

Administrative Costs of Medicare Plans



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A Review of 2008 Results

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Topics

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

Appendices

Last Year's Values

Product Segmentation

Quality Assurance

Last Year's Ratios

Clusters of Functions

Business Model



Conclusions

- PMPM increase of 8.3% versus 3.3% in 2007.
- Holding product mix constant, PMPM costs increased by 10.2% versus 1.9% last year.
- Marketing costs sharply increased and comprised the majority of the increase, offsetting flat to down Corporate Services costs.
- Overall, Medicare Advantage averaged 67.1% of premium equivalents.
- Growth very fast in these plans: Mean growth of 33.5% as against 10.1% for all plans. Faster in expensive SNP.



Who are Sherlock Company and its Benchmarks?

- Completing 12th annual survey. 396 plan years.
- Four major universes with 50 plans. 22 Blue, 16 Independent/Provider-Sponsored, 11 Medicaid, 11 Medicare Advantage. Plans serve 39 million members, or one of every five insured Americans.
- Users serve more than one in 2.7 insured Americans.
- Internal use: High insight to effort ratio.
- Financial, Operational, thousands of analyses.
- Most Blues participate. Most Board Members of AHIP are participants or users of *SEER*. **Health plans serving 22% of MA members participate.**



Who Are The Plans?

- 11 plans.
- Serve 3.0 million members, 1.1 million 'Care. 270,000 average members.
- All over the nation.
- On average, 53.8% of members and 67.1% of revenues were served under a comprehensive Medicare product.
- 25.8% revenues commercial, 7.1% revenues Medicaid.



The Median Costs Were \$46.46.

Figure 1. Medicare Advantage Benchmark Summary
Medicare-Oriented Costs by Functional Area Cluster, 2008 Data
Per Member Per Month

| | 25th PCTL | 75th PCTL | Median | σ / Mean |
|-------------------------------|----------------|----------------|----------------|-----------------|
| Marketing | \$10.64 | \$38.64 | \$17.77 | 77.7% |
| Provider & Medical Management | 5.44 | 13.08 | 7.25 | 83.0% |
| Account & Mem. Administration | 9.28 | 23.90 | 13.43 | 59.9% |
| Corporate Services | 7.15 | 17.83 | 10.96 | 75.1% |
| Total | \$34.97 | \$90.38 | \$46.46 | 70.5% |

Please see Appendix D for which Functions are included in each cluster.

Growth High, though Affected by Marketing costs

Figure 2. Medicare Advantage Benchmark Summary
Medicare-Oriented Percent Change in Costs by Functional Area Cluster

| | 2007 Data | | 2008 Data | |
|-------------------------------|----------------|------------------------------|----------------|------------------------------|
| | Percent Change | Percent Change, Mix-Adjusted | Percent Change | Percent Change, Mix-Adjusted |
| Marketing | 22.3% | 14.3% | 18.0% | 29.1% |
| Provider & Medical Management | -12.1% | -16.7% | 13.6% | 11.2% |
| Account & Mem. Administration | 1.8% | 5.6% | 6.0% | 13.6% |
| Corporate Services | 5.1% | 0.0% | 1.8% | -10.1% |
| Total | 3.3% | 1.9% | 8.3% | 10.2% |

Indicators of Mix Change

| | Percent / Pct. Points |
|---------------------------|-----------------------|
| Growth in Members | |
| Medicare SNP | 91.1% |
| Medicare Advantage | 29.8% |
| Indem. PPO Insured | 25.6% |
| Total | 9.4% |
| Revenue Mix Change | |
| Medicare SNP | 0.5 pct. points |
| Medicare Advantage | 0.2 pct. points |
| Indem. PPO Insured | 4.2 pct. points |

Continuous plans only. Median Values

Sources of Increase

| | Fastest | Highest Weight |
|---------------------------------|--|-----------------------|
| Marketing | External Commissions | External Commissions |
| Medical & Provider | Med. Management | Med. Management |
| Account & Membership | Customer Services | Information Systems |
| Corporate Services | Association Dues and License/Filing Fees | Corporate Services |



