

ADMINISTRATIVE COST TRENDS OF MEDICARE- FOCUSED PLANS IN 2019



Photograph by Ray K. Saunders.

SHERLOCK BENCHMARKS
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SHERLOCK COMPANY

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TOPICS

- Background on Medicare
- Long term cost trends
- Changes in cluster costs
- Reasons for cost increases
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM
- Comparisons of MA product across universes

APPENDICES

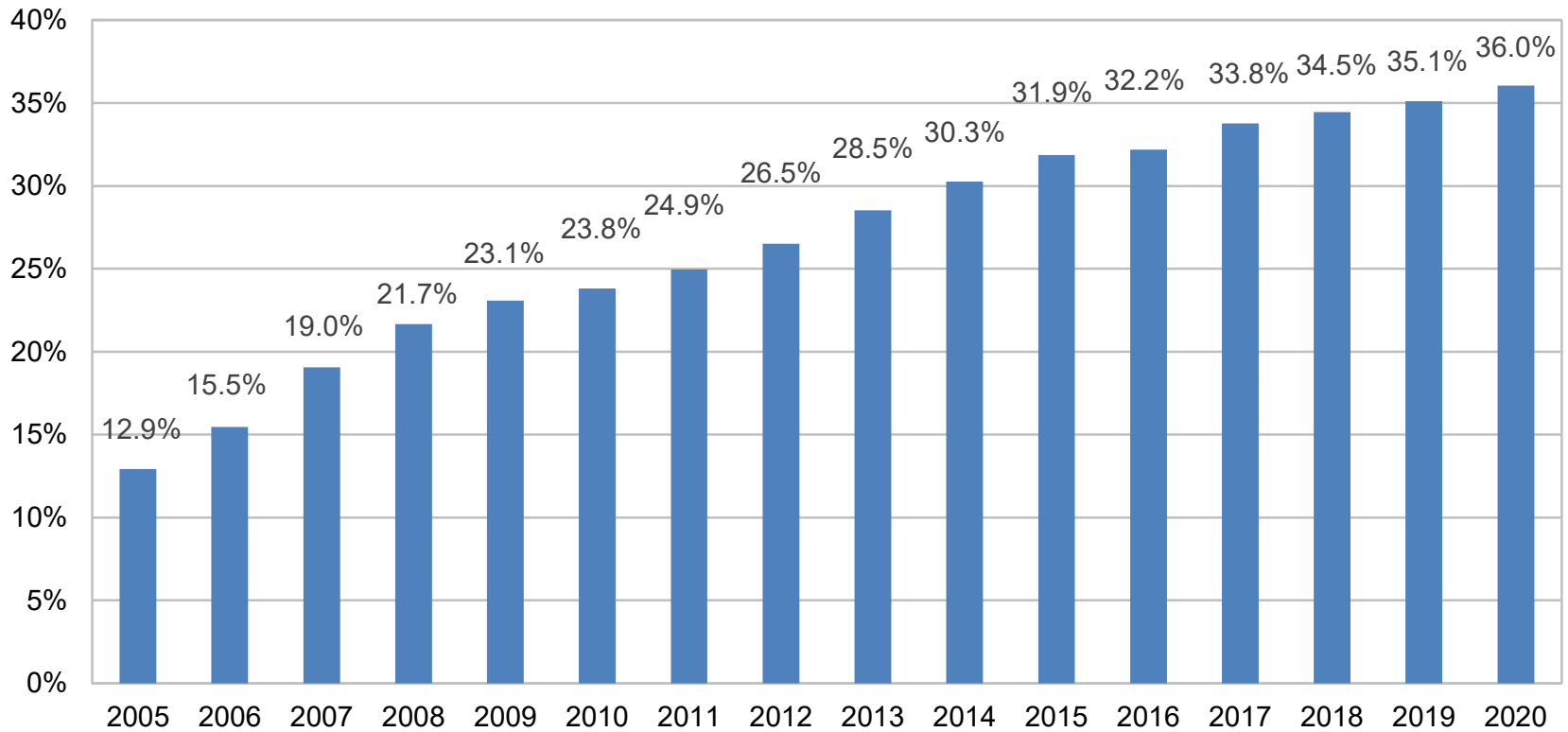
- Last year's cluster values
- Functions in each cluster of expenses
- About the *Sherlock Benchmarks*

