



## MEDICAID-ORIENTED PLANS' ADMINISTRATIVE EXPENSE BENCHMARKS AVAILABLE

Sherlock Company has recently published performance benchmarks for Medicaid-Oriented Health Plans. Medicaid-Oriented Health Plans had median total administrative expense for all products in 2006 of \$20.32 per member per month (PMPM). Excluding the costs of marketing and miscellaneous business taxes, the median total costs were \$19.56 PMPM.

Medicaid managed care organizations often offer a variety of products, including various commercial insured and administered products and Medicare Advantage products. In addition, these health plans often offer coverage through Medicaid-linked products funded through the State Childrens Health Insurance Program (SCHIP), which we refer to as Child Buy-in and Family Buy-in products.

Because of their different resource requirements, it is illuminating to analyze them separately. For instance, for their Medicaid products, the median total PMPM costs were \$16.71, or \$15.45 excluding the costs of marketing and miscellaneous business taxes. By contrast, these plans reported administrative expenses of \$94.58 for Medicare Special Needs Plans (SNPs) and \$13.86 for Child Buy-in products. Results on other products are reflected in the following sections.

While there are obvious limitations to this, it can also be helpful to analyze health plan administrative costs by comparing them to premium equivalents. Expressed as a percent of premium equivalents, administrative costs for Medicaid products were 9.3%, or 8.2% after excluding marketing and miscellaneous business taxes. We also reflect the results for the other products in subsequent sections.

### *Background on Medicaid*

Medicaid is coverage for individuals and families who have low income and meet other eligibility criteria. While there is no sharing in the cost of the premium, in certain instances payments to providers for services under Medicaid may require copayments by the beneficiaries. According to a recent report by the Kaiser Family Foundation, after years of growth, state Medicaid plans posted their first enrollment decline since 1998 to

approximately 42 million beneficiaries. The 0.5 percent enrollment decline in fiscal year (FY) 2007 was driven by new documentation requirements plus the good economy and lower unemployment rates.

Managed care is an important factor in Medicaid. The Centers for Medicare and Medicaid Services reported that 310 managed care organizations (Commercial Managed Care Organizations or Medicaid-only Managed Care Organizations) served 19.3 million beneficiaries with comprehensive services, comprising 42.3% of all beneficiaries. Other plans serving less than comprehensive benefits bring the total managed care participation to 545 plans, serving 65% of all Medicaid beneficiaries in 2006.

The decline in unemployment rates has led to a decline in Medicaid membership. In response, states have moved away from their "singular focus on cost containment," according to Kaiser. Instead, "more than half of all states... (plan to) expand eligibility (though) increases in income limits, new group expansions, or streamlining the application or renewal process."

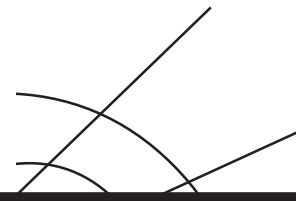
In contrast to Medicare, which is federally funded and administered, Medicaid is jointly funded but state administered, though subject to some federal constraints. Medicaid managed care plans in various states are therefore fairly similar, but important differences also exist. Importantly, states vary in their permitted marketing procedures and in their imposition of premium taxes on health plans serving Medicaid beneficiaries.

Because these expenses are largely beyond the control of health plan managers, excluding them from the analysis can be an especially powerful way of looking at these expenses for comparative purposes. We take these expenses into consideration in the analyses that follow.

### *Background on Medicaid Universe*

The Medicaid-Oriented Plans universe is one of five of the *Sherlock Expense Evaluation Report (SEER)*, a series of benchmarks of performance metrics for health plans. In-depth financial metrics for each universe are complemented with extensive operational metrics. This is our fourth annual edition of metrics for this universe.

This universe is comprised of nine plans, which together include more than 1.7 million members and had revenues of \$5.4 billion. For the panel as a whole, Medicaid members (including Family Buy-in and Child Buy-in) represented 76.4% of total membership, and the median proportion of such products was 100.0%. Collectively,



67.0% of the premium equivalents were attributable to the various Medicaid products, and the median proportion was 100.0%.

