Plan Management Navigator
Analytics for Health Plan Administration

Healthcare Analysts

Douglas B. Sherlock, CFA
sherlock@sherlockco.com

Christopher E. de Garay
cgaray@sherlockco.com

Erin Ottolini
erin.ottolini@sherlockco.com

John Park, CFA
jpark@sherlockco.com

Andrew L. Sherlock
asherlock@sherlockco.com

(215) 628-2289

Administrative Costs in Medicare-Focused Plans Experience Slower Growth Despite Acceleration in Account and Membership Administration

Medicare-focused plans experienced growth in administration expenses, excluding Miscellaneous Business Taxes, of 5.2%. As shown in Figure 1, the increase in Account and Membership Administration costs accelerated by 9.3%.

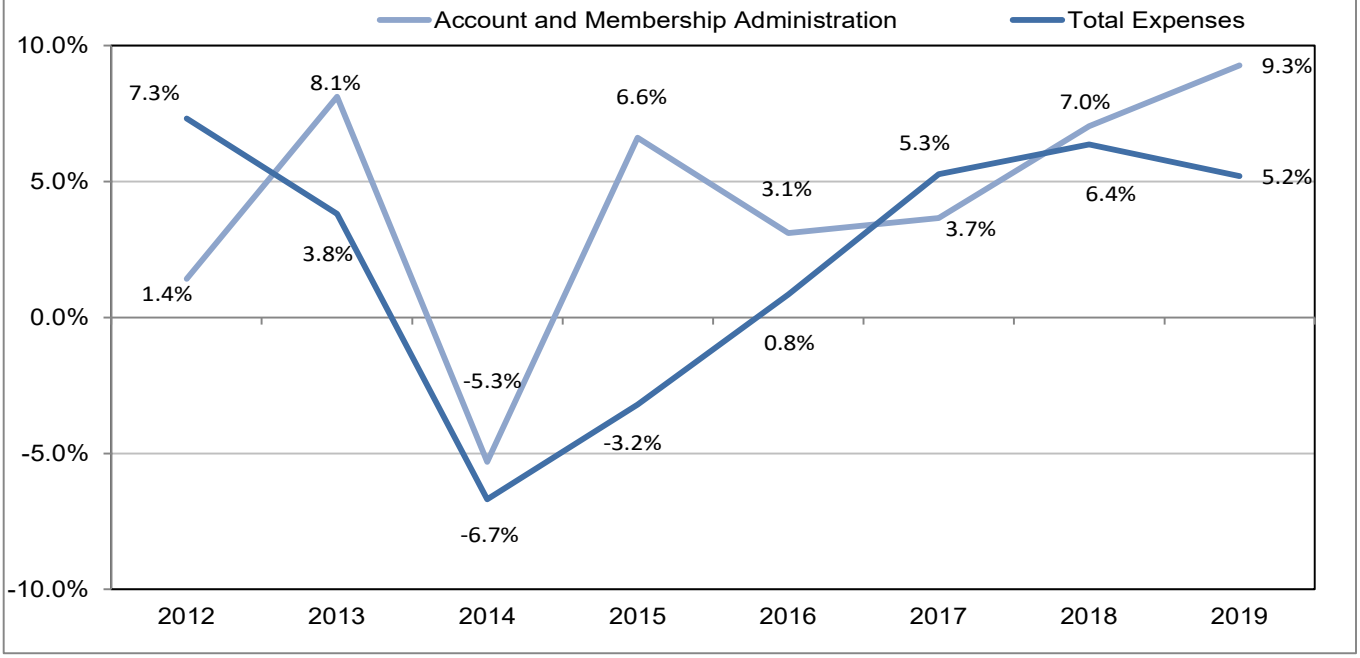
Ten plans participated in this benchmarking study, collectively serving 11.5 million people. An average of 32% of revenues of these companies were in Medicare Advantage or Medicare SNP ("Special Needs Plans") products. Six plans were used for trend purposes.