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

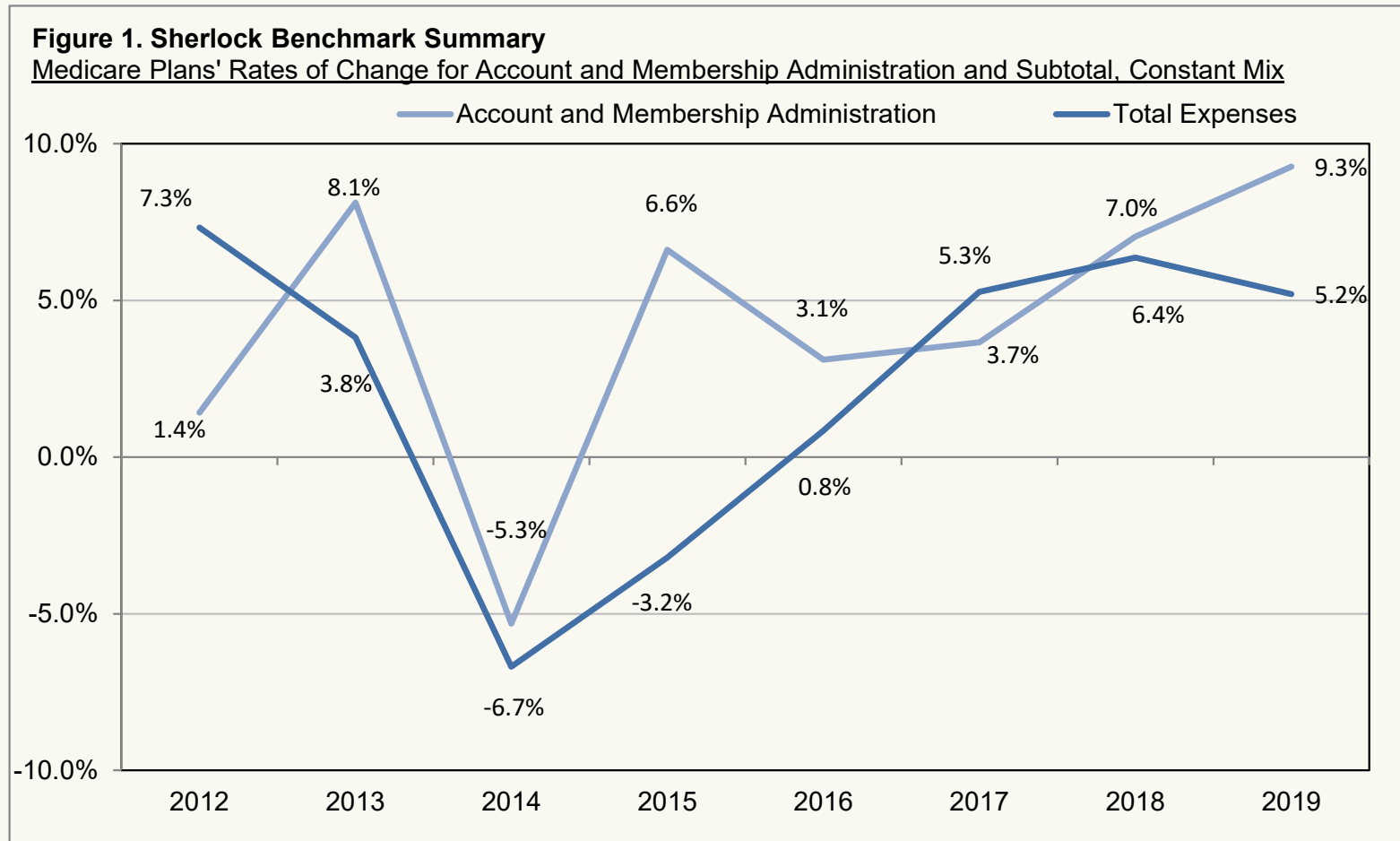


BACKGROUND ON MEDICARE AND MEDICARE ADVANTAGE

Figure 2. Sherlock Benchmark Summary
Medicare Advantage Share



THE GROWTH IN TOTAL SLOWS, WHILE ACCOUNT AND MEMBERSHIP ACCELERATES.



