



Plan Management Navigator

Analytics For Health Plan Administration

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ADMINISTRATIVE EXPENSE BENCHMARKS FOR MEDICAID-ORIENTED PLANS PUBLISHED BY SHERLOCK COMPANY

Sherlock Company recently published benchmarks for Medicaid-Oriented Plans that report median costs of \$17.10 for overall total Medicaid expenses per member per month. Expenses ranged from \$17.10 for the Medicaid HMO product to \$16.50 for the Child Buy-In product.

Participating in our study were four pure and four partial Medicaid health plans. We measured two product areas that make up the composition of the companies' total Medicaid product: Medicaid HMO and Medicaid Child Buy-In. The reporting firms have an average total membership of 206,000 members and an average Medicaid membership of 132,000 members, which accounted for 63.8% of total membership. Two of the plans have a Medicaid membership that comprises 100% of their total membership, two plans have a Medicaid membership that comprises over 85% of members, and four plans have a Medicaid membership that comprises between 25% and 45% of their total membership.

Account and membership administration comprised the largest component of Medicaid health plan administrative expenses at 3.17% of administrative expenses. The complete results are published in the 2003 *Sherlock Expense Evaluation Report (SEER) Medicaid-Oriented Plans Edition*.

Marketing expenses included Rating and Underwriting, Product Development / Market Research, Sales and Marketing, Commissions and Advertising and Promotion. These expenses accounted for \$0.95 of total administrative costs. At the 75th percentile these costs were \$1.79, but only \$0.50 at the 25th percentile.

Medical & Provider Management was composed of Provider Network Management and Services and

Medical Management, including Quality Assurance, Wellness Programs and Grievance / Appeals. These Medicaid expenses had a median value of \$3.84. At the 75th percentile these costs were \$4.71, but were as low as \$3.48 at the 25th percentile.

Account & Membership Administration represented \$5.54 per member per month of total Medicaid administrative expenses in 2002. This category of expenses includes many of the core functions such as Enrollment (including Membership and Billing), Customer Services, Information Systems and Claims (including Encounter Capture and Adjudication). Plans reported \$7.66 at the 75th percentile and \$4.64 at the 25th percentile.

Corporate Services represented the final category. It included investments in HIPAA compliance as well as Finance and Accounting, Actuarial, Corporate Services

Figure 1. Benchmarks for Medicaid-Oriented Plans' Administrative Expenses: 2003
Cost Per Member Per Month - By Function, Total Medicaid Operations

	25th %	75th %	Median	σ /Mean
Marketing	\$0.50	\$1.79	\$0.95	171.17%
Medical & Provider Mgmt.	\$3.48	\$4.71	\$3.84	57.13%
Account & Membership Admin.	\$4.64	\$7.66	\$5.54	39.38%
Corporate Services	\$4.66	\$7.69	\$6.19	50.84%
Total Expenses	\$15.76	\$23.89	\$17.10	34.10%

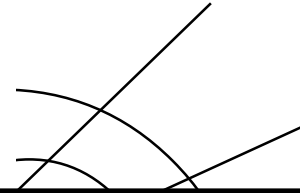
(including Human Resources, Facilities, Legal and Regulatory, Corporate / Executive and Association Dues, and Miscellaneous Business Taxes. These expenses collectively represented \$6.19 of total Medicaid administrative expenses in 2002, the largest share of these administrative costs. Expenses were \$4.66 at the 25th percentile and \$7.69 at the 75th.

The data included in Figure 1 are summaries of the expense classifications. Plans provided us with information on thirty functional areas, detailed in the *SEER Report* itself.