Background on Medicare Advantage

Medicare Advantage ("MA") replaces regular Medicare for an increasing proportion of beneficiaries. MA supplies additional benefits above regular Medicare but, unlike Medicare Supplement policies, they are integrated with the standard benefits of traditional Medicare.

As of March 2020, according to the CMS State/County Penetration file, Medicare Advantage plans served 24.7 million people, an increase of 9.3% from 22.7 million in March of 2019. (Please see Figure 2). There were 68.7 million eligible for Medicare in March of 2020, and the proportion of beneficiaries selecting Medicare Advantage increased to 36.0% in March of 2020 from 35.1% in 2019. Membership in the traditional Fee-For-Service ("FFS") program increased by 4.9% during that period.

Figure 1. Sherlock Benchmark Summary
Medicare Plans' Rates of Change for Account and Membership Administration and Total, Constant Mix



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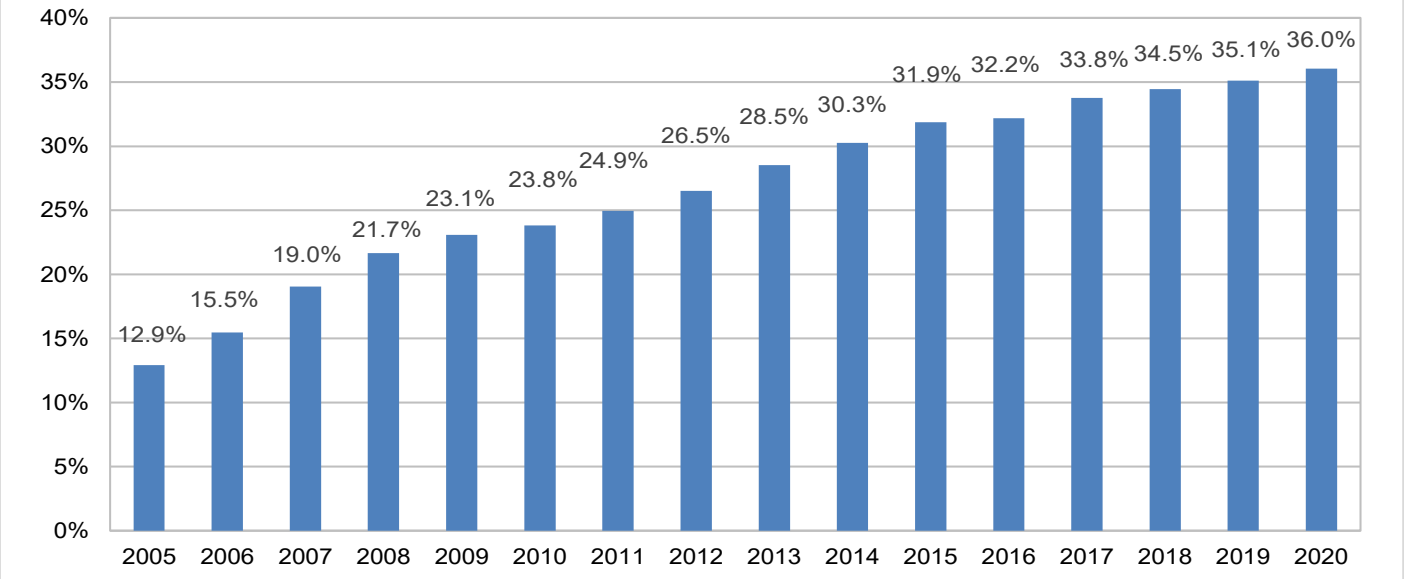
Taking the longer view, the total number of Medicare beneficiaries increased by 25.4 million since 2005. Of that, 19.1 million, or 75.5%, elected Medicare Advantage. MA participation increased from 12.9% of total beneficiaries in 2005 to 36.0% in 2020.

Medicare Advantage membership share grew overcoming some obstacles. First, according to *Kaiser Family Foundation*, the Affordable Care Act revised its methodology for paying plans to reduce the benchmarks under which health plans are paid. This reduction in payment made fewer resources available to supply the additional benefits for which MA plans are known.

