

ADMINISTRATIVE COST TRENDS OF MEDICAID- FOCUSED PLANS IN 2023



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SHERLOCK BENCHMARKS

Douglas B. Sherlock, CFA

President, Sherlock Company

sherlock@sherlockco.com

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TOPICS

- Background on Medicaid
- Long term cost trends
- Changes in cluster costs
- Reasons for cost increases
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM
- Comparisons of Medicaid HMO across universes

APPENDICES

- Last year's cluster values
- Functions in each cluster of expenses
- About the *Sherlock Benchmarks*

Racing workboats is our metaphor for health plans striving for performance improvement.



MEDICAID GROWTH: ACA, COVID, POST-COVID



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	2022	2023	2023 Chg.	Pct. Chg.	Cml. Chg.	Pct. 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%	300,900 92%	304,000 92%	305,200 92%	1,200	0%	32,394	12%
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%	216,400 66%	216,500 66%	216,800 65%	300	0%	15,462	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%	178,300 54%	179,800 54%	178,200 54%	-1,600	-1%	5,382	3%
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%	33,550 10%	32,800 10%	33,850 10%	1,050	3%	-2,955	-8%
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%	117,100 36%	119,100 36%	120,400 36%	1,300	1%	10,813	10%
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%	60,230 18%	61,570 19%	62,550 19%	980	2%	12,550	26%
Medicaid	54,919 18%	61,650 19%	62,384 20%	62,803 19%	59,814 19%	57,819 18%	55,851 17%	58,778 18%	61,940 19%	62,050 19%	62,700 19%	650	1%	7,131	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%	11,171 3%	11,892 4%	721	6%	-2,845	-20%
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%	27,190 8%	25,940 8%	26,440 8%	500	2%	-15,855	-38%
Total	313,401	316,168	318,869	320,372	322,490	323,668	324,549	327,521	328,090	329,940	331,640	1,700	1%	16,539	5%

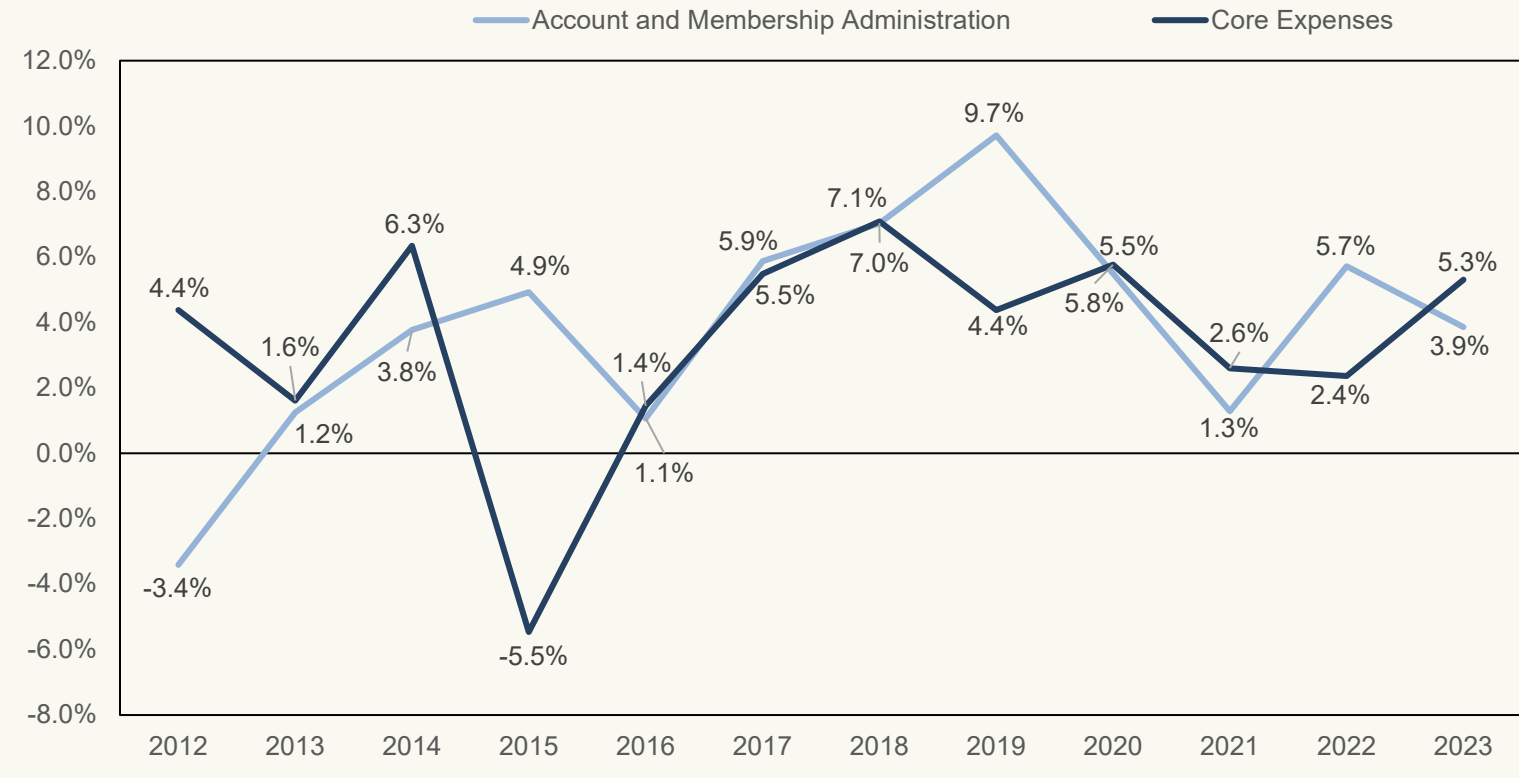
Source: Health Insurance Coverage in the United States: 2023, <https://www.census.gov/content/dam/Census/library/publications/2024/demo/p60-284.pdf>

