

MEDICAID PLANS POST FASTEST GROWTH IN CORE EXPENSES SINCE 2012



Photograph by Ray K. Saunders.

SHERLOCK BENCHMARKS

Douglas B. Sherlock, CFA

President, Sherlock Company

sherlock@sherlockco.com

October 9, 2019



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
- Comparison of Medicaid in Other Universes

APPENDICES

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

Racing workboats is our metaphor for businesses striving for performance improvement.



BACKGROUND ON MEDICAID GROWTH UNDER ACA

Figure 2. Sherlock Benchmark Summary

Health Insurance Coverage in the United States: Census Bureau

(000's)

	2013		2014		2015		2016		2017		2018		2018 Change	Percent Change	Cml. Change	Percent Change
Any Health Plan	271,606	86.7%	283,200	89.6%	289,903	90.9%	292,320	91.2%	296,890	92.1%	296,206	91.5%	-684	-0.2%	24,600	9.1%
Any Private Plan	201,038	64.1%	208,700	66.0%	214,238	67.2%	216,203	67.5%	218,209	67.7%	217,780	67.3%	-429	-0.2%	16,742	8.3%
Employment-based	174,418	55.7%	175,027	55.4%	177,540	55.7%	178,455	55.7%	178,751	55.4%	178,350	55.1%	-401	-0.2%	3,932	2.3%
Direct purchase	35,755	11.4%	46,165	14.6%	52,057	16.3%	51,961	16.2%	35,499	11.0%	34,846	10.8%	-653	-1.8%	-909	-2.5%
Any Government Plan	108,287	34.6%	115,470	36.5%	118,395	37.1%	119,361	37.3%	112,151	34.8%	111,330	34.4%	-821	-0.7%	3,043	2.8%
Medicare	49,020	15.6%	50,546	16.0%	51,875	16.3%	53,372	16.7%	56,170	17.4%	57,720	17.8%	1,550	2.8%	8,700	17.7%
Medicaid	54,919	17.5%	61,650	19.5%	62,384	19.6%	62,303	19.4%	59,814	18.5%	57,819	17.9%	-1,995	-3.3%	2,900	5.3%
Military health care	14,016	4.5%	14,143	4.5%	14,849	4.7%	14,638	4.6%	11,436	3.5%	11,754	3.6%	318	2.8%	-2,262	-16.1%
Uninsured	41,795	13.3%	32,968	10.4%	28,966	9.1%	28,052	8.8%	25,600	7.9%	27,462	8.5%	1,862	7.3%	-14,333	-34.3%
Total	313,401		316,168		318,869		320,372		322,490		323,668		1,178	0.4%	10,267	3.3%