Moreover, according to a recent article published in *Health Affairs* by Garret Johnson et al., Medicare Advantage growth may be raising the bar for its performance by contributing in moderating FFS Medicare cost trends. After all, generally, health plan networks are not exclusive to a single plan, and if a health plan is able coach its provider network towards a more conservative style of care, all payors benefit. This could also diminish the competitive advantage of Medicare Advantage.

The continued growth stems from the fact that MA plans enjoy a cost advantage in competing with a package comprised of Traditional Medicare and Medicare Supplement products. According to MedPAC's March 2020 Report to the Congress: Medicare Payment Policy, payments to MA plans exceeds FFS spending for each of the various types of MA plans. But their bids for Medicare covered services are 88% of what Medicare pays and, for MA HMOs, that ratio is 87%. (HMOs comprised 14.1 million or 57% of all Medicare Advantage beneficiaries.)

Figure 2. Sherlock Benchmark Summary
Medicare Advantage Share



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MedPAC summarizes the sources of the respective cost advantages of the two alternatives as follows: "*traditional FFS Medicare has lower administrative costs and offers beneficiaries an unconstrained choice of health care providers, but it lacks incentives to coordinate care and is limited in its ability to make care delivery more efficient.*" (Emphasis added.) For instance, KFF states that "Nearly all Medicare Advantage enrollees are in plans that require prior authorization for some services."

In addition to this underlying cost advantage, MA plans enjoy subsidies not available through Medicare Supplement policies. In 2020, MA plans and HMO type plans were projected to be paid 107% of FFS spending for the traditional Medicare scope of benefits. This, along with the cost advantage noted in the previous paragraph, provides the means by which MA plans can fund the superior benefit package.

According to KFF, "Nearly two-thirds of Medicare Advantage enrollees pay no premium (other than the Part B premium) in 2020." Also, "most Medicare Advantage enrollees have access to some benefits not covered by traditional Medicare in 2020." For instance, more than 70% have access to eye exams and glasses, telehealth, dental benefits, fitness benefits and hearing aids.

Notwithstanding of the headwinds noted earlier, according to the Kaiser Family Foundation, "the Congressional Budget Office (CBO) projects that the share of all Medicare beneficiaries enrolled in Medicare Advantage plans will rise to about 51 percent by 2030."

Overall Trends and Product Mix

Figure 3 shows year-over-year trends on both an as-reported and constant-mix plans. On an *as-reported* basis, for the six continuously participating plans, per member costs grew by 5.8% compared with 5.4% the prior year.

Cost trends on an as-reported basis reflected a shift in favor of higher cost products. This was manifest in higher cost growth on an as-reported basis, 5.8% versus 5.2% when product mix is held constant. The effect of the elimination of mix changes between the years is to decrease constant mix cost trends by 0.6 percentage points.

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

	2018 Increase		2019 Increase	
Functional Area	**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%

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The continuously participating plans served 985,000 Medicare Advantage and Medicare SNP members. In addition, they also served 470,000 Medicare Supplemental members. The universe as a whole served 1.6 million Medicare Advantage and Medicare SNP members plus 638,000 Medicare Supplemental members .

For continuous plans, membership growth in higher cost Medicare Advantage and Medicare SNP increased, at a median rate of 4.8% and 5.7%, respectively. Medicare Supplement fell by a median rate of 5.9%. Commercial Insured membership increased at a median rate of 3.3%, while Commercial ASO grew at a median rate of 6.0%. Commercial Total increased by 3.4%. Low cost Medicaid HMO fell by 1.0%, but Medicaid CHIP increased by 4.6%. Comprehensive membership grew at a median rate of 2.3%.

Trends Holding Product Mix Constant

Trends that eliminate the impact of product mix changes is a more accurate representation of trends so the discussion that follows is largely based on this. To make this calculation, we reweight product costs of the prior year to match the mix in the current year. Only those plans that report in both periods are included.

Advertising and Promotion, Rating and Underwriting, Medical Management, and Information Systems were functions with notable increases. Staffing Ratios increased, while Non-Labor Costs and Outsourcing were lower. Compensation was up slightly.

