

Independent/Provider-Sponsored Administrative Costs



A Review of 2010 Results

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Topics

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

Appendices

A. Last Year's PMPMs

C. Clusters of Functions

E. Business Model

B. Last Year's Percentages

D. Quality Assurance



Who are We?

- Completing 14th annual survey. 510 plan years.
- Four major universes with 60 plans. 27 Blue, 15 Independent/Provider-Sponsored, 7 TPAs, 10 Medicaid, 11 Medicare Advantage. Cross fertilization. Plans serve approximately 50 million members.
- Internal use, thus high insight-to-effort ratio.
- Financial, Operational, thousands of analyses.
- Benchmark users serve most insured Americans. 70% of Blues participate. 55% of AHIP Board members are officers of plans using our benchmarks.



Who are the IPS Plans?

- 15 plans.
- Serve 5.8 million members.
- All over the nation.
- 385,000 average members.
- 26% of revenues Medicare.
- Most linked to hospital systems.
- Leaders in their markets. Substantial name recognition.



Median Costs Were \$31.99 PMPM

Figure 1. Benchmark Summary

Independent/Provider-Sponsored Costs by Functional Area Cluster, 2010 Data

Per Member Per Month

	25th PCTL	75th PCTL	Median	σ / Mean
Sales & Marketing	\$8.69	\$11.29	\$10.09	29.9%
Provider & Medical Management	4.20	6.26	5.40	38.4%
Account & Mem. Administration	7.88	12.67	11.05	36.1%
Corporate Services	3.65	7.04	4.76	49.1%
Total	\$24.62	\$38.83	\$31.99	27.3%

Note: Throughout this presentation, Account and Membership Administration includes Pharmacy and Mental Health, and Total excludes Miscellaneous Business Taxes.

Appendix C summarizes groupings of functions in each cluster.



Total Cost Growth Declined

Figure 2. Benchmark Summary

Independent/Provider-Sponsored Percent Change in Costs by Functional Area Cluster

	2009 Percent Change		2010 Percent Change	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales & Marketing	1.6%	1.0%	6.4%	4.0%
Provider & Medical Management	9.6%	9.0%	1.8%	0.5%
Account & Mem. Administration	2.7%	1.3%	4.3%	5.0%
Corporate Services	2.0%	-4.1%	-1.0%	-3.9%
Total	4.8%	3.0%	3.9%	2.3%

Sales and Marketing growth increased, along with Account and Membership Administration. Corporate Services cost trends decreased and Provider and Medical Management sharply declined.

Sources of Growth: As-Reported¹

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	6.4%	Product Dev. /Mkt. Research ↑	Commissions ↑ ²
Provider & Medical	1.8%	Medical Management ↑	Med. Management ↑
Account & Membership	4.3%	Information Systems ↑	Information Systems ↑
Corporate Services	-1.0%	Corporate Executive & Governance ↑ ³	Corporate Executive & Governance ↑ ³

¹Total as-reported change was 3.9%.

²Most important source of functional cost growth, followed by Information Systems.

³Fastest growing of all functions.

Mix Changes for IPS Plans

	Growth (Pct.)	Change in Mix (Pct. Pts.)
Insured	2.3%	-1.0%
ASO	<u>-0.3%</u>	<u>-0.8%</u>
Total Commercial	1.7%	-1.7%
Medicaid	11.0%	1.0%
Medicare	34.0%	1.5%
Med. Supp.	<u>23.2%</u>	<u>0.0%</u>
Total	4.0%	NM

Values are averages. Commercial membership growth centered on Insured. Medicare experienced a large increase, followed by Medicare Supplemental. Medicaid also had double-digit growth in membership.



Sources of Growth: Constant Mix¹

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	4.0%	Commissions ↑	Commissions ↑ ²
Provider & Medical	0.5%	Provider Network Management ↑	Med. Management ↑
Account & Membership	5.0%	Information Systems ↑	Information Systems ↑
Corporate Services	-3.9%	Corporate Executive & Governance ↑ ³	Corporate Executive & Governance ↑ ³

¹Total constant mix growth was 2.3%.
²Most important source of functional cost growth, by far.
³Fastest growing of all functions.

Costs as Percent of Premium Equivalents

Figure 3. Benchmark Summary

Independent/Provider-Sponsored Costs by Cluster, as Pct. Prem. or Equiv., 2010 Data

Percent of Premium Equivalents

	25th PCTL	75th PCTL	Median	σ / Mean
Sales & Marketing	2.3%	3.3%	2.6%	22.4%
Provider & Medical Management	1.1%	1.9%	1.3%	31.2%
Account & Mem. Administration	2.5%	3.5%	2.7%	27.9%
Corporate Services	1.1%	2.0%	1.2%	43.4%
Total	7.7%	10.1%	8.4%	17.0%

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

Total compares with 8.0% in 2009.