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



AMONG CONTINUOUSLY PARTICIPATING PLANS,
GROWTH ACCELERATED IN ACCOUNT &
MEMBERSHIP AND SALES AND MARKETING.
GROWTH SLOWED IN MEDICAL AND PROVIDER
MANAGEMENT AND CORPORATE SERVICES.

Figure 3. Sherlock Benchmark Summary

Medicare Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2018 Increase		2019 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	6.2%	0.5%	6.0%	4.9%
Medical and Provider Management	8.9%	7.3%	7.8%	7.1%
Account & Membership Administration	7.0%	7.0%	8.9%	9.3%
Corporate Services	10.9%	10.1%	-1.9%	-2.8%
Total Expenses	5.4%	6.4%	5.8%	5.2%

Constant-Mix adjusts to exclude product-mix differences.



SOURCES OF “REAL” GROWTH IN MEDICARE PLANS ADMINISTRATIVE COSTS IN 2019

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	4.9%	Advertising and Promotion ↑	Advertising and Promotion ↑
Med & Provider	7.1%	Medical Management ↑	Medical Management ↑
Acct & Membership	9.3% ¹	Customer Services ² ↑	Information Systems ↑
Corp Serv.	<u>-2.8%</u>	Finance and Accounting ↑	Finance and Accounting ³ ↑
Total	5.2%	Advertising and Promotion ↑	Information Systems ↑

¹ Increase would have been 7.1% absent Behavioral Health and Rx.

² Claim and Encounter Capture and Adjudication and Enrollment declined.

³ Corporate Services, Association Dues and Corporate Executive & Governance declined.



SOURCES OF *REPORTED* GROWTH IN MEDICARE PLANS ADMINISTRATIVE COSTS IN 2019

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	6.0%	Advertising and Promotion ↑	Advertising and Promotion ↑
Med & Provider	7.8%	Medical Management ↑	Medical Management ↑
Acct & Membership	8.9% ¹	Customer Services ² ↑	Information Systems ↑
Corp. Serv.	<u>-1.9%</u>	Finance and Accounting ↑	Corporate Svcs Function ³ ↓
Total	5.8%	Advertising and Promotion ↑	Information Systems ↑

¹ Increase would have been 7.8% absent Behavioral Health and Rx.

² Claim and Encounter Capture and Adjudication and Enrollment declined.

³ Association Dues and Corporate Executive & Governance also declined.



COMPARED WITH VALUES IN APPENDIX A,
 COSTS WERE 23% LOWER IN 2019. COST
 TRENDS, CHANGES IN THE PRODUCT MIX
 AND THE UNIVERSE WERE RESPONSIBLE.

Figure 4. Sherlock Benchmark Summary
 Medicare Plans' Costs by Functional Area Cluster, 2019 Results
 Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2018 Results Median
Sales and Marketing	\$10.76	\$11.41	\$13.88	22%	\$13.93
Medical and Provider Management	6.07	7.39	9.19	48%	9.16
Account and Membership Administration	17.00	17.84	20.02	30%	21.43
Corporate Services	5.97	6.66	7.35	34%	8.89
Total Expenses	\$40.99	\$42.50	\$47.27	27%	\$55.45



PMPMs VARY BY PRODUCT.

