

ADMINISTRATIVE COST TRENDS OF MEDICARE- FOCUSED PLANS IN 2022



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SHERLOCK BENCHMARKS

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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

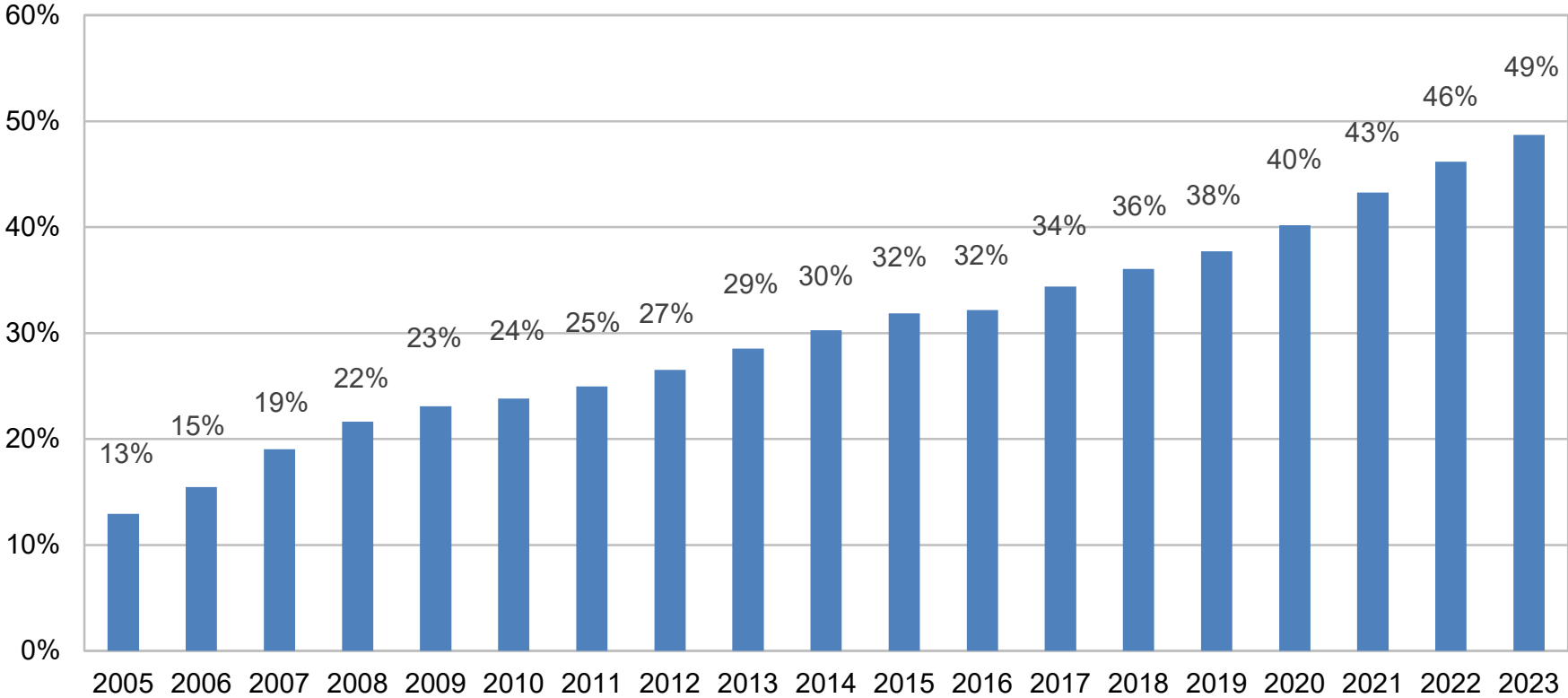
- Last year's cluster values
- Functions in each cluster of expenses
- About the *Sherlock Benchmarks*

