

ADMINISTRATIVE COSTS FOR MEDICARE COSTS CONTINUE TO ACCELERATE IN 2018



Photograph by Ray K. Saunders.

SHERLOCK BENCHMARKS

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TOPICS

- Long term cost trends
- Changes in cluster costs
- Reasons for cost increases
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM

APPENDICES

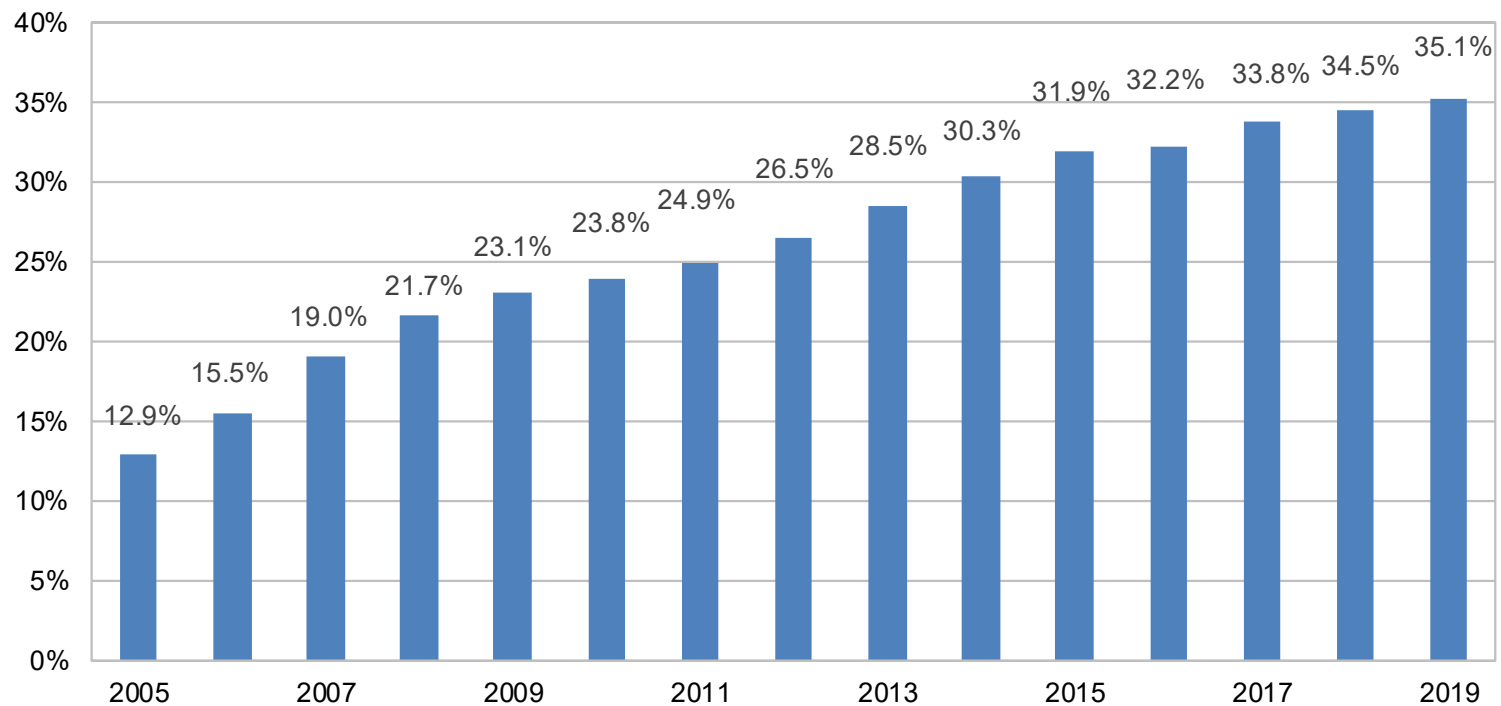
- Last year's values
- Functions in each cluster of expenses
- About the Sherlock Benchmarks

