

# ADMINISTRATIVE COST TRENDS OF MEDICARE- FOCUSED PLANS IN 2021



*Photograph by Jay Fleming.*

*SHERLOCK BENCHMARKS*

Douglas B. Sherlock, CFA

President, Sherlock Company

[sherlock@sherlockco.com](mailto:sherlock@sherlockco.com)

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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

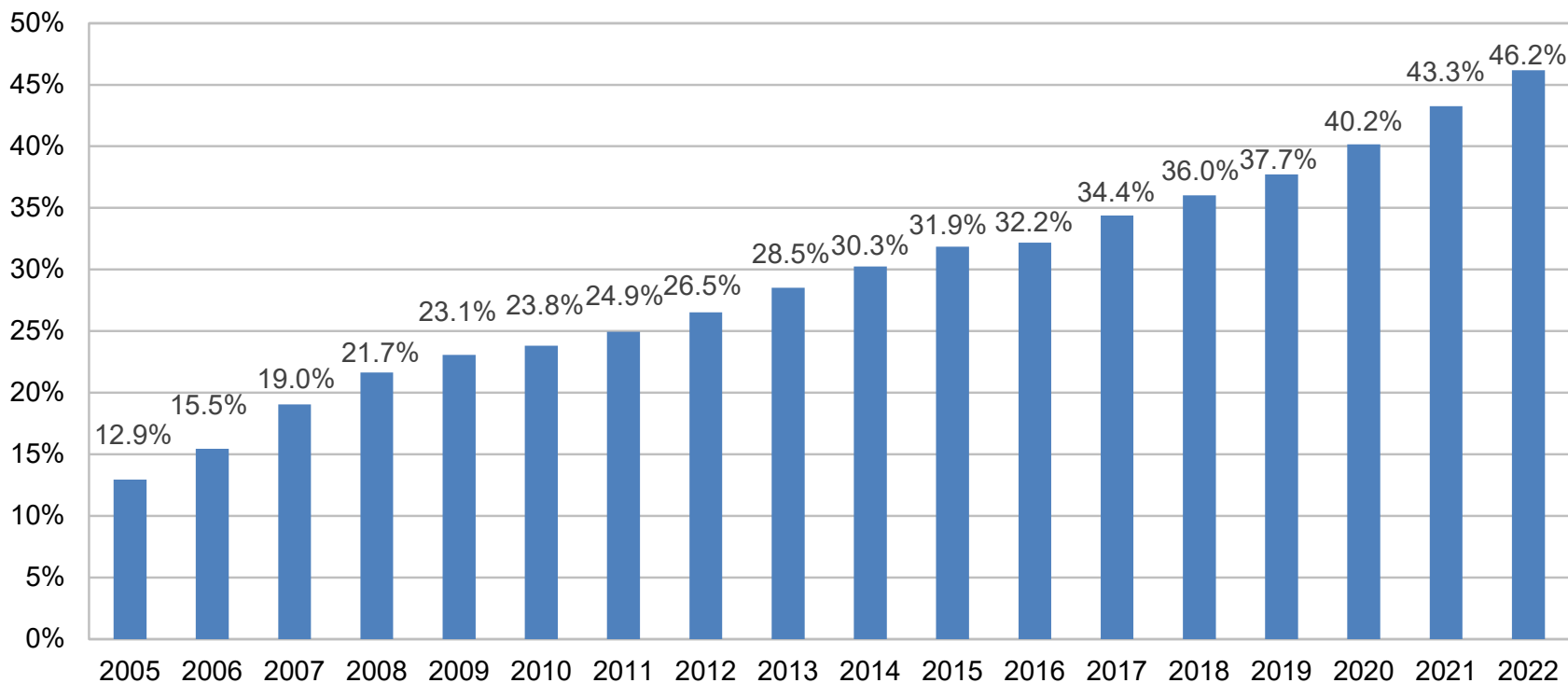
- Last year's cluster values
- Functions in each cluster of expenses
- About the *Sherlock Benchmarks*

