Transcript

Medicare Plans Accelerate Growth to Modest Rates in 2022

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<Title Page>

Good afternoon. I'm Doug Sherlock. Welcome to our summary of the 20th annual *Sherlock Benchmarks* for Medicare plans. Thank you all for participating in this call. To speed through it, the audience will be muted during the presentation itself. I very much welcome your questions at the end of this presentation.

Before I begin, I want to express some well-deserved gratitude. Our respondents put considerable effort into participation to assure comparability and that the results are actionable. In summary, they reclassify their internally reflected costs and staffing to be comparable with those of the panel of participants, they coordinate the reporting of non-financial metrics of the various function activities, they engage in the validation process and often make presentations of the Benchmark results to their senior management. Communication with us, with line managers and with senior plan officers requires technical skill, tact and a sense of humor, which our principal contacts have in abundance. By the way, they participate in the *Sherlock Benchmarks* while executing their responsibilities of external reporting, targeted cost management projects, other FP&A activities and strategic planning.

I also thank my colleagues for making this study come together. Each classification challenge for each plan has a counterpart at Sherlock Company since we are responsible to the panel for uniformity of reporting. In addition, our team has developed systems for receiving surveys, compiling them, performing several automated validations, summarizing the results and then publishing. I have a great team.

This is the third in a series of presentations of the 2023 editions of the Benchmarks based on 2022 calendar year results. We will be posting the slides and the transcript of this presentation within 24 hours. We've posted two previous presentations on our web site, along with transcripts, so I hope you will access them if the BlueCross BlueShield or Independent/Provider-Sponsored health plan information would be helpful.

The 11 Medicare-focused plans that are the chief subject of this presentation have a combined revenue of $58 billion, of which Medicare Advantage and SNP composes an average of 30%. We believe this universe and the resulting analysis and data to be quite robust.

At the close of the 2023 cycle, our cumulative experience will be approximately 1,000 health plan years, and will include Independent / Provider – Sponsored Plans, Blue Cross Blue Shield Plans, Medicaid Plans as well as Medicare Plans.

<Slide 2>

I'm going to breeze through this slide. It shows the topics that I will address, and summarizes the appendices. The focus of this presentation is Medicare plan costs, their trends and their notable contributing functions. We'll also touch on trends in Compensation, Staffing ratios and Outsourcing that bear on these trends. Finally, we have an interesting analysis of the costs of the different universes that provide the Medicare Advantage product to members.

Note that the appendices contain last year's values and a list of all of the 70 or so functions in each of the products offered by these health plans. There are 9 such comprehensive products so, in the Benchmarks themselves, administrative expenses are segmented into more than 600 expense/product cells, each of which are separately analyzed. We only summarize broad trends here. Finally, the appendices touch on our methods of surveying, validation, analysis and reporting.

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In March of 2023, Medicare beneficiaries totaled about 65 million people, a 2.1% increase year-over-year. While membership in the Fee-for-Service option *decreased* by 2.7%, people selecting private insurance, the Medicare Advantage option, *increased* by 7.7% over the prior year to almost 32 million people.

This graph shows the longer view of the market-based reconfiguration of this government-sponsored health benefit program. The Medicare Advantage share of Medicare beneficiaries increased in almost every one of the 18 years.

Underlying these share increases is the growth in beneficiaries and even faster growth in Medicare Advantage. Since 2005, the number of Medicare beneficiaries has climbed by 22 million. Of this *net* increase, about 26 million people have elected Medicare Advantage while the FFS membership share decreased by about 4 million. In March of this year, members in private Medicare Advantage plans accounted for about 49% of Medicare-eligible beneficiaries, up from 46% in 2021.

The CBO projects that 62% of beneficiaries will be enrolled in Medicare Advantage plans by 2033. This appears plausible, or even conservative, considering that growth in MA has averaged four times the rate of growth of Medicare as a whole over the past ten years.

It is hard to overstate the significance of this growth. Remember, these are seniors who have much higher health care use than do working-age people so the cost of product failure is very high to them. It is these high-risk people who have opted out of a government program in favor of a private alternative.

This year's benchmarking studies endeavor to capture administrative cost trends for these health plans. The plans that participated in the various 2023 *Sherlock Benchmarks*, Medicare and the other Sherlock universes, serve about 8% of all eligible Medicare Advantage members. If you exclude from the denominator the five largest Medicare Advantage plans, which are not included in this set, the various Sherlock universe's MA business serves about 25% of the total Medicare Advantage membership.