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

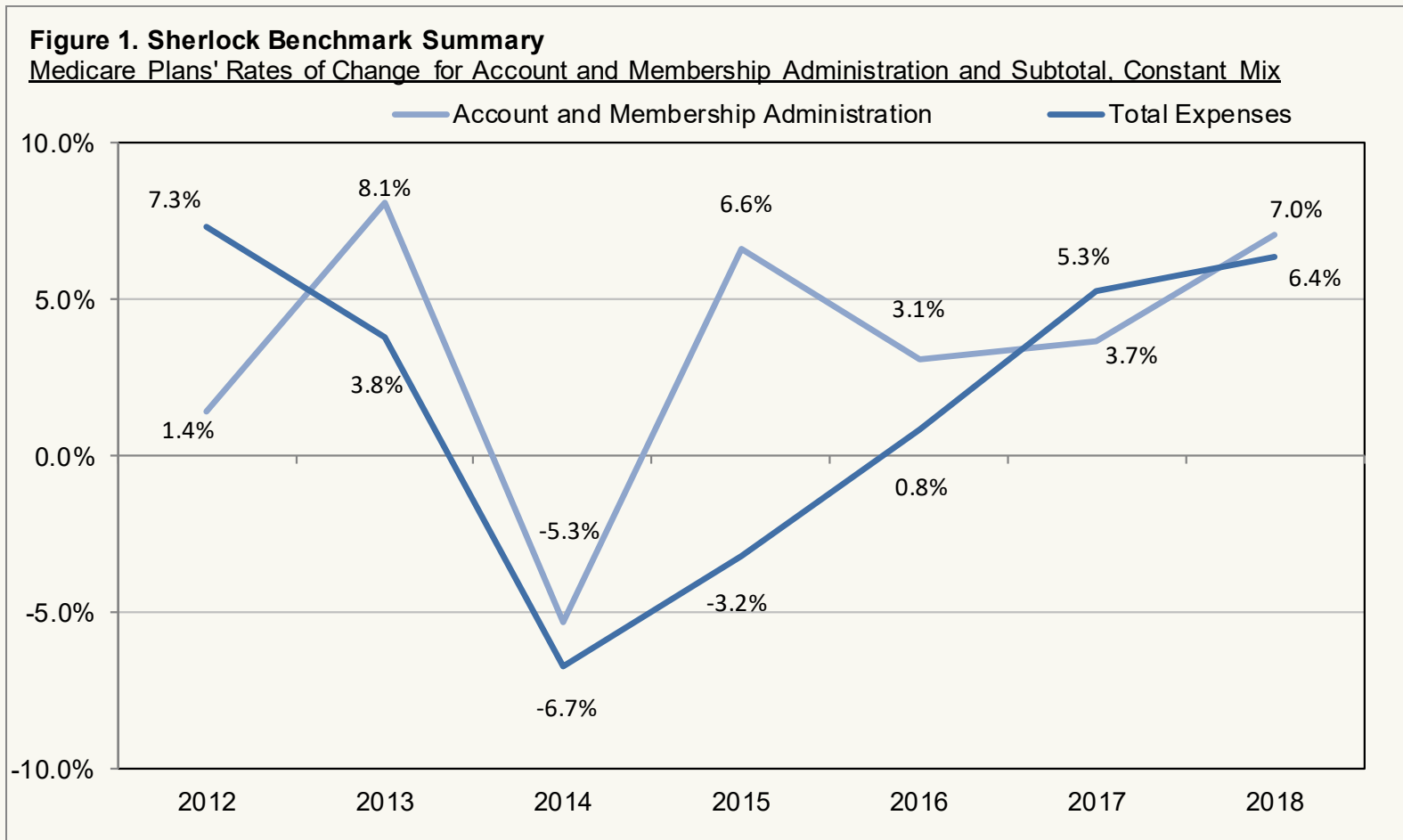


BACKGROUND ON MEDICARE AND MEDICARE ADVANTAGE

Figure 2. Sherlock Benchmark Summary
Medicare Advantage Share



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



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



AMONG CONTINUOUSLY PARTICIPATING PLANS, GROWTH IN ALL CLUSTERS BESIDES SALES AND MARKETING WERE FASTER THAN LAST YEAR, ESPECIALLY WHEN MIX HELD CONSTANT.

Figure 3. Sherlock Benchmark Summary

Medicare Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2017 Data		2018 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	4.1%	5.0%	6.2%	0.5%
Medical and Provider Management	4.7%	5.7%	8.9%	7.3%
Account & Membership Administration	6.3%	3.7%	7.0%	7.0%
Corporate Services	4.1%	5.1%	10.9%	10.1%
Total Expenses	4.5%	5.3%	5.4%	6.4%



Constant-Mix adjusts to exclude product-mix differences.