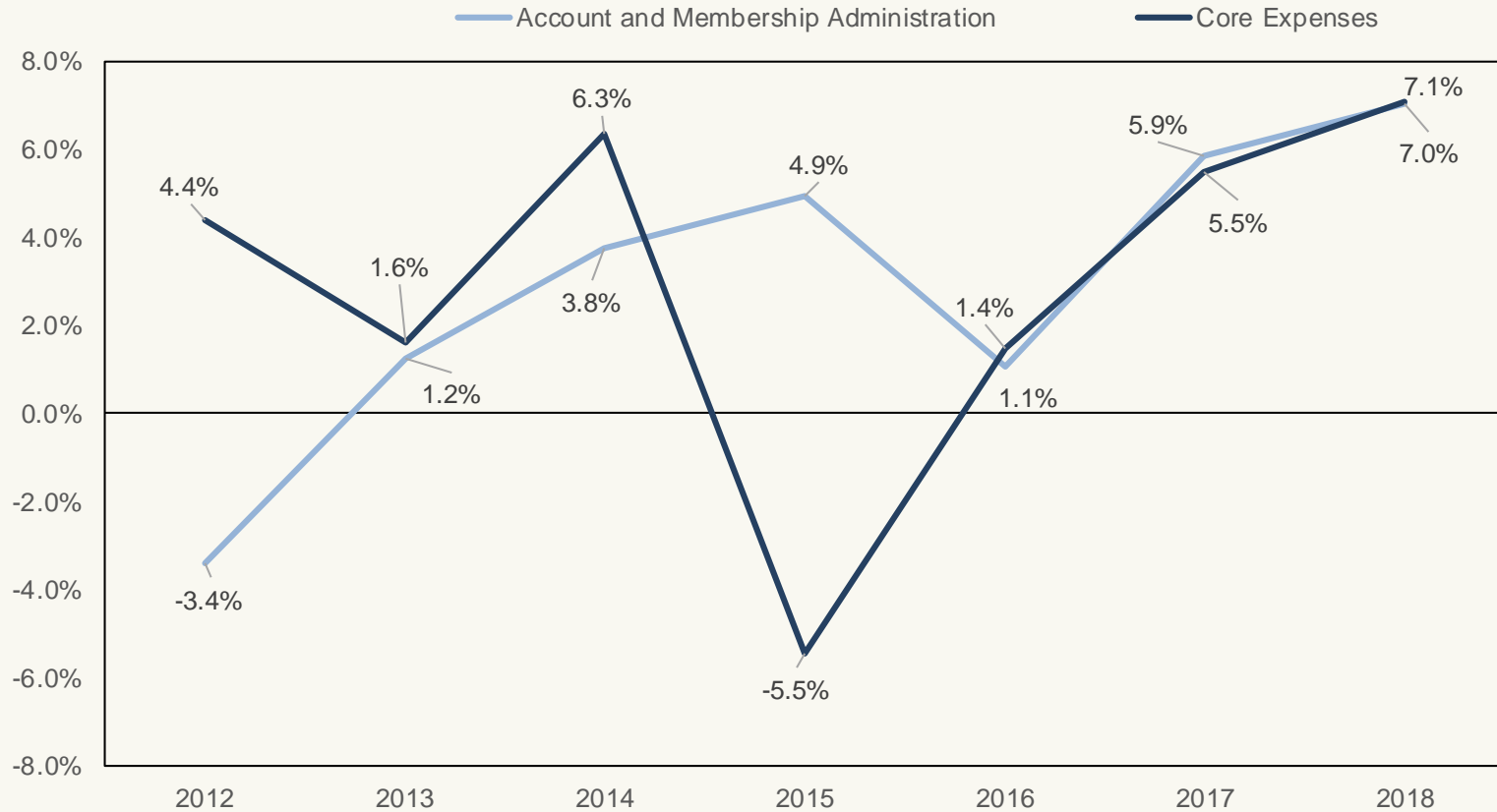
Source: Health Insurance Coverage in the United States: 2018, <https://census.gov/content/dam/Census/library/publications/2019/demo/p60-267.pdf>



TOTAL EXPENSE GROWTH ACCELERATED FROM LAST YEAR, WHILE A&M ADMINISTRATION ALSO INCREASED FASTER.

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, CORE EXPENSES ACCELERATED FROM LAST YEAR, ESPECIALLY WHEN MIX HELD CONSTANT.

Figure 3. Sherlock Benchmark Summary
Medicaid Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2017 Results		2018 Results	
	As Reported	Constant Mix	As Reported	Constant Mix
Medical and Provider Management	6.8%	5.7%	6.8%	6.9%
Account and Membership Administration	8.6%	5.9%	7.0%	7.0%
Corporate Services	11.8%	12.0%	10.9%	10.1%
Subtotal: Core Expenses	7.1%	5.5%	7.1%	7.1%
Sales and Marketing	5.0%	5.2%	5.2%	1.8%
Total Expenses	5.1%	4.8%	7.0%	6.2%

Constant-Mix adjusts to exclude product-mix differences.

SOURCES OF “REAL” GROWTH IN MEDICAID PLANS ADMINISTRATIVE COSTS IN 2018

	Chg.	Greatest Change	Highest Weight
Med & Provider	6.9%	Prov. Net. Mgmt & Svcs ↑	Prov. Net. Mgmt. & Svcs. ↑
Acct & Memb	7.0%	Claims ↑	Claims ↑
Corp. Serv.	10.1%	Assoc. Dues & Lic. Fees ¹ ↓	Corporate Svcs Function ↑
Core	7.1%	Claims ↑	Claims ↑
Sales & Mkt.	1.8%	Advertising and Promotion ↑	Advertising and Promotion ↑
Total	6.2%	Assoc. Dues & Lic. Fees ↓	Claims ↑

¹ The Corporate Services Functional Area *grew* the fastest. Its growth was unique.



