Transcript

Medicaid Plans Post Fastest Growth in Core Expenses Since 2012

October 9, 2019

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<Title Page>

I'm Doug Sherlock. Welcome to our summary of the benchmarking study for Medicaid-focused plans. This is the fourth in a series of presentations of 2018 performance metrics for various peer groups of health plans. We've posted the three previous presentations on our web site, along with transcripts, so I hope you will feel free to access them.

The 12 Medicaid-focused plans that are the subject of this presentation collectively serve 10.3 million people with comprehensive insurance. Medicaid HMO and CHIP combined were 6.5 million of their members, or 63%, and $31 billion or 58% of combined revenues. We believe this universe and the resulting analysis and benchmarks to be quite robust.

All of the results that we will discuss today are the results of surveys reflecting significant efforts of the participants including participating in data validation. So, we thank the participating plans, especially our primary contacts within those plans. 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, we hope you share my gratitude.

I want to offer a framework for today's discussion. Much of the work that we do surrounds the administrative activities of health plans, though we also analyze health care utilization and medical management metrics. We stress administrative expenses since, health plans may manage the care for many of their members, they provide administrative services in support of all of them.

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This year marks the 22nd year of the Sherlock Benchmarks, and the 17th for the Medicaid-focused universe. Our cumulative experience is 858 health plan years, and includes Independent / Provider – Sponsored Plans, Blue Cross Blue Shield Plans, Medicaid Plans and Medicare Plans.

The goal of *Sherlock Benchmarks* is to aid in plans' achievement of optimal costs, that is, to incur only those costs that are required to meet plans' strategic objectives. In that way, the Benchmarks establish a norm so that, above those levels, expenses should be justified with an ROI. The measurement of a return on investment is challenging but may ultimately be linked to more rapid growth or a decline in health benefit trends.

There are at least two other reasons why optimizing administrative expenses is a high priority for health plan managers. First, the surge in expenses of adapting to the Affordable Care Act and onboarding Exchange and Medicaid members have passed. Second, administrative expense visibility has been heightened by the rhetoric of presidential candidates.

<Slide 2>

I'm going to breeze through this slide. It shows the topics that I will address, and lists some of the appendices. Note the comparison across universes: we estimate that about 13% of all Medicaid beneficiaries are served by the plans in our Benchmarking studies.

The appendices contain last year's values and a list of all of the functions in each of the products offered by these health plans. This detailed functional area classification plus the product classification means that administrative expenses are segmented into more than 700 expense/product cells, each of which are separately analyzed. We only summarize broad trends in today's presentation. Finally, we touch on our methods of surveying, validation, analysis and reporting.

For those who have participated in web conferences in prior years, you may notice a difference in that we'll mention trends in Compensation, Staffing ratios and Outsourcing. That seven out of twelve plans repeated participation makes this possible.

We will be posting the slides and the transcript of this within the next 24 hours. I very much welcome your questions at the end of this presentation and the audience will be muted during the presentation itself.

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<Slide 3>

Slide 3 shows the US Census Bureau's analysis on health insurance coverage from 2013 through 2018. The proportion of uninsured Americans dropped from 13.3% in 2013 to 8.5% in 2018, a 4.9 percentage point decline, though up from its nadir of 7.9% in 2017. I have circled those percents in red. Of the 14.3 million newly covered, the 2.9 million additions to Medicaid beneficiaries composed about 20% of the newly covered people. These values are circled in blue.

The upshot of this slide is that, since 2013, the number of people without insurance has declined. This is due to the Affordable Care Act. State adoption of federally subsidized Medicaid has been an important source of new insurance over that period. The plans participating in this universe are a part of this growth.

<Slide 4>

Slide 4 summarizes the administrative cost trends for Medicaid plans from 2012. The growth in expenses throughout this presentation reflect three conventions. First, it will be in per member terms. Second, rates of change will be calculated for continuously participating plans. Third, we will emphasize trends calculated after reweighting the trends to exclude the effects of any changes in product mix.

Core expenses have accelerated in each year since 2015. In 2018, the growth exceeded increases of 2014, which correspond with the implementation of the Affordable Care Act. By core expenses, these are *total* expenses less Sales and Marketing represented by the *darker blue line*. We exclude these expenses since rules for Medicaid marketing vary from state to state.

The Account and Membership Administration cluster is comprised of the Enrollment, Claims, Customers Services, and Information Systems functions and is represented by the *light blue* line in this slide. In most years, they track core expenses.