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."

THE INCREASE IN CORE COSTS ACCELERATED, WHILE ACCOUNT AND MEMBERSHIP SLOWED.

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, WHEN MIX IS HELD CONSTANT, CORE COST GROWTH WAS SLOWER THAN AS-REPORTED.

Figure 3. Sherlock Benchmark Summary

Medicaid Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2022 Increase		2023 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Medical and Provider Management	1.5%	2.4%	7.2%	6.1%
Account and Membership Administration	5.5%	5.7%	4.0%	3.9%
Corporate Services	1.5%	0.5%	3.6%	3.5%
Subtotal: Core Expenses	1.8%	2.4%	5.4%	5.3%
Sales and Marketing	4.5%	9.5%	9.4%	7.0%
Total Expenses	3.7%	4.9%	5.2%	5.4%

Constant Mix comparisons adjust to exclude the effect product mix changes between continuously participating plans over the two years.



SOURCES OF “REAL” GROWTH IN MEDICAID-FOCUSED PLANS ADMINISTRATIVE COSTS IN 2023

	Chg.	Greatest Change	Highest Weight
Med & Provider	6.1%	Medical Management ↑	Medical Management ↑
Acct & Memb	3.9%	Customer Services ↑	Information Systems ↑
Corp. Serv.	3.5%	Corp. Exec. & Gov. ↑	Corp. Exec. & Gov. ↑
Core	5.3%	Corp. Exec. & Gov. ↑	Medical Management ↑
Sales & Mkt.	7.0%	Sales ↑	Ext. Broker Commissions ↑
Total	5.4%	Corp. Exec. & Gov. ↑	Medical Management ↑



SOURCES OF REPORTED GROWTH IN MEDICAID-FOCUSED PLANS ADMINISTRATIVE COSTS IN 2023

	Chg.	Greatest Change	Highest Weight
Med & Provider	7.2%	Medical Management ↑	Medical Management ↑
Acct & Memb	4.0%	Customer Services ↑	Information Systems ↑
Corp. Serv.	3.6%	Corp. Exec. & Gov. ↑	Corp. Exec. & Gov. ↑
Core	5.4%	Corp. Exec. & Gov. ↑	Medical Management ↑
Sales & Mkt.	9.4%	Rating and Underwriting ↑	Ext. Broker Commissions ↑
Total	5.2%	Rating and Underwriting ↑	Ext. Broker Commissions ↑



COMPARED WITH 2022, CORE COSTS WERE 9.0% HIGHER IN 2023. COST TRENDS, CHANGES IN THE PRODUCT MIX AND THE UNIVERSE WERE RESPONSIBLE.

Figure 4. Sherlock Benchmark Summary
Medicaid Plans' Costs by Functional Area Cluster, 2023 Results
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2022 Values Median
Medical and Provider Management	\$8.24	\$10.83	\$13.29	41%	\$9.82
Account and Membership Administration	18.10	20.89	22.14	26%	18.21
Corporate Services	6.22	7.34	8.15	46%	7.76
Subtotal: Core Expenses	\$34.78	\$39.68	\$41.60	29%	\$36.41
Sales and Marketing	\$6.97	\$9.39	\$11.22	41%	\$7.43
Total Expenses	\$39.40	\$48.04	\$53.03	25%	\$42.59

PMPMs VARY BY PRODUCT.