PMPM Costs Vary by Product

Figure 4. Benchmark Summary
 Independent/Provider-Sponsored Costs by Product, 2010 Data
 Per Member Per Month

	25th PCTL	75th PCTL	Median	σ / Mean
Commercial Insured				
HMO	\$25.41	\$39.50	\$29.49	28.2%
POS	\$23.54	\$41.96	\$36.65	39.1%
Indemnity & PPO	\$29.10	\$44.45	\$39.95	24.7%
Commercial ASO	\$14.22	\$24.20	\$19.40	34.1%
Medicare Supplemental	\$23.94	\$31.91	\$25.90	35.1%
Medicare				
Advantage	\$61.02	\$81.53	\$68.81	27.5%
SNP	\$121.27	\$169.47	\$128.08	34.5%
Cost	\$27.08	\$45.10	\$29.53	51.1%
Medicaid	\$15.51	\$26.16	\$17.11	34.4%
Comprehensive Total	\$24.62	\$38.83	\$31.99	27.3%
Medicare Part D	\$16.58	\$20.83	\$19.89	37.9%

Since costs vary by product, controlling for mix is important. Medicare Advantage and SNP are very high, Commercial ASO is low.

Percents Vary by Product, but Differently from PMPM Costs

Figure 5. Benchmark Summary
Independent/Provider-Sponsored Costs by Product, 2010 Data
Percent of Premium Equivalents

	25th PCTL	75th PCTL	Median	σ / Mean
Commercial Insured				
HMO	8.3%	10.8%	9.1%	23.3%
POS	7.6%	13.0%	9.4%	49.0%
Indemnity & PPO	9.0%	14.7%	11.7%	37.8%
Commercial ASO	4.7%	7.5%	5.2%	35.8%
Medicare Supplemental	9.0%	15.5%	11.5%	37.1%
Medicare				
Advantage	7.1%	9.9%	7.8%	19.9%
SNP	6.5%	11.4%	7.7%	55.0%
Cost	7.8%	10.8%	8.5%	32.8%
Medicaid	6.5%	10.6%	7.3%	36.0%
Comprehensive Total	7.7%	10.1%	8.4%	17.0%
Medicare Part D	7.1%	15.2%	12.9%	56.5%

Relative costs vary by metric. Expressed as percent, Commercial ASO is lowest, followed by Medicaid and Medicare. Indemnity & PPO is highest.

Independent/Provider-Sponsored Administrative Costs in 2010



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- Increase in pct. of premium to 8.4% from 8.0% in 2009.
- Overall cost growth rate declined.
- Sales and Marketing cost growth accelerated.
- Growth trends parallel what one would expect in health care reform: More IS, Corporate Executive & Governance and Finance & Accounting
- Provider and Medical Management had a sharp decline in growth.

Questions?



Appendix A: Last Year's Costs

Appendix A. Benchmark Summary				
<u>Independent/Provider-Sponsored Costs by Functional Area Cluster, 2009 Data</u>				
<i>Per Member Per Month</i>				
	25th PCTL	75th PCTL	Median	σ / Mean
Sales & Marketing	\$7.87	\$9.81	\$8.97	31.7%
Provider & Medical Management	3.73	6.54	4.86	46.1%
Account & Mem. Administration	8.41	11.69	10.64	31.4%
Corporate Services	3.82	7.16	5.51	48.3%
Total	\$23.64	\$37.76	\$28.35	28.7%



Appendix B: Last Year's Ratios

Appendix B. Benchmark Summary				
<u>Independent/Provider-Sponsored Costs by Cluster, as Pct. Prem. or Equiv., 2009 Data</u>				
<i>Percent of Premium Equivalents</i>				
	25th PCTL	75th PCTL	Median	σ / Mean
Sales & Marketing	2.0%	3.1%	2.3%	29.4%
Provider & Medical Management	1.0%	1.7%	1.3%	34.6%
Account & Mem. Administration	2.7%	3.1%	2.8%	22.5%
Corporate Services	1.2%	1.8%	1.4%	39.4%
Total	7.2%	9.0%	8.0%	17.9%



Appendix C: Clusters of Functions

■ Sales and Marketing

- Rating and Underwriting
- Marketing
- Sales
- Commissions (external)
- Advertising and Promotion

■ Medical and Provider Management

- Provider Network Management and Services
- Medical Management / Quality Assurance / Wellness

■ Account & Membership Administration¹

- 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

¹Includes Pharmacy and Mental Health for the purposes of this presentation.



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: 86% of two largest universes in 2010 participated again in 2011. 81% of Blues have 5 or more years of participation as do 67% of IPS Plans.
- **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.

