Transcript

Medicaid Plans' Core Administrative Expenses Accelerate in 2023

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<Title Page>

Good afternoon. I'm Doug Sherlock. Welcome to our summary of the 22nd annual *Sherlock Benchmarks* for Medicaid plans. Thank you all for participating in this call. To speed through it, the audience will be muted during the presentation itself. I very much welcome your questions at the end of this presentation.

Before I start, as always, we owe a debt of gratitude to the plans that participated in the Benchmarks and our principal contacts in particular. Thank you for your considerable efforts to harmonize your classifications with your peer group while also honoring your other responsibilities to your plans.

Thank yous are also due to the most effective and efficient team in management consulting, Chris, Erin, John and Andrew. Thanks to their efforts, and the infrastructure that we've built, this cycle has gone well notwithstanding some unusual challenges.

We will be posting the slides and the transcript of this call within 24 hours. I welcome your questions at the end of this presentation. To speed through the presentation, the audience will be muted during the presentation itself.

The Medicaid benchmarks capstones our 27th consecutive year of the *Sherlock Benchmarks*. This is the fourth and final in a series of presentations of the 2024 editions of the Benchmarks based on 2023 calendar year results. We've posted the 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. While we have not made a presentation on

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our set of Larger Plans, this too can be found on the *Plan Management Navigator* page and on the Table of Contents matrix on the *Sherlock Benchmarks* page. Our cumulative experience exceeds 1,000 health plan years.

The eleven Medicaid-focused plans that are the chief subject of this presentation have a combined revenue of $44 billion, of which Medicaid HMO and CHIP composes 58% of comprehensive revenues. We believe this universe and the resulting analysis and data to be quite robust.

<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 a list of all of the 70 or so functions in each of the products offered by these health plans. There are 9 such comprehensive products so, in the Benchmarks themselves, administrative expenses are segmented into more than 600 expense/product cells, each of which are separately analyzed. However, in today's presentation, we only summarize broad trends here. Finally, the appendices 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 2023. As shown in this slide, based on US Census Bureau analyses, *Health Insurance Coverage in the United States: 2023* (issued last month), the proportion of Americans uninsured dropped from 13% in 2013 to 8% in 2023, 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%

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of the US population. The percent of people uninsured fell from 13% to 10% in that initial year.

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 2023, though it is still below its 2015 market share.

Since 2013, Medicaid can explain nearly one-half of the decline in the number of people without health insurance. On the other hand, because of an aging population, Medicare membership increased far more over that period. While Private health plan membership increased even more than Medicare or Medicaid, Direct Purchases are a smaller share of than in 2013 despite the ACA exchanges. It is difficult to tease out the effects on uninsured of Medicaid from Covid, Medicare and general economic conditions.

Today, I am speaking on Medicaid plan cost trends, drawn from the benchmarking study that captures administrative cost trends for health plans with a high commitment to Medicaid. Eleven plans participated in the Medicaid edition of the *Sherlock Benchmarks*. They collectively served 7.8 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 58% 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 reflected here provide insight to industry trends. We estimate that the plans that participated in

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the 2024 *Sherlock Benchmarks*, Medicaid and the other Sherlock universes that we discuss today, serve about 10% 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 be more inclined to optimize their costs.

<Slide 4>

This slide summarizes administrative cost trends for Medicaid-focused plans over the longer term. 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.

Since 2018, growth in core expenses generally followed a decelerating trend. However, in 2023, Core expense growth accelerated to 5.3% up from the 2.4% increase in 2022.

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 it representing half of core costs.

Growth rates for this cluster peaked in 2019 at an increase of 9.7%, but fell sharply over the next two years. It then rebounded to 5.7% in 2022 and decelerated slightly to 3.9% in 2023.

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

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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. These columns are organized by year, 2022 and 2023, showing each cluster's growth. The columns 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 2023 increases in per member *Core* Administrative Expenses, 5.3.%, and in per member Account and Membership Administration, of 3.9%. These rates of change are shown on the fourth column, labeled "Constant-mix" under "2023 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 2.4% Core increase. I consider the second and fourth columns to be the real increases for 2022 and 2023.

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. While the median growth rates reflect this expectation, total expense growth presents a quirk, with as-reported growth at 5.2% and constant-mix growth at 5.4%.

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This is probably spurious, perhaps related to our use of medians. As a demonstration, the averages yielded results consistent with a likely shift toward higher-cost products. Core as-reported expenses increased by 4.9%, compared to a slower 4.5% increase under constant-mix. Total expenses grew by 6.4% on an as-reported basis, versus 5.2% under constant-mix.