Both Core and Account and Membership Administration expenses accelerated from last year, with Core expenses higher by 7.1% and Account and Membership up by 7.0%. 2018 represented the fastest growth since 2012.

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In the slides that follow, we'll discuss the trends in three core clusters, as well as the Sales and Marketing cluster, and touch on the trends of the individual functions.

As we will develop, Provider Network Management and Services, Claim and Encounter Capture and Adjudication, and Corporate Services *function* were notable increases, as well as the most important sources of growth.

We will also drill into the drivers. By that I mean non-labor expenses, staffing costs and staffing ratios. Estimated Medicaid Core Staffing Ratios were slightly lower. We'll also touch on compensation and outsourcing, which slightly increased.

<Slide 5>

This slide shows each cluster's growth organized by year. The 2018 trends for Core and Account and Membership Administration from the prior slide are shown in the fourth column labeled "Constant-mix", "2018 Results." They have been circled in blue.

The fourth and second columns reflect cost trends among continuously participating plans, backing out the effect of product mix changes between the two years. I consider these columns to be real increase. The arced arrows are to draw your attention to the comparison with the prior year's values.

The two columns that are labeled "as-reported" reflect per member trends in continuous plans. If there had been a shift in favor of higher administrative cost products, such as Medicare Advantage and Medicare SNP, expenses would have appeared to accelerate, while a shift in favor of less expensive products would lead to deceleration. So, in 2017, the shift to higher cost products gave rise to slower constant-mix than as-reported trends. The growth on an as-reported basis matched the constant-mix basis at 7.1% because the effect of growth from expensive and cheaper products offset one another.

Comprehensive Total Membership for the seven continuously participating plans increased by an average of 1.2%. Among continuously participating plans, the average mix in total Medicaid was 46%, compared to 48% last year. Medicaid HMO was 45%, down from 46%, while Medicaid CHIP was 1.8%, up from 1.7% last year. Total Medicare was 11%, slightly higher than 10% last year. The average for Medicare Advantage was slightly higher at 9.6% compared to 9.2%. Medicare SNP was flat at 1%

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in both years. The average commercial mix on average was 42% compared to 41% in the prior year. ASO membership was 15.0% versus 15.7% last year. Commercial *insured* mix increased to 27% from 25%.

Every core cluster experienced per member cost growth regardless of whether they are as-reported or constant-mix. On a constant-mix basis, the Corporate Services cluster experienced the fastest growth at 10.1%. Account and Membership Administration and Medical and Provider Management grew at 7.0% and 6.9%, respectively.

On an as-reported basis, Corporate Services increased at 10.9%, the biggest difference from the constant-mix rendering. Account and Membership Administration and Medical and Provider Management grew at 7.0% and 6.8%, respectively.

As noted previously, the Sales and Marketing cluster is not included in Core expenses. Nevertheless, this cluster is central to the Commercial and Medicare products offered by Medicaid-focused plans. The Sales and Marketing cluster increased by 1.8% on a constant-mix basis, and by 5.2% on an as-reported basis. Total expenses, including Sales and Marketing, grew by 6.2% on a constant-mix basis and by 7.0% on an as-reported basis.

<Slide 6>

Slide 6 shows the rates of change and the most important sources of change, after eliminating the effect of product mix differences. Again, these are the "real" rates of increase, so I will spend a lot of time on this and discuss trends in order of their importance. Core costs increased by 7.1% PMPM, faster than last year's increase of 5.5%.

The Corporate Services cluster posted the most rapid PMPM increase, growing by 10.1%, and the second fastest over the past five years. Within this cluster, Association Dues and License / Filing Fees experienced the greatest rate of *change*, falling by low double-digit rates. Corporate Services *Function* posted the largest and only increase in this cluster at mid-single digits, but because of its size offset the declines in the cluster's other functional areas. All sub-functions within the Corporate Services function increased except for Audit, Purchasing, and Printing and Mailroom. This function's average inferred Medicaid staffing ratio and non-labor costs per FTE increased. Staffing costs per FTE and percent of FTEs outsourced were lower.

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The Account and Membership Administration cluster of expenses posted a PMPM increase of 7.0%. Claim and Encounter Capture and Adjudication increased at the fastest pace among functions in this cluster. This function was also the most important source of growth for this cluster, as well as for overall cost growth. This function's average staffing ratio, compensation, non-labor costs, and outsourcing were all higher than the previous year.