Figure 2. Benchmarks for Medicaid-Oriented Plans' Administrative Expenses: 2003
Cost Per Member Per Month - Total Medicaid Operations

	25th %	75th %	Median	σ /Mean
Medicaid				
HMO	\$15.76	\$23.25	\$17.10	30.48%
Child Buy-In	\$16.24	\$29.60	\$16.50	60.97%
Total	\$15.76	\$23.89	\$17.10	34.10%

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Medicaid health plan administrative expenses varied when measured as a percent of revenues as well. With the higher per member per month costs of \$17.10, the Medicaid HMO product was the lower of the two costs to administer, relative to revenues, at 10.46% of total Medicaid revenues. With the lower per member per month costs of \$16.50, the Medicaid Child Buy-In product was the more costly to administer relative to revenues, accounting for 18.81% of total Medicaid revenues.

completed one comprised of Provider-Sponsored plans and have also completed versions for Blue Cross Blue Shield and Publicly Traded plans.

The surveyed items, the survey instrument, the definitions and the process are developed through the active participation of the surveyed plans. *SEER* data is provided by the companies who receive copies of the report in return for participation and a fee. It is intended to facilitate comparisons for users and to assist in the management of health plans' administrative expenses. It should be useful to operational and financial managers of health plans, consultants, and third-party vendors. *SEER* should also be valuable to Boards and persons charged with the corporate finance responsibilities, including strategic

Figure 3. Benchmarks for Medicaid-Oriented Plans' Administrative Expenses: 2003
 Costs as a Percent of Revenue - Total Medicaid Operations

	25th %	75th %	Median	σ /Mean
Medicaid				
HMO	8.58%	13.29%	10.46%	30.55%
Child Buy-In	15.23%	28.43%	18.81%	59.75%
Total	8.58%	13.33%	10.49%	38.91%

Background on the Medicaid-Oriented Companies and SEER

According to the latest information from CMS, Medicaid managed care plans served approximately 23.1 million people in June 2002. *SEER* includes the results of approximately 1.1 million beneficiaries in eight plans, or 4.6% of the total population. CMS figures exclude the effect of enrollees in multiple organizations.

Of the eight plans included in this study, four are predominately focused on Medicaid managed care. Three of the eight plans are considered Medicaid-only Managed Care Organizations (MMCOs) by CMS. These plans served approximately 250,000 members, 4.4% of those served by such plans in June 2003. *SEER* also includes the results of 883,000 members of Commercial Managed Care Organizations (CMCOs), which comprise 8.3% of the total served by such plans. Commercial Managed Care Organizations are permitted to offer products to commercial or Medicare + Choice members. The plans in *SEER* that also serve commercial or Medicare + Choice members serve 500,000 of them. Because of confidentiality agreements we are not able to disclose the identities of the participants.

Information contained in *SEER* is from extensive surveys of the participants, who report to us administrative costs as well as certain operational metrics. We are now beginning our seventh year of performing benchmarking studies. In addition to this universe, we have recently

planners and investment bankers. We consider this information to be a highly valid and unusually comprehensive analytical tool.

Volume I of *SEER* for Medicaid-Oriented Plans contains over 1,800 analyses of data divided into seven product lines and thirty major administrative functions. All information is as of December 31, 2002. Separate analyses include outsourced functions such as mental health, pharmacy and COB / Subrogation. Products offered by the plans include HMO, Point-of-Service, Indemnity and PPO, Medicare HMO, Medicaid HMO and Medicare Supplemental.

WHAT'S NEXT FOR SEER

To date Sherlock Company has distributed numerous *SEER* volumes to various participants in their respective universes. Volume I, comprised of financial metrics, has been distributed for the Public, Blue Cross Blue Shield, Provider Sponsored, and Medicaid-Oriented Plans. Volume II, comprised of operational metrics, has been distributed for Blue Cross Blue Shield and Provider Sponsored Plans. Additionally, copies of our "Best Practices" Volumes III A and B have been distributed to the Blue Cross Blue Shield plans in our universe.

In progress are the 2004 editions of each volume that is referenced above. Also, we are currently working on a Volume II for the Medicaid-oriented plans in our universe and a set of Volume III for Provider Sponsored plans. Finally, we are contemplating a universe of very large multi-state health plans.