

# *Health Plan Administrative Costs*

## *A Review of Medicare Plan Results*

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# Topics

- What are cost trends in Medicare health plan administration?
- What are the administrative costs of Medicare Plans?
- How do costs differ by product?
- How do Medicare costs differ between the universes?



# Decline in Non-Adjusted Expense Growth

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

	2006 Data		2007 Data	
	Percent Change	Percent Change, Mix-Adjusted	Percent Change	Percent Change, Mix-Adjusted
Marketing	59.1%	27.5%	22.3%	14.3%
Provider & Medical Management	35.2%	-11.0%	-12.1%	-16.7%
Account & Mem. Administration	32.3%	-7.7%	1.8%	5.6%
Corporate Services	44.5%	1.2%	5.1%	0.0%
Total	41.9%	0.9%	3.3%	1.9%



# Medicare PMPM Costs by Functional Area Cluster

**Figure 1. Medicare Advantage Benchmark Summary**  
Medicare-Oriented Costs by Functional Area Cluster, 2007 Data  
*Per Member Per Month*

	25th PCTL	75th PCTL	Median	$\sigma$ / 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%



# Total Costs PMPM by Cluster and Universe

<b>Medicare Benchmark Summary</b>				
<i>Costs by Functional Area Cluster, 2007 Data</i>				
<i>Per Member Per Month</i>				
	Medicare	Medicaid	IPS	BCBS
Marketing	\$10.49	\$2.98	\$8.23	\$7.46
Provider & Medical Management	6.48	6.19	4.39	3.12
Account & Mem. Administration	10.84	7.72	9.30	10.23
Corporate Services	9.94	5.00	4.36	4.40
Total	\$39.26	\$24.30	\$29.49	\$25.36



# Medicare Percent of Premium Costs by Cluster

**Figure 3. Medicare Advantage Benchmark Summary**  
Medicare-Oriented Costs by Functional Area Cluster, as a Percent Premiums or Equivalents, 2007 Data  
*Percent of Premium Equivalents*

	25th PCTL	75th PCTL	Median	$\sigma$ / 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%



# Total Costs as Percent of Premium by Cluster and Universe

<b>Medicare Benchmark Summary</b>				
<i>Costs by Functional Area Cluster, as a Percent Premiums or Equivalents, 2007 Data</i>				
<i>Percent of Premium Equivalents</i>				
	Medicare	Medicaid	IPS	BCBS
Marketing	2.7%	1.5%	2.6%	3.0%
Provider & Medical Management	1.3%	2.1%	1.3%	1.1%
Account & Mem. Administration	2.8%	3.3%	2.8%	3.8%
Corporate Services	2.7%	2.2%	1.7%	1.9%
Total	9.4%	9.3%	9.4%	10.4%



# Medicare Universe Costs by Product

**Figure 4. Medicare Advantage Benchmark Summary**

Medicare-Oriented Costs by Product, 2007 Data

Per Member Per Month

	25th PCTL	75th PCTL	Median	?/ Mean
HMO	\$28.43	\$35.60	\$28.79	21.8%
POS	27.28	35.70	27.42	29.3%
Indemnity & PPO	31.87	35.25	34.14	13.7%
Total Comm. Ins.	\$30.44	\$35.60	\$30.79	\$0.13
ASO	13.67	18.51	17.03	34.3%
Total Commercial	\$23.86	\$29.44	\$24.35	\$0.13
Medicare Supplemental	\$30.54	\$30.54	\$30.54	NM
Medicare Advantage	63.80	109.73	73.92	48.2%
Medicare SNP	97.11	124.35	105.21	38.9%
Medicare Total	\$68.65	\$111.14	\$77.35	\$0.47
Medicaid	\$21.31	\$29.33	\$24.65	\$0.32
Comprehensive Total	\$34.56	\$40.75	\$39.26	\$0.93
Medicare Part D	\$17.64	\$31.16	\$25.24	56.2%



# Medicare Universe Costs by Product

**Figure 5. Medicare Advantage Benchmark Summary**

Medicare-Oriented Costs by Product, 2007 Data

Percent of Premium Equivalents

	25th PCTL	75th PCTL	Median	?/ Mean
HMO	9.0%	11.8%	10.3%	19.7%
POS	8.8%	11.1%	8.9%	25.4%
Indemnity & PPO	12.3%	14.4%	13.7%	18.9%
Total Comm. Ins.	11.1%	11.8%	11.2%	14.3%
ASO	4.9%	8.5%	6.4%	33.6%
Total Commercial	9.7%	10.2%	9.9%	10.2%
Medicare Supplemental	10.3%	10.3%	10.3%	NM
Medicare Advantage	7.6%	12.0%	8.3%	41.2%
Medicare SNP	6.1%	9.0%	7.2%	50.1%
Medicare Total	7.1%	11.9%	7.8%	40.0%
Medicaid	7.0%	14.1%	9.0%	66.2%
Comprehensive Total	8.2%	10.8%	9.4%	30.5%
Medicare Part D	12.5%	27.5%	12.6%	77.0%



# Cost Comparisons and Characteristics of Universes

**Figure 6. Medicare Advantage Benchmark Summary**  
Medicare-Oriented Characteristics by Universe, 2007 Data

	Medicare	Indep. / Prov. Sponsored	BCBS	Combined Universes*
Total Costs PMPM	\$73.92	\$69.22	\$69.00	\$71.32
Total Costs as a Percent of Premiums	8.3%	7.8%	8.7%	7.9%
Plans Offering Medicare Advantage	7	11	12	26
Medicare Adv. and SNP Revenues	\$2,768,818,718	\$2,574,177,750	\$6,987,476,844	\$10,961,386,928
Comprehensive Total Revenues	\$6,224,070,941	\$15,051,072,000	\$96,205,902,000	\$113,139,041,491

\* Four firms included in two universes, are excluded from combined figures.



# *Review of Medicare Health Plan Administrative Expenses in 2007*



## Questions?

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## *Appendix: Definition of Clusters*

# *Functional Area Clusters*

- **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