Customer Services followed in growth, at high single digits. The Customer Services functional area experienced higher average staffing ratios with compensation and non-labor costs per FTE also higher. The propensity to outsource also increased.

Enrollment / Membership / Billing posted a low single digit increase, while Information Systems was the only function to post a decline, falling by less than 1%.

In the Medical and Provider Management cluster, PMPM expenses, grew by 6.9%. Provider Network Management and Services grew at the fastest rate, but the larger Medical Management / Quality Assurance / Wellness function fell by less than 1%.

All Provider Network Management and Services sub-functions posted cost increases from the prior year. The average staffing costs per FTE was higher than last year, while outsourcing and staffing ratios were also up. Non-Labor Costs per FTE, however, were lower.

Medical Management / Quality Assurance / Wellness declined. The sub-functions that declined from the prior year include Precertification, Case Management, and Other Medical Management. Inferred staffing ratios and use of outsourcing declined, while compensation and non-labor costs were higher.

The Sales and Marketing cluster grew by 1.8%, the second fastest rate in the past five years. The increase in Advertising and Promotion was the only driver in Sales and Marketing growth, up by low double-digits. Advertising and Promotion compensation, non-labor costs, and staffing ratios were higher. The propensity to outsource was also higher. All other Sales and Marketing functional areas declined by low single-digit rates.

It is a paradox to report growth in Sales and Marketing expenses when Medicaid plans often don't have Marketing in this product. But, while the median change in Medicaid

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membership was up by 0.2%, Medicare membership grew by 6.3%. Medicare growth entails Sales and Marketing far more than Medicaid. But our approach reweights trends so that mix changes do not affect it. So the emphasis on Medicare likely explains this.

Total Administrative expenses, including Sales and Marketing, were higher by 6.2%. For all functional areas, Association Dues and License / Filing Fees posted the largest rate of change (a decline), while Claims posted the fastest growth and was also the most important source of growth.

<Slide 7>

Slide 7 explains the *as-reported* rates of change, that is, the values with no adjustments for changes in product mix. As-reported core costs increased by 7.1%, matching the prior year's growth. These trends, again, are based on continuous plans. For the most part, there is a correspondence between the constant-mix and as-reported renderings. Thus, the rates of change are relatively similar, the core "greatest change," "highest weight," and Core totals are identical. So, I will focus on *the differences* between the as-reported and the constant-mix trends.

On an as-reported basis, within the Corporate Services cluster, Association Dues and License / Filing Fees still posted the largest rate of change, but Actuarial was the fastest growing function rather than the Corporate Services functional area. Finance and Accounting flipped from a single digit decrease to a less than 1% increase. Claims continued to be the fastest growing and largest source of growth within Account and Membership Administration and in overall trends. Under Medical and Provider Management, the Medical Management functional area flipped from a slight decline on a constant-mix basis to a slight increase.

All functional areas within Sales and Marketing that posted declines on a constant-mix basis flipped to single digit increases on an as-reported basis. The Medical Management and Sales and Marketing changes likely reflect the increased importance of Medicare. The as-reported total costs increased by 7.0%.

Let me close this section with a few summary observations. All my trend comments are based on continuously participating plans and includes the effect of staffing and costs performed on an outsourced basis.

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The average *core* Medicaid staffing was slightly lower by 0.1% for continuously participating plans, at 22 FTEs per 10,000 Medicaid members. (On average, *total* inferred staffing ratio was higher by 1.5%.)

Of the 14 functional areas with staff, nine had average Medicaid staffing ratio increases and five had declines. The largest rate of growth is found in the Sales functional area, while Advertising and Promotion followed.

Average core compensation per FTE increased by 1.4% and varied by function. Finance and Accounting posted the largest increase, while the claims area followed. Including the functions within the Sales and Marketing cluster, 10 of the 14 functions with staff experienced increases from a year ago. Core compensation was $94,000 per FTE and compensation including Sales and Marketing cluster was $96,000 per FTE.

Propensity to outsource was slightly higher than last year in total. 10 out of the 14 functional areas with staff increased outsourcing. Outsourced FTEs were 13% of Core FTEs and also 13% for all FTEs including those in the Sales and Marketing cluster.

To reiterate, Claims posted the fastest PMPM growth in core functions followed by Provider Network Management and Services. The most important sources of cost growth was in the Claims functional area.