Figure 5. Sherlock Benchmark Summary
 Medicare Plans' Costs by Product, 2019 Results
 Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	\$84.87	\$103.95	\$109.78	22%
Advantage	\$82.85	\$94.65	\$102.30	22%
SNP	\$155.55	\$171.10	\$185.74	18%
Medicare Supplement	\$33.02	\$43.17	\$56.64	43%
Medicaid Total	\$28.70	\$34.20	\$44.46	47%
HMO	\$28.80	\$35.04	\$45.41	46%
CHIP	\$24.92	\$25.35	\$26.82	15%
Commercial Insured Total	\$43.27	\$49.47	\$53.15	38%
HMO	\$41.92	\$52.58	\$60.32	40%
POS	\$46.20	\$49.49	\$49.92	10%
Indemnity & PPO	\$45.90	\$47.54	\$53.85	22%
Commercial ASO	\$22.29	\$26.91	\$27.32	44%
Comprehensive Total	\$40.99	\$42.50	\$47.27	27%



PERCENTS *USUALLY* ORDERED SIMILARLY TO PMPMs.

Figure 6. Sherlock Benchmark Summary
Medicare Plans' Costs by Product, 2019 Results
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	8.5%	9.2%	10.4%	26%
Advantage	8.5%	9.2%	10.4%	24%
SNP	7.4%	9.0%	10.4%	33%
Medicare Supplement	13.3%	18.7%	26.3%	43%
Medicaid Total	7.0%	8.8%	10.3%	22%
HMO	6.8%	8.8%	10.3%	23%
CHIP	10.8%	11.1%	12.2%	13%
Commercial Insured Total	8.8%	10.2%	11.0%	40%
HMO	8.4%	10.1%	10.8%	44%
POS	7.8%	7.9%	10.6%	20%
Indemnity & PPO	10.0%	10.9%	12.2%	14%
Commercial ASO	5.2%	6.5%	7.7%	53%
Comprehensive Total	8.0%	8.5%	9.2%	30%

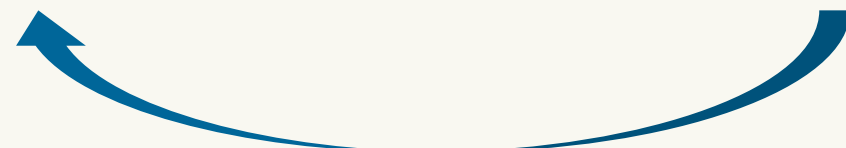


ADMINISTRATIVE EXPENSES WERE 8.5% OF PREMIUMS, 1.1 PERCENTAGE POINTS LOWER THAN LAST YEAR. THE DISTRIBUTION OF EXPENSES CHANGED.

Figure 7. Sherlock Benchmark Summary
 Medicare Plans' Costs by Functional Area Cluster, 2019 Results
 Percent of Premium Equivalents

2018
 Results

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Sales and Marketing	2.1%	2.3%	2.6%	26%	2.2%
Medical and Provider Management	1.2%	1.4%	1.7%	53%	1.7%
Account and Membership Administration	3.4%	3.6%	3.8%	32%	3.9%
Corporate Services	1.1%	1.3%	1.5%	37%	1.6%
Total Expenses	8.0%	8.5%	9.2%	30%	9.6%



COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicare Advantage Product Characteristics by Universe, 2019 Results

	Medicare Plans	IPS Plans	BCBS Plans	Combined Plans
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$84.87	\$95.82	\$117.12	\$102.80
Median	103.95	108.75	123.93	115.72
75th Percentile	109.78	137.54	150.89	134.65
Coefficient of Variation	22%	36%	33%	34%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	8.5%	12.2%	12.0%	9.4%
Median	9.2%	13.4%	14.0%	11.5%
75th Percentile	10.4%	16.0%	17.0%	15.4%
Coefficient of Variation	24%	27%	43%	44%
Plans offering Medicare	10	3	13	26
Medicare Advantage Members (millions)	1.17	0.09	0.79	2.05
Comprehensive Total Members (millions)	11.53	3.32	43.27	58.12



MEDICARE PLANS ADMINISTRATIVE COST GROWTH SLOWS IN 2019



Photograph by Ray K. Saunders.