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

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	0.5%	Advert. & Promotion ↑	Advert. & Promotion ↑
Med & Provider	7.3%	Prov Net Mgmt & Svcs ↑	Med. Mgmt. ↑
Acct & Memb	7.0%	Information Systems ↑	Information Systems ↑
Corp. Serv.	<u>10.1%</u>	Actuarial ↑	Corporate Services ↑
Total	6.4%	Advert. & Promotion ↑	Information Systems ↑



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

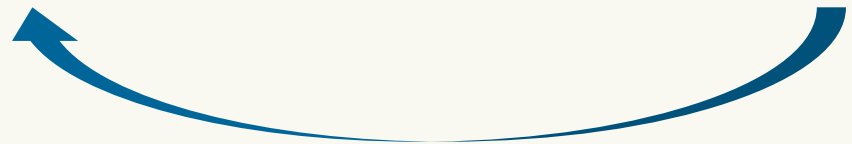
	Chg.	Greatest Change	Highest Weight
Sales & Marketing	6.2%	Advert. & Promotion ↑	Advert. & Promotion ↑
Med & Provider	8.9%	Prov. Net. Mgmt & Services ↑	Med. Mgmt. ↑
Acct & Memb	7.0%	Information Systems ↑	Information Systems ↑
Corp. Serv.	<u>10.9%</u>	Actuarial ↑	Corporate Services ↑
Total	5.4%	Advert. & Promotion ↑	Information Systems ↑



COMPARED WITH VALUES IN APPENDIX A,
COSTS WERE 39% HIGHER IN 2018. COST
TRENDS, CHANGES IN THE PRODUCT MIX
AND THE UNIVERSE WERE RESPONSIBLE.

Figure 4. Sherlock Benchmark Summary
Medicare 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
Sales and Marketing	\$9.00	\$13.93	\$21.02	59%	\$12.57
Medical and Provider Management	7.48	9.16	11.73	35%	7.34
Account and Membership Administration	18.09	21.43	26.29	42%	16.81
Corporate Services	6.38	8.89	10.14	43%	6.99
Total Expenses	\$43.19	\$55.45	\$71.40	42%	\$39.80



PMPMs VARY BY PRODUCTS.

Figure 5. Sherlock Benchmark Summary

Medicare Plans' Costs by Product, 2018 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	\$82.16	\$101.49	\$112.03	22%
Advantage	\$74.19	\$90.95	\$112.03	23%
SNP	\$126.45	\$155.00	\$199.51	41%
Medicare Supplement	\$33.36	\$42.53	\$53.36	33%
Medicaid Total	\$25.55	\$31.70	\$41.46	33%
HMO	\$25.73	\$31.70	\$42.48	35%
CHIP	\$23.96	\$25.01	\$25.12	5%
Commercial Insured Total	\$43.05	\$48.66	\$60.52	30%
HMO	\$44.61	\$47.12	\$63.18	30%
POS	\$40.68	\$46.24	\$56.52	33%
Indemnity & PPO	\$43.85	\$49.28	\$56.79	24%
Commercial ASO	\$19.29	\$21.89	\$27.78	44%
Comprehensive Total	\$43.19	\$55.45	\$71.40	42%



PERCENTS CAN BE ORDERED DIFFERENTLY FROM PMPMs.

Figure 6. Sherlock Benchmark Summary

Medicare Plans' Costs by Product, 2018 Results

Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	8.3%	10.3%	11.8%	23%
Advantage	8.4%	10.4%	12.0%	23%
SNP	7.1%	8.4%	11.2%	50%
Medicare Supplement	12.3%	18.5%	25.0%	45%
Medicaid Total	7.0%	7.2%	9.5%	22%
HMO	6.9%	7.2%	9.5%	22%
CHIP	9.7%	10.6%	12.0%	21%
Commercial Insured Total	10.0%	11.1%	11.5%	27%
HMO	9.6%	10.8%	11.5%	29%
POS	9.8%	10.6%	12.4%	26%
Indemnity & PPO	9.5%	11.9%	12.7%	25%
Commercial ASO	5.1%	6.0%	7.5%	76%
Comprehensive Total	8.1%	9.6%	10.8%	22%



ADMINISTRATIVE EXPENSES WERE 9.6% OF PREMIUMS, 1.1 PERCENTAGE POINTS HIGHER THAN LAST YEAR.