<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 values of these activities, though it is necessarily a summary. Please note that the universes and product mixes differ so that there is little correspondence between changes in values and trends shown in the prior slides.

Core median PMPM expenses of $33.48 was 16% higher than the median of $28.82 last year. The prior year values are shown in Appendix A and are also excerpted on this page.

Account and Membership Administration is the largest cluster of expenses and is comprised of activities central to health plan operations, increased by 5.8% to a median

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of $17.30 PMPM. Medical and Provider Management costs per member per month were $9.07 PMPM, 27.2% greater than last year's value of $7.13. The Corporate Services cluster costs were higher PMPM than last year at $7.54 versus $6.75, an increase of 11.7%. Total Expenses were higher by 7.9% to $41.39 PMPM. The Sales and Marketing cluster was higher by 14.3% to a median of $8.79 PMPM.

<Slide 9>

As you saw in previous slides, we favor an approach to understanding costs that reduce or eliminate the effect of product mix. This slide illustrates why. Note that this slide includes Sales and Marketing except for the measures noted at the bottom.

Medicare and Medicaid are government-sponsored products serving seniors and the low-income population and they bookend the product cost values. Median costs for Medicaid HMO was $33.70 PMPM and Medicaid CHIP was $23.96 PMPM. These are the lowest cost products except for Commercial ASO. For all twelve plans, Medicaid HMO's average share of members was 53% and its revenue share was 46%. Medicaid CHIP's average member mix and revenue mix was 1%.

Medicare products are relatively high cost at $89.57 PMPM for Medicare Advantage and $192.45 PMPM for Medicare Special Needs Plans ("SNP"). Average membership mix for Medicare Advantage was 9% and Medicare SNP was 2%. Average revenue mix for Medicare Advantage was 17%, Medicare Advantage SNP was 7%.

Note that Medicare Supplement is lower than the median for comprehensive total, at $34.24 PMPM. We include this as a comprehensive product in the Sherlock Benchmarks though it pays only when Medicare does not. Half of the plans in the Medicaid universe offer the product and its mean product and revenue mix was 1%.

The mean mix of Commercial products was 34% of the membership, while Commercial Insured was 22% and Commercial ASO was 13%. Commercial administrative expenses are both higher and lower than the median comprehensive total, depending on their financing mechanism and, indirectly, group size. As ASO group possesses the statistical advantages of larger size, which also means that their Sales and Marketing costs are spread through greater numbers of members. The costs of Commercial Insured products are accordingly higher than the median for comprehensive products. The

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single most important Commercial Insured product is HMO at $44.26 PMPM. POS costs $55.60 PMPM, while Indemnity and PPO costs $55.86.

ASO product costs are lower than for comparable insured products largely due to the modest per member Sales and Marketing expenses required for large groups that are capable of self-insuring. Thus, these products have a median cost of $21.89 PMPM.

There is a note at the bottom that ties Medicaid to some of the earlier slides on trends and aggregate cost segmentations. Per Member Per Month Core Medicaid expenses were $29.09 PMPM. Medicaid HMO and Medicaid CHIP were $29.58 and $21.62, respectively. Note the very modest differences between the median total costs at the top of the Figure and the Core expenses at the note at the bottom. Sales and Marketing costs for Medicaid are typically modest, but we do include Rating and Underwriting, including Risk Adjustment, within this cluster. You can get a rough sense of Medicaid Sales and Marketing by subtracting the values in the note from the values in the body of the chart.

<Slide 10>

This is similar to the previous slide, only expressed in percents of premium equivalents. By that I mean, for a denominator, we have added medical expenses to the fees. The median administrative expense relative to premiums was 8.3%, lower than last year's ratio of 8.4%. In many cases, the relationships between the costs of various products measured in percents parallel those measured in PMPM values.

Medicaid HMO was lower than comprehensive total on both a PMPM and percent of premium basis at 7.3%. Medicaid CHIP was lower than comprehensive total on a PMPM basis, but at 9.7% is higher than average on a percent of premium basis.

Medicare SNP, the highest cost product on a PMPM basis is the second highest on a percent of premium basis at 13.4%. Meanwhile, Medicare Advantage expenses, while about two times greater than Commercial HMO Insured products on a PMPM basis, is only slightly higher on a percent of premium basis, at 9.2%.

While Medicare Supplement is below comprehensive total when measured on a PMPM basis, at 14.2%, its cost ratio was the highest among the comprehensive products.

