Plan Management Navigator
Analytics for Health Plan Administration

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Growth in Administrative Costs Slightly Ticks Up for Medicare-Focused Plans in 2020

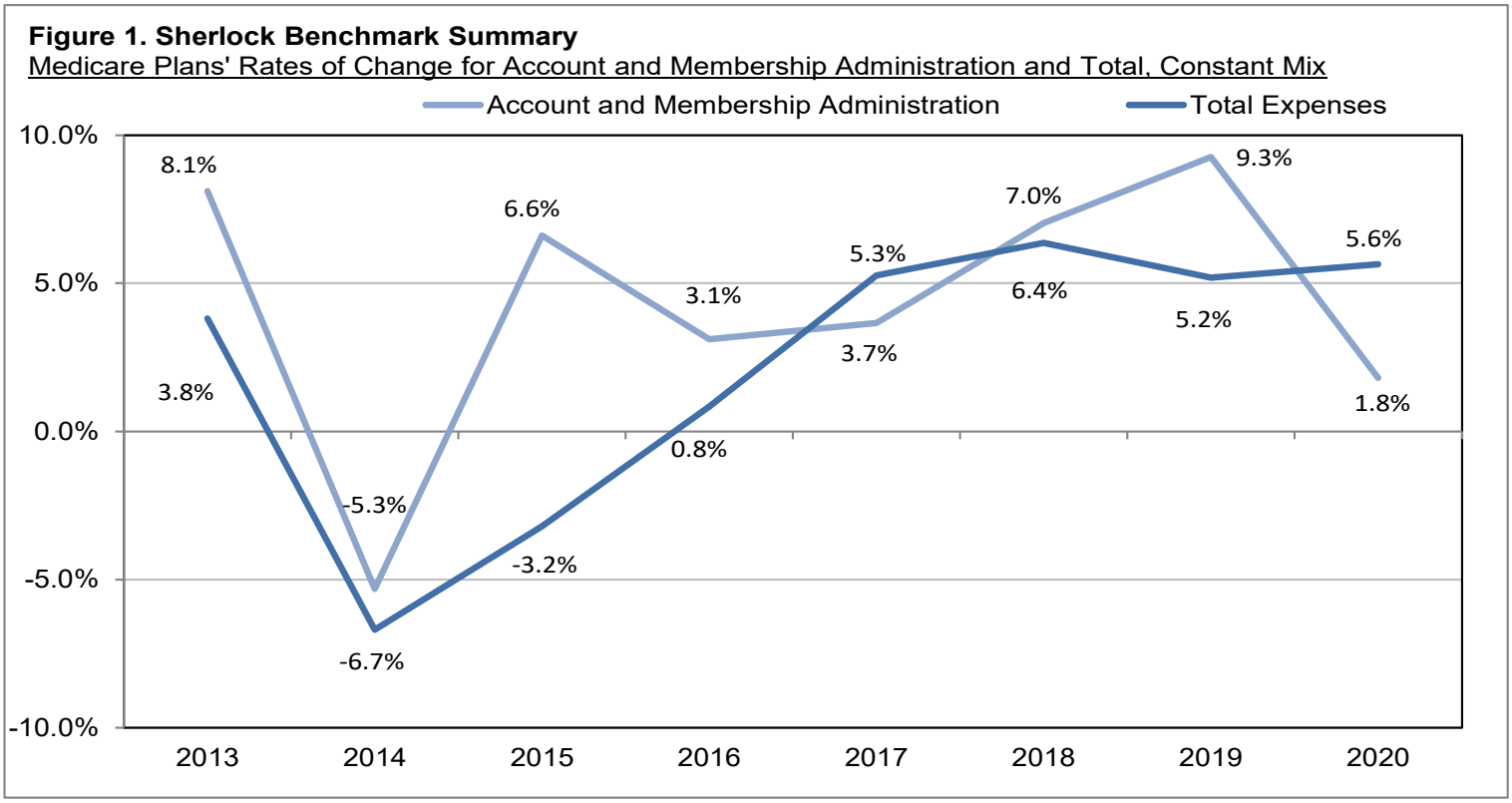
Between 2019 and 2020, administrative cost growth for Medicare-focused plans accelerated from 5.2% to 5.6%, shown in Figure 1. Account and Membership Administration expenses lagged total cost growth, increasing by 1.8% and dropping sharply from last year's rate of 9.3%.