Eleven plans participated in the Medicare edition of the *Sherlock Benchmarks*. While Medicare is typically the predominant product, it is not the only product offered by our participants. On average, Medicare Advantage and Medicare Special Needs plans comprise 30% of plan revenue in this universe. They collectively served 1.7 million members in these products, 16% of MA members not served by the largest five plans. By virtue of their share, we think that the plans here represent industry trends, but they are self-selected. That is, on the grounds that "you manage what you measure," the

participants may disproportionately reflect those with an interest in optimizing their costs.

<Slide 4>

This slide summarizes long term administrative cost trends for Medicare-focused plans. When I speak of growth in costs in this presentation, it will generally be in *per member* terms, for continuously participating plans, after having reweighted the trends to exclude the effects of any changes in product mix.

The darker of the two lines is the annual increase in *total* administrative expenses. In 2022, excluding the effect of Miscellaneous Business Taxes, Medicare Plans reported administrative cost increases of 1.9%, an increase from 0.6% in 2021. The lighter line is the annual rates of increase in Account and Membership Administration. It accelerated from 0.3% in 2021 to 3.7% in 2022.

Both Total and Account and Membership Administration accelerated from their recent nadir in 2021, which was quite slow compared with recent years. Trends in total and Account and Membership have usually had a rough correspondence with one another.

This cluster has following core activities – Enrollment, Customer Services, Claims and Information Systems. For the purpose of this discussion, we also include in this cluster the administration of pharmacy and behavioral health. This trend in Account and Membership Administration is of particular interest since it composes the core of the direct administrative activities of health plans, enrolling members, fielding member calls and processing claims, whether manual or automated through information systems. It represents over 40% of administrative costs. In addition to composing central activities of health plans, this cluster's activities tend not to be as subject to economies of scale as Finance and Accounting or Corporate Executive and Governance for instance.

In the slides that follow, we'll discuss the trends in this cluster, plus clusters of Sales and Marketing, Medical and Provider Management and Corporate Services. We will also touch on the trends of the underlying functions. We use the same health plans in both comparison years to avoid the distortions from changes in the universe.

As we will develop, all but four functions increased with Claims being the most important source of growth. We will also drill into the expense drivers, as noted earlier, and on outsourcing trends.

<Slide 5>

This slide provides greater detail on the trends. These columns are organized by year, 2021 and 2022, showing each cluster's growth. The columns are subdivided into "as reported" and "constant mix", with the latter backing out the effect of changes in product mix between the two years.

On the previous slide, we showed the 2022 increases in per member Total Administrative Expenses, of 1.9%, and in per member Account and Membership Administration, of 3.7%. These rates of change are shown on the fourth column, labeled "Constant-mix", "2022 Increase", and I have circled them in blue. The second column is directly comparable to the fourth column since both hold the mix *and* universe constant. The dark blue arced arrow is to draw your attention to the comparison with prior year's values. You can see last year's 0.6% Total increase I mentioned. I consider these to be the real increases.

The two columns that are labeled "as-reported" reflect per member trends in continuous plans, *without* holding mix constant. Implicit in the calculations for these columns is that a shift in favor of more expensive products, like Medicare Advantage, would lead to the appearance faster growth, while a shift in favor of less expensive products would lead to apparent slower growth.

Since the as-reported expenses grew *slower* than constant mix, a shift towards less expensive products like Medicaid must have occurred. In other words, because the as-reported expense increase of 0.5% was outpaced by the constant-mix increase of 1.9%, we could infer that there was a shift toward lower cost to administer products. That is in fact what took place. The as-reported columns are linked by an unfilled arced arrow.

For continuously participating plans, membership in high-cost Medicare Advantage increased at an average rate of 1.9%, while Medicare SNP grew at an average rate of 0.6%. Low cost Medicaid HMO, however, grew faster by an average of 15.6%, but Medicaid CHIP fell by 20.5%. Medicare Supplement fell at an average rate of 1.1%. Commercial Insured membership declined by a mean of 4.1%, while Commercial ASO

fell at a mean rate of 0.3%. Overall, the median membership growth was 2.9% and the average increase was 3.6%.

For all 11 plans, Medicare Advantage (including SNP) composed an average of 14% of membership and 30% of revenues for comprehensive products. Medicaid membership was 27%, and its revenue proportion was 21%. Commercial represented 43% of the revenues and 59% of the membership.