Account and Membership Administration

This cluster of expenses experienced PMPM cost increase of 9.3%, the fastest rate over the past eight years. Information Systems grew the second fastest in this cluster and had the greatest effect on Account and Membership cluster growth because of its size. Customer Services increased more rapidly, by low double digits. Conversely, Claims and Enrollment fell by single digits, high and low respectively. Staffing, Outsourcing, Compensation, and Non-Labor Costs were all higher in Information Systems.

The Applications Acquisition and Development sub-function posted the fastest growth for Information Systems. Outsourcing and Non-Labor Costs per FTE were higher in the sub-function, while the Staffing Ratio and Compensation per FTE were lower.

Amplifying the growth noted above were a sharp increase in Behavioral Health expenses, following the cumulative decline of the prior three years.

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Medical and Provider Management

The Medical and Provider Management cluster was the second fastest growing cluster, at 7.1%. The larger Medical Management was the more important source of cluster growth and grew at a faster rate compared to the Provider Network Management and Services function. Non-Labor Costs per FTE and Compensation was higher, but Staffing Ratio and Outsourcing was lower.

Quality Components and Health and Wellness grew especially rapidly as Utilization Review, Nurse Information Line and Case Management declined. The Quality Components Staffing Costs and Non-Labor costs growth were especially rapid.

The Provider Network Management and Services functional area also posted year-over-year growth, and while all sub-functions increased, Provider-Contracting grew especially rapidly. Staffing Ratio increased in this function and in each sub-function, though Staffing Costs per FTE generally decreased. For the function as a whole, Non-Labor Costs per FTE fell and Outsourcing was effectively unchanged.

Sales and Marketing

The Sales and Marketing cluster grew by 4.9%. All functional areas posted increases besides Sales, which was lower by less than a percent. Advertising and Promotion posted the fastest increase within this cluster and was the most important source of growth. The Media and Advertising sub-function was the most important source of this function's increase. This function's Staffing Ratio, Compensation per FTE, and Non-Labor Costs per FTE were all higher. Outsourcing was lower.

Rating and Underwriting was the second fastest growing function in the Sales and Marketing cluster. Risk Adjustment expenses were the fastest growing sub-function. Outsourcing sharply increased for both the function and the sub-function.

Broker Commissions was the third fastest growing function but, because of its size, was the second largest contributor to the cluster's increase. In the *Sherlock Benchmarks* classifications, all this function's expenses are non-labor.

Corporate Services

The Corporate Services cluster was the only cluster to post a decline, falling by 2.8%. Association Dues and License / Filing Fees was the fastest decreasing functional area, but Corporate Executive and Governance was the most important source of decline. For this function, the propensity to Outsource and Staffing Costs per FTE were lower. The Staffing Ratio and Non-Labor Costs per FTE increased.

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The Corporate Services *Function* also declined, though by less than one percent. The sub-functions of Legal, Audit, Purchasing, Imaging, Printing and Mailroom and Risk Management all declined as Human Resources and Facilities increased. For this function, while compensation increased modestly, staffing ratios, outsourcing and non-labor declined.

Finance and Accounting was the fastest growing functional area and was the largest contributor to cost changes. While outsourcing and compensation declined, staffing ratios and non-labor expenses increased.

As-Reported Trends

When a plan reports costs in sequential years, the changes in those costs reflect both real changes and the effect of product mix changes. As noted earlier, the continuously reporting plans shifted in favor of higher cost products like Medicare Advantage so that as-reported costs grew faster than when product mix is eliminated.

This section will highlight the key trend differences between the as-reported and constant mix trend calculations.

The difference in the Sales and Marketing costs between as-reported and constant-mix was the largest among clusters. On an as-reported basis, costs increased by 6.0% or 1.1 percentage points faster than the constant-mix growth. They were especially evident in Sales and Commissions since the Medicare Advantage product requires greater cost commitments to add these individual members.

Corporate Services cluster's as-reported costs were 1.9% lower than last year and compares to the constant-mix decrease of 2.8%, or a difference of 0.9 percentage points. The Actuarial functional area increased at a faster rate than on a constant-mix basis, muting some of the as-reported decline. We suspect that growth in the Medicare Advantage product was largely responsible for this heightened expense trend.