Thirteen plans participated in this year's Medicare benchmarking study, collectively serving 12.2 million people. An average of 41% of revenues of these companies were in Medicare Advantage and Medicare SNP ("Special Needs Plans") products. The seven plans that participated in both 2020 and 2021 cycles 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.

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



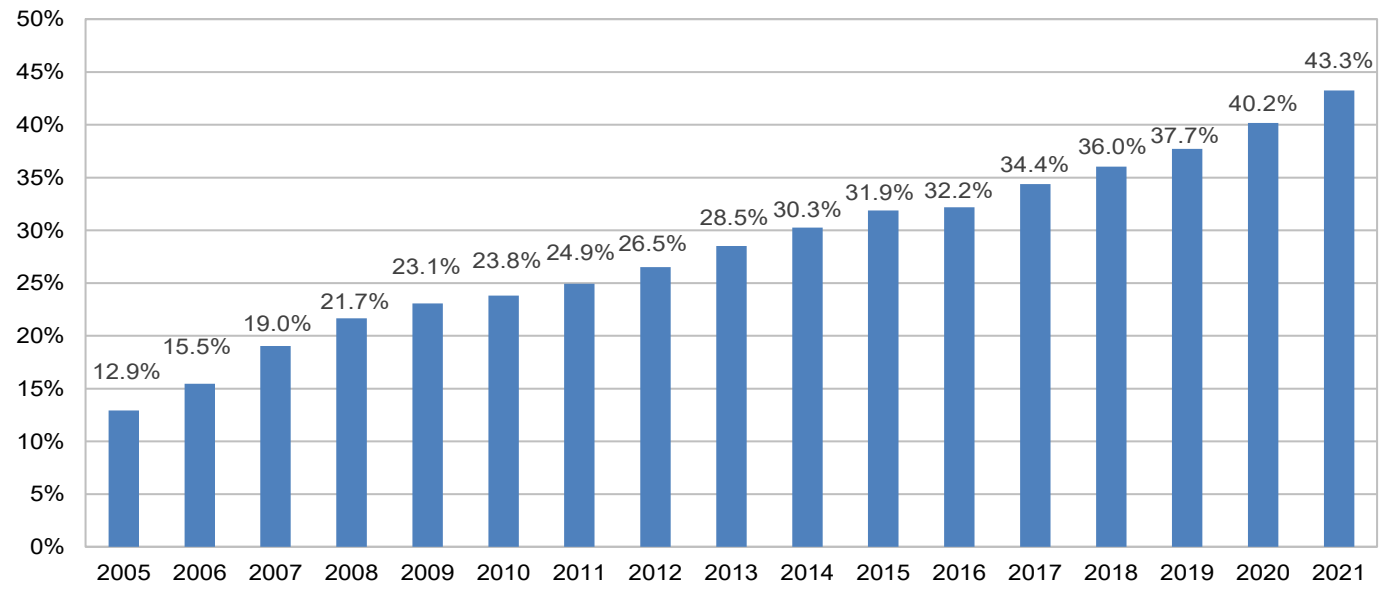
As of March 2021, according to the CMS State/County Penetration file, Medicare Advantage plans served 27.2 million people, an increase of 9.7% from 24.7 million in March of 2020 (please see Figure 2). There were 62.8 million eligible for Medicare in March 2021, and the proportion of beneficiaries selecting Medicare Advantage increased to 43.3% in March 2021 from 40.2% in 2020. Membership in the traditional Fee-For-Service ("FFS") program decreased by 3.4% during that period. (CMS observed that in prior years it had double counted beneficiaries with multiple addresses, overstating FFS beneficiaries. CMS posted revised data going back to 2017. Figure 2 reflects the revised membership in MA and FFS.)

Taking the longer view, the total number of Medicare beneficiaries increased by 19.5 million since 2005. Of those members, 21.6 million elected Medicare Advantage, while FFS membership declined by 2.1 million.