SOURCES OF *REPORTED* GROWTH IN MEDICAID PLANS ADMINISTRATIVE COSTS IN 2018

	Chg.	Greatest Change	Highest Weight
Med & Provider	6.8%	Provider Net. Mgmt & Svcs ↑	Provider Net. Mgmt & Svcs ↑
Acct & Memb	7.0%	Claims ↑	Claims ↑
Corp. Serv.	10.9%	Assoc. Dues & Lic. Fees ¹ ↓	Corporate Svcs Function ↑
Core	7.1%	Claims ↑	Claims ↑
Sales & Mkt.	5.2%	Advertising and Promotion ↑	Sales ↑
Total	7.0%	Claims ↑	Claims ↑

¹ Actuarial *grew* the fastest.



COMPARED WITH VALUES IN APPENDIX A, CORE COSTS WERE 16% HIGHER IN 2018. COST TRENDS, CHANGES IN THE PRODUCT MIX AND THE UNIVERSE WERE RESPONSIBLE.

Figure 4. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2018 Results

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2017 Values Median
Medical and Provider Management	\$7.69	\$9.07	\$11.19	25%	\$7.13
Account and Membership Administration	14.73	17.30	19.23	29%	16.35
Corporate Services	6.54	7.54	9.33	26%	6.75
Subtotal: Core Expenses	\$30.97	\$33.48	\$37.28	21%	\$28.82
Sales and Marketing	\$7.42	\$8.79	\$11.31	42%	\$7.69
Total Expenses	\$40.13	\$41.39	\$45.95	20%	\$38.35



PMPMs VARY BY PRODUCTS.

Figure 5. Sherlock Benchmark Summary
 Medicaid Plans' Costs by Product, 2018 Results
 Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	\$27.15	\$32.95	\$36.77	24%
HMO	\$27.41	\$33.70	\$37.63	25%
CHIP	\$20.97	\$23.96	\$25.38	23%
Medicare Total	\$93.51	\$104.85	\$171.18	56%
Advantage	\$84.54	\$89.57	\$100.81	29%
SNP	\$171.85	\$192.45	\$271.62	31%
Medicare Supplement	\$30.94	\$34.24	\$47.61	42%
Commercial Insured Total	\$39.71	\$46.27	\$50.34	17%
HMO	\$41.02	\$44.26	\$50.19	18%
POS	\$44.38	\$55.60	\$66.88	30%
Indemnity & PPO	\$44.60	\$55.86	\$81.26	42%
Commercial ASO	\$20.10	\$21.89	\$25.96	17%
Comprehensive Total	\$40.13	\$41.39	\$45.95	20%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	\$25.85	\$29.09	\$32.53	22%
HMO	\$26.11	\$29.58	\$32.53	23%
CHIP	\$18.89	\$21.62	\$21.74	29%



PERCENTS CAN BE ORDERED DIFFERENTLY FROM PMPMs.

Figure 6. Sherlock Benchmark Summary
Medicaid Plans' Costs by Product, 2018 Results
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicaid Total	7.0%	7.4%	9.2%	40%
HMO	6.9%	7.3%	9.2%	40%
CHIP	8.6%	9.7%	10.8%	16%
Medicare Total	9.3%	10.4%	12.9%	31%
Advantage	8.5%	9.2%	10.6%	27%
SNP	10.5%	13.4%	16.3%	33%
Medicare Supplement	11.0%	14.2%	20.7%	39%
Commercial Insured Total	8.5%	9.1%	10.0%	16%
HMO	8.4%	8.7%	10.0%	19%
POS	8.6%	11.1%	13.6%	36%
Indemnity & PPO	9.7%	12.5%	13.3%	26%
Commercial ASO	5.3%	6.1%	6.6%	16%
Comprehensive Total	7.6%	8.3%	9.6%	32%
<i>Note: Core Expenses of Medicaid</i>				
Medicaid Total	6.3%	6.5%	8.6%	38%
HMO	6.3%	6.5%	8.6%	39%
CHIP	7.6%	8.7%	9.2%	21%

CORE ADMINISTRATIVE EXPENSES WERE 6.6% OF PREMIUMS, EQUAL TO LAST YEAR.