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



# BACKGROUND ON MEDICARE AND MEDICARE ADVANTAGE

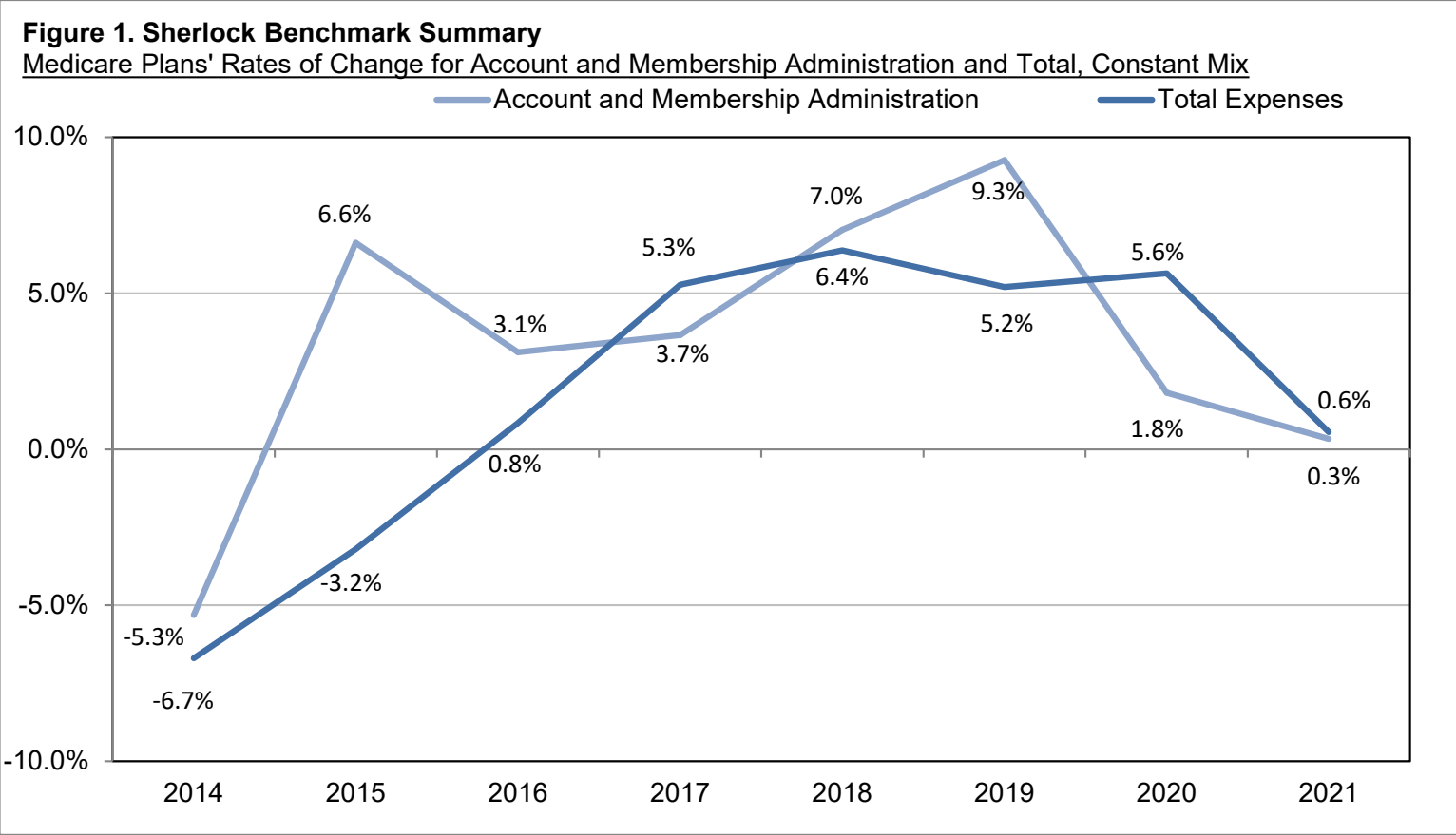
**Figure 2. Sherlock Benchmark Summary**  
Medicare Advantage Share



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



# BOTH TOTAL AND A&M ADMINISTRATION INCREASED, BUT AT A SLOWER PACE THAN 2020.



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

# AMONG CONTINUOUSLY PARTICIPATING PLANS, WHEN MIX IS HELD CONSTANT COST GROWTH DECELERATED TO AN INCREASE OF 0.6%.

**Figure 3. Sherlock Benchmark Summary**

Medicare Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2020 Increase		2021 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	2.4%	2.5%	-0.5%	1.6%
Medical and Provider Management	6.4%	5.9%	1.2%	1.0%
Account & Membership Administration	2.2%	1.8%	0.8%	0.3%
Corporate Services	19.0%	19.8%	-5.8%	-3.7%
<b>Total Expenses</b>	5.7%	5.6%	0.7%	0.6%

*The Constant Mix comparison adjusts to exclude product mix differences between years.*

# SOURCES OF “REAL” GROWTH IN MEDICARE-FOCUSED PLANS ADMINISTRATIVE COSTS IN 2021

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	1.6%	Broker Commissions ↑	Broker Commissions ↑
Med & Provider	1.0%	Provider Network Mgmt ↑	Medical Management ↓
Acct & Membership	0.3%	Claims ↑	Information Systems ↓
Corp. Serv.	<u>-3.7%</u>	Corp Serv Function ↓	Corp Serv Function ↓
Total	0.6%	Corp Serv Function ↓	Corp Serv Function ↑



# SOURCES OF *REPORTED* GROWTH IN MEDICARE-FOCUSED PLANS ADMINISTRATIVE COSTS IN 2021

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	-0.5%	Sales ↓	Sales ↓
Med & Provider	1.2%	Provider Network ↑	Medical Management ↓
Acct & Membership	0.8%	Claims ↑	Information Systems ↓
Corp. Serv.	<u>-5.8%</u>	Corp Serv Function ↓	Corp Serv Function ↓
Total	0.7%	Corp Serv Function ↓	Corp Serv Function ↓



# COMPARED WITH 2020, COSTS WERE 2.7% HIGHER IN 2021. COST TRENDS, CHANGES IN THE PRODUCT MIX AND UNIVERSE WERE RESPONSIBLE.