## Expenses by Major Functional Category

In our SEER benchmarking studies, administrative expenses are segmented into eight products and up to 60 functional areas. It is convenient to summarize them into clusters of functional areas.

Figures 1 and 2 reports administrative costs by functional area cluster for all of the products sold by Medicaid-Oriented Health Plans. These include costs that may not be borne by Medicaid products in certain states at all, especially certain marketing costs. The total PMPM cost was \$20.32 (10.3% of premium equivalents). Plans reported at the 75th percentile were \$25.92 and at the 25th percentile were \$16.19. Excluding marketing and miscellaneous business taxes, the median administration to premium equivalent was 8.9%.

**Marketing** includes the expenses of Rating and Underwriting, Product Development / Market Research, Sales and Marketing, Commissions and Advertising and Promotion. These expenses represented a median of \$1.20 (0.6% of premium equivalents) of the total administrative costs. At the 75th percentile, these costs were \$3.91, but only \$0.88 at the 25th percentile.

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

Medical Management (including Quality Assurance and Wellness Programs). These expenses had a median value of \$5.93 (2.6% of premium equivalents). At the 75th percentile, these costs were \$6.63, but were as low as \$4.02 at the 25th percentile. The expenses for Medical & Provider Management are sensitive to the mix of products that are offered. For example, products such as Medicaid as Medicare Advantage tend to require a higher commitment to this function.

**Account & Membership Administration** represented \$5.76 per member per month of administrative expenses, or 3.1% of premium equivalents, in 2006. 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 \$8.10 at the 75th percentile and \$5.54 at the 25th percentile.

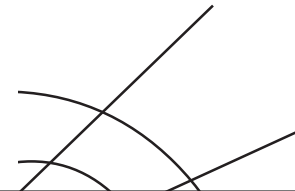
**Corporate Services** represented the final category. It included investments in consultants and information systems related to HIPAA compliance as well as Finance and Accounting, Actuarial, Corporate Services (including Human Resources, Facilities, Legal and Regulatory, Corporate / Executive and Association Dues and Miscellaneous Business Taxes). These expenses collectively represented \$5.77 PMPM administrative expenses (2.8% of premium equivalents). Fewer than 25 percent exceeded \$6.91 or were less than \$5.26. These expenses are more susceptible to economies of scale than other groups of functional expenses, based on numerous analyses we have performed over the years.

**Figure 1. Benchmark Summary**  
Medicaid Plan Costs by Functional Area Cluster, All Products  
*Per Member Per Month*

	25th Pctl	75th Pctl	Median	$\sigma$ /Mean
Marketing	\$0.88	\$3.91	\$1.20	110.0%
Provider & Medical Management	4.02	6.63	5.93	36.6%
Account & Mem. Administration	5.54	8.10	5.76	33.4%
Corporate Services	5.26	6.91	5.77	32.4%
Total, Excl. Marketing & Msc. Bus. Taxes	15.25	20.13	19.56	29.0%
Total	\$16.19	\$25.92	\$20.32	36.7%

**Figure 2. Benchmark Summary**  
Medicaid Plan Costs by Functional Area Cluster, All Products  
*Percent of Premium Equivalents*

	25th Pctl	75th Pctl	Median	$\sigma$ /Mean
Marketing	0.6%	1.8%	0.6%	88.1%
Provider & Medical Management	1.9%	3.0%	2.6%	27.1%
Account & Mem. Administration	2.6%	3.9%	3.1%	26.7%
Corporate Services	1.9%	3.7%	2.8%	36.7%
Total, Excl. Marketing & Msc. Bus. Taxes	6.8%	10.6%	8.9%	25.1%
Total	7.1%	12.2%	10.3%	25.8%



We also calculated total expenses excluding marketing and miscellaneous business taxes. This may facilitate a more ready comparison between the plans, since marketing may not be performed in certain “mandate” states. The median total expenses excluding marketing and miscellaneous business taxes was \$19.56 (8.9% of premium equivalents). The plans’ values at the 25th percentile were \$15.25 and at the 75th percentile was \$20.13.

