

# *Administrative Costs Decline For Medicare Plans in 2009*



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## *A Review of 2009 Results*

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# *Topics*

- Background
- Administrative Cost Levels
- Cost Increases: Sources and Causes.
- Expenses by Product

## *Appendices*

Last Year's Values

Quality Assurance

Last Year's Ratios

Clusters of Functions

Business Model



# Conclusions

- PMPM decrease of 4.1% versus 8.3% increase in 2008.
- Holding product mix constant, PMPM costs decreased by 4.1% versus a 4.1% increase last year.
- Sales and Marketing costs fell, comprising the majority of the decrease. Corporate Services Cost growth was modest.
- Overall, Medicare comprised 67% of revenues on average.
- Growth has moderated in these plans: Median growth of 8.0% in 2009 compared to 21.4% in 2008. More pronounced in SNP.



# Who Are We?

- Completing 13<sup>th</sup> annual survey. 454 plan years.
- Four major universes with 58 health benefit organizations. 24 Blue, 17 Provider-Sponsored, 10 Medicaid, 11 Medicare Advantage, and 5 TPAs. Cross fertilization. Organizations serve 43.0 million members, or one of every five insured.
- Internal use, thus high insight-to-effort ratio.
- Financial, Operational, thousands of analyses.
- Users serve most insured Americans. 46% of AHIP Board members use *SEER*, as do 1/3rd of Health Plan Alliance members and nearly one half of ACHP plans.



## *Who Are The Medicare Plans?*

- 11 Plans, serving 2.9 million members.
- Median of 227,000 members.
- Mean share of the product portfolio was 67% of revenues from Medicare products.
- Mean share of the product portfolio was 54% of members from Medicare products.



## Administrative Cost Levels

# Total Costs Were \$44.71 PMPM

**Figure 1. Medicare Advantage Benchmark Summary**  
Medicare-Oriented Costs by Functional Area Cluster, 2009 Data  
*Per Member Per Month*

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
Sales and Marketing	\$9.52	\$32.56	\$16.10	63.4%
Provider & Medical Management	6.82	12.66	9.23	61.4%
Account & Mem. Administration	11.37	28.16	14.91	52.2%
Corporate Services	6.53	17.64	11.30	65.8%
Total	\$38.03	\$91.55	\$44.71	55.2%

Appendix C summarizes groupings of functions in each cluster.



# Total Costs Declined This Year

**Figure 2. Medicare Advantage Benchmark Summary**

Medicare-Oriented Percent Change in Costs by Functional Area Cluster

	2008 Data		2009 Data	
	Percent Change	Percent Change, Mix-Adjusted	Percent Change	Percent Change, Mix-Adjusted
Sales and Marketing	18.0%	13.8%	-8.6%	-10.4%
Provider & Medical Management	13.6%	9.6%	8.8%	8.8%
Account & Mem. Administration	5.0%	5.2%	3.0%	1.7%
Corporate Services	1.8%	-4.2%	1.1%	-4.1%
Total	8.3%	4.1%	-4.1%	-4.1%

Sales and Marketing experienced a decline in expenses. Provider & Medical Management and Account & Membership Administration had a lower rate of growth than last year. Corporate Services expenses increased modestly, yet declined on a mix-adjusted basis.



## *Cost Decreases: Sources and Causes*

# *Modest Mix Changes for Continuing Medicare Plans*

	<b>Change in Mix (Percentage Points)</b>	<b>Membership Growth Rate</b>
Insured	-1.0%	0.8%
ASO	0.2%	1.7%
Total Commercial	-0.8%	1.3%
Medicaid	0.6%	8.6%
Medicare Advantage	0.6%	9.2%
Medicare PFFS	0.0%	-6.8%
Medicare SNP	-0.1%	4.9%
Medicare Total	0.1%	8.0%
Total	0.0%	2.9%



## Cost Decreases: Sources and Causes

### Sources of Change in 2009

	Change, As-Reported	Change, Constant Mix	Greatest Change	Highest Weight
Sales and Marketing	-8.6%	-10.4%	Prod. Dev. / Mkt. Research ↓	Advertising & Promotion ↓
Provider & Medical Management	8.8%	8.8%	Medical Management <sup>1</sup> ↑	Medical Management <sup>1</sup> ↑
Account & Membership Administration	3.0%	1.7%	Enrollment / Mem. / Bill. ↓	Information Systems ↑
Corporate Services	1.1%	-4.1%	Corporate Exec./Gov. ↑	Corporate Services ↑
Total	-4.1%	-4.1%	Prod. Dev. / Mkt. Research ↓	Advertising & Promotion ↓

<sup>1</sup>Medical Management was responsible for most of the increase.