Sales and Marketing was the fastest growing cluster at 10.5% on a constant-mix basis and 4.5% on an as-reported basis. As developed later, this cluster was most responsible for the increase in costs on a constant-mix basis. Account and Membership Administration followed at an increase of 3.7% on a constant-mix basis and 3.8% on an as-reported basis. Medical and Provider Management increased by 2.4% and by 2.1% on a constant-mix basis and as-reported basis, respectively. Corporate Services grew by 1.6% on a constant-mix basis and 0.2% on an as-reported basis.

<Slide 6>

Now, I would like to comment on why the expenses in these clusters performed as they did. Slide 6 shows the rates of change and the most important reasons for the changes, after eliminating the effect of product mix differences, in other words, on a constant mix basis. Costs increased by 1.9% PMPM, faster than last year's increase of 0.6%. Since these are what I consider the "real" rates of increase, I will spend a lot of time on this and discuss trends in order of their importance.

The chart on this slide notes both the speed of growth, Greatest Change, and the effect on the overall PMPM cost increase, Highest Weight. The latter is effectively the growth in expenses, taking into account the size of those expenses.

The Sales and Marketing cluster's costs grew by 10.5% on substantial growth to staffing ratios and Non-Labor costs. This cluster was most responsible for the real increase in costs.

Advertising and Promotion was the fastest growing function in this cluster and among every function for that matter. It was the most important reason for the PMPM cost increase for this cluster. It also posted its second fastest growth over the past five years. Growth in this function was primarily driven by Non-Labor Costs per FTE and by

Staffing Ratios. Both sub-functions of Media and Advertising and Charitable Contributions posted year-over-year growth.

External Broker Commissions was the third fastest growing function in this cluster, but due to its size, was the second most important source of Sales and Marketing cluster growth. Rating and Underwriting, the Marketing function, and the Sales function all grew by mid-to-high single digits.

The Account and Membership Administration cluster experienced a PMPM cost increase of 3.7%. For this and our related *Navigator* analysis, Account and Membership Administration includes Pharmacy and Behavioral Health expenses. The trends in administrative activities of these two benefits reduced cost growth by a median rate of 0.9 percentage points.

Claims adjudication posted by far the highest median growth mainly on higher Staffing Ratios. Outsourcing also increased. Both COB and Subrogation and Other Claims sub-functions posted increases over the prior year.

Customer Services was a distant second in cost growth for this cluster. As with Claims, Staffing Ratios increased, along with Outsourcing. Non-Labor Costs were also higher. Member Services sub-function was the important source of this function's growth, while Grievances and Appeals also contributed.

Information Systems also increased from the prior year. Staffing Costs, Non-Labor Costs, and Outsourcing all increased for this functional area. Most sub-functions increased, with Applications Maintenance, especially Benefit Configuration, posting the most consistent growth from the prior year.

Enrollment / Membership / Billing was very slightly lower than the prior year. This function experienced lower Staffing Ratios and Staffing Costs per FTE, and Outsourcing. The Billing sub-function declined faster than the other subfunction of Enrollment and Membership.

The Medical and Provider Management cluster also experienced a PMPM increase, by 2.4%. Medical Management growth was the sole reason for the increase in this cluster.

The Medical Management function increase largely came from higher Non-Labor Costs per FTE. Sub-functions that posted year-over-year growth were led by Health and Wellness, while Precert, Case Management, Disease Management, and Other Medical Management also grew. Conversely, Nurse Information Line, Quality Components, Medical Informatics, and Utilization Review declined from the prior year.

Provider Network Management and Services did not generally increase. Staffing Ratios and Outsourcing declined while Staffing Costs per FTE were higher. Other Provider Network Management declined, while Provider Contracting grew.

The Corporate Services cluster was slowest growing cluster, by 1.6%. The cluster's Compensation and Non-Labor Costs were higher, but Staffing Ratios and Outsourcing were lower.

Corporate Executive and Governance increased the fastest among functions in this cluster. While the Staffing Ratio and Staffing Costs per FTE declined, Outsourcing and Non-Labor Costs increased. Note this function includes enterprise-wide Strategic Planning and Consulting Services.

Actuarial followed Corporate Executive in growth stemming from an increase in Staffing Costs per FTE.

The Corporate Services functional area also posted a gain over last year. Sub-functions that grew from the prior year include Human Resources, the Legal activity of Fraud, Waste and Abuse, Audit, Risk Management, and Other Corporate Services. The Staffing Ratio for the Corporate Services function was lower, but Staffing Costs per FTE and Non-Labor costs were higher.