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On a percent of premium basis, administrative expenses for Commercial HMO, POS and Indemnity, and POS were 8.7%, 11.1%, and 12.5%, respectively. These products are higher than average for this universe.

Commercial ASO products are 6.1% 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.

Core expenses as a percent of premium for Medicaid Total was 6.5%, while Medicaid HMO was also 6.5%, and Medicaid CHIP was 8.7%. The differences between total and core are minor since Sales and Marketing costs are modest for this segment.

<Slide 11>

Slide 11 shows the ratios of administrative expenses to premiums or equivalents.

Core administrative expenses matched last year's median of 6.6%. Corporate Services and Medical and Provider Management were each higher by 0.1 percentage points to 1.6% and 1.7%, respectively. Account and Membership Administration fell by 0.4 percentage points to 3.1%.

Total expenses, including Sales and Marketing, had a median percent of premium of 8.3%, 0.1 percentage point lower than the prior year. Sales and Marketing fell by 0.1 percentage point to a median of 1.9%.

<Slide 12>

As you know, all the health plans participating in our benchmarking studies segment their costs by product. This makes it possible for us to compare the same products *across* universes. Medicaid-focused plans generally have costs in the middle of the sets when measured by PMPM, but low on a percent of premiums basis. The percent of premium metric probably has the advantage of capturing member acuity so low costs may indicate the advantages of focus.

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Compared with the Medicaid universe, Medicaid HMO Core expenses for Blue Cross Blue Shield Plans were $60.38 PMPM, or $30.80 greater than Medicaid-focused plans and at 13.1% of premiums, were 7 percentage points higher.

Independent / Provider – Sponsored plans were lower by $10.57 PMPM versus the Medicaid-focused plans, with a median of $19.01. On a percent of premiums basis, however, Independent / Provider – Sponsored plans were higher by 2.1 percentage points at a median of 8.6%.

Total expenses, including Sales and Marketing, produced similar results to differences in Core Expenses. Blue Cross Blue Shield Plans had median expenses of $69.35 PMPM and was $35.65 higher than Medicaid plans, while their percent of premiums at 15.0% was higher by 8 percentage points. Independent / Provider – Sponsored plans posted a median of $20.44 PMPM, lower by $13.27. On a percent of premium basis, IPS plans were 2.1 percentage points higher at 9.5%.

<Slide 13>

Let me close by summarizing.

The Core cost trends increased by 7.1% both on an as-reported and constant-mix basis. The Account and Membership cluster grew similarly.

On a constant-mix basis, the rate of growth in all Core expense clusters accelerated except for Corporate Services. The growth in Sales and Marketing decelerated.

Claims was the most rapidly growing core functional area and the most important source of growth. Provider Network Management and the Corporate Services function also grew rapidly. Within the Sales and Marketing cluster, Advertising and Promotion was the fastest growing and largest growth driver.

The average core Medicaid staffing was slightly lower by 0.1% for continuously participating plans, at 22 FTEs per 10,000 Medicaid members. Of the 14 functional areas with staff, nine had average Medicaid staffing ratio increases and five had declines. The largest rate of growth was found Sales, while Advertising and Promotion followed.

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Average core compensation per FTE increased but varied by function. Finance and Accounting posted the largest increase, while the claims area followed. Including the functions within the Sales and Marketing cluster, 10 of the 14 functions with staff experienced increases from a year ago.

Propensity to outsource was slightly higher than last year in total. 10 out of the 14 functional areas with staff increased outsourcing.

In closing, this presentation, (transcript and slides) will be posted on our web site in the next few hours. In addition to these slides, we will include last year's values and some descriptive materials.

You will also find the presentations on Blue Cross Blue Shield, Independent / Provider – Sponsored, and Medicare-focused trends. Please contact me for information on licensing these universes. Additional information, including tables of contents on the benchmarks themselves are found on the website. Reach out if you have any questions.

Thank you for your attention to our presentation. Now I would like to open this for questions.

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Questions and Answers

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I want to again thank you for your participation in this web conference. More in-depth and actionable information is available in the *Sherlock Benchmarks* themselves, which anyone can license. Please contact me directly if you are considering licensing these materials.

Let me thank you all for the hard work that goes into the 17th annual edition of the Medicaid benchmarks. We believe that participation pays off in lower costs, but the "by-product" is something that benefits the industry as a whole. Thank you!

This is Douglas Sherlock of Sherlock Company.

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