Figure 5. Sherlock Benchmark Summary

Medicaid Plans' Costs by Product, 2023 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	\$25.90	\$33.03	\$39.40	37%
HMO	25.75	33.03	39.85	37%
CHIP	\$25.43	\$30.12	\$36.97	29%
Medicare Total	\$134.33	\$143.99	\$167.33	32%
Advantage	124.92	134.33	164.34	34%
SNP	\$223.86	\$237.46	\$275.13	24%
Medicare Supplement	\$35.17	\$39.84	\$43.43	23%
Commercial Insured Total	\$53.99	\$59.35	\$71.17	21%
HMO	53.65	59.51	59.95	19%
POS	57.28	70.76	89.24	43%
Indemnity & PPO	\$55.24	\$58.98	\$74.65	43%
Commercial ASO	\$26.02	\$27.61	\$32.17	24%
Commercial Total	\$40.75	\$44.82	\$49.93	13%
Comprehensive Total	\$39.40	\$48.04	\$53.03	25%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	\$24.17	\$30.96	\$36.81	39%
HMO	24.17	30.96	36.88	39%
CHIP	\$23.19	\$26.69	\$29.37	22%



PERCENTS CLUSTER MORE THAN PMPMs BECAUSE ADMINISTRATIVE EXPENSES OFTEN TRACK WITH HEALTH CARE COSTS.

Figure 6. Sherlock Benchmark Summary
Medicaid Plans' Costs by Product, 2023 Results
Percent of Premium Equivalents

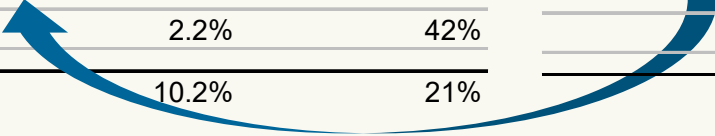
Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	6.7%	7.7%	8.9%	26%
HMO	6.5%	7.7%	8.9%	27%
CHIP	8.0%	11.9%	13.8%	45%
Medicare Total	11.4%	13.8%	15.2%	28%
Advantage	12.0%	12.4%	15.2%	34%
SNP	12.6%	16.3%	18.7%	28%
Medicare Supplement	13.0%	14.9%	17.5%	25%
Commercial Insured Total	9.6%	10.4%	11.5%	21%
HMO	9.2%	9.2%	10.3%	24%
POS	7.7%	9.9%	13.5%	55%
Indemnity & PPO	10.4%	10.8%	12.0%	37%
Commercial ASO	4.8%	5.9%	7.3%	31%
Commercial Total	7.9%	8.7%	9.5%	20%
Comprehensive Total	8.3%	8.9%	10.2%	21%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	5.8%	7.2%	8.5%	30%
HMO	5.7%	7.2%	8.5%	30%
CHIP	7.2%	10.0%	11.4%	36%

CORE AND TOTAL EXPENSES WERE HIGHER ON AS A PERCENT OF PREMIUM.

Figure 7. Sherlock Benchmark Summary
Medicaid Plans' Costs by Functional Area Cluster, 2023 Results
Percent of Premium Equivalents

2022
 Values

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Medical and Provider Management	1.6%	1.9%	3.0%	40%	1.7%
Account and Membership Administration	3.3%	3.8%	4.8%	23%	3.5%
Corporate Services	1.3%	1.4%	1.5%	34%	1.5%
Subtotal: Core Expenses	6.3%	7.6%	8.4%	24%	7.1%
Sales and Marketing	1.2%	2.0%	2.2%	42%	1.5%
Total Expenses	8.3%	8.9%	10.2%	21%	8.4%



COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicaid HMO Product Characteristics by Universe, 2023 Results

	Medicaid	IPS	Blue	Combined
Core Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$24.17	\$24.22	\$28.97	\$24.27
Median	30.96	26.40	30.78	28.61
75th Percentile	36.88	27.10	32.60	34.41
Coefficient of Variation	39%	18%	17%	37%
<i>Percent of Premiums and Equivalents</i>				
25th Percentile	5.7%	7.3%	8.8%	7.0%
Median	7.2%	7.6%	8.8%	7.4%
75th Percentile	8.5%	8.3%	8.8%	8.8%
Coefficient of Variation	30%	16%	1%	25%
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$25.75	\$25.70	\$33.28	\$25.81
Median	33.03	28.67	34.89	31.68
75th Percentile	39.85	29.79	36.49	38.09
Coefficient of Variation	37%	19%	13%	34%
<i>Percent of Premiums and Equivalents</i>				
25th Percentile	6.5%	7.8%	9.9%	7.5%
Median	7.7%	8.2%	10.0%	7.9%
75th Percentile	8.9%	9.1%	10.2%	9.9%
Coefficient of Variation	27%	16%	4%	23%
Plans Offering Medicaid	11	4	2	17
Medicaid HMO Members (millions)	4.72	0.55	0.77	6.04
Comprehensive Total Members (millions)	7.76	4.24	21.76	33.76

