Plan Management Navigator
Analytics for Health Plan Administration November 2012

ACA and Cost Benchmarks for Three Emerging Markets

As key provisions of the Affordable Care Act (ACA) approach implementation, and as the economy continues its weakness, health plans' need to adapt to the market becomes more acute. Recently announced business combinations between health plans suggest that, if anything, adaptation is accelerating.

For health plans, adaptation consists of changes in the product offerings and managing the costs of the operations that support those products. While most of our analyses have focused on the latter, this edition of *Plan Management Navigator* concerns the former. We believe that three products will become increasingly important to the business mix of health plans: **Medicaid** products, **ASO/TPA** products and **Individual/Small Group** products, especially as sold through exchanges.

ACA Encourages Three Emerging Markets

Based on the Congressional Budget Office's (CBO's) report of July 23, 2012 (*Estimates for the Insurance Coverage Provisions of the Affordable Care Act Updated for the Recent Supreme Court Decision*), employer-based coverage will decrease from 57.8% of total non-elderly residents to 55.5% between 2012 and 2022. (Presumably, under the MLR minimums and rebate requirements, the remaining insured business will also be under margin pressure.) Indeed, while the total number of non-elderly residents is expected to increase by 15 million people over the period, the CBO projects essentially no growth in the number of people served by employer-sponsored health benefit plans.

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New Benchmarking Universes Forming

We are now beginning the process of forming universes for the 2013 benchmarking season. It is intended to capture the financial and operational results from the 2012 calendar years of the participating plans. Invitations and Confidentiality Agreements were circulated a few days ago to Blue Cross Blue Shield Plans and Independent/Provider-Sponsored plans. We expect to send invitations to TPAs in the coming weeks and to Medicaid and Medicare plans early next year.

Finally, we are considering a universe to help physician-based organizations understand the performance of the aspects of their operations that provide insurance-like services. These services include claims processing, enrollment, customer services and supporting information systems. It has been a number of years since we offered this but the ACA's encouragement of Accountable Care Organizations makes this especially timely.

During the 2012 benchmarking cycle, 62 organizations serving nearly 50 million Americans participated in our studies. Sherlock Company offers a proven track record of success over 15 years in building a panel and producing reliable benchmarks. Importantly, because we are chiefly focused on performance measurement, we do not face conflicts of interest stemming from other businesses.

Let us know if participation would be of interest.

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By contrast, health insurance exchanges are expected to serve 8.8% of the total non-elderly population, or 25 million people, by 2022. The Commonwealth Fund describes exchanges as follows, "The exchanges, to be operational in 2014, are envisioned as insurance marketplaces in which individuals and small businesses can compare and purchase health plans, and determine and receive premium subsidies for which they are eligible." Thus, the small group and individual market, notoriously expensive to market to, are under ACA both encouraged and facilitated. CIGNA's acquisition of Great American Supplemental Benefits Group in 2012 and Great-West Healthcare in 2008 anticipated the increasing importance of this business segment.

Similarly, the proportion of non-elderly served by Medicaid is expected to climb from 12.7% to 15.2%. The total number of people served through Medicare or CHIP is expected to increase from 34 million in 2012 to 43 million in 2022. This projected increase in membership has become, through ACA, a newly attractive market to health plans. WellPoint's pending acquisition of Amerigroup illustrates the interest of health plans in that market.

Finally, within the essentially flat pool of members in employer-sponsored health benefit programs, a Rand Corporation study performed for the Department of Labor in 2011 suggests that employers will increasingly self-insure. Rand notes that, "self-insured plans are not subject to the small-group rating regulations, risk adjustment policies, and essential health benefits provisions newly imposed by the ACA. Because the new ACA regulations will influence premium prices, the option to self-insure to avoid regulation may be attractive to some small businesses." Thus the 2.6 and 0.3 percentage point shifts in favor of ASOs among the plans in our Independent/Provider-Sponsored (IPS) and Blue Cross Blue Shield (BCBS) universes in 2011 may be expected to continue.

Economics of the Three Emerging Product Markets

The ability of health plans to serve these emerging markets is constrained by their ability to offer the products feasibly and, hopefully, profitably. We suspect that since per member per month Product Development/Market Research grew by 41% and 21% for Independent/Provider-Sponsored and Blue Cross Blue Shield plans respectively many plans are committing substantial resources to evaluate the possibilities of these emerging markets.

Sherlock benchmarks provide unique insights to the costs that are customarily incurred in each of the each of the three emerging products of Medicaid, ASO and small groups and individuals. This edition of *Navigator* is intended to telescope the efforts of health plans to determine whether these new products are feasible. Of course, the total costs provided here are only a high-level treatment of the issue of feasibility. Substantially greater detail of specific functional costs is available through the Sherlock benchmarking studies themselves. If your organization has access to the cited materials, they may prove invaluable in your determination of the product's feasibility with respect to specific functions.

1. Medicaid and CHIP

According to the CBO, membership in Medicaid and CHIP is expected to increase by 27%,

or by 9 million people, between now and 2022. In addition to our 11 panel Medicaid universe, the Blue Cross Blue Shield, IPS universe and the Medicare universes offer Medicaid products.