### Expenses by Product

Most of the plans in our Medicaid benchmarking study also offer other products. Those products vary in their costs because they have different functional requirements. For instance, as previously noted, medical and provider service costs tend to be relatively high in plans with a significant commitment to pure managed care type products. The population served tends to require greater care management. Medicaid members often require coordination of care to assure that, when needed, members receive care at the most appropriate sites. Also, Medicare Advantage products require a more intensive commitment for administrative resources paralleling the greater health care needs of the senior population.

Among insured products, Medicare SNP had the highest costs at \$94.58, although there was only one of them that reported in this universe. The Commercial insured products had median values of \$27.52 and \$22.59 for HMO and Indemnity & PPO, respectively. Medicare Advantage cost \$69.77 PMPM in 2006. Medicaid HMO, Child Buy-in, and Family Buy-in plans typically cost \$16.71, \$13.86, and \$19.32, respectively. Note that the one plan that reported a Commercial ASO product had administrative costs considerably less than its insured counterparts. In other universes

ASO costs are typically \$10 less per member per month than their commercial insured products.

Administrative expenses for Medicaid HMO were 9.3% of premium equivalents. For the Child Buy-in the administrative costs were the highest proportion of premium equivalents at 15.6%. The administrative costs of Family Buy-in were 13.9%.

Medicare Advantage had 9.6% of premiums devoted to administrative expenses, and the administrative expense percent of Medicare SNP premiums was 7.0%.

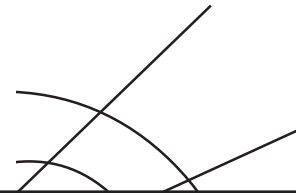
Among the Commercial products, Indemnity & PPO had an administrative expense to premium ratio of 9.8% and Commercial HMO ratio was 10.8% of premium. As a percent of premium equivalents, the one plan reporting an ASO product posted an administration to premium equivalent ratio of 8.4%.

**Figure 3. Benchmark Summary**  
Medicaid Plan Costs by Product  
Per Member Per Month

	25th Pctl	75th Pctl	Median	$\sigma$ /Mean
HMO	\$24.36	\$31.06	\$27.52	24.1%
Indemnity & PPO	\$22.59	\$22.59	\$22.59	NM
Total Comm. Ins.	\$22.55	\$29.25	\$23.90	26.7%
ASO	\$18.28	\$18.28	\$18.28	NM
Total Commercial	\$21.37	\$28.07	\$21.54	29.6%
Medicare Advantage	\$68.78	\$70.76	\$69.77	4.0%
Medicare SNP	\$93.67	\$95.50	\$94.58	2.7%
Medicare Total	\$76.08	\$76.31	\$76.20	0.4%
Medicaid HMO	\$15.91	\$21.28	\$16.71	25.8%
Child Buy-in	\$13.08	\$14.63	\$13.86	15.8%
Family Buy-in	\$18.43	\$20.21	\$19.32	13.0%

**Figure 4. Benchmark Summary**  
Medicaid Plan Costs by Product  
Percent of Premium Equivalents

	25th Pctl	75th Pctl	Median	$\sigma$ /Mean
HMO	10.4%	11.1%	10.8%	5.9%
Indemnity & PPO	9.8%	9.8%	9.8%	NM
Total Comm. Ins.	10.1%	10.7%	10.1%	7.1%
ASO	8.4%	8.4%	8.4%	NM
Total Commercial	9.7%	10.7%	10.1%	9.8%
Medicare Advantage	9.5%	9.7%	9.6%	3.6%
Medicare SNP	5.5%	8.5%	7.0%	60.1%
Medicare Total	7.9%	9.0%	8.4%	19.4%
Medicaid HMO	7.1%	11.6%	9.3%	30.2%
Child Buy-in	12.7%	18.5%	15.6%	53.0%
Family Buy-in	10.9%	16.9%	13.9%	60.8%



## State Differences and Medicaid Comparability

States vary in their regulations with respect to enrollment, in private Medicaid health plans. According to the Kaiser Family Foundation of the forty-eight Medicaid programs that participated in its study, thirty-five states and Washington DC required the use of managed care (“mandatory enrollment”), eight had voluntary enrollment, and three had mandatory in some areas and voluntary in others. Voluntary enrollees have the option to choose an HMO, a primary care case manager (PCCM), or stay in a fee-for-service system.

