

ADMINISTRATIVE COST TRENDS OF MEDICARE- FOCUSED PLANS IN 2023



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SHERLOCK BENCHMARKS

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TOPICS

- Background on Medicare
- 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 MA product costs across universes

APPENDICES

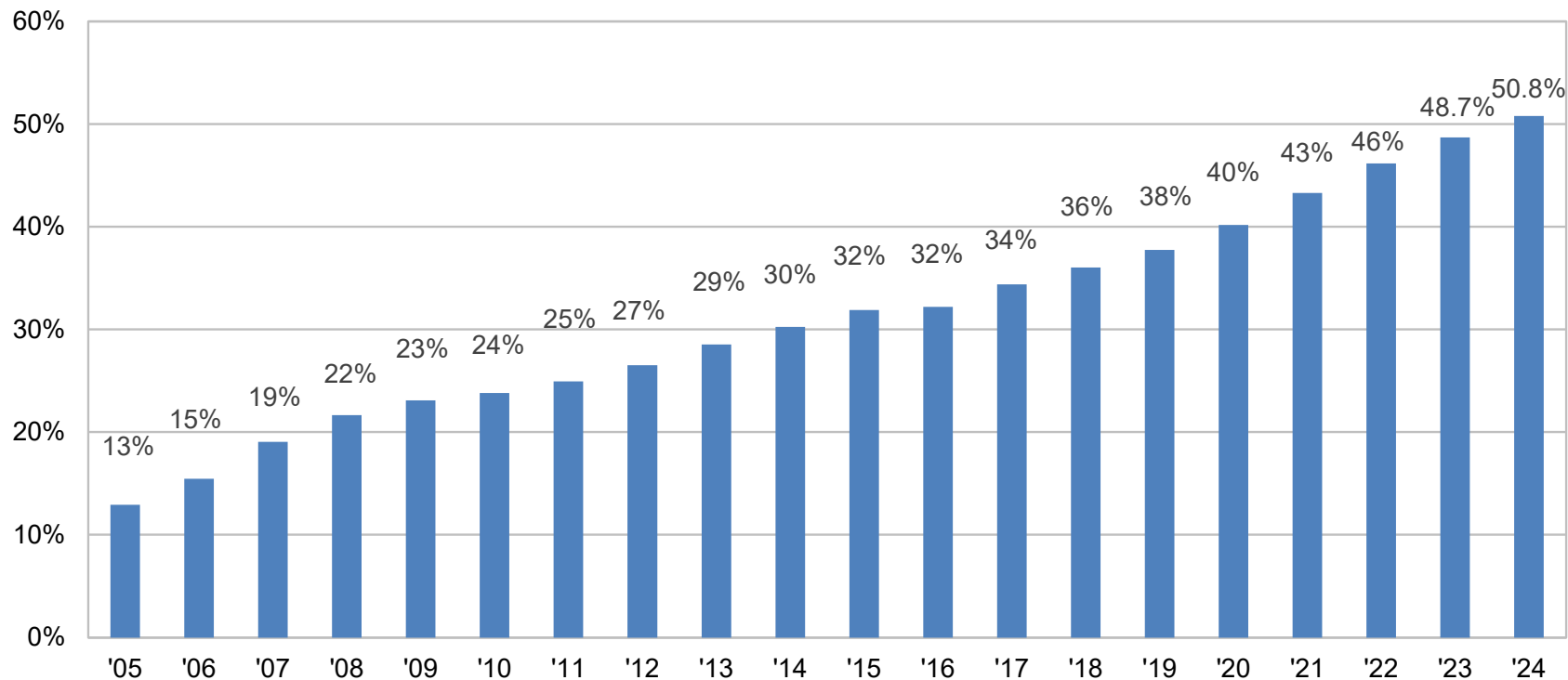
- Last year's cluster values
- Functions in each cluster of expenses
- About the *Sherlock Benchmarks*