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



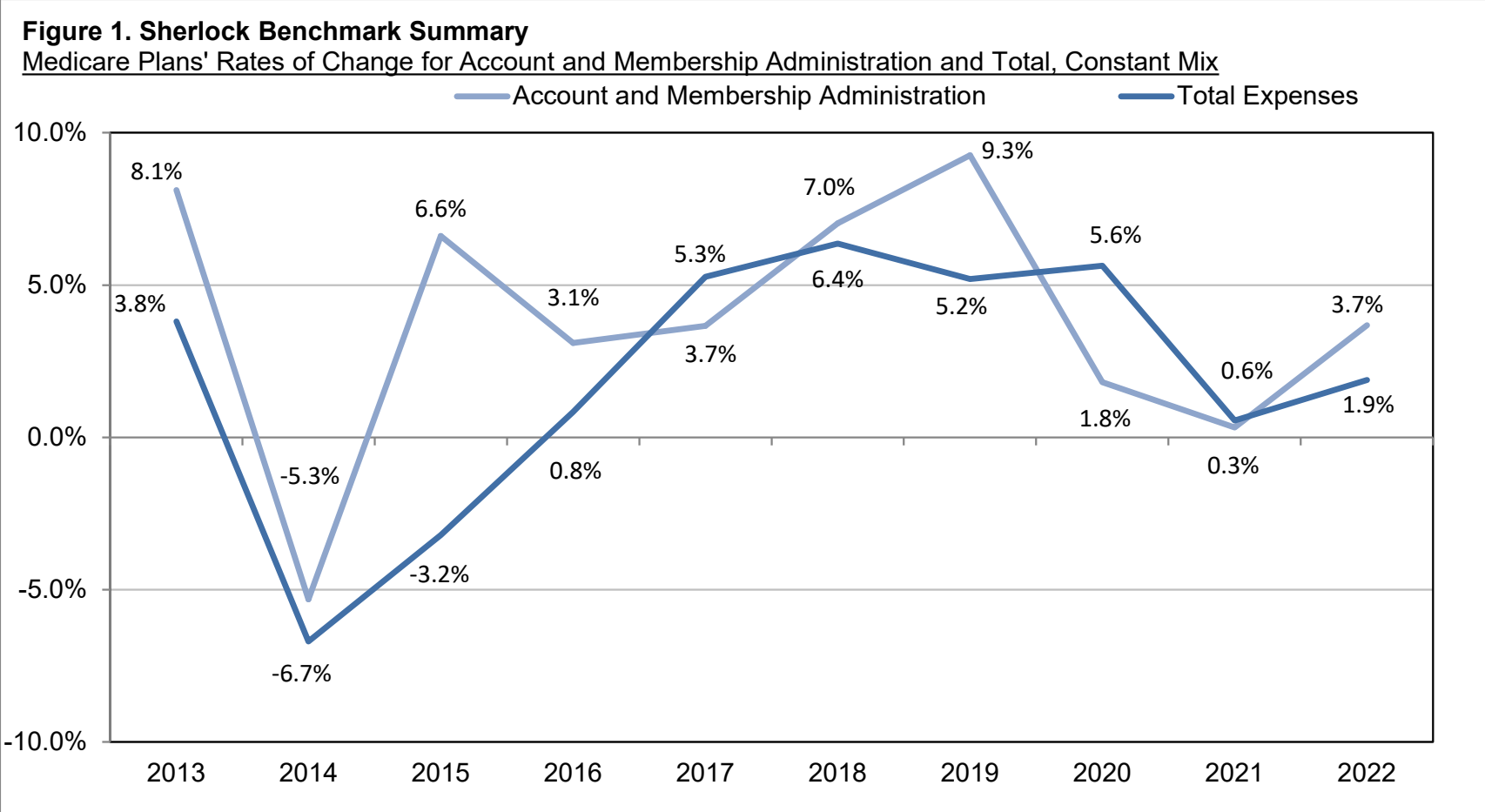
BACKGROUND ON MEDICARE AND MEDICARE ADVANTAGE

Figure 2. Sherlock Benchmark Summary
Medicare Advantage Share



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

A&M ADMINISTRATION GREW, WHILE TOTAL COSTS GREW AT A MORE MODEST PACE.



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



AMONG CONTINUOUSLY PARTICIPATING PLANS, WHEN MIX IS HELD CONSTANT COST GROWTH ACCELERATED TO AN INCREASE OF 1.9%.

Figure 3. Sherlock Benchmark Summary

Medicare Plans' Median Changes in Per Member Per Month Expenses

Functional Area	2021 Increase		2022 Increase	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	-0.5%	1.6%	4.5%	10.5%
Medical and Provider Management	1.2%	1.0%	2.1%	2.4%
Account & Membership Administration	0.8%	0.3%	3.8%	3.7%
Corporate Services	-5.8%	-3.7%	0.2%	1.6%
Total Expenses	0.7%	0.6%	0.5%	1.9%

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

SOURCES OF “REAL” GROWTH IN MEDICARE-FOCUSED PLANS ADMINISTRATIVE COSTS IN 2022

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	10.5%	Advert. and Promotion ↑	Advert. and Promotion ↑
Med & Provider	2.4%	Medical Mgmt ↑	Medical Mgmt ↑
Acct & Membership	3.7%	Claims ↑	Claims ↑
Corp. Serv.	<u>1.6%</u>	Corporate Exec and Gov ↑	Corporate Exec and Gov ↑
Total	1.9%	Advert. and Promotion ↑	Claims ↑