Medicare Advantage membership share grew despite 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 an article published in *Health Affairs* by Garret Johnson et al., Medicare Advantage growth may be raising the bar for its performance by moderating FFS Medicare costs to which MA capitations are set. After all, generally, health plan networks are not exclusive to a single plan, and if an MA health plan is able coach its provider network towards a more conservative style of care, Medicare's FFS program benefits.

Figure 2. Sherlock Benchmark Summary
Medicare Advantage Share



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 2021 Report to the Congress: Medicare Payment Policy, payments to MA plans exceeds FFS spending for each of the various types of MA plans. According to MedPAC, "MA benchmarks in 2021 averaged an estimated 108 percent of FFS spending (including quality bonuses)." But their bids for the base Medicare covered services are 87% of what Medicare pays and, for MA HMOs, that ratio is 86%. (HMOs served 15.0 million or 61% of all Medicare Advantage beneficiaries.)

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 2021, MA plans and HMO type plans were projected to be paid 101% 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 supplemental premium (other than the Part B premium) in 2021." Also, "most Medicare Advantage enrollees have access to some benefits not covered by traditional Medicare in 2021..." For instance, more than 99% have access to eye exams and glasses, 97% for hearing exams / and or aids, 94% for telehealth and dental benefits, and 93% for fitness benefits.

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."

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

	2019 Increase		2020 Increase	
Functional Area	**As Reported**	**Constant Mix**	**As Reported**	**Constant Mix**
Sales and Marketing	6.0%	4.9%	2.4%	2.5%
Medical and Provider Management	7.8%	7.1%	6.4%	5.9%
Account & Membership Administration	8.9%	9.3%	2.2%	1.8%
Corporate Services	-1.9%	-2.8%	19.0%	19.8%
Total Expenses	5.8%	5.2%	5.7%	5.6%

Overall Trends and Product Mix

Figure 3 shows year-over-year trends on both an as-reported and constant-mix basis. When the effect of mix changes are excluded, for the seven continuously participating plans, per member costs grew by 5.6% compared with 5.2% the prior year. On an *as-reported* basis, these continuously participating plans' per member costs grew by 5.7% compared with 5.8% the prior year. These changes and all other trends and PMPM costs exclude Miscellaneous Business Taxes.

Cost trends on an as-reported basis reflected a slight shift in favor of higher cost products. This was manifest in higher cost growth on an as-reported basis, 5.7% versus 5.6% 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 0.03 percentage points.

Continuously participating plans served 1.3 million Medicare Advantage and Medicare SNP members. In addition, they also served 438,000 Medicare Supplement members. By comparison, the universe as a whole served 1.7 million Medicare Advantage and Medicare SNP members plus 497,000 Medicare Supplement members.

Among continuous plans, membership growth in higher cost Medicare Advantage and Medicare SNP increased, at a median rate of 2.5% and 12.6%, respectively. Medicare Supplement fell at a median rate of 4.6%. Commercial Insured membership declined by a median of 3.9%, while Commercial ASO fell at a median rate of 1.2%. Commercial Total decreased by a median of 4.1%. Medicaid HMO increased by 6.5%, but Medicaid CHIP decreased by 1.4%. Comprehensive membership fell at a median rate of 1.1%.

Overall Trends and Product Mix

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 these calculations, we reweight the plans' expenses so that the product mix of the prior year matches that of the current year. Again, only those plans that reported in both periods are included in these comparisons.

Corporate Services, Corporate Executive and Governance, Advertising and Promotion, and Marketing were functions with notably rapid increases. Also, Staffing Ratios increased and Outsourcing declined.

CORPORATE SERVICES

The Corporate Services cluster was the fasting growing cluster, at 19.8%. The Corporate Services cluster's Staffing Ratio increased as Compensation declined as did the propensity to outsource.

The Corporate Services Function was the fastest growing function and most important source of growth. HR, Legal, Purchasing, Imaging, Risk Management and Other Corporate Services increased as Printing and Mailroom declined. The Corporate Services function's Staffing Ratio increased, outsourcing decreased and non-labor costs increased.

The Corporate Executive and Governance was the second fastest growing function for this cluster, and the third largest contributor to overall cost growth. Staffing Ratio and Non-Labor Costs per FTE increased while Outsourcing declined.

Finance and Accounting and Actuarial functions also posted increases, while Association Dues and License/Filing Fees was the only function within the Corporate Services Cluster to fall.