In fact, the product mix of the plans did change as they grew. On average, the plans' membership increased by 7%. Relatively low-cost Medicaid HMO and CHIP, combined, experienced an increase of 5%, on average. This lagged the growth in relatively high-cost Medicare Advantage and SNP combined, which grew by an average of 13%.

The less expensive Medicare Supplement fell by 5%, on average. As a whole Commercial increased by an average of 10% with Insured growing by 17% and outpaced the 3% increase in self-funded ASO.

As an aside, for all 11 plans in our Medicaid universe, Medicaid HMO and CHIP together comprised an average of 62% of membership and 58% of revenues for comprehensive products. Medicare Advantage and SNP combined comprised an average of 8% of membership and 17% of revenues for comprehensive products. Commercial represented 23% of the revenues and 32% of the comprehensive membership, on average.

Returning to the chart, Medical and Provider Management was the fastest growing Core cluster at 6.1% on a constant-mix basis and grew by 7.2% on an as reported basis. Account and Membership grew by 3.9% and 4.0% on a constant mix and as reported basis, respectively. Corporate Services Cluster followed, increasing by 3.5% on a constant mix basis and 3.6% on an as reported basis. As mentioned previously, Core expenses increased by 5.3% on a constant-mix basis and 5.4% on an as reported basis.

While not included in Core expenses, the Sales and Marketing cluster increased by 7.0% on a constant mix basis and increased by an as reported basis of 9.4%. Total expenses, or the sum of Core and Sales and Marketing, grew by 5.4% and 5.2% on a constant-mix and as-reported basis, respectively.

<Slide 6>

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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 5.3%, while Total costs increased by 5.4%, with the growth in Sales and Marketing explaining the difference.

Expenses in the Medical and Provider Management cluster grew the fastest, by 6.1%. Growth was driven by higher Median Staffing Costs per FTE and Non-Labor Costs per FTE, while outsourcing was higher.

Medical Management / Quality Assurance / Wellness PMPM expenses slightly outpaced the increase in Provider Network Management and was the largest source of growth for the cluster. Notable Medical Management sub-functions that grew over the previous year were Case Management, Nurse Information Line, Health and Wellness, Quality Components, Medical Informatics, and Other Medical Management. Medical Management / Quality Assurance / Wellness Staffing Costs, Non-Labor Costs, and Propensity to outsource was higher than the prior year.

The Provider Network Management and Services functional area lagged the slightly faster growing function of Medical Management. This function's Staffing Costs, Non-Labor Costs, and Outsourcing was higher than the previous year. All sub-functions were higher except Other Provider Network Management and Other Provider Contracting.

The Account and Membership Administration cluster of expenses posted a median PMPM increase of 3.9%, on a constant-mix basis. The cluster's Median Compensation per FTE and Non-Labor Costs per FTE were higher than the prior year. Outsourcing declined, as did the Medicaid Staffing Ratio.

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The most important source of this cluster's growth was Information Systems mainly on higher Non-Labor Costs per FTE and compensation per FTE, while outsourcing declined. All IS sub-functions were higher from the previous year, except for Benefit Configuration.

Customer Services was this cluster's fastest growing function mainly on higher Compensation and Non-Labor costs. Outsourcing was lower. The Member Services and Grievances and Appeals were both higher than last year, while Printed Materials and Other were lower.

Enrollment / Membership / Billing costs were higher than last year as Non-Labor and Compensation increased. Both its subfunctions, Enrollment and Membership, and Billing, were higher than the prior year.

Claims adjudication was lower than the previous year on lower COB and Subrogation sub-function costs.

For this presentation, unlike in the Benchmarks themselves, we *include* Behavioral Health and Pharmacy direct administration in both total and Account and Membership Administration. If these activities had been *excluded*, Core administrative expenses would have increased by 5.1% rather than the 5.3% that we show in this slide. If *excluded* from Account and Membership, the cluster would have increased by 3.7% rather than the 3.9% shown.

The PMPM Corporate Services cluster costs increased by 3.5%. Median Compensation per FTE was higher than last year for this cluster.

Corporate Executive and Governance was the fastest growing *and* most important source of growth for this cluster.

Actuarial was the second fastest function in this cluster, followed by Association Dues and License Filing fees and Finance and Accounting. Conversely, the Corporate Services function was slightly lower than the prior year.

Among Core expenses, Corporate Executive and Governance represented the fastest growing function, while Medical Management was the most impactful functional.