# Costs as Percent of Premium Equivalents

**Figure 3. Medicare Advantage Benchmark Summary**

Medicare-Oriented Costs by Functional Area Cluster, as a Percent Premiums or Equivalents, 2009 Data

Percent of Premium Equivalents

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
Sales and Marketing	2.1%	3.8%	3.1%	40.3%
Provider & Medical Management	1.4%	2.1%	1.6%	38.1%
Account & Mem. Administration	2.4%	3.5%	2.8%	29.4%
Corporate Services	1.6%	2.6%	2.0%	44.9%
Total	7.5%	11.4%	9.0%	30.5%

Premium equivalents. Fees + Health benefit expenses of self-insured.

Expenses also fell on this basis. Total compares with 10.2% in 2008.



## Expenses by Product

# PMPM Expenses Vary by Product

**Figure 4. Medicare Advantage Benchmark Summary**  
Medicare-Oriented Costs by Product, 2009 Data  
*Per Member Per Month*

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
HMO	\$27.27	\$46.71	\$36.42	31.4%
POS	36.75	45.45	40.79	30.8%
Indemnity & PPO	35.60	42.62	42.60	20.8%
Total Comm. Ins.	\$28.62	\$43.90	\$39.44	24.5%
ASO	15.96	24.66	20.03	39.0%
Total Commercial	\$25.00	\$34.89	\$30.98	24.9%
Medicare Advantage	62.44	110.83	86.47	39.4%
Medicare Advantage PFFS	68.86	88.06	82.13	25.4%
Medicare SNP	132.72	198.73	159.77	39.6%
Medicare Total	\$65.50	\$101.86	\$89.11	29.0%
Medicaid	22.62	25.66	25.16	13.7%
Comprehensive Total	\$38.03	\$91.55	\$44.71	55.2%
Medicare Part D	\$16.18	\$20.15	\$16.64	23.3%

Since costs vary by product, controlling for mix is important. Medicare SNP is high, ASO is low.



## Expenses by Product

# Percents Vary by Product, but Differently from PMPM

**Figure 5. Medicare Advantage Benchmark Summary**  
 Medicare-Oriented Costs by Product, 2009 Data  
 Percent of Premium Equivalents

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
HMO	9.6%	12.6%	10.7%	20.2%
POS	9.1%	13.0%	11.0%	26.4%
Indemnity & PPO	12.0%	16.2%	15.0%	25.2%
Total Comm. Ins.	9.3%	13.0%	11.9%	22.6%
ASO	5.7%	6.7%	6.3%	24.4%
Total Commercial	8.3%	10.5%	9.9%	16.3%
Medicare Advantage	6.8%	11.7%	7.9%	43.1%
Medicare Advantage PFFS	7.4%	11.1%	9.4%	40.2%
Medicare SNP	11.2%	16.1%	15.4%	40.2%
Medicare Total	6.6%	12.0%	7.9%	36.7%
Medicaid	7.4%	8.2%	8.1%	11.2%
Comprehensive Total	7.5%	11.4%	9.0%	30.5%
Medicare Part D	8.9%	13.8%	11.6%	43.3%

Relative costs vary by metric. Expressed as percent, ASO is low, Medicare Advantage is also low, Medicare SNP is highest. Medicare comparisons are most dramatically affected.