Medical and Provider Management

The Medical and Provider Management cluster was the second fastest growing cluster, at 5.9%. Its Staffing Ratio and Non-Labor increased and outsourcing declined.

The larger Medical Management function was the more important source of cluster growth and grew at a faster rate compared to the Provider Network Management and Services function. Medical Management Staffing Ratio, Staffing Costs per FTE, and Non-Labor Costs per FTE were higher. The growth in Nurse Information Line, Health and Wellness, and Other Medical Management were in double digits. Conversely, the Disease Management sub-functions declined.

The Provider Network Management and Services functional area also posted year-over-year growth. The growth in Provider Relations Services and Provider Contracting offset the decline in the Other Provider Network Management and Services sub-function. For the Provider Network Management and Services function as a whole, Staffing Ratio and Non-Labor Costs per FTE grew, while Compensation per FTE fell.

Sales and Marketing

The Sales and Marketing cluster's costs grew by 2.5%. All functions experienced year-over-year growth except for Rating and Underwriting. Compensation increased and Outsourcing decreased.

Advertising and Promotion increased at the fastest rate with both Media and Advertising and Charitable Contributions increasing. Advertising and Promotion's Staffing Ratio, Compensation, Non-Labor Costs, and Outsourcing all increased.

Marketing was the second fastest growing function in this cluster driven by increases in Product Development and Market Research. Staffing Ratios declined as Outsourcing increased. Both Staffing Costs per FTE and Non-Labor Costs were lower.

Account and Membership Administration

This cluster of expenses experienced PMPM cost increase of 1.8%, the slowest since 2014. Customer Services posted gains for the cluster, while Claims posted declines. For this *Navigator* analysis, Account and Membership Administration also includes Pharmacy and Behavioral Health expenses. These activities amplified cost growth by a median rate of 0.7 percentage points though Behavioral Health administration costs tended to decline.

Enrollment / Membership / Billing had the highest median growth of functions in this cluster, driven by the growth in the Enrollment and Membership sub-function, as Billing declined.

Customer Services grew at the second fastest rate in this cluster. The Staffing Ratio and Staffing Costs per FTE was higher than last year, while Non-Labor Costs and Outsourcing was lower.

Information Systems costs declined, a dramatic difference from the normal pattern of growth. Operations and Support Services and Applications Maintenance both declined as Applications Acquisition and Development increased. The function's Staffing Ratio was higher and Outsourcing was lower. Staffing Costs and Non-Labor Costs were both lower.

As-Reported Trends

When a plan reports costs in sequential years, the per member changes 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 so that as-reported costs grew slightly faster than when product mix is eliminated, 5.7% versus 5.6%. This section will highlight the functions with especially notable trend differences between the as-reported and constant mix trend calculations.

The difference in Medical and Provider Management costs between as-reported and constant-mix was the largest among clusters. This cluster's as-reported increase was 0.5 percentage points higher, 6.4% versus 5.9% on a constant-mix basis. Medical Management increased at a faster pace on an as-reported basis. Most of the Medical Management sub-functions accelerated on this basis including Case Management, Health and Wellness, Quality Components and Medical Informatics. 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, due to faster growth in Provider Relations Services and Provider Contracting.

The Account and Membership cluster increased by 2.2% on an as-reported basis and compares to the 1.8% increase on a constant mix basis, a 0.4 percentage point difference. Both Enrollment / Membership / Billing and Customer Services increased faster on an as-reported basis. Conversely, the decline in Claims and Information Systems was slightly faster on an as-reported basis. Pharmacy administration expenses increased much more sharply on an as-reported basis.

Sales and Marketing costs increased by 2.4% on an as-reported basis, slightly behind the constant-mix growth of 2.5%. All functions in the Sales and Marketing cluster to grew slower on an as-reported basis, except Rating and Underwriting which grew rather than declining.

Corporate Services cluster's as-reported costs grew by 19.0% on an as-reported basis, 0.8 percentage points lower than the constant-mix increase of 19.8%. Actuarial and Corporate Services Function increased at a slower rate on an as-reported basis: Corporate Services is by far the largest function in this cluster. Functions that grew faster within this cluster include Finance and Accounting and Corporate Executive and Governance, and the decline in Association Dues and License / Filing Fees declined at a slower rate.