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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 7.0% PMPM, holding the product mix constant. Median Sales and Marketing cluster's Compensation per FTE and Non-Labor Costs per FTE were higher, year-over-year. Conversely, propensity to outsource and staffing ratios were lower.

Sales was the fastest growing function, while External Broker Commissions was the most impactful to Sales and Marketing growth.

Rating and Underwriting and Marketing functional areas were higher than last year, while Advertising and Promotion was lower.

Total Expenses, including Sales and Marketing, grew by a median of 5.4% on a constant-mix basis. As with the Core functions, among Total costs, Corporate Executive and Governance growth was fastest, while Medical Management was the largest source of growth.

<Slide 7>

This slide describes the *reported* rates of change, that is, the values with no adjustments for changes in product mix. They are however based on continuously participating plans. The Core increase was 5.4% as against 5.3% on a Constant Mix basis. All clusters grew faster on an as-reported basis compared to constant-mix

Medical and Provider Management increased by 7.2% on an as-reported basis, faster than its constant-mix growth of 6.1%. Both functional areas of Provider Network Management and Medical Management / Quality Assurance / Wellness grew at faster rates on an as-reported basis.

The Account and Membership cluster posted faster as-reported growth, 4.0% versus 3.9%, on a constant-mix basis. Both IS and Claims grew faster on an as-reported basis, while Enrollment and Customer Services posted slower increases.

The Corporate Services cluster's costs increased by 3.6% on an as-reported basis, slightly faster than the 3.5% increase on a constant-mix basis. The faster growth in the

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Corporate Services function for as-reported outweighed the slightly slower growth in all other functions in this cluster.

The plans posted reported Core expenses growth of 5.4% faster than the 5.3% that eliminates the effect of the shift in favor of higher cost products. Similarly to the constant-mix calculation, Corporate Executive was the fastest growing function and Medical Management was the most impactful functional area.

Sales and Marketing costs, which are not considered to be Core in this universe, increased by 9.4% on an as-reported basis and compares to a 7.0% increase on a constant-mix basis. This represented the greatest difference in clusters' rate of change between as-reported and constant-mix. Both Rating and Underwriting and External Broker Commissions accelerated their growth to double digits on an as-reported basis. Sales, which was the fastest growing function on a constant-mix basis, posted a slower growth on an as-reported basis, while Advertising and Promotion declined more as-reported basis than on a constant-mix basis.

On an as-reported basis, Total Expenses increased by 5.2%. Truly highlighting the effect of growth in the more expensive Medicare product, Rating and Underwriting was the fastest growing function overall, while External Broker Commissions was the most important source of Total expense growth.

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 median Core Medicaid staffing ratio was lower by 9% to over 18 FTEs per 10,000 Medicaid members. Of the 14 functional areas with staff, ten posted declines from the prior year.

The median Core compensation per FTE higher by 8% to approximately $106,000. Of the 14 functions with staff, 9 experienced increases from a year ago. Total Compensation per FTE was also higher by 8% to $107,000 per FTE.

Propensity to outsource, at a median of 11% for Core, was slightly lower than last year. Of functional areas with staff, 10 decreased their outsourced activities.

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Core Non-Labor Costs was $75,000 per FTE, higher by 19% over the previous year. Eleven out of the 14 functional areas with Staff increased in Non-Labor costs.

<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 cost values of these activities. This slide contains the results of the entire set of plans in this universe as well as the median values from the prior year, shown to the far right. As we demonstrated with as-reported versus constant mix trends, 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.

Account and Membership Administration is the largest cluster of expenses. Comprised of activities central to health plan operations, it increased by 14.7% to a median of $20.89 PMPM. The as-reported and constant-mix increases of 4.0% and 3.9%, respectively. This cluster includes Information Systems, Enrollment, Claims and Customer Services.

Medical and Provider Management costs per member per month was $10.83 PMPM, 10.3% higher than last year's value of $9.82. This cluster grew on an as-reported basis for the continuously participating plans by 7.2%, while increasing by 6.1% on a constant-mix basis. This group of functions includes Provider Network Management and Services and Medical Management / Quality Assurance / Wellness.

The Corporate Services cluster costs were lower PMPM than last year at $7.34 versus $7.76 last year, a *decrease* of 5.4%. The Corporate Services cluster increased for plans participating in both years on both an as-reported and a constant-mix basis by 3.6% and 3.5%, respectively. Activities include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities called the Corporate Services Function that include Facilities, HR and Legal.