CORE EXPENSE GROWTH ACCELERATES FOR MEDICAID PLANS IN 2023



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- Medicaid Core administrative costs were \$39.68 PMPM versus \$36.41 last year. Actual performance, differences in universes and product mix changes were responsible.
- Core expenses increased by 5.4% compared with an increase of 1.8% last year. Excluding product mix differences, costs grew by 5.3% versus growth of 2.4% last year.
- Product mix shifted towards higher cost products. Both Medicaid and Medicare grew, with the latter outpacing the former. Commercial products increased with Commercial Insured increasing faster than ASO.
- Medical and Provider Management grew the fastest out of the Core clusters with Corp. Exec. & Gov. the fastest growing function and Med. Mgmt. the most impactful.
- Account and Membership Admin. followed primarily due to Customer Svcs. and IS.
- Corp. Services Cluster was slowest growing Core Cluster. Corp. Exec. & Gov. was the fastest growing and most important source of this cluster's growth.
- While not a Core Cluster, Sales and Marketing also increased due to External Broker Commissions.
- In Core Functions, Compensation and Non-Labor per FTE increased, while Outsourcing and Medicaid Staffing Ratios lower.



APPENDIX A. MEDICAID-FOCUSED PLANS' ADMINISTRATIVE COSTS IN 2022

Appendix A. Sherlock Benchmark Summary
Medicaid Plans' Costs by Functional Area Cluster, 2022 Results
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	\$7.45	\$9.82	\$11.97	29%
Account and Membership Administration	14.86	18.21	22.03	37%
Corporate Services	5.86	7.76	8.56	41%
Subtotal: Core Expenses	\$30.59	\$36.41	\$38.53	31%
Sales and Marketing	\$5.84	\$7.43	\$10.07	44%
Total Expenses	\$35.02	\$42.59	\$49.11	28%

APPENDIX B. MEDICAID-FOCUSED PLANS' ADMINISTRATIVE COSTS IN 2022

Appendix B. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2022 Results

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	1.6%	1.7%	2.5%	32%
Account and Membership Administration	3.1%	3.5%	4.6%	30%
Corporate Services	1.2%	1.5%	1.8%	33%
Subtotal: Core Expenses	6.0%	7.1%	8.2%	25%
Sales and Marketing	1.2%	1.5%	2.0%	41%
Total Expenses	7.7%	8.4%	9.5%	21%

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: 91% of Medicaid-Focused plans participating this year also participated last year. The average participant longevity with the Medicaid *Sherlock Benchmarks* is 8.6 years.
- **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 calculate estimates of staffing ratios by product.
- The **operational metrics** include 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 27th consecutive year. We expect our cumulative experience to total more than 1,000 plan years. 29 organizations serving 52 million members will participate in 2024.
- Since June 2021, health plans serving 200 million insured Americans use the *Sherlock Benchmarks*, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Health plans serving 59% members of those served by the Alliance of Community Health Plans participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans. This ratio excludes ACHP's staff model plans
- Health plans serving 32% of members served by the Health Plan Alliance are participating in this year's *Sherlock Benchmarks* for IPS plans.
- Of the 33 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving approximately 41.3 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.



APPENDIX F. FUNCTIONS IN EACH CLUSTER

Appendix C. Sherlock Benchmark Summary

Functions Included in Each Administrative Expense Cluster

Core Functions:

Provider & Medical Management

Provider Network Management and Services

- (a) Provider Relations Services
- (b) Provider Contracting
 - (1) Provider Configuration
 - (2) Other Provider Contracting
- (d) Other Provider Network Management and Services

Medical Management / Quality Assurance / Wellness

- (a) Precertification
- (b) Case Management
- (c) Disease Management
- (d) Nurse Information Line
- (e) Health and Wellness
- (f) Quality Components
- (g) Medical Informatics
- (h) Utilization Review
- (i) Other Medical Management

Account & Membership Administration

Enrollment / Membership / Billing

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

Customer Services

- (a) Member Services
- (b) Printed Materials and Other
- (c) Grievances and Appeals

Claim and Encounter Capture and Adjudication

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

Information Systems Expenses

- (a) Operations and Support Services
- (b) Applications Maintenance
 - (1) Benefit Configuration
 - (2) All Other Applications Maintenance
- (c) Applications Acquisition and Development
- (d) Security Administration and Enforcement

Corporate Services

Finance and Accounting

- (a) Credit Card Fees
- (b) Fund Accounting for Self-Insured Groups
- (c) Other Finance and Accounting

Actuarial

Corporate Services Function

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

(c) Facilities

- (e) Audit
- (f) Purchasing
- (g) Imaging

(h) Printing and Mailroom

- (i) Risk Management
- (j) Other Corporate Services Function

Corporate Executive and Governance

Association Dues and License/Filing Fees

Non-Core Functions:

Sales & Marketing

Rating and Underwriting

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

Marketing

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

Sales

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

External Broker Commissions

Advertising and Promotion

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



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