The faster expense growth on an as-reported basis has an intuitive relationship to the increase in the mix of Medicare Advantage among these plans. The higher cost growth on an as-reported basis reflected the higher health care needs of the senior population. This was evident in Account and Membership Administration, such as Pharmacy administration, and also Medical and Provider Management. But it was also evident in the Sales and Marketing function of Rating and Underwriting, which contains Risk Adjustment costs.

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 *median* values for 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, this reflects both internal and outsourced staffing. Outsourced staffing is inferred, often calculated from invoice amounts by assuming that all products have the same mix of staffing and non-labor costs.) The sharpest increases were in Actuarial, Corporate Executive and Governance and Medical Management.

The median compensation per FTE was approximately $100,000, slightly lower than the median of last year last year. (The average increased slightly.) Compensation in six of the 14 functions with staffing declined led by Corporate Executive and Governance, Provider Network Management, and Marketing.

Overall propensity to outsource was lower, to 9% of the total FTEs, and nine of the fourteen functional areas with staff also declined. Rating and Underwriting (especially Risk Adjustment), Enrollment / Membership / Billing, and Corporate Executive and Governance experienced the most rapid decreases.

Growth in Corporate Services Function, Medical Management, and Corporate Executive and Governance were central to the increase in expenses for 2020. All three functions experienced higher Staffing Ratios and Non-Labor Costs per FTE, while all posting lower outsourcing. Compensation was higher for Medical Management and Corporate Services.

Costs of Medicare-focused Plans, by Cluster, PMPM

Figure 4 shows the values of administrative expenses for all 13 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 three plans drop out, but had five 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 median total PMPM administrative expenses are $45.45, 6.9% higher than last year's values, shown in Appendix A. (Note, the product mix for *all* thirteen plans in 2020 had more Medicare Advantage and less Commercial ASO and Medicaid for all ten plans in 2019.)

Figure 4. Sherlock Benchmark Summary
Medicare Plans' Costs by Functional Area Cluster, 2020 Results
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	$9.61	$11.62	$16.22	37%
Medical and Provider Management	6.66	7.50	10.74	60%
Account and Membership Administration	15.70	18.44	21.17	31%
Corporate Services	6.92	7.58	8.74	32%
Total Expenses	$41.99	$45.45	$51.88	34%

The Corporate Services cluster was higher by 13.9%, while the Account and Membership cluster was up by 3.4%. Sales and Marketing and Medical and Provider Network Management clusters were 1.8% and 1.4% higher, respectively.

Dispersion for Total Expenses, measured by the Coefficient of Variation, increased by 7 percentage points. Dispersion increased for all of the clusters except for Corporate Services, which declined by 2 percentage points. When measured by the difference between 75th and 25th percentiles, the dispersion of each cluster increased as did expenses as a whole.

Account and Membership Administration is the largest cluster of expenses at a median value of $18.44, higher than last year's median of $17.84. This cluster composed 41% 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.

The Corporate Services cluster costs posted the largest increase from $6.66 PMPM last year to $7.58 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 $11.62 and compares to $11.41 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 $7.50, while last year's value was $7.39. 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 in assessing performance is shown in Figure 5. The products vary greatly in their per member costs and, for each plan, the mix of those products affects total costs for the organization. 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.

An example of the effect of mix is found in Figure 3. When 2019 product costs are weighted to reflect the average mix in 2020, expense growth declined from 5.7% to 5.6%. Recall that participants are the same over the years.

Medicare products are relatively high cost at $101.72 and $204.44 PMPM for Medicare Advantage and Medicare Special Needs Plans, respectively. The PMPM costs for Medicare Advantage and Medicare SNP were higher in 2020 versus the prior year. Medicare Advantage's average membership mix was 17%, while the average revenue share was 39%. 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 $28.50, while the median PMPM for CHIP is $23.59. Medicaid HMO's average share of members is 21% and its revenue share is 16%. Medicaid CHIP's average member mix was 1% and revenue mix was less than 1%.

The median for the Medicare Supplement product was $38.13 and is offered by seven of the 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.