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

*2017
Values*

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Sales and Marketing	1.9%	2.2%	3.4%	40%	2.7%
Medical and Provider Management	1.3%	1.7%	1.9%	24%	1.5%
Account and Membership Administration	3.1%	3.9%	4.5%	23%	3.4%
Corporate Services	1.2%	1.6%	1.6%	25%	1.5%
Total Expenses	8.1%	9.6%	10.8%	22%	8.5%



COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicare Advantage Product Characteristics by Universe, 2018 Results

	Medicare Plans	IPS Plans	BCBS Plans	Combined Plans
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$74.19	\$84.54	\$81.40	\$77.51
Median	90.95	90.47	112.08	98.79
75th Percentile	112.03	168.69	124.79	122.09
Coefficient of Variation	23%	43%	41%	38%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	8.4%	9.2%	9.7%	8.9%
Median	10.4%	11.9%	12.5%	11.4%
75th Percentile	12.0%	16.7%	15.0%	13.7%
Coefficient of Variation	23%	49%	53%	47%
Plans offering Medicare	11	9	10	30
Medicare Advantage Members (millions)	0.76	0.31	1.04	2.11
Comprehensive Total Members (millions)	4.56	6.24	36.70	47.50



ADMINISTRATIVE COSTS FOR MEDICARE COSTS CONTINUE TO ACCELERATE IN 2018



- Costs were \$55.45 versus \$39.80 last year. Actual performance, differences in universe and mix changes were responsible.
- Growth in administrative expenses, fastest since 2013. As-reported increased by 5.4%, constant mix grew by 6.4%, both accelerated from last year.
- The rate of growth in all clusters accelerated, except for the Sales and Marketing Cluster.
- Advertising and Promotion, Provider Network Management, Medical Management, Information Systems, Actuarial, and Corporate Services Function increased year-over-year. Enrollment / Membership / Billing and Association Dues and License / Filing Fees posted declines.
- Important sources of growth were Information Systems and Corporate Services Function.
- Estimated MA Staffing ratios were higher, outsourcing and compensation were relatively flat.



APPENDIX A. MEDICARE PLANS ADMINISTRATIVE COSTS IN 2017

Appendix A. Sherlock Benchmark Summary

Medicare Plans' Costs by Functional Area Cluster, 2017 Results

Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$8.88	\$12.57	\$14.34	57%
Medical and Provider Management	6.18	7.34	8.20	29%
Account and Membership Administration	14.38	16.81	19.98	35%
Corporate Services	5.70	6.99	8.73	31%
Total Expenses	\$37.56	\$39.80	\$52.80	34%



APPENDIX B. MEDICARE PLANS ADMINISTRATIVE COSTS IN 2017

Appendix B. Sherlock Benchmark Summary

Medicare Plans' Costs by Functional Area Cluster, 2017 Results

Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.0%	2.7%	3.2%	37%
Medical and Provider Management	1.3%	1.5%	1.7%	27%
Account and Membership Administration	3.2%	3.4%	3.9%	28%
Corporate Services	1.3%	1.5%	1.6%	21%
Total Expenses	8.1%	8.5%	9.9%	21%



APPENDIX C. CAREFUL QUALITY ASSURANCE

- ***Voluntary*** – Since providers are users, they have stake in the metrics. Other than required metrics, scope is also voluntary.
- ***Strong definitions*** – Developed with participants. Activities and cost centers listed, supported by ongoing clarifying discussions.
- ***Highly granular*** - Ready identification of outliers, as well as drill-down capabilities.
- ***Practice effect*** – High percent of repeaters: 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 855 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

Major Functions Included in Each Administrative Expense Cluster

Sales & Marketing

1. Rating and Underwriting
 - (b) Risk Adjustment
 - (c) 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
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (d) Other Claim and Encounter Capture and Adjudication
11. Information Systems Expenses
 - (a) Operations and Support Services
 - (b) Applications Maintenance
 - (1) Benefit Configuration
 - (2) Other Applications Maintenance
 - (c) Applications Acquisition and Development
 - (d) Security Administration and Enforcement

Corporate Services

12. Finance and Accounting
 - (a) Credit Card Fees
 - (b) 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 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
15. Corporate Executive & Governance
16. Association Dues and License/Filing Fees



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