**Figure 4. Sherlock Benchmark Summary**  
 Medicare Plans' Costs by Functional Area Cluster, 2021 Results  
 Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2020 Values Median
Sales and Marketing	\$9.37	\$12.19	\$13.80	23%	\$11.62
Medical and Provider Management	7.24	9.06	10.18	24%	7.50
Account and Membership Administration	16.92	19.36	20.36	21%	18.44
Corporate Services	5.90	7.31	8.56	28%	7.58
<b>Total Expenses</b>	<b>\$43.31</b>	<b>\$46.69</b>	<b>\$50.75</b>	<b>17%</b>	<b>\$45.45</b>





# PMPMs VARY BY PRODUCT.

## Figure 5. Sherlock Benchmark Summary

Medicare Plans' Costs by Product, 2021 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	\$104.12	\$121.49	\$125.33	26%
Advantage	\$103.91	\$111.15	\$118.75	25%
SNP	\$170.70	\$194.49	\$270.36	57%
Medicare Supplement	\$26.64	\$31.82	\$35.27	28%
Medicaid Total	\$26.43	\$31.13	\$35.00	19%
HMO	\$26.45	\$31.12	\$35.15	19%
CHIP	\$24.04	\$24.75	\$26.21	9%
Commercial Insured Total	\$46.25	\$52.86	\$53.94	24%
HMO	\$47.74	\$50.72	\$55.81	25%
POS	\$44.08	\$46.24	\$51.43	20%
Indemnity & PPO	\$51.30	\$53.84	\$59.93	16%
Commercial ASO	\$24.87	\$27.43	\$30.28	26%
Commercial Total	\$36.83	\$38.34	\$48.29	17%
<b>Comprehensive Total</b>	\$43.31	\$46.69	\$50.75	17%

# PERCENTS USUALLY ORDERED SIMILARLY TO PMPMs.

**Figure 6. Sherlock Benchmark Summary**  
Medicare Plans' Costs by Product, 2021 Results  
*Percent of Premium Equivalents*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Medicare	9.4%	11.3%	11.8%	19%
Advantage	9.3%	11.0%	11.8%	19%
SNP	10.6%	12.4%	13.9%	19%
Medicare Supplement	12.9%	15.9%	24.2%	45%
Medicaid Total	7.0%	7.7%	9.0%	19%
HMO	6.9%	7.7%	8.9%	20%
CHIP	11.4%	12.1%	13.7%	24%
Commercial Insured Total	9.6%	9.8%	10.1%	22%
HMO	8.8%	9.5%	10.0%	26%
POS	7.6%	8.7%	9.6%	18%
Indemnity & PPO	9.9%	10.8%	10.9%	21%
Commercial ASO	5.9%	6.2%	7.0%	26%
Commercial Total	8.0%	9.0%	9.1%	14%
<b>Comprehensive Total</b>	8.5%	8.7%	9.5%	12%

CLUSTERS WERE MIXED COMPARED TO THE 2020 VALUES. TOTAL WAS LOWER, AS WAS SALES AND MARKETING AND CORPORATE SERVICES. MEDICAL AND PROVIDER MANAGEMENT AND ACCOUNT AND MEMBERSHIP ADMINISTRATION WERE SLIGHTLY HIGHER.

**Figure 7. Sherlock Benchmark Summary**  
Medicare Plans' Costs by Functional Area Cluster, 2021 Results  
*Percent of Premium Equivalents*

2020  
 Values

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>	<b>Median</b>
Sales and Marketing	1.9%	2.1%	2.5%	20%	2.3%
Medical and Provider Management	1.4%	1.6%	1.9%	31%	1.5%
Account and Membership Administration	3.3%	3.6%	4.1%	16%	3.5%
Corporate Services	1.1%	1.4%	1.6%	20%	1.5%
<b>Total Expenses</b>	<b>8.5%</b>	<b>8.7%</b>	<b>9.5%</b>	<b>12%</b>	<b>9.1%</b>