The mean mix of Commercial insured products was 30% of the membership and 36% 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 $54.09 PMPM. Indemnity and PPO costs $54.51 while POS costs $48.19.

Commercial ASO products represented a mean of 29% of comprehensive members and 2% of revenues. While insured commercial products are higher cost, ASO products are lower cost. 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 $22.90.

Figure 5. Sherlock Benchmark Summary
Medicare Plans' Costs by Product, 2020 Results
Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	$93.40	$103.40	$117.61	28%
Advantage	$93.40	$101.72	$109.99	28%
SNP	$182.22	$204.44	$267.73	33%
Medicare Supplement	$30.93	$38.13	$41.31	34%
Medicaid Total	$26.04	$28.20	$40.47	25%
HMO	$26.04	$28.50	$40.47	26%
CHIP	$21.14	$23.59	$28.36	16%
Commercial Insured Total	$45.13	$53.51	$57.43	32%
HMO	$48.40	$54.09	$59.73	36%
POS	$45.20	$48.19	$49.97	11%
Indemnity & PPO	$45.50	$54.51	$67.06	34%
Commercial ASO	$17.42	$22.90	$29.98	63%
Comprehensive Total	$41.99	$45.45	$51.88	34%

Costs of Medicare-focused plans, Percent of Premiums by Product

When analyzing administrative expenses by percent of premiums, most of the differences visible in PMPM comparisons diminished.

Medicare SNP costs, over three and a half times higher PMPM than Commercial HMO Insured, is 12.6% of premiums and only about 30% higher on a percent of premium basis. Medicare Advantage costs, while almost two times higher than Commercial HMO Insured PMPM, is 10.5% of premiums, slightly higher than Commercial HMO ratio of 9.7%. The POS and Indemnity & PPO products had ratios of 8.4% and 10.8%, respectively. Ratios are calculated based on premium equivalents for ASO products.

Medicaid HMO is below average in PMPM costs and was, at 8.5%, also slightly below average in percent of premiums.

Commercial ASO products are 6.8% 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.

While Medicare Supplement is lower than average cost when measured PMPM, at 16.9%, its cost ratio is the highest among the comprehensive products. Medicaid CHIP has lower PMPM cost than average but, at 12.0%, is higher than average.

Figure 6. Sherlock Benchmark Summary
Medicare Plans' Costs by Product, 2020 Results
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	8.7%	10.1%	12.0%	28%
Advantage	8.7%	10.5%	11.8%	28%
SNP	11.7%	12.6%	14.5%	18%
Medicare Supplement	16.0%	16.9%	19.3%	34%
Medicaid Total	8.3%	8.6%	11.5%	29%
HMO	8.2%	8.5%	11.1%	30%
CHIP	11.1%	12.0%	16.8%	36%
Commercial Insured Total	8.7%	10.0%	12.4%	31%
HMO	8.5%	9.7%	12.3%	36%
POS	7.4%	8.4%	10.0%	23%
Indemnity & PPO	8.6%	10.8%	13.4%	40%
Commercial ASO	4.2%	6.8%	8.2%	65%
Comprehensive Total	7.9%	9.1%	10.8%	33%

Broadly speaking, the administrative costs reflect the underlying health care needs of the population served by each product. In the case of Medicare Supplement and CHIP health care needs are diminished leading to a higher relative percents than PMPMs. In the case of Medicare Supplement, this reflects that it is a secondary payor, in the case of CHIP, this reflects the tendency for health care costs for children to be modest.

Costs of Medicare-focused plans, Expense Clusters as a Percent of Premium

Figure 7 shows the ratios of administrative expenses to premiums or equivalents. Administrative expenses had a median of 9.1% of premiums, 0.5 percentage points higher than last year.

Corporate Services increased by 0.2 percentage points to 1.5% of premiums, while Medical and Provider Management increased by 0.1 percentage points to 1.5% of premiums. The Sales and Marketing cluster remained at 2.3%, while Account and Membership fell by 0.1 percentage point to 3.5%.

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 almost 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 $46.17 lower than Blue Cross Blue Shield Plans. Measured as a percent of premiums, were 9.1 percentage points less.