Conversely, Finance and Accounting and Association Dues and License / Filing Fees experienced declines in per member costs from the previous year.

<Slide 7>

This slide describes the reported rates of change, that is, the values with no adjustments for changes in product mix. They are however based on continuously participating plans. While the rates of change differ, the Greatest Change and Highest Weight are the same as the constant mix in all clusters and in total.

Sales and Marketing cluster experienced the largest variance in costs between as-reported and constant-mix. The as-reported rate growth was 4.5% compared to a growth of 10.5% on a constant-mix basis. The function with the largest difference from constant-mix to as-reported was External Broker Commissions, from a high single digit increase to a slight decline. The growth in Medicaid as a share of the product portfolio likely contributed to this difference in growth rates.

Account and Membership cluster's growth was slightly faster on an as-reported basis, with growth of 3.8%, compared with a constant-mix increase of 3.7%. As previously noted, Account and Membership *includes* Pharmacy and Behavioral Health administration. Administrative expenses in Behavioral Health and Pharmacy each grew at a *faster* rate on an as-reported basis compared to a constant mix basis. Claims grew at the same rapid pace as on a constant-mix basis. The growth in IS was zero on an as-reported basis compared with growth on a constant mix basis. Enrollment / Membership / Billing posted a faster *decrease* on an as-reported basis compared to a constant-mix basis.

Medical and Provider Management cluster grew at a slower rate on a an as-reported basis than a constant mix basis, 2.1% versus 2.4%, respectively. On an as-reported basis, Provider Network Management and Services experienced a slightly *faster* decline in expenses, while Medical Management's cost growth slowed slightly.

The Corporate Services cluster increased at a slower rate on an as-reported basis, at 0.2%, and compares to a constant mix increase of 1.6%. All functions within this cluster either slowed their rate of growth on an as-reported basis or increased their rate of decline. The increase in both the Actuarial and Corporate Executive and Governance functions experienced the largest declines in growth rates from a constant-mix basis to an as-reported basis.

Let me close this part of our presentation with a few summary observations. All my trend comments are based on continuously participating plans. Cost factors include the effects of outsourced activities in that they are converted to internal FTEs, staffing costs and non-labor expenses.

The median compensation per FTE was approximately $105,000, higher than last year's median. Compensation in 10 of the 14 functions with staffing increased, led by the Corporate Services function and Finance and Accounting.

Medicare Advantage median staffing ratios were lower than last year. The median was 58 FTEs per 10,000 Medicare Advantage members. Of the 14 functional areas with staff, nine posted declines. (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 per FTE mix of staffing and non-labor costs.) The largest percent declines in median staffing were in Corporate Executive and Governance and Enrollment.

Median Non-Labor Costs per FTE were higher than last year among continuous plans, about $91,000 per FTE. Six of the functional areas experienced an increase in Non-Labor Costs per FTE. IS and Medical Management were functions that posted the largest increases.

Overall propensity to outsource was higher, to 13% of total FTEs, and eight of the fourteen functional areas with staff increased the percent of their staff that was outsourced. Claims and IS posted the sharpest increases.

<Slide 8>

To this point, we have focused on rates of change rather than the underlying values of the components of administrative costs. The next few slides speak to the values of these activities, though it is necessarily a summary. This slide contains the results of the entire set of plans in this universe as well as the change from prior years. For the reasons of product mix and universe differences, it can be misleading to compare year-over-year changes. For the sake of completeness we touch on it anyway.

The median PMPM value of $47.73, 2.2% higher than the median value of $46.69 from 2021. In addition to the actual trends, the participating plans in the universe and their product mix contribute to the increase. To give you a sense of what I mean, when we reweigh the 2021 median PMPM costs for the 2022 product mix, costs *increased* by 4.7%, between the years. The prior year values are shown in Appendix A and are also excerpted on this page. Still, the 2.2% increase is not wildly dissimilar to the 1.9% constant mix growth.

Account and Membership Administration is the largest cluster of expenses at a median value of $19.87, higher than last year's median of $19.36 by 2.6%. This cluster composed 41% of total expenses. Its 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. On a constant mix basis, costs for continuously participating plans increased by 3.7%.

Sales and Marketing, the second largest cluster, had median costs of $12.96 and compares to $12.19 from last year, 6.3% greater. This function includes Rating and Underwriting, Sales, Marketing, broker Commissions and Advertising.

Medical and Provider Management cluster's costs were $8.93 PMPM, lower by 1.4% from $9.06 last year. This group of functions includes Provider Network Management and Services and Medical Management.