# COMPARISONS WITH BLUE AND IPS UNIVERSES

**Figure 8. Sherlock Benchmark Summary**

Medicare Advantage Product Characteristics by Universe, 2021 Results

	Medicare Plans	IPS Plans	BCBS Plans	Combined Plans
<b>Total Costs</b>				
<i>Per Member Per Month</i>				
25th Percentile	\$103.91	\$123.00	\$123.15	\$110.36
Median	111.15	156.73	157.90	125.78
75th Percentile	118.75	177.86	186.46	160.96
Coefficient of Variation	25%	28%	47%	42%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	9.3%	11.3%	12.1%	10.0%
Median	11.0%	15.8%	16.1%	12.5%
75th Percentile	11.8%	21.4%	20.1%	17.7%
Coefficient of Variation	19%	36%	49%	47%
Plans offering Medicare	10	7	12	29
Medicare Advantage Members (millions)	1.57	0.15	0.72	2.44
Comprehensive Total Members (millions)	12.27	5.44	40.19	57.90

# MEDICARE-FOCUSED PLANS' ADMIN COSTS GREW SLIGHTLY IN 2021



- Medicare plans' admin costs were \$46.69 PMPM versus \$45.45 last year. Actual performance, differences in universes and product mix changes were responsible.
- Expenses increased by 0.7% compared with an increase of 5.7% in 2020. Excluding product mix changes, costs grew by 0.6% versus last year's 5.6%.
- Membership typically grew. MA and SNP and Medicaid HMO grew as Commercial declined.
- Sales & Marketing grew, primarily on Commissions, while Marketing and Advertising & Promotion were lower.
- Account & Membership Administration increased, mostly on Claims growth. But IS fell.
- Medical & Provider Management grew despite the drop in Medical Management. Provider Network increased.
- Corporate Services Cluster dropped mainly on lower Corporate Services *Function* costs.
- Average comp was \$104,000, 61 FTEs per 10k Medicare Members, 9% of which were outsourced.



# APPENDIX A. MEDICARE-FOCUSED PLANS' ADMINISTRATIVE COSTS IN 2020

**Appendix A. Sherlock Benchmark Summary**  
Medicare Plans' Costs by Functional Area Cluster, 2020 Results  
*Per Member Per Month*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
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%
<b>Total Expenses</b>	<b>\$41.99</b>	<b>\$45.45</b>	<b>\$51.88</b>	<b>34%</b>

# APPENDIX B. MEDICARE-FOCUSED PLANS' ADMINISTRATIVE COSTS IN 2020

## Appendix B. Sherlock Benchmark Summary

Medicare Plans' Costs by Functional Area Cluster, 2020 Results  
*Percent of Premium Equivalents*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
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%
<b>Total Expenses</b>	7.9%	9.1%	10.8%	33%

# 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: 80% of Medicare participants from last year did so again this year. Half of the have five or more years of participation.
- ***Checks*** - In survey instrument and in analytical module; Anomalies investigated.
- ***Data Validation*** – Reconciled to audit. Preliminary results provided for proofing.
- ***Business model*** - No conflicts of interest; no “Tragedy of the Commons.”





# APPENDIX D. SUMMARY OF THE REPORTS AND GUIDELINES

- The **financial metrics** report analyzes costs segmented by function and by product. They are standardized by PMPMs and by Percent.
- The **staffing and compensation** report analyzes the staffing ratios, per employee compensation and propensity to outsource. We supply estimates of staffing ratios by product.
- The **operational metrics** include operational metrics unique to particular functions such as the average speed of answer in member services and the time between claim receipt and payment approved. While completion of many of these metrics is optional, you will receive the results of your universe.
- **Medical management** metrics are comprised of results for all universes. These include the costs to manage various cases and diseases. This is optional like the operational metrics.
- **Health care utilization** metrics are also comprised of results for all universes. Unit cost and volumes are provided for each product for 40 health care services and products.
- The **CFO Letter** summarizes and analyzes the financial metrics, staffing, and compensation reports. After eliminating the effect of product mix differences, variances from norms are identified and functions are ranked in order of importance. We calculate the value of the factors of staffing ratios, compensation and non-labor costs, and their relative contribution to each functional variance.
- The **Common Guidelines** provide detailed definitions of activities and calculation notes.



# APPENDIX E. STRONG NETWORK, BROAD ACCEPTANCE

- The *Sherlock Benchmarks* is in its 25<sup>th</sup> consecutive year. We expect that our cumulative experience to total approximately 963 plan years by year-end 2022. Expect ~34 plans serving ~63 million members to participate in 2021.
- Since June 2019, health plans serving more than 210 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 33 U.S.-based Blue Cross Blue Shield primary licensees, sixteen serving approximately 49.1 million people, participate in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Of the 15 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, six are participating in this year's Sherlock Benchmarking Study for Independent / Provider - Sponsored health plans.
- Four of the 10 largest commercial-focused Health Plan Alliance members are participating in this year's Sherlock Benchmarks.