Medical and Provider Management increased by 7.8% on an as-reported basis, faster compared to the constant-mix basis by 0.7 percentage points. Both Medical Management and Provider Network Management grew at a faster pace on an as-reported basis. Many of the Medical Management sub-functions accelerated on this basis including Case Management, Precertification and Other Medical Management (which includes medical directors). The Medicare Advantage product employs medical management procedures as an integral part of the benefit design. Provider Network Management and Services also grew faster absent mix adjustment, specifically Other Provider Contracting, as this is may be related to the demands of an expanding geographic footprint for the Medicare Advantage product.

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The Account and Membership cluster was the only cluster to experience slower as-reported growth, 8.9% versus 9.3% for constant-mix. Excluding Pharmacy and Mental Health expenses, Account and Membership would have increased faster on an as-reported basis. While every function grew faster on this basis, the most notable instance of higher as-reported trends was in the Enrollment function. Both the Enrollment and Membership sub-function and the Billing sub-function grew faster: notably, Medicare Advantage is often not a group.

Summary of Cost Drivers

We think that it is helpful to understand functional expenses by their drivers. PMPM costs can be thought of as the product of the staffing ratio and total costs per FTE. The total costs per FTE is the sum of staffing and non-labor costs per FTE. The comments in this section are based on continuously participating plans and includes staffing and costs performed on an outsourced basis.

Overall, it appears median Medicare Advantage staffing ratios are higher than last year among continuing plans. The median was 62 FTEs per 10,000 Medicare Advantage members. Of the 14 functional areas with staff, eight grew. (To be clear, health plans report aggregate staffing, from which Medicare Advantage staffing is inferred by assuming that all products have the same mix of staffing and non-labor costs.) The largest increases included Provider Network Management and Services, Customer Services and Claim and Encounter Capture and Adjudication.

The median compensation per FTE was just under $100,000. The growth in median compensation per FTE was very modest and varied by function. Six functions declined, including Corporate Executive and Governance, which declined by low double-digit rates and Sales, which declined at low single digits. Of the fast-growing compensation areas, Advertising and Promotion, Customer Services and Provider Network were especially prominent.

Propensity to outsource was lower, overall, and only two of the fourteen functional areas with staff, Information Systems and Rating and Underwriting, increased outsourcing. Medical Management, Actuarial and Finance and Accounting outsourcing all declined. Of these plans' employees, 16.5% were outsourced, with more than one-third of Information Systems employees being outsourced.

Growth in Information Systems, Medical Management and Advertising and Promotion were central to the increase in cost in 2019. Staffing ratios increased in Information Systems and Advertising and Promotion, and non-labor expenses per FTE increased in all three.

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Costs of Medicare-Focused Plans, by Cluster, PMPM

Figure 4 shows the values of administrative expenses for all 10 participating Medicare-focused plans. In this section we'll touch on comparisons with the results reported last year, notwithstanding certain limitations. The prior year's values are shown in Appendix A.

Bear in mind that this universe of Medicare-focused plans differs from that of last year in product mix and in populations. The Medicare universe had five plans drop out, but had four additions. Therefore, it is not possible to accurately compare the performance of plans participating this and last year based on these charts. For the new plans and the ones that participated last year, we can know neither their trends, or their changes in product mix.

The actual total PMPM administrative expenses are $42.50, 23.4% lower than last year's values, shown in Appendix A. (Note, the product mix for *all* ten plans in 2019 had less Medicare Advantage and more Commercial ASO than *all* ten plans in 2018. The continuous plans shifted in favor of Medicare products and ASO.)

The Corporate Services cluster was lower by 25.1%, while the Medical and Provider Network Management and Sales and Marketing clusters were 19.3% and 18.1% lower, respectively. The Account and Membership Administration cluster was down by 16.8%.

