion. Total expenses increased its dispersion from last year, but by less than Core expenses.

On the other hand, measured by the change in the difference between 25th and 75th percentiles, Core expenses dispersion decreased. The differences between the two quartiles for Sales and Marketing and Total expenses also declined.

<Slide 9>

This slide illustrates that one needs to take account the very different administrative requirements for each product to understand and compare expenses. Note that the cost values in this slide includes Sales and Marketing except for the Core measures for the Medicaid products noted at the bottom.

For all fifteen participating plans, the median costs for Medicaid HMO was $34.00 PMPM and was $28.00 PMPM for Medicaid CHIP.

Per Member Per Month Core expenses for Medicaid HMO and CHIP combined was $30.00. Core Medicaid HMO was $31.00 and Medicaid CHIP was $22.00. Core expenses exclude Sales and Marketing costs. They are presented in the note at the foot of this chart.

Medicare products, like Medicaid, are government-sponsored. Medicare products serve seniors as Medicaid serves low-income people. But there is some overlap between them in the case of Medicare Special Needs Plans ("SNP") products, which have many members eligible for both programs.

Medicare products are relatively high cost at $222.00 PMPM for Medicare SNP and $129.00 PMPM for Medicare Advantage.

Note that Medicare Supplement has lower costs than the median for comprehensive total at $35.00 PMPM. We include this as a comprehensive product in the *Sherlock Benchmarks* though it pays only when Medicare does not. Six plans in the Medicaid universe offer this product.

Commercial administrative expenses are both higher and lower than the median comprehensive total. The costs of various Commercial Insured products are higher than the median for comprehensive products at $56.00. Because of the modest per member Sales and Marketing expenses required for large groups, ASO products have a median cost of $27.00 PMPM. An ASO group possesses the statistical advantages of larger size, which also means that their Sales and Marketing costs are spread among greater numbers of members.

The single most important Commercial Insured product for this universe is HMO at $56.00 PMPM. POS costs $66.00 PMPM, while Indemnity and PPO costs $63.00. Median Commercial Total costs PMPM were $41.00.

By the way, on our website, there is an application that you can use to apply these results to your health plan or others' health plans for that matter. Go to the *Sherlock Benchmarks* page and, down at the bottom, click on the Benchmark Calculator button. It's convenient and easy to use: these data values and also those of the other universes can be selected and used there. We are always available to answer your questions.

<Slide 10>

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

The ranking of the various products' administrative expenses by the percent of premiums is mostly similar to the ranking of the PMPM costs. Administrative activities of each product often corresponds with the health care needs its population.

The Medicaid HMO ratio was lower than Comprehensive of 8.4% on both a PMPM and percent of premium basis, at 7.3%. While Medicaid CHIP was lower than Comprehensive on a PMPM basis but, at 11.7%, has a higher percent of premium. In the note at the bottom of the slide, Core Medicaid HMO and Medicaid CHIP were 6.6% and 9.7% of premiums, respectively.

Medicare SNP, the highest cost product on a PMPM basis, is still higher than most products on a percent of premium basis at 12.5%, but this difference relative to other products is far smaller than on a PMPM basis. Meanwhile, Medicare Advantage expenses, while over two times greater than Commercial HMO Insured products on a PMPM basis, is narrowly higher on a percent of premium basis at 12.7%.

While Medicare Supplement is below comprehensive total when measured on a PMPM basis, at 13.9%, its cost ratio was greater than that of the Comprehensive total.

Administrative expenses on a percent of premium basis for Commercial POS and HMO were both 9.3%, while Indemnity and PPO was 10.2%. These ratios, like the PMPMs, were higher than Comprehensive Total.

Administrative expenses of Commercial ASO products are 6.3% on a premium equivalent basis. It is also low cost when measured on a PMPM basis. The lower Sales and Marketing for self-insured groups is key reason for these lower values. The median value for administrative costs as a percent of premium equivalents for all Commercial products was 8.7%.

<Slide 11>

This slide shows the administrative expenses by cluster of functions, expressed in percent. Core administrative expenses were 0.3 percentage points greater in 2022 at 7.1% compared with last year's median of 6.8%.