Sources: Constant Product Mix

| | Fastest | Highest Weight |
|---|--------------------------------------|--------------------------------|
| Marketing | Rating and Underwriting | Internal Sales and Marketing |
| Medical & Provider | Med. Management | Med. Management |
| Account & Membership | Claim and Encounter Capture and Adj. | Enrollment/ Membership/Billing |
| Corporate Services (Decline) | Actuarial | Corporate Exec. & Governance |



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, 2008 Data

Percent of Premium Equivalents

| | 25th PCTL | 75th PCTL | Median | σ / Mean |
|-------------------------------|-----------|-----------|--------|-----------------|
| Marketing | 2.8% | 5.0% | 3.5% | 45.0% |
| Provider & Medical Management | 1.3% | 2.0% | 1.7% | 43.1% |
| Account & Mem. Administration | 2.4% | 3.3% | 2.6% | 25.7% |
| Corporate Services | 1.9% | 2.8% | 2.4% | 45.7% |
| Total | 8.0% | 13.0% | 10.2% | 33.3% |

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



Expenses Vary by Product

Figure 4. Medicare Advantage Benchmark Summary

Medicare-Oriented Costs by Product, 2008 Data

Per Member Per Month

| | 25th PCTL | 75th PCTL | Median | σ / Mean |
|-------------------------|-----------|-----------|---------|-----------------|
| HMO | \$27.61 | \$34.83 | \$30.81 | 25.8% |
| POS | 29.42 | 36.63 | 31.88 | 29.1% |
| Indemnity & PPO | 34.24 | 45.51 | 41.36 | 25.6% |
| Total Comm. Ins. | \$27.21 | \$36.31 | \$32.43 | 18.4% |
| ASO | 15.85 | 19.04 | 17.73 | 34.7% |
| Total Commercial | \$23.68 | \$31.55 | \$29.30 | 17.6% |
| Medicare Supplemental | \$25.66 | \$25.66 | \$25.66 | NM |
| Medicare Advantage | 69.08 | 155.08 | 101.29 | 44.1% |
| Medicare Advantage PFFS | 63.39 | 79.96 | 68.14 | 23.4% |
| Medicare SNP | 160.36 | 177.36 | 175.67 | 18.7% |
| Medicare Cost | NM | NM | NM | NM |
| Medicare Total | \$68.75 | \$132.16 | \$94.74 | 42.3% |
| Medicaid | 18.95 | 29.78 | 23.98 | 27.6% |
| Comprehensive Total | \$34.97 | \$90.38 | \$46.46 | 70.5% |
| Medicare Part D | \$14.27 | \$16.70 | \$16.34 | 27.7% |



Percent Vary by Product, but Differently from Values

Figure 5. Medicare Advantage Benchmark Summary
Medicare-Oriented Costs by Product, 2008 Data
Percent of Premium Equivalents

| | 25th PCTL | 75th PCTL | Median | σ / Mean |
|-------------------------|-----------|-----------|--------|-----------------|
| HMO | 9.3% | 12.3% | 10.4% | 17.7% |
| POS | 9.2% | 11.2% | 10.0% | 20.4% |
| Indemnity & PPO | 12.7% | 16.4% | 14.9% | 29.1% |
| Total Comm. Ins. | 9.6% | 12.5% | 12.0% | 18.9% |
| ASO | 5.2% | 7.0% | 6.6% | 56.1% |
| Total Commercial | 8.3% | 12.2% | 10.5% | 21.5% |
| Medicare Supplemental | 7.2% | 7.2% | 7.2% | NM |
| Medicare Advantage | 7.2% | 17.1% | 9.7% | 47.2% |
| Medicare Advantage PFFS | 7.9% | 10.7% | 9.5% | 30.3% |
| Medicare SNP | 11.9% | 14.4% | 13.5% | 27.9% |
| Medicare Cost | NM | NM | NM | NM |
| Medicare Total | 7.3% | 14.2% | 9.5% | 42.4% |
| Medicaid | 7.7% | 10.4% | 8.5% | 31.9% |
| Comprehensive Total | 8.0% | 13.0% | 10.2% | 33.3% |
| Medicare Part D | 9.5% | 13.1% | 11.6% | 27.8% |



Administrative Costs of Medicare Plans in 2008



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Questions?