Figure 7. Sherlock Benchmark Summary
Medicare Plans' Costs by Functional Area Cluster, 2020 Results
Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.1%	2.3%	3.0%	29%
Medical and Provider Management	1.4%	1.5%	1.9%	66%
Account and Membership Administration	3.2%	3.5%	4.1%	31%
Corporate Services	1.2%	1.5%	1.9%	27%
Total Expenses	7.9%	9.1%	10.8%	33%

The advantage was less compared to the Independent / Provider - Sponsored plans. The IPS plans were higher by $16.05 on a PMPM basis, and higher on a percent of premium basis by 3.5 percentage points.

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

How We Performed This Analysis

This analysis is based on the eighteenth annual edition of our performance benchmarks for Medicare-focused health plans. The *Sherlock Benchmarks* (*Sherlock Expense Evaluation Report* or *SEER*) represent the cumulative experience of 929 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 18th analysis of Medicare plans is based on a peer group of 13 plans who collectively serve 12.2 million people. Of the thirteen plans, seven 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 941,000. The geographic reach extended from coast to coast.

Medicare Advantage (including SNP) were 1.7 million members. It composed an average of 41% of revenues and 18% of membership and for comprehensive products. The median Medicare revenue and membership proportion was 40% and 17%, respectively.

Figure 8. Sherlock Benchmark Summary

Medicare Advantage Product Characteristics by Universe, 2020 Results

	Medicare Plans	IPS Plans	BCBS Plans	Combined Plans
Total Costs				
Per Member Per Month				
25th Percentile	$93.40	$80.80	$143.69	$94.82
Median	101.72	117.77	147.89	112.90
75th Percentile	109.99	151.77	185.92	151.05
Coefficient of Variation	28%	44%	42%	45%
Percent of Premiums and Equivalents				
25th Percentile	8.7%	10.0%	14.4%	9.5%
Median	10.5%	14.0%	19.6%	12.0%
75th Percentile	11.8%	15.9%	23.7%	16.2%
Coefficient of Variation	28%	41%	45%	50%
Plans offering Medicare	13	5	9	27
Medicare Advantage Members (millions)	1.63	0.12	0.36	2.11
Comprehensive Total Members (millions)	12.23	4.58	32.35	49.16

Medicaid products comprised a median of 11% of revenues average of 22% of membership, and was offered by 10 plans.

An average of 38% of revenues and 58% of membership was commercial, or 8.0 million. Approximately 4.4 million of the commercial members were served under some form of self-insurance arrangement, comprising approximately 55% of the total commercial members.

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 fees 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 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 mental 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 2021 *Sherlock Benchmarks* reconciles these two presentations.

- Medicare Part D is not discussed, but there were four plans that offered this product. Interestingly, 64% of Blue Plans offered Medicare Part D, while two Independent / Provider – Sponsored plans offered this product. The median administrative cost for this product was $13.81 PMPM and the mean was $18.04.

- 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 generally calculated *before* the effect of Miscellaneous Business Taxes.

- COVID-19 adaptation had costs that are fully reflected in the administrative expenses reported here. They were apparently modest; only three plans reported them, and the median amount they reported was $0.62 PMPM and the average cost was $0.56 PMPM. The reported COVID-19 expense amounts to approximately 1.3% of total administration and 0.2% of premiums.

Note on the Sherlock Benchmarks

Federal and state governments, faced with the acute threat and uncertain magnitude of the coronavirus, shut down much of the US economy in early 2020. Since most working age people receive health insurance through their employers, as anticipated, commercial health plan enrollment declined, and the mix of membership shifted towards Medicaid and Medicare. One potential cost variance that we had feared was that a decline in overall membership could have led to negative operating leverage and, happily, this did not occur.

A second potential source of cost variance also did not occur, significant increases in direct expenses for adaption, such as heightened facility cleaning, information systems support and customer services. Few plans reported such expenses and those that did reported modest costs. We suspect that many of those organizations that did not report COVID-19 adaptation costs found that the amounts were too small to be measurable.

The *Sherlock Benchmarks* can assist in adapting and achieving operational efficiency driven by the volatile operating environments. 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 2021 *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 54 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. This can be found on the following page.

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 (sherlock@sherlockco.com).

Appendix A. 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%

Appendix B. 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%

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 & 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 and Governance
16. Association Dues and License/Filing Fees

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