Figure 1. Plan Management Navigator
Medicaid HMO Sherlock Benchmarking Data by Universe

	SEER Benchmarking Universe			
	Medicaid	BCBS	IPS	Medicare
Median PMPM Costs	$26.30	$19.37	$20.87	$20.87
Number of Respondents	11	6	11	3
Members Served (Millions)	3.5	1.1	0.9	0.2
Navigator Edition, 2012	Late Sept.	July	Late July	October

The PMPM costs for this product are shown for each of the universe. Note that our calculation of each of these costs employs the convention of past *Navigators* to reflect all administrative expenses, including mental health and pharmacy, but to exclude miscellaneous business taxes. *Navigator* citations and selected universe characteristics are also shown. Past *Navigators* can be found on our web site.

Of the four universes whose Medicaid values are shown in Figure 1, only the Medicaid universe provides cost information on CHIP and (limited) information on Medicaid costs segmented by Adult SSI, Child SSI and TANF.

2. Small Group and Individual

The CBO's estimated 23 million decline in the numbers of uninsured is in part achieved through a 25 million person increase in the number of people who are expected to purchase their insurance through exchanges.

We believe that it is the intent of the exchanges to provide a more efficient market for health insurance. If this is achieved, then the growth of exchanges could contribute to lowered Sales and Marketing related costs.

The following table compares PMPM costs in the Small Group and Individual markets with Blue Cross Blue Shield costs for ASO/ASC, which are much lower. We also show those total PMPM administrative costs without the Sales and Marketing-related costs for illustrative purposes. Notwithstanding, we suspect that some Sales and Marketing costs will remain and to the non-Sales and Marketing costs will be added the charges of the exchanges themselves. As in Figure 1, our calculation of each of these costs employs the convention of past *Navigators* to reflect all administrative expenses, including mental health and pharmacy, but to exclude miscellaneous business taxes. Selected universe characteristics are also shown but, since we have not published these metrics in other *Navigators*, we have not included any citations.

Figure 2. Plan Management Navigator
Small and Large Group Sherlock Benchmarking Data

	SEER Benchmarking Universe		
	BCBS Individual	BCBS Small Group	BCBS ASO/ASC
Median PMPM Costs	$37.58	$46.64	$20.53
Median PMPM Costs, Excluding Sales and Mktg.	$21.85	$22.35	$18.14
Number of Respondents	9	9	24
Members Served (Millions)	1.4	2.9	16.9

As shown in Figure 2, only the Blue Cross Blue Shield edition of the Sherlock benchmarks has these segments. Blue Cross Blue

Shield plans are a key part of the small group market. A Government Accountability Office memo of February 27, 2009 noted that , "The median market share of all the BCBS carriers in the 38 states supplying (surveyed) information was about 51 percent…."

Figure 3. Plan Management Navigator
ASO Sherlock Benchmarking Data by Universe

	SEER Benchmarking Universe		
	BCBS	IPS	TPA
TPA Comparable PMPM	$16.75	$11.25	$10.26
Total PMPM Costs	$20.53	$16.85	$10.26
Number of Respondents	24	16	8
Members Served (Millions)	16.9	1.6	1.4
Navigator Edition, 2012	July	Late July	Early Sept.

3. ASO Arrangements

As noted above, the ACA could contribute to attractiveness of self-insurance to employers. This would accelerate a trend that is already ongoing. For commercial insurers covered in our *PULSE* newsletter, ASO membership increased by 4%, while insured membership increased by only 1%.

Figure 3 identifies the costs associated with ASO/ASC products offered by Blue Cross Blue Shield plans, Independent/Provider-Sponsored plans and TPAs. In this analysis, we have reflected costs two ways. In the first row we have endeavored to include only those costs which are customarily incurred by TPAs. In the second row, we include all costs reported by the various universes for those products.

As in Figure 1, our calculation of each of these costs employs the convention of past *Navigators* to reflect all administrative expenses, including mental health and pharmacy, but to exclude miscellaneous business taxes. *Navigator* citations and selected universe characteristics are also shown.

Conclusion

The ACA is estimated by the CBO to change the health insurance products that consumers will buy. Health plans' mainstay, employer-sponsored insurance, will lose share. On the other hand, Medicaid and CHIP are expected to grow sharply. Also, small group and individual insurance sold through exchanges are also expected to grow. Within the essentially flat employer-sponsored market, a recent Rand Corporation study indicates that self-insurance could increasingly be favored.

For many health plans, the change in the health insurance market will require that they offer products that may be unfamiliar to them and which are currently served by other plans. The sharp surge in Product Development / Market Research costs during 2011 suggests that many health plans may be contemplating these new product opportunities.

The *Plan Management Navigator* and the various cited *Sherlock Expense Evaluation Reports (SEER)* themselves can be valuable tools to adapt to changing market requirements. We encourage you to contact us if we can provide further information on the benchmarking studies.