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Appendix A: Last Year's Costs

| Appendix A. Medicare Advantage Benchmark Summary | | | | |
|--|----------------|----------------|----------------|-----------------|
| <u>Medicare-Oriented Costs by Functional Area Cluster, 2007 Data</u> | | | | |
| <i>Per Member Per Month</i> | | | | |
| | 25th PCTL | 75th PCTL | Median | σ / Mean |
| Marketing | \$9.36 | \$13.50 | \$10.49 | 94.9% |
| Provider & Medical Management | 5.31 | 7.52 | 6.48 | 114.8% |
| Account & Mem. Administration | 9.44 | 13.33 | 10.84 | 73.9% |
| Corporate Services | 7.25 | 10.45 | 9.94 | 96.3% |
| Total | \$34.56 | \$40.75 | \$39.26 | 93.2% |



Appendix B: Last Year's Ratios

| Appendix B. Medicare Advantage Benchmark Summary | | | | |
|--|-------------|--------------|-------------|-----------------|
| <u>Medicare-Oriented Costs by Functional Area Cluster, as a Percent Premiums or Equivalents, 2007 Data</u> | | | | |
| <i>Percent of Premium Equivalents</i> | | | | |
| | 25th PCTL | 75th PCTL | Median | σ / Mean |
| Marketing | 2.3% | 3.7% | 2.7% | 39.0% |
| Provider & Medical Management | 1.2% | 1.8% | 1.3% | 45.2% |
| Account & Mem. Administration | 2.1% | 3.2% | 2.8% | 32.9% |
| Corporate Services | 1.3% | 2.9% | 2.7% | 42.7% |
| Total | 8.2% | 10.8% | 9.4% | 30.5% |



Appendix C. Product Lines In Which Costs are Segmented

- HMO - Insured
- POS - Insured
- Ind. / PPO- Insured
- ASO
- Medicare Sup.
- Medicare Adv.
- Medicare Adv. PFFS
- Medicare SNP
- Medicaid HMO
- Stand-Alone Part D



Appendix D: 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**
 - HIPAA
 - Finance and Accounting
 - Actuarial
 - Corporate Services
 - Corporate Executive / Governance
 - Association Dues and License/Filing Fees
 - Miscellaneous Business Taxes



Appendix E: Quality Assurance

- *Voluntary* – Since providers are users, have stake in the metrics. Scope is also participatory.
- *Strong definitions* – Participatory. 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: 89% of two largest universes in 2008 participated again in 2009. 36.4% of Medicare plans have 3 or more years of participation.
- *Checks* - In survey instrument and in analytical module; Anomalies investigated.
- *Review* - Preliminary results provided for proofing.
- *Business model* - No conflicts of interest, no “Tragedy of the Commons.”



Appendix F: Business Model

- No individually identifiable results.
- Low cost to participants.
- 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.



Appendix G: Benchmark Release Schedule

| | Financial | Operational | Medical Management | Health Care Utilization | Total Pages |
|----------------------------------|-----------------|--------------|--------------------|-------------------------|-------------|
| Blue Cross Blue Shield | June 29 | Early August | Late-August | Late-August | 1,300 |
| Larger Plan | July 30 | Early August | Late-August | Late-August | 1,100 |
| Independent / Provider-Sponsored | June 29 | Early August | Late-August | Late-August | 800 |
| Medicare | Early September | Mid- October | Mid- October | Mid- October | 800 |
| Medicaid | Early September | Mid- October | Mid- October | Mid- October | 1,100 |

Projected dates are subject to change. Page values are estimates and exclude Common Guidelines (270 pages) and Utilization metrics for all universes (400 pages).