SOURCES OF *REPORTED* GROWTH IN MEDICARE-FOCUSED PLANS ADMINISTRATIVE COSTS IN 2022

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	4.5%	Advert. and Promotion ↑	Advert. and Promotion ↑
Med & Provider	2.1%	Medical Mgmt ↑	Medical Mgmt ↑
Acct & Membership	3.8%	Claims ↑	Claims ↑
Corp. Serv.	<u>0.2%</u>	Corporate Exec and Gov ↑	Corporate Exec and Gov ↑
Total	0.5%	Advert. and Promotion ↑	Claims ↑



COMPARED WITH 2021, COSTS WERE 2.2% HIGHER IN 2022. COST TRENDS, CHANGES IN THE PRODUCT MIX AND UNIVERSE WERE RESPONSIBLE.

Figure 4. Sherlock Benchmark Summary
Medicare Plans' Costs by Functional Area Cluster, 2022 Results
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2021 Values Median
Sales and Marketing	\$12.07	\$12.96	\$15.01	21%	\$12.19
Medical and Provider Management	7.17	8.93	10.25	28%	9.06
Account and Membership Administration	17.83	19.87	21.28	20%	19.36
Corporate Services	5.80	7.08	8.75	28%	7.31
Total Expenses	\$46.22	\$47.73	\$53.40	18%	\$46.69



PMPMs VARY BY PRODUCT.

Figure 5. Sherlock Benchmark Summary

Medicare Plans' Costs by Product, 2022 Results

Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	\$101.55	\$126.33	\$137.98	30%
Advantage	\$101.51	\$115.84	\$136.43	30%
SNP	\$141.91	\$182.10	\$215.44	29%
Medicare Supplement	\$32.01	\$44.36	\$49.10	26%
Medicaid Total	\$26.08	\$28.49	\$35.97	19%
HMO	\$26.08	\$28.49	\$35.95	19%
CHIP	\$24.61	\$28.48	\$31.79	23%
Commercial Insured Total	\$49.49	\$57.17	\$62.37	16%
HMO	\$49.38	\$55.90	\$62.33	17%
POS	\$42.50	\$48.02	\$58.07	26%
Indemnity & PPO	\$55.67	\$60.26	\$63.10	23%
Commercial ASO	\$27.67	\$30.03	\$33.19	20%
Commercial Total	\$40.23	\$41.86	\$47.48	13%
Comprehensive Total	\$46.22	\$47.73	\$53.40	18%

PERCENTS CLUSTER MORE THAN PMPMs BECAUSE ADMINISTRATIVE EXPENSES MORE OR LESS TRACK WITH HEALTH CARE COSTS.

Figure 6. Sherlock Benchmark Summary
Medicare Plans' Costs by Product, 2022 Results
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	10.0%	12.1%	12.9%	35%
Advantage	10.0%	12.0%	12.9%	35%
SNP	9.3%	10.9%	13.1%	24%
Medicare Supplement	17.8%	22.7%	26.0%	29%
Medicaid Total	7.1%	7.4%	7.8%	18%
HMO	7.0%	7.3%	7.8%	19%
CHIP	11.7%	12.9%	14.0%	14%
Commercial Insured Total	9.4%	9.9%	11.3%	17%
HMO	9.0%	9.3%	12.4%	24%
POS	7.7%	8.9%	9.7%	21%
Indemnity & PPO	10.1%	11.4%	11.6%	24%
Commercial ASO	5.5%	7.3%	7.5%	20%
Commercial Total	7.9%	8.7%	9.0%	15%
Comprehensive Total	8.3%	9.0%	10.0%	20%

TOTAL EXPENSES WERE HIGHER MAINLY DUE TO SALES AND MARKETING.

Figure 7. Sherlock Benchmark Summary
Medicare Plans' Costs by Functional Area Cluster, 2022 Results
Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2021 Values Median
Sales and Marketing	2.1%	2.5%	2.9%	20%	2.1%
Medical and Provider Management	1.4%	1.6%	1.7%	34%	1.6%
Account and Membership Administration	3.4%	3.6%	4.0%	22%	3.6%
Corporate Services	1.1%	1.4%	1.5%	29%	1.4%
Total Expenses	8.3%	9.0%	10.0%	20%	8.7%



COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicare Advantage Product Characteristics by Universe, 2022 Results