The Corporate Services cluster was higher by 0.1 percentage points to 1.5%. Medical and Provider Management fell by 0.2 percentage points to 1.7%, while Account and Membership Administration also dropped by 0.2 percentage points to 3.5%. This variance from Core differences is a demonstration that medians cannot be usefully added.

Sales and Marketing declined by 0.1 percentage points to a median of 1.5%. Total expenses, including Sales and Marketing, had a median percent of premium ratio of 8.4%, 0.2 percentage points lower than the prior year.

<Slide 12>

As you know, all of 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 Independent / Provider-Sponsored and Blue Cross Blue Shield. Collectively, all three universes of plans serve 10.5 million Medicaid HMO members or approximately 17% of all beneficiaries.

Blue Cross Blue Shield Plans core administrative costs for Medicaid HMO were a median of $29.68, lower by $1.14 PMPM compared to the Medicaid plans. On a Per Member Per Month basis, Independent / Provider – Sponsored plans' Medicaid Core costs were $24.98, $5.84 PMPM lower than those in Medicaid-focused plans.

On the other hand, calculated as a percent of premium, Blue Cross Blue Shield Plans' Core administrative expenses, at 9.7% of premiums, were 3.1 percentage points *higher* than those of Medicaid focused plans at 6.6%. Likewise, IPS plans' core costs were higher by 0.5 percentage points, 7.1%. We have a theory that we cannot prove that this difference in metrics of relative costs may arise from less healthy members in the Medicaid plans that are focused on this market segment.

Total administrative expenses includes Sales and Marketing. IPS plans' costs were

$27.09 PMPM, $6.65 lower than that of Medicaid focused plans. Blue Cross Blue Shield Plans had Total median Medicaid expenses of $35.88 PMPM, higher by $2.14 PMPM versus the Medicaid plans.

As with core costs, Blue Cross Blue Shield's Medicaid Total administrative expenses were 11.3%, higher than those of the Medicaid plans by 4.0 percentage points. Similarly, IPS plans' total administrative costs were higher on a percent of premium basis by 0.5 percentage points, 7.7% against 7.3% for the Medicaid focused health plans.

<Slide 13>

Let me summarize our results for the 2023 cycle for Medicaid plans.

The *Core* costs grew by 2.4% on a constant-mix basis or 1.8% as-reported. Account and Membership Cluster grew the fastest of the Core clusters with Claims the fastest growing function and most impactful. Medical and Provider Management posted the second highest growth rate for Core clusters, while Corporate Services Cluster had the lowest growth rate.

There was a shift towards Medicaid products that require lower per member administrative expenses. Thus, the constant mix cost growth was faster than the as-reported cost growth.

The median Core Medicaid staffing ratio was over 20 FTEs per 10,000 Medicaid members, more than last year's by 7%. Of the 14 functional areas with staff, nine posted increases over the prior year.

The median Core compensation per FTE marginally lower by 0.1% to approximately $104,000. Of the 14 functions with staff, 11 experienced increases from a year ago. Compensation per FTE if the Sales and Marketing functions are included increased slightly to $106,000 per FTE. Non-Labor Costs for Core functions increased by 11.0% to $63,000 per FTE.

Propensity to outsource, at a median of 11% for Core, was 1.6 percentage points higher than the prior year. Of functional areas with staff, seven increased their use of outsourcing.

This presentation, (transcript and slides) will be posted on our web site in the next few hours. In addition to these slides, we include last year's values, some descriptive materials. Additional information, including Tables of Contents of the Benchmarks themselves are found on the website. Call me if we can elaborate.

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We'll post these slides and the transcript on our website soon. You will find our earlier presentations of Blue Cross Blue Shield, Independent / Provider – Sponsored, and Medicare-focused plans right now. Please contact me for information on licensing these universes. Additional information, including their tables of contents are found on the website. Please reach out if you have any questions.

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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Thank you again for your participation in this web-conference.

Once again, I want to thank everyone involved in the 21st 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.