Dispersion for Total expenses, measured by the Coefficient of Variation, was lower by 15 percentage points. Dispersion narrowed for all clusters except for Medical and Provider Management, which widened by 13 percentage points. When measured by the difference between 75th and 25th percentiles, the dispersion of each cluster narrowed as did expenses as a whole.

Account and Membership Administration was the single greatest cluster of expenses at a median value of $17.84 versus $21.43 from last year. This cluster composed 42% of total expenses. This cluster's size means that it has a substantial effect on overall comparisons. This cluster includes the central activities of Information Systems, Enrollment, Claims and Customer Services.

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
Sales and Marketing	$10.76	$11.41	$13.88	22%
Medical and Provider Management	6.07	7.39	9.19	48%
Account and Membership Administration	17.00	17.84	20.02	30%
Corporate Services	5.97	6.66	7.35	34%
Total Expenses	$40.99	$42.50	$47.27	27%

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The Corporate Services cluster costs, the smallest, were lower than last year at $6.66 PMPM versus $8.89 PMPM. Activities include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities like Facilities, HR and Legal; collectively called the Corporate Services *Function*.

Sales and Marketing, the second largest cluster, had median costs of $11.41 and compares to $13.93 from last year. This function includes Rating and Underwriting, Sales, Marketing, broker Commissions and Advertising.

Medical and Provider Management costs per member per month were $7.39, while last year's value was $9.16. This group of functions includes Provider Network Management and Services and Medical Management.

Costs of Medicare-Focused Plans, PMPM by Product

The importance of considering each product's costs is shown in Figure 5. The products vary greatly in their per member costs and, for the products that are responsible for most of their business. For this reason, when we report results to participants, we often reweight product mix to eliminate the effect of any differences between the participants and the universe as a whole. So, when 2018 product costs are weighted to reflect the average mix in 2019, the 9.1% increase is higher than the 5.2% Constant Mix increase in Figure 3. This is in the opposite direction and of smaller magnitude as found in the previous section.

Medicare products are relatively high cost at $94.65 and $171.10 PMPM for Medicare Advantage and Medicare Special Needs Plans, respectively. The PMPM costs for Medicare Advantage and Medicare SNP were higher in 2019 versus 2018. Medicare Advantage's average membership mix was 12%, while the average revenue share was 30%. Medicare SNP's average membership mix and revenue mix were 1% and 2%, respectively.

Medicaid products, serving low income people, fall between commercial insured and commercial ASO among the costs of various comprehensive products. Medicaid HMO, has median PMPM cost of $35.04, while the median PMPM for CHIP is $25.35. Medicaid HMO's average share of members is 18% and its revenue share is 17%. Medicaid CHIP's average member mix and revenue mix was 1%.

The median for the Medicare Supplement product was $43.17 and is offered by seven of the ten plans. The average member mix was 2% and revenue mix was 1%. Medicare Supplement is included as a Comprehensive product in the *Sherlock Benchmarks*, though it pays only when Medicare does not. It is a lower than average cost product.

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The mean mix of Commercial insured products was 34% of the membership and 44% of revenues. Administrative expenses for these products are higher than the median comprehensive administrative costs. The single most important Commercial Insured product is HMO at $52.58 PMPM. Indemnity and PPO costs $47.54 while POS costs $49.49.

Commercial ASO products represented a mean of 32% of comprehensive members and 3% of revenues. This membership mix may seem high but one reason is that five of these plans are sponsored by health systems. To assure the comparability of commercial products our reporting convention is that, "In certain provider-sponsored environments, employees of affiliates such as the health system are all required to be enrolled in the health plan. Since the sales and marketing costs for these members are more in line with an ASO/ASC product, these members should be considered ASO/ASC."

While insured commercial products are higher, ASO products are lower. This financing mechanism segmentation indirectly depends on the group size. An ASO group possesses the statistical advantages of larger size, which also means that its Sales and Marketing costs are spread through greater numbers of members. The costs of Commercial ASO products are accordingly lower. These products have a median cost of $26.91.

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%

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Costs of Medicare-Focused Plans, Percent of Premiums by Product

Ranking the administrative expenses by the percent of premiums loosely corresponded with the ranking of the PMPM costs, but there were some important exceptions of high magnitude.