- Expenses increased by 5.8% compared with an increase of 5.4% in 2018. Excluding the effect of product mix differences, costs increased by 5.2% versus 6.4% in 2018. These are the real increases in our view.
- Medicare plans costs were \$42.50 PMPM versus \$55.45 last year. Actual performance, differences in universe and product mix changes were responsible.
- Continuous plans had a shift in favor of higher cost products among continuous plans, which included growth in Medicare products and a decline in self-funded ASO.
- The Account and Membership (with BH & R_x) and Sales and Marketing clusters experienced acceleration in growth, while Corporate Services declined and Medical and Provider Management decelerated.
- Important sources of growth were Information Systems, Medical Management, Advertising and Promotion. A&P, R&U, IS and Finance and Med Mgmt grew fastest.
- Estimated MA Staffing ratios grew, while Compensation per FTE was up slightly. Propensity to outsource and Non-Labor Costs per FTE were lower.



APPENDIX A. MEDICARE PLANS ADMINISTRATIVE COSTS IN 2018

Appendix A. 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
Sales and Marketing	\$9.00	\$13.93	\$21.02	59%
Medical and Provider Management	7.48	9.16	11.73	35%
Account and Membership Administration	18.09	21.43	26.29	42%
Corporate Services	6.38	8.89	10.14	43%
Total Expenses	\$43.19	\$55.45	\$71.40	42%



APPENDIX B. MEDICARE PLANS ADMINISTRATIVE COSTS IN 2018

Appendix B. Sherlock Benchmark Summary

Medicare Plans' Costs by Functional Area Cluster, 2018 Results
Percent of Premium Equivalents

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



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: 55% of Medicare plans repeated from last year. 45% of plans have three 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 23rd consecutive year. We expect that our cumulative experience to total approximately 893 plan years by year-end 2019. Expect 35 plans serving 63 million members to participate in 2019.
- Since June 2017, health plans serving 182 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 34 U.S.-based Blue Cross Blue Shield primary licensees, nineteen serving approximately 50 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Of the 16 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, seven are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Most of the 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.



APPENDIX F. FUNCTIONS IN EACH CLUSTER

Appendix F. Sherlock Benchmark Summary

Major Functions Included in Each Administrative Expense Cluster

Sales & Marketing

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

Provider & Medical Management

6. Provider Network Management and Services
 - (a) Provider Relations Services
 - (b) Provider Contracting
 - (1) Provider Configuration
 - (2) Other Provider Contracting
 - (d) Other Provider Network Management and Services
7. Medical Management / Quality Assurance / Wellness
 - (a) Precertification
 - (b) Case Management
 - (c) Disease Management
 - (d) Nurse Information Line
 - (e) Health and Wellness
 - (f) Quality Components
 - (g) Medical Informatics
 - (h) Utilization Review
 - (i) Other Medical Management

Account & Membership Administration

8. Enrollment / Membership / Billing
 - (a) Enrollment and Membership
 - (b) Billing
9. Customer Services
 - (a) Member Services
 - (b) Printed Materials and Other
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (e) Other Claim and Encounter Capture and Adjudication
11. Information Systems Expenses
 - (a) Operations and Support Services
 - (b) Applications Maintenance
 - (1) Benefit Configuration
 - (2) All Other Applications Maintenance
 - (c) Applications Acquisition and Development
 - (d) Security Administration and Enforcement

Corporate Services

12. Finance and Accounting
 - (a) Credit Card Fees
 - (b) All Other Finance and Accounting
13. Actuarial
14. Corporate Services Function
 - (a) Human Resources
 - (b) Legal
 - (1) Compliance
 - (2) Government Affairs
 - (3) Outside Litigation
 - (4) All Other Legal
 - (c) Facilities
 - (e) Audit
 - (f) Purchasing
 - (g) Imaging
 - (h) Printing and Mailroom
 - (i) Risk Management
 - (j) Other Corporate Services Function
15. Corporate Executive and Governance
16. Association Dues and License/Filing Fees



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