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



BACKGROUND ON MEDICARE AND MEDICARE ADVANTAGE

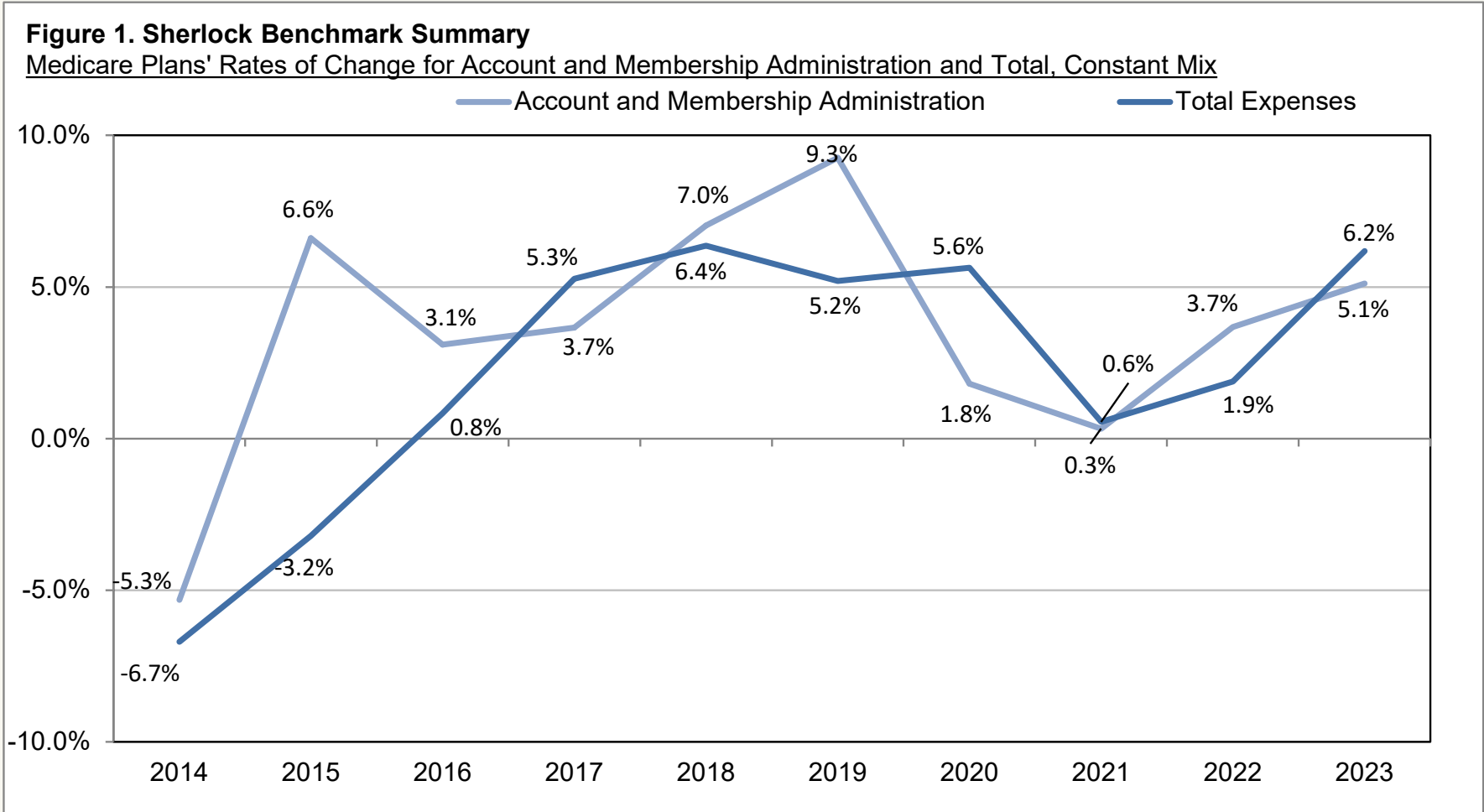
Figure 2. Sherlock Benchmark Summary
Medicare Advantage Share



Denominator includes those not paying Medicare Part B Premiums.



TOTAL COST AND A&M ADMINISTRATION GROWTH GREW SHARPLY.



Medians. Rates of change hold universe and product mix constant.

AMONG CONTINUOUSLY PARTICIPATING PLANS, WHEN MIX IS HELD CONSTANT, COST GROWTH WAS FASTER THAN AS-REPORTED.

Figure 3. Sherlock Benchmark Summary

Medicare Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2022 Increase		2023 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	4.5%	10.5%	5.6%	6.7%
Medical and Provider Management	2.1%	2.4%	7.0%	6.1%
Account & Membership Administration	3.8%	3.7%	6.4%	5.1%
Corporate Services	0.2%	1.6%	3.3%	3.5%
Total Expenses	0.5%	1.9%	5.2%	6.2%



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

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

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	6.7%	Sales ↑	Commissions ↑
Med & Provider	6.1%	Prov. Net. Management ↑	Medical Management ↑
Acct & Membership	5.1%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>3.5%</u>	Actuarial ↑	Corp. Svcs. Function ↑
Total	6.2%	Sales ↑	Information Systems ↑

*Customer Services increased nearly as rapidly as Sales.
Broker Commissions were second fastest increasing function.*



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

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	5.6%	Sales ↑	Sales ↑
Med & Provider	7.0%	Prov. Net. Management ↑	Medical Management ↑
Acct & Membership	6.4%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>3.3%</u>	Assoc. Dues & Lic. Fees ↑	Corp. Svcs. Function ↑
Total	5.2%	Customer Services ↑	Information Systems ↑



COMPARED WITH 2022, COSTS WERE 10.1% HIGHER IN 2023. COST TRENDS, CHANGES IN THE PRODUCT MIX AND THE UNIVERSE WERE RESPONSIBLE.