Medicare SNP costs, over three and a half times higher PMPM than Commercial HMO Insured, is 9.0% of premiums, less than HMO Insured. Medicare Advantage costs, while almost two times higher than Commercial HMO Insured PMPM, is 9.2% of premiums, lower than Commercial HMO ratio of 10.1%. The POS and Indemnity & PPO products had ratios of 7.9% and 10.9%, respectively. Ratios are calculated based on premium equivalents for ASO products.

While Medicare Supplement is lower than average cost when measured PMPM, at 18.7%, its cost ratio was the highest among the comprehensive products. Medicaid CHIP had lower PMPM cost than average but, at 11.1%, was higher than average.

Medicaid HMO was below average in PMPM costs and was, at 8.8%, also slightly below average in percent of premiums. Commercial ASO products are 6.5% of premium equivalents. It is also relatively low cost PMPM. The lower Sales and Marketing for self-insured groups is key reason for this difference.

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%

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Costs of Medicare-Focused Plans, Expense Clusters as Percent of Premium

Figure 7 shows the ratios of administrative expenses to premiums or equivalents. Administrative expenses had a median of 8.5% of premiums, 1.1 percentage points lower than last year.

Medical and Provider Management fell by 0.3 percentage points to 1.4% of premiums. Corporate Services declined by 0.3 percentage point to 1.3% of premiums. Account and Membership Administration decreased by 0.2 percentage points to 3.6% of premium. Sales and Marketing was 2.3% of premiums, 0.1 percentage point higher than last year.

Comparisons Across Universes

Health plans in other *Sherlock Benchmark* universes also offer Medicare products. In this section, we compare the results of the Medicare Advantage products offered by Blue Cross Blue Shield Plans and Independent/Provider-Sponsored plans to those of organizations focused on Medicare. Together, these three universes serve 2.1 million Medicare Advantage members, or about 8% of all Medicare Advantage members. Not included in the comparisons are members served through SNP products.

Since the data definitions are the same, it is possible to directly compare our Medicare Advantage universe with Blue Cross Blue Shield Plans and Independent / Provider – Sponsored plans. Sometimes focus leads to cost advantages and we can observe this in this year's benchmark values. Shown in Figure 8, Medicare plans PMPM expenses were $19.98 lower than Blue Cross Blue Shield Plans. Measured as a percent of premiums, were 4.9 percentage points less.

The advantage was greater for against the Independent / Provider - Sponsored plans. The IPS plans were higher by $4.80 on a PMPM basis, and higher on a percent of premium basis by 4.3 percentage points.

Both scale and focus may affect the relative performance of these health plan sets.

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

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

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How We Performed This Analysis

This analysis is based on the seventeenth annual edition of our performance benchmarks for Medicare-focused health plans. The *Sherlock Benchmarks* (*Sherlock Expense Evaluation Report* or *SEER*) represents the cumulative experience of 893 health plan years.

Each peer group in the *Sherlock Benchmarks* is established to be relatively uniform. So, within that constraint, it is open to all Medicare-focused plans possessing the ability to compile high-quality, segmented financial and operational data. This 17th analysis of Medicare plans is based on a peer group of ten plans who collectively serve 11.5 million people. Of the ten plans, six were repeat participants from a year ago.

The average plan participating in the Medicare *Sherlock Benchmarks* this year served 1.2 million people and the median membership was 691,000. The geographic reach extended from coast to coast.

Medicare Advantage (including SNP), were 1.2 million members. It composed an average of 12% of membership and 32% of revenues for comprehensive products. The median Medicare revenue and membership proportion was 27% and 12%, respectively. Medicaid products comprised an average of 18% of membership, offered by all 10 plans.

An average of 67% of membership was commercial, or 8.4 million. Approximately 4.5 million of the commercial members were served under some form of self-insurance arrangement, comprising approximately 53% of the total commercial members.