	Medicare Plans	IPS Plans	BCBS Plans	Combined Plans
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$101.51	\$106.22	\$150.25	\$109.83
Median	115.84	160.73	159.50	140.09
75th Percentile	136.43	185.00	170.39	166.00
Coefficient of Variation	30%	29%	24%	29%
<i>Percent of Premiums and Equivalents</i>				
25th Percentile	10.0%	11.9%	16.2%	11.6%
Median	12.0%	16.3%	16.9%	13.4%
75th Percentile	12.9%	17.0%	18.7%	17.0%
Coefficient of Variation	35%	28%	26%	32%
Plans offering Medicare	11	5	11	27
Medicare Advantage Members (millions)	1.65	0.14	0.72	2.51
Comprehensive Total Members (millions)	13.63	4.13	40.80	58.56

SHARE OF MEDICARE ADVANTAGE MEMBERS OF FIVE LARGEST PLANS

Figure 9. Sherlock Benchmark Summary

Share of Medicare Advantage Members

	March	
	2022	2023
Eligibles ¹	63,852,613	65,202,430
Total MA Membership ¹	29,477,423	31,753,651
Share of Eligibles in MA	46.2%	48.7%
UnitedHealthcare ²	7,903,784	8,942,883
Humana ²	5,033,104	5,545,949
CVS Health ²	3,105,056	3,322,716
Elevance Health ³	1,921,000	2,053,000
Kaiser Permanente ¹	1,796,616	1,847,966
Total, Five Largest	19,759,560	21,712,514
Share of Five Largest	67.0%	68.4%
MA Membership other than Five Largest		10,041,137
Sherlock Benchmark Participant Membership		1,646,220
Share of Membership other than Five Largest		16.4%

¹ State County Penetration Files, March, CMS

² Medicare Advantage in 2023: Enrollment Update and Key Trends, Kaiser Family Foundation, August 9, 2023.

³ Elevance Health, 10-Q, 1st Quarter 2023



MEDICARE-FOCUSED PLANS' ADMIN COSTS GREW 2022



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- Holding product mix constant, costs increased by 1.9% versus 0.6% growth in 2021. Reported expenses *decelerated* from 0.7% in 2021 to 0.5% in 2022.
- Medicare plans' admin. costs were \$47.73 PMPM, higher than last year at \$46.69. MA was \$115.84 and SNP was \$182.10.
- Product mix shifted towards lower cost products. Medicaid surged as Commercial declined. Medicare increased but less than Medicaid.
- Sales and Marketing cluster grew the fastest and was most responsible for overall cost growth. Advertising & Promotion was key.
- Account and Membership grew second fastest. Claims were this cluster's fastest growing function. Claims growth had the greatest impact on cost growth among functions.
- Medical and Provider Management was third fastest with Medical Management entirely responsible for the cluster's growth.
- Corp. Services Cluster was slowest growing cluster. Corporate Executive and Governance had greatest impact and grew fastest.
- Non-Labor, Outsourcing, and Compensation grew, while Staffing Ratios fell.



APPENDIX A. MEDICARE-FOCUSED PLANS' ADMINISTRATIVE COSTS IN 2021

Appendix A. 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
Sales and Marketing	\$9.37	\$12.19	\$13.80	23%
Medical and Provider Management	7.24	9.06	10.18	24%
Account and Membership Administration	16.92	19.36	20.36	21%
Corporate Services	5.90	7.31	8.56	28%
Total Expenses	\$43.31	\$46.69	\$50.75	17%

APPENDIX B. MEDICARE-FOCUSED PLANS' ADMINISTRATIVE COSTS IN 2021

Appendix B. Sherlock Benchmark Summary
Medicare Plans' Costs by Functional Area Cluster, 2021 Results
Percent of Premium Equivalents

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

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 the participants in the 2021 Medicare study participated again in 2022. The average participant longevity with the Medicare *Sherlock Benchmarks* is 7.1 years and 8.6 years among repeat participants.
- **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 calculate estimates of staffing ratios by product.
- The **operational metrics** include 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 26th consecutive year. Our cumulative experience totals approximately 1,000 plan years. More than 30 organizations serving 63 million members are participating in 2023.
- Since June 2020, health plans serving more than 208 million insured Americans use the *Sherlock Benchmarks*, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans. The plans serve 8.3 million members.
- Health plans serving 57% members of those served by the Alliance of Community Health Plans participating in this year's Sherlock Benchmarking Study for Independent / Provider – Sponsored health plans. This ratio excludes ACHP's staff model plans
- Health plans serving 36% of those served by the Health Plan Alliance are participating in this year's *Sherlock Benchmarks*.
- Of the effectively 33 U.S.-based Blue Cross Blue Shield primary licensees, seventeen serving approximately 52.2 million people, participate in this year's *Sherlock Benchmarks* for Blue Cross Blue Shield 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
 - (c) Grievances and Appeals
10. Claim and Encounter Capture and Adjudication
 - (a) Coordination of Benefits (COB) and Subrogation
 - (d) Payment Integrity
 - (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