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

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	<i>2022 Values</i> Median
Sales and Marketing	\$13.16	\$13.80	\$16.32	38%	\$12.96
Medical and Provider Management	8.25	9.79	10.84	79%	8.93
Account and Membership Administration	18.71	21.52	22.15	34%	19.87
Corporate Services	6.98	8.39	8.87	87%	7.08
Total Expenses	\$48.90	\$52.53	\$54.62	52%	\$47.73

PMPMs VARY BY PRODUCT.

Figure 5. Sherlock Benchmark Summary

Medicare Plans' Costs by Product, 2023 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	\$104.64	\$134.60	\$148.30	28%
Advantage	\$103.60	\$127.70	\$141.45	27%
SNP	\$221.98	\$229.50	\$247.36	26%
Medicare Supplement	\$36.36	\$46.56	\$53.42	28%
Medicaid Total	\$25.92	\$29.18	\$33.91	22%
HMO	\$25.60	\$29.18	\$33.71	23%
CHIP	\$34.46	\$39.15	\$40.63	17%
Commercial Insured Total	\$59.34	\$60.56	\$65.27	35%
HMO	\$53.65	\$59.51	\$59.95	40%
POS	\$43.65	\$43.80	\$57.52	28%
Indemnity & PPO	\$58.98	\$61.05	\$65.37	11%
Commercial ASO	\$28.66	\$31.32	\$33.81	25%
Commercial Total	\$43.57	\$44.70	\$50.24	50%
Comprehensive Total	\$48.90	\$52.53	\$54.62	52%



PERCENTS: EFFECTS OF SPONSOR AND POPULATION.

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

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	10.6%	11.4%	12.7%	20%
Advantage	10.7%	12.0%	12.5%	20%
SNP	10.4%	11.9%	17.9%	35%
Medicare Supplement	20.0%	23.9%	28.9%	31%
Medicaid Total	7.6%	7.8%	9.2%	19%
HMO	7.5%	7.7%	9.2%	20%
CHIP	13.0%	14.4%	17.9%	32%
Commercial Insured Total	9.4%	10.3%	11.2%	26%
HMO	9.2%	9.3%	12.5%	45%
POS	8.9%	9.1%	9.6%	21%
Indemnity & PPO	10.1%	10.7%	10.8%	11%
Commercial ASO	5.2%	7.0%	7.6%	25%
Commercial Total	8.2%	8.5%	9.4%	35%
Comprehensive Total	8.6%	9.1%	9.7%	24%

THE PERCENT OF PREMIUM EQUIVALENTS WAS 9.1%, 0.1 PERCENTAGE POINTS ABOVE LAST YEAR'S.

Figure 7. Sherlock Benchmark Summary

Medicare Plans' Costs by Functional Area Cluster, 2023 Results

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2022 Values Median
Sales and Marketing	2.3%	2.5%	2.8%	19%	2.5%
Medical and Provider Management	1.4%	1.7%	1.9%	48%	1.6%
Account and Membership Administration	3.4%	3.6%	3.8%	16%	3.6%
Corporate Services	1.2%	1.4%	1.7%	51%	1.4%
Total Expenses	8.6%	9.1%	9.7%	24%	9.0%



COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicare Advantage Product Characteristics by Universe, 2023 Results

	Medicare Plans	IPS Plans	BCBS Plans	Combined Plans
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$103.60	\$108.57	\$114.73	\$104.42
Median	127.70	127.64	138.76	128.67
75th Percentile	141.45	186.34	169.68	152.73
Coefficient of Variation	27%	41%	32%	33%
<i>Percent of Premiums and Equivalents</i>				
25th Percentile	10.7%	11.6%	10.8%	10.7%
Median	12.0%	13.5%	14.5%	12.4%
75th Percentile	12.5%	19.2%	17.4%	14.7%
Coefficient of Variation	20%	41%	34%	34%
Plans offering Medicare	11	6	7	24
Medicare Advantage Members (millions)	1.70	0.19	0.58	2.47
Comprehensive Total Members (millions)	12.38	5.23	31.83	49.44