## Comparison of Universes

# Medicare compared to IPS and BCBS

**Figure 6. Medicare Advantage Benchmark Summary**

Medicare-Oriented Characteristics by Universe, 2009 Data

	Medicare	Independent / Provider- Sponsored	BCBS	Combined Universes*
<b>Administrative Expenses PMPM</b>				
25th PCTL	\$62.44	\$63.53	\$62.27	\$63.98
Median	86.47	73.80	72.72	75.86
75th PCTL	\$110.83	\$79.00	\$83.52	\$88.84
$\sigma$ / Mean	39.4%	25.3%	21.3%	31.2%
<b>Administrative Expenses as a Percent of Premiums</b>				
25th PCTL	6.8%	6.8%	6.6%	6.9%
Median	7.9%	7.9%	8.4%	8.2%
75th PCTL	11.7%	9.3%	10.1%	10.0%
$\sigma$ / Mean	43.1%	22.6%	32.8%	34.6%
Plans Offering Medicare Advantage	11	13	14	32
Medicare Comprehensive Members	1,186,320	420,381	1,080,466	2,403,810
Medicare Comprehensive Revenues	\$13,983,573,442	\$5,019,479,141	\$12,433,801,968	\$28,050,486,618
Comprehensive Total Revenues	\$20,524,793,419	\$23,525,517,386	\$99,079,419,395	\$133,171,709,388

Medicare Costs PMPM are higher than Independent/Provider-Sponsored and Blues. On a percent of premiums basis, however, costs are lower than Blues and equal IPS.



# Medicare Administrative Costs in 2009



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- Total costs declined 4.1% versus an 8.3% increase in 2008. A constant product mix results in expenses also falling 4.1%, compared to a 4.1% *increase* in 2008.
- Sales and Marketing was the primary driver in overall declines.
- Advertising and Promotion costs were central to the cost declines.

*Questions?*



# Appendix A: Last Year's Costs

## Appendix A. Medicare Advantage Benchmark Summary

Medicare-Oriented Costs by Functional Area Cluster, 2008 Data

Per Member Per Month

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
Sales and Marketing	\$10.64	\$38.64	\$17.77	77.7%
Provider & Medical Management	5.44	13.08	7.25	83.0%
Account & Mem. Administration	10.19	24.76	14.12	63.1%
Corporate Services	7.15	17.83	10.96	75.1%
Total	\$34.97	\$90.38	\$46.46	70.5%



# Appendix B: Last Year's Ratios

## Appendix B. Medicare Advantage Benchmark Summary

Medicare-Oriented Costs by Functional Area Cluster, as a Percent Premiums or Equivalents, 2008 Data

*Percent of Premium Equivalents*

	25th PCTL	75th PCTL	Median	$\sigma$ / Mean
Sales and Marketing	2.8%	5.0%	3.5%	45.0%
Provider & Medical Management	1.3%	2.0%	1.7%	43.1%
Account & Mem. Administration	2.5%	3.5%	2.8%	26.5%
Corporate Services	1.9%	2.8%	2.4%	45.7%
Total	8.0%	13.0%	10.2%	33.3%



# Appendix C: Clusters of Functions

- **Marketing**
  - Rating and Underwriting
  - Product Development / Market Research
  - Sales and Marketing (except Advertising and Promotion)
  - Commissions (external)
  - Advertising and Promotion
- **Medical and Provider Management**
  - Provider Network Management and Services
  - Medical Mgmt. / Quality Assurance / Wellness
- **Account & Membership Admin.**
  - Enrollment / Membership / Billing
  - Customer Services
  - Claim and Encounter Capture and Adjudication
  - Total Information System Expenditures (as expensed)
- **Corporate Services**
  - Finance and Accounting
  - Actuarial
  - Corporate Services
  - Corporate Executive / Governance
  - Association Dues and License/Filing Fees



# Appendix D: Quality Assurance

- **Voluntary** – Since providers are users, they have stake in the 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: 87% of two largest universes in 2009 participated again in 2010. 75% of Blues have 6 or more years of participation.
- **Checks** - In survey instrument and in analytical module; Anomalies investigated.
- **Review** – Reconciled to audit. Preliminary results provided for proofing.
- **Business model** - No conflicts of interest; no “Tragedy of the Commons.”



## *Appendix E: Business Model*

- No individually identifiable results.
- Low cost.
- No conflicts of interest. We are not an association of plans or a business process outsourcer.
- No “Tragedy of the Commons.” Only users who supply adequate information are included with our benchmarks and who qualify for discount.