The Corporate Services cluster costs declined by 3.1% to $7.08 PMPM from $7.31 last year. 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*.

Dispersion for Total expenses, measured by the Coefficient of Variation, increased by 1.4 percentage points. Dispersion was mixed among the clusters. While Sales and Marketing and Account and Membership administration fell by 1.7 percentage points and 1.5 percentage points, respectively, Medical and Provider Management increased in dispersion by 4.0 percentage points and Corporate Services cluster increased by 0.3 percentage points.

When measured by the difference between 75th and 25th percentiles, the dispersion for Total expenses and the Sales and Marketing function fell, while it increased slightly for all other clusters.

<Slide 9>

As you know, we favor an approach to understanding costs that reduce or eliminate the effect of product mix. This slide illustrates that one needs to take account the very

different administrative requirements for each product to understand and compare expenses.

Medicare products are relatively high cost at $115.84 and $182.10 PMPM for Medicare Advantage and Medicare Special Needs Plans, respectively. These high-cost products represent only part of these plan's product portfolios.

Medicare Supplement is a secondary payer to Fee-for-Service Medicare. It is a lower-than-average administrative cost product at $44.36 PMPM. We include this as a comprehensive product in the *Sherlock Benchmarks* though it pays only when Medicare does not. Seven of the 11 plans offered this product.

Medicaid products fall below average among the costs of various comprehensive products. Medicaid HMO, has median PMPM cost of $28.49, while the median PMPM for CHIP is $28.48. These products have costs that are below commercial insured and commercial ASO products.

The Commercial Insured HMO, Indemnity and PPO, and POS median costs were $55.90, $60.26, and $48.02, respectively. These are approximately one-half the per member cost of Medicare Advantage.

Self-insured Commercial ASO products are about half the cost of the insured Commercial products. An ASO group possesses the statistical advantages of larger size, which allows the sponsor to self-insure. It also means that their Sales and Marketing costs are spread through a greater number of members driving down per member Sales and Marketing and Enrollment costs. The Median Commercial ASO product was $30.03 PMPM.

In addition, some of the plans provided a segmentation of their Medicare Advantage into HMO and PPO/POS. They further segmented their costs into individual and group. Based on these plans, we offer the following anecdotal observations. The detail is available in the Benchmarks.

- The Sales and Marketing cluster costs are slightly higher for HMO versus PPO/POS. Individual Sales and Marketing run slightly higher than group in both products.

- Rating and Underwriting costs are lower for individual products of both HMO and PPO/POS because of the greater risk adjustment expenses for groups.
- Sales and broker Commissions are higher for HMO versus PPO/POS.
- Sales and broker Commissions are higher for individual versus group in both products.
- Medical and Provider Management are higher for PPO/POS than for HMO. While Provider Network is less for PPO/POS, Medical Management is higher.
- Individual Medical and Provider Management is less than group for both HMO and PPO/POS. It is lower in both functions of the cluster.
- Account and Membership Administration is lower for group than for individual in both products: Customer Services and Information Systems are the reasons in both cases.
- PPO/POS has lower Enrollment and Customer Services than HMO, but generally higher Claim and Encounter Capture and Adjudication.

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This is similar to the previous slide, only expressed in percents of premium equivalents. By premium equivalent I mean we have added medical expenses to the fees to calculate the denominator on self-insured relationships. The median administrative expense relative to premiums for Comprehensive Total was 9.0%, 0.3 percentage points *higher* than last year's value. As I describe later, Sales and Marketing cost growth appears to have been key.

Medicare Advantage and Medicare SNP are at 12.0% and 10.9%, respectively. On a percent of premium basis, Medicare Advantage and Medicare SNP are close in statistical proximity to Commercial Insured products at 9.9%, while Medicare products were vastly greater on a PMPM basis. This similarity in percents between commercial insured and Medicare Advantage is consistent with many of the administrative requirements of insured people tending to track their health needs.

Expressed in this way, Medicare costs as a percent of revenues were 0.8 percentage points higher than last year. Recall that Sales and Marketing cost growth was fastest in this cluster both on an as-reported and constant-mix basis.

The ASO product has a median value of 7.3% of premium equivalents. Like the PMPM ratios, this ratio is substantially lower than the ratios for insured products that range

from 8.9% for POS to 11.4% for Indemnity and PPO. HMO is at 9.3%. The percents for these insured products more or less parallel the PMPM values when compared with the Total.