SHARE OF MEDICARE ADVANTAGE MEMBERS OF FIVE LARGEST PLANS

Figure 9. Sherlock Benchmark Summary

Share of Medicare Advantage Members

	2023	2024
Eligibles ¹	65,202,430	66,624,189
Total MA Membership ¹	31,753,651	33,828,266
Share of Eligibles in MA	48.7%	50.8%
UnitedHealthcare ²	8,942,883	9,398,295
Humana ²	5,545,949	6,018,288
CVS Health ²	3,322,716	4,080,860
Elevance Health ³	2,053,000	2,017,000
Kaiser Permanente ¹	1,847,966	1,893,296
Total, Five Largest	21,712,514	23,407,739
Share of Five Largest	68.4%	69.2%
MA Membership other than Five Largest		10,420,527
Sherlock Benchmark Participant Membership		1,696,890
Share of Membership other than Five Largest		16.3%

¹ State County Penetration Files, March, CMS

² Medicare Advantage in 2024: Enrollment Update and Key Trends, Kaiser Family Foundation, August 8, 2024

³ Elevance Health, 10-Q, 1st Quarter 2024



MEDICARE-FOCUSED PLANS' ADMIN COSTS GREW SHARPLY IN 2023



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- Holding product mix constant, costs increased by 6.2% versus 1.9% growth in 2022. Reported expenses accelerated from 0.5% in 2022 to 5.2% in 2023.
- Medicare plans' admin. costs were \$52.53 PMPM, higher than last year's \$47.73. MA was \$127.70 and SNP was \$229.50.
- Product mix shifted towards lower cost products. Medicaid increased at a faster pace than Medicare. Commercial declined, though ASO increased slightly as Insured fell sharply.
- Sales and Marketing cluster grew the fastest with External Broker Commissions key.
- Account and Membership was most responsible for overall cost growth. IS was the primary driver for both the cluster and overall growth.
- Medical and Provider Management was third fastest with Medical Management most responsible for the cluster's growth.
- Corp. Services Cluster was slowest growing cluster. Corporate Services Function was most responsible for the growth.
- Median inferred Medicare Advantage Staffing Ratio, Compensation per FTE, and Non-Labor Costs per FTE increased.



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

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

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$12.07	\$12.96	\$15.01	21%
Medical and Provider Management	7.17	8.93	10.25	28%
Account and Membership Administration	17.83	19.87	21.28	20%
Corporate Services	5.80	7.08	8.75	28%
Total Expenses	\$46.22	\$47.73	\$53.40	18%

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

Appendix B. Sherlock Benchmark Summary
Medicare Plans' Costs by Functional Area Cluster, 2022 Results
Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.1%	2.5%	2.9%	20%
Medical and Provider Management	1.4%	1.6%	1.7%	34%
Account and Membership Administration	3.4%	3.6%	4.0%	22%
Corporate Services	1.1%	1.4%	1.5%	29%
Total Expenses	8.3%	9.0%	10.0%	20%

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: 73% of Medicare-Focused plans participating this year also participated last year. The average participant longevity with the Medicare *Sherlock Benchmarks* is 9.4 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. Expect 29 organizations serving 52 million members to 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

Sales & Marketing

1. Rating and Underwriting
 - (b) Risk Adjustment
 - (c) All Other Rating and Underwriting
2. Marketing
 - (a) Product Development and Market Research
 - (b) Member and Group Communication
 - (c) Other Marketing
3. Sales
 - (a) Account Services
 - (b) Internal Sales Commissions
 - (c) Other Sales
4. External Broker Commissions
5. Advertising and Promotion
 - (a) Media and Advertising
 - (b) Charitable Contributions

Provider & Medical Management

6. 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
7. 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

8. Enrollment / Membership / Billing
 - (a) Enrollment and Membership
 - (b) Billing
9. Customer Services
 - (a) Member Services
 - (b) Printed Materials and Other
 - (c) Grievances and Appeals
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (d) Payment Integrity
 - (e) Other Claim and Encounter Capture and Adjudication
11. 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

12. Finance and Accounting
 - (a) Credit Card Fees
 - (b) Fund Accounting for Self-Insured Groups
 - (c) Other Finance and Accounting
13. Actuarial
14. Corporate Services Function
 - (a) Human Resources
 - (b) Legal
 - (1) Compliance
 - (2) Government Affairs
 - (3) Outside Litigation
 - (4) Fraud, Waste & 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
15. Corporate Executive and Governance
16. Association Dues and License/Filing Fees