Figure 8. Sherlock Benchmark Summary
Medicare Advantage Product Characteristics by Universe, 2019 Results

	Medicare Plans	IPS Plans	BCBS Plans	Combined Plans
Total Costs				
Per Member Per Month				
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%
Percent of Premiums and Equivalents				
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

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Reporting Conventions

We employ a number of conventions to make the metrics most beneficial for the audience of *Plan Management Navigator*.

- The trends reported in this analysis are median changes, and when we refer to PMPM or percent of premium ratios, these too are medians. This convention reduces the effect of outlying values on overall trends and values. Since each median value is calculated independently, the components cannot be summed.

- References to growth rates hold the universe constant in the comparison years unless otherwise noted. Rates of change identified as "as-reported" are of health plans participating during both comparison years. When we refer to "constant-mix" we are calculating rates of change for that same constant set of plans after reweighting each plan's values to eliminate the effect of product mix differences between the years.

- Percent of premium ratios are calculated on a *premium-equivalent* basis. That is, in the case of ASO arrangements, we build to a premium from fees by adding them to the health benefits incurred by the self-insured group. In this way, premium equivalents sum to all of the expenses of health insurance, including profits earned by the health plan, analogous to actual premiums on insured products. While not in accordance with GAAP, this approach has two advantages: comparability of ASO ratios with those of insured products offered by these plans, and an intuitive appeal to most readers.

- Expenses exclude capital costs and investment income. Specifically excluded expenses include interest and similar debt capital costs and other capital formation costs (debt or equity), including transaction costs, and interest payments to providers under "prompt pay" laws.

- Participants in and licensees of the *Sherlock Benchmarks* will note that the values for Account and Membership Administration and Total Administrative costs reported here will differ from those reported in the Benchmarks. The values reflected in *Navigator* include administrative expenses associated with pharmacy and behavioral health while the *Sherlock Benchmarks* do not. Because variation in employer benefit designs and the propensity of the administration of these health services to be outsourced by plans accepting these management responsibilities, the *Benchmark* reports carve them out. Pages 22 - 24 in Tab 2 of Volume I of the 2020 *Sherlock Benchmarks* reconciles these two presentations.

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- Medicare Part D is not discussed here since no plans offered it. Interestingly, 75% of Blue Plans offered Medicare Part D, while no Independent / Provider – Sponsored plans offered this product.
- Miscellaneous Business Taxes are a special case among administrative expenses since, short of recapitalization or elimination of commercial insured business, such expenses are impossible to manage. So, expense trends, along with the PMPM and percent of premium ratios, are calculated before the effect of Miscellaneous Business Taxes.

Note on the Sherlock Benchmarks

With the surge in unemployment since mid-March, the secondary effects of the coronavirus may lead to declines in health plan membership and shifts in product mixes. Commercial membership, especially insured, is especially susceptible to declines, while Medicaid and Medicare Advantage may increase in proportion or even in numbers of enrollees.

The *Sherlock Benchmarks* can assist in adapting and achieving operational efficiency driven by the recently volatile operating environment. Moreover, the benchmarks can assist in budgeting for changes in membership and product-mix and for projecting for changes in staffing needs.

The analysis in this *Navigator* is excerpted from the Medicare edition of the 2020 *Sherlock Benchmarks*. In addition to the Medicare universe, we also survey and report on universes of Blue Cross Blue Shield plans, Independent / Provider – Sponsored plans, Larger Health Plans, and Medicaid Plans. Collectively, these plans serve approximately 63 million members. We have reported on all but the Medicaid universe, and will be reporting on this one in the next few weeks. Much more information on health plan costs and operational drivers is available by licensing the *Sherlock Benchmarks*.

Tables of Contents, report formats, citations, quality assurance and other information can be found on the following page.

https://sherlockco.com/sherlock-benchmarks/

In addition, the Sherlock Company website has an application that allows you to try out the Benchmarks for no charge.

https://sherlockco.com/test-drive/

If you are interested in licensing these materials or if we can answer any further questions about them or you have questions about this *Plan Management Navigator*, we hope you will not hesitate to contact us at sherlock@sherlockco.com.

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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. 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%

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Appendix C. 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) 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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