For all 11 participating plans, Core administrative expenses were a median of $39.68 PMPM, 9.0% higher than last year's median of $36.41.

The Sales and Marketing cluster PMPM costs grew by 26.4% to a median of $9.39 PMPM. As-reported increased by 9.4% and 7.0% on a constant-mix basis. Sales and

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Marketing functional areas include Rating and Underwriting, Sales, Marketing, broker Commissions and Advertising.

Median Total Expenses were 12.8% higher to $48.04 PMPM from $42.59 PMPM in 2022. For continuously reporting plans, as-reported costs increased 5.2% and constant-mix growth was 5.4%.

The dispersion in Core Expenses, measured by the Coefficient of Variation, decreased compared to 2022. Account and Membership Administration posted the largest decline in dispersion. Conversely, the standard deviation of Medical and Provider Management and Corporate Services increased. The Sales and Marketing cluster's dispersion declined, and Total expenses also narrowed its dispersion from last year.

Dispersion measured by the difference between 25th and 75th percentiles also narrowed for Core expenses. The differences between 25th and 75th percentiles for both Account and Membership and Corporate Services cluster narrowed, while Medical and Provider Management increased. The differences increased slightly for Sales and Marketing but narrowed for Total expenses.

<Slide 9>

As you know, we favor an approach to understanding costs that reduce or eliminate the effect of product mix. This slide illustrates why understanding the very different administrative requirements for each product is essential to understand and compare expenses.

Total expenses by product, including Sales and Marketing, are shown in this slide. Sales and Marketing activities are reflected in the *Sherlock Benchmarks* if they meet its definitions regardless of whether the specific activities are of a type allowable by the states.

Median expenses for Medicaid HMO was $33.03 PMPM and was $30.12 PMPM for Medicaid CHIP. For all eleven participating plans, Total Medicaid's average mix of members was over 58% and its average mix of revenue was 50%.

Shown in the note at the bottom of this slide, Per Member Per Month Core expenses for Medicaid HMO and CHIP combined was $30.96. Core Medicaid HMO was $30.96 and

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Medicaid CHIP was $26.69. Core expenses exclude Sales and Marketing costs. An estimate of the Sales and Marketing expenses associated with this product can be inferred as the difference between the footnote and the body of this slide.

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

Medicare products are relatively high cost at $237.46 PMPM for Medicare SNP and $134.33 PMPM for Medicare Advantage. The average membership mix for Medicare Advantage was 7% and Medicare SNP was 1%. Average revenue mix for Medicare Advantage was 15%, Medicare Advantage SNP was 2%.

Note that Medicare Supplement has lower costs than the median for comprehensive total at $39.84 PMPM. We include this as a comprehensive product in the Sherlock Benchmarks though it pays only when Medicare does not. Four plans in the Medicaid universe offer the product and its mean product mix and revenue mix was 2%.

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 among 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 $27.61 PMPM.

The most important Commercial Insured product for this universe is HMO at $59.51 PMPM. POS costs $70.76 PMPM, while Indemnity and PPO costs $58.98. The mean mix of Commercial products was 32% of the membership: Commercial Insured and ASO each served 16% of total membership in this universe, on average. Median Commercial Total costs PMPM were $44.82.

<Slide 10>

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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 calculate the denominator on self-insured relationships. The median administrative expense relative to premiums for Comprehensive Total was 8.9%, 0.5 percentage points higher than last year's value. Again, except for the Core Expenses of Medicaid note, this figure's administrative expense segmentation includes Sales and Marketing.

Medicaid HMO was lower than Comprehensive Total on both a PMPM and percent of premium basis, at 7.7%. Medicaid CHIP was lower than comprehensive total on a PMPM basis but, at 11.9%, is higher than average on a percent of premium basis.

Medicare SNP, the highest cost product on a PMPM basis, is higher than most products on a percent of premium basis at 16.3%, 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 12.4%.

While Medicare Supplement is below comprehensive total when measured on a PMPM basis, at 14.9%, its cost ratio was greater than that of the Comprehensive total.

Administrative expenses on a percent of premium basis for Commercial HMO and POS were 9.2% and 9.9%, respectively, while Indemnity and PPO was 10.8%. These ratios, like the PMPMs, were higher than Comprehensive total of 8.9%.

Administrative expenses of Commercial ASO products are 5.9% 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 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 increased by 0.5 percentage points to 7.6% compared with last year's median of 7.1%.