Like the ASO product, Medicaid HMO is also low cost at 7.3%. CHIP is higher than average at 12.9%. Note that per member Sales and Marketing expenses are modest in both ASO and Medicaid.

By contrast, Medicare Supplement was the highest ratio among comprehensive products at 22.7%. It has many of the same administrative expenses of a regular insurance product, but its health care costs are less because it is a secondary payor. Therefore, the PMPM and percent ratios diverge quite a bit.

<Slide 11>

This slide shows the administrative expenses by cluster of functions, expressed in percent. Overall costs were at 9.0% of premium equivalents, 0.3 percentage points higher than last year.

Sales and Marketing increased the most, by 0.4 percentage points to 2.5%. Recall that this cluster's costs increased more rapidly than any other. Medical and Provider Management was unchanged at 1.6%. Conversely, Corporate Services cluster dropped by 0.03 percentage points to 1.4% and Account and Membership Administration declined slightly by 0.01 percentage points to 3.6%.

<Slide 12>

Health plans in other *Sherlock Benchmark* universes also offer Medicare products. In this slide, 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 2.5 million Medicare Advantage members, about 25% of all Medicare Advantage members not served by the largest five organizations. Not included in the comparisons are members served through SNP products.

Since the cost definitions and activities are the same, it is possible to directly compare our Medicare Advantage universe with our Blue Cross Blue Shield Plans and

Independent / Provider – Sponsored plans. Sometimes focus leads to cost advantages and this appears to be the case in this year's benchmark values. Medicare plans' PMPM expenses were $43.66 lower than Blue Cross Blue Shield Plans. Measured as a percent of premiums, were 5.0 percentage points less.

The advantage was similar compared to the Independent / Provider - Sponsored plans. The IPS plans were higher by $44.89 on a PMPM basis, and higher on a percent of premium basis by 4.3 percentage points.

The plans in our set of Medicare focused plans are actually drawn from IPS and BCBS universe but were selected based on their higher commitment to Medicare Advantage. The sets of health plans shown in this slide, however, are mutually exclusive.

<Slide 13>

You are familiar with our process of surveys to populate the *Sherlock Benchmarks*. I can elaborate on our process during the Q&A but one element of our panel development deserves particular attention. The *Sherlock Benchmarks* universe of Medicare plans is remarkable because of the high national concentration of Medicare members in relatively few health plans. According to the Kaiser Family Foundation and CMS figures, the five largest health plans serving Medicare Advantage possess 68.4% of the total, as shown on this slide. Of the 10 million not served by those plans, the *Sherlock Benchmarks* for Medicare include the results of 16.4%. If the additional 862,000 members served through other *Sherlock Benchmarks* universes are included (they are actually referenced and detailed in an exhibit in the Medicare universe) approximately 25% of those members are included in the *Sherlock Benchmarks*.

<Slide 14>

Let me close by summarizing.

The overall cost trends grew by 1.9% (constant-mix) or 0.5% (as-reported). Constant mix growth in Total and all clusters accelerated from last year, especially Sales and Marketing. Claims had the greatest impact on cost growth.

There was a shift towards Medicaid products that require lower administrative expenses. Thus, the constant mix cost growth was faster than the as-reported cost growth.

Medicare Advantage products offered by these plans had a median cost of $115.84, far greater than the $28.49 of Medicaid per member month costs, and double that of commercial insured products.

The median compensation per FTE was approximately $105,000, up from last year. Compensation in 10 of the 14 functions with staff grew, led by the Corporate Services function and Finance and Accounting.

Median Medicare staffing ratios decreased to 58 FTEs per 10,000 Medicare Advantage members. Of the 14 functional areas with staff, nine declined. The largest percent declines in median values were in Corporate Executive and Governance and Enrollment.

Overall propensity to outsource was higher, to 13% of total FTEs. Eight of the 14 functions with staff increased the percent of their staff that was outsourced. Claims and IS posted the sharpest increases.

This presentation, (transcript and slides) will be posted on our web site in the next few hours. In addition to these slides, we include last year's values, some descriptive materials. Additional information, including Tables of Contents on the Benchmarks themselves are found on the website. Call me if we can elaborate.

Thank you for your attention to our presentation.

In October, we will have a similar web conference on the results of the Medicaid universe. We hope that you will consider participating in that web conference as well.

Once again, I want to thank everyone involved in the 20th annual edition of the Medicare benchmarks for their insights and hard work. Participation pays off in lower costs for the plans but we hope that the results benefits the industry as a whole.

This is Douglas Sherlock of Sherlock Company.