Figure 7. Sherlock Benchmark Summary
Medicaid Plans' Costs by Functional Area Cluster, 2018 Results
Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2017 Values Median
Medical and Provider Management	1.5%	1.7%	2.6%	39%	1.6%
Account and Membership Administration	2.9%	3.1%	4.1%	38%	3.5%
Corporate Services	1.4%	1.6%	1.9%	38%	1.5%
Subtotal: Core Expenses	5.9%	6.6%	8.3%	34%	6.6%
Sales and Marketing	1.3%	1.9%	2.1%	46%	2.0%
Total Expenses	7.6%	8.3%	9.6%	32%	8.4%

COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicaid HMO Product Characteristics by Universe, 2018 Results

	Medicaid	IPS	Blue	Combined
Core Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$26.11	\$17.74	\$51.83	\$22.75
Median	29.58	19.01	60.38	28.08
75th Percentile	32.53	24.38	68.94	35.84
Coefficient of Variation	23%	43%	40%	45%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	6.3%	7.1%	11.0%	6.4%
Median	6.5%	8.6%	13.1%	8.3%
75th Percentile	8.6%	9.6%	15.3%	8.9%
Coefficient of Variation	39%	21%	47%	38%
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$27.41	\$18.79	\$62.23	\$23.97
Median	33.70	20.44	69.35	31.70
75th Percentile	37.63	26.49	76.48	38.62
Coefficient of Variation	25%	45%	29%	45%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	6.9%	7.5%	13.1%	7.0%
Median	7.3%	9.5%	15.0%	9.1%
75th Percentile	9.2%	10.5%	16.9%	10.3%
Coefficient of Variation	40%	21%	36%	38%
Plans Offering Medicaid	12	7	2	21
Medicaid HMO Members (millions)	6.42	0.44	0.79	7.64
Comprehensive Total Members (millions)	10.31	4.10	17.05	31.45



MEDICAID PLANS POST FASTEST GROWTH IN CORE EXPENSES SINCE 2012



- Core costs were \$33.48 versus \$28.82 last year. Total costs were 7.9% higher at \$41.39 PMPM. Actual performance, differences in universe and mix changes were responsible.
- Growth in Core administrative expenses, fastest since 2012. As-reported increased by 7.1%, constant mix also grew by 7.1%.
- The rate of growth in all core clusters accelerated, except for Corporate Services. The growth in Sales and Marketing decelerated.
- Provider Network Management and Services, Claim and Encounter Capture and Adjudication, Corporate Services *Function*, increased year-over-year. Medical Management and Information Systems declined by less than 1%, while Finance and Accounting, Actuarial, Corporate Executive, and Association Dues and License Fees fell.
- Important sources of growth were Claims and Corporate Services *Function*, and Provider Network Management.
- Estimated Medicaid core Staffing ratios were slightly lower, outsourcing and compensation were higher.



APPENDIX A. MEDICARE PLANS ADMINISTRATIVE COSTS IN 2017

Appendix A. Sherlock Benchmark Summary
Medicaid Plans' Costs by Functional Area Cluster, 2017 Results
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	\$6.27	\$7.13	\$8.00	22%
Account and Membership Administration	10.82	16.35	17.01	31%
Corporate Services	5.41	6.75	7.47	25%
Subtotal: Core Expenses	\$27.46	\$28.82	\$31.22	21%
Sales and Marketing	\$7.12	\$7.69	\$10.65	45%
Total Expenses	\$32.57	\$38.35	\$39.71	19%

APPENDIX B. MEDICARE PLANS ADMINISTRATIVE COSTS IN 2017

Appendix B. Sherlock Benchmark Summary

Medicaid Plans' Costs by Functional Area Cluster, 2017 Results

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medical and Provider Management	1.4%	1.6%	1.7%	27%
Account and Membership Administration	2.5%	3.5%	4.1%	27%
Corporate Services	1.3%	1.5%	1.7%	21%
Subtotal: Core Expenses	5.9%	6.6%	7.4%	18%
Sales and Marketing	1.6%	2.0%	2.5%	42%
Total Expenses	7.6%	8.4%	9.2%	15%

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: 86% of Blue and 65% of IPS repeated from last year. 86% of Blues have seven or more years of participation, and 76% of IPS plans have five or more years of participation.
- *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 supply estimates of staffing ratios by product.
- The **operational metrics** include operational 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 22nd consecutive year. We expect that our cumulative experience to total approximately 858 plan years by year-end 2019. Expect ~40 plans serving ~51 million members to participate in 2019.
- Since June 2016, health plans serving 171 million insured Americans use the Sherlock Benchmarks, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Of the 15 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, ten are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Five of the seven largest members of the Health Plan Alliance that are focused on Commercial Insured or ASO are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Of the 34 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving approximately 37 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.



APPENDIX F. FUNCTIONS IN EACH CLUSTER

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
- Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (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) All 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



Page Intentionally Left Blank