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Account and Membership Administration increased by 0.4 percentage points to 3.8%, while Medical and Provider Management was higher by 0.2 percentage points to 1.9%. Corporate Services cluster, however, decreased by 0.1 percentage points to 1.4%.

Sales and Marketing increased by 0.5 percentage points to a median of 2.0%. Total expenses, including Sales and Marketing, had a median percent of premium of 8.9%, 0.5 percentage points higher than the prior year.

<Slide 12>

Health plans in other *Sherlock Benchmark* universes also offer Medicaid products. In this slide, we compare the results of Medicaid HMOs offered by Medicaid-focused plans to this same product offered by Blue Cross Blue Shield Plans and Independent / Provider – Sponsored plans. We define “focused” to be those plans that have a disproportionate commitment to the Medicaid product. The mean mix of members from Medicaid products for the Medicaid-focused plans was 58%.

Since the product and cost definitions are the same, it is possible to directly compare Medicaid HMO products offered by our Medicaid universe with similar products offered by the Blue Cross Blue Shield and Independent / Provider – Sponsored universes. Combining all the universes, these plans collectively serve 6.04 million Medicaid HMO members, nearly 10% of all Medicaid beneficiaries. Expressed on a PMPM basis, the Medicaid-focused plans tend to have higher costs while, on a percent of premium basis, they tend to have lower costs.

Shown on this slide, the comparison of Medicaid costs for the Medicaid, Blue Cross Blue Shield, and Independent / Provider-Sponsored universes. Blue Cross Blue Shield Plans Median core administrative costs were $30.78, lower by $0.18 PMPM compared to the Medicaid plans. On a Per Member Per Month basis, Independent / Provider – Sponsored plans’ Medicaid Core costs were $26.40, $4.56 PMPM lower than those in Medicaid-focused plans.

Similarly, IPS Total administrative expenses of $28.67 PMPM, which includes Sales and Marketing, was $4.36 lower than that of Medicaid focused plans. On the other hand, Blue Cross Blue Shield Plans had Total median Medicaid expenses of $34.89 PMPM, higher by $1.86 PMPM versus the Medicaid plans.

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Calculated on a percent of premium basis, Blue Cross Blue Shield Plans' Core administrative expenses, at 8.8% of premiums, were 1.6 percentage points higher than those of Medicaid focused plans. Based on Total expenses, Blue Cross Blue Shield Medicaid administrative expenses were 10.0%, higher than those of the Medicaid plans by 2.4 percentage points.

Compared to Independent / Provider – Sponsored Plans when analyzed on a percent of premium basis. IPS plans' core costs were higher by 0.4 percentage points, 7.6% versus 7.2%. Similarly, IPS plans' total administrative costs were higher on a percent of premium basis by 0.6 percentage points, 8.2% against 7.7% for the Medicaid focused health plans. One possible explanation of the difference between the PMPM and percent comparisons is the Medicaid focused plans are sicker than those who are members of other universes. If true, this would comport with the tendency of administrative costs to track with underlying health care needs of the population served.

<Slide 13>

Let me summarize our results for the 2024 cycle for Medicaid plans.

The *Core* costs grew by 5.3% on a constant-mix basis or 5.4% as-reported. Medical and Provider Management was the fastest growing Core cluster. Account and Membership Administration followed in Core clusters followed by the Corporate Services Cluster. On a functional area basis, Corporate Executive and Governance was the fastest growing, while Medical Management was the largest source of growth.

Product mix shifted towards higher cost products, as both Medicaid and Medicare increased, with the latter outpacing the former. Commercial Products also increased with the more expensive insured growing faster than the lower cost self-funded ASO.

The median Core Medicaid staffing ratio was over 18 FTEs per 10,000 Medicaid members, lower than last year's by 9%. Of the 14 functional areas with staff, ten posted declines over the prior year.

The median Core compensation per FTE higher by 8% to approximately $106,000. Of the 14 functions with staff, nine experienced increases from a year ago. Compensation per FTE if the Sales and Marketing functions are included increased by 8% to $107,000 per FTE. Non-Labor Costs for Core functions increased by 19.0% to $75,000 per FTE.

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Propensity to outsource, at a median of 11% for Core, was marginally lower from the prior year. Of functional areas with staff, 10 decreased their use of outsourcing.

Q&A

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.

Also, please keep your eye out for the next *Navigator*, an analysis of Economies of Scale. This careful, highly quantified analysis is of interest to plans that are growing or engaged in business combinations.

Once again, I want to thank everyone involved in the 22nd 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.

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