Because of these differences, marketing expenses vary from state to state, with some permitting and some severely restricting marketing efforts. Therefore it is sometimes helpful to eliminate marketing from comparisons to facilitate comparability across states.

Miscellaneous business taxes also vary state to state, which diminishes comparability among firms. As with marketing costs, these taxes are not under the control of plan management. Because of this, we calculated total expenses less miscellaneous business taxes and marketing expenses to help facilitate differences. This approach may prove more universally applicable across plans in mandate and non-mandate states.

Medicaid HMO cost \$15.45 PMPM, while Family Buy-in was \$17.41. Child Buy-in had the lowest cost among products sold by our panel, \$12.85 PMPM.

Of the Commercial Insured products, HMO and Indemnity & PPO had costs of \$20.35 and \$13.43, respectively. Commercial ASO cost \$14.43 PMPM in 2006.

Medicare SNP had the highest PMPM administrative costs for products sold by this universe at \$78.33

**Figure 5. Benchmark Summary**

**Medicaid Plan Costs by Product**

*Per Member Per Month, Excl. Marketing and Msc. Bus. Taxes*

	25th Pctl	75th Pctl	Median	$\sigma$ /Mean
HMO	\$19.09	\$20.38	\$20.35	7.5%
Indemnity & PPO	\$13.43	\$13.43	\$13.43	NM
Total Comm. Ins.	\$17.48	\$20.38	\$20.35	18.1%
ASO	\$14.43	\$14.43	\$14.43	NM
Total Commercial	\$17.44	\$20.38	\$20.35	18.3%
Medicare Advantage	\$44.14	\$45.64	\$44.89	4.7%
Medicare SNP	\$78.32	\$78.33	\$78.33	0.0%
Medicare Total	\$53.08	\$53.65	\$53.36	1.5%
Medicaid HMO	\$14.90	\$19.58	\$15.45	26.1%
Child Buy-in	\$12.00	\$13.71	\$12.85	18.8%
Family Buy-in	\$16.55	\$18.28	\$17.41	14.0%

while Medicare Advantage incurred administrative costs of \$44.89 PMPM.

These adjusted numbers can also be analyzed relative to their premium yield. Expressed as a percent of premiums, Medicaid HMO had administrative costs for Medicaid products were 8.2%. The Child Buy-in product had the highest cost with 14.5%, as a percent of premium, while the Family Buy-in was 12.6% of premiums.

Medicare Advantage had a cost of 6.2% of premium equivalents, while Medicare SNP cost 5.8% of premium.

Commercial Insured HMO had administrative cost of 7.0% of premium and Indemnity & PPO had 5.8% of premium. Commercial ASO was 6.6% of premium equivalents.

**Figure 6. Benchmark Summary**

**Medicaid Plan Costs by Product**

*Percent of Premium Equivalents, Excl. Marketing and Msc. Bus. Taxes*

	25th Pctl	75th Pctl	Median	$\sigma$ /Mean
HMO	6.5%	9.0%	7.0%	32.9%
Indemnity & PPO	5.8%	5.8%	5.8%	NM
Total Comm. Ins.	6.1%	8.5%	6.1%	36.6%
ASO	6.6%	6.6%	6.6%	NM
Total Commercial	6.1%	8.6%	6.3%	35.7%
Medicare Advantage	6.1%	6.3%	6.2%	4.3%
Medicare SNP	4.6%	7.0%	5.8%	57.8%
Medicare Total	5.5%	6.3%	5.9%	20.4%
Medicaid HMO	6.8%	10.7%	8.2%	30.4%
Child Buy-in	11.7%	17.4%	14.5%	55.5%
Family Buy-in	9.9%	15.3%	12.6%	61.6%