



Transcript

Health Plan Administrative Costs: A Review of Medicaid Results

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Welcome to our review of the benchmarking study for Medicaid Plans. While most of you are responsible for achieving that optimal mix of costs and benefits that lead to superior long term performance for your plans, I would also like to welcome those of you who are in the legal and policy community as well.

I want to begin by thanking those of you who participated this year. Some of the plans that participated are small so that participation represents a considerable investment on their part.

By the way, all of you who are participating in our various studies should now have received Volumes I. Operational metrics have also been distributed to the Blues and Independent / Provider-Sponsored universes and will be delivered to the Medicare and Medicaid universes shortly.

As you may know, this is our eleventh consecutive year of performance benchmarking for health plans. Our various universes serve more than 36 million Americans, or one of every five insured, and health plans serving one in every three insured people are users of our benchmarking studies. The eight plans participating in the Medicaid study serve 1.7 million people, of which one million are Medicaid HMO beneficiaries.

Plans participating in our benchmarking studies agree to complete our survey form in exchange for the resulting report. Administrative costs must be segmented by product



as well as by functional area. Without belaboring the issue, we do have an array of very good checks to promote data quality.

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Today, I would like to touch upon trends in Medicaid health plan administrative costs, their levels of costs, how their costs differ by product and how other universes compare with that of the Medicaid universe. This will be a fairly brief presentation because much additional content is available in *Plan Management Navigator* for October. Then I'll try to answer any questions that you might have.

Before I begin, I would like to point out to our Medicaid participants that the numbers you see in these slides will differ slightly from what you have received. The reason for this is that we have included mental health and pharmacy costs and revenues in this presentation, which may be more readily understood by a broader audience.

Also, from time to time, we will refer to administrative expenses that exclude marketing as "Core Expenses." They are "core" since in many states, marketing is not permitted to Medicaid beneficiaries. Thus, Core Expenses are more likely to be comparable across plans in different states. Also, from time to time we will refer to values of expenses, which are normally the medians from our universes. Finally, some of the slides will refer to figure numbers. These correspond to those found in the October *Plan Management Navigator*.

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In 2007, Medicaid Plans posted modest growth in PMPM administration. Total costs increased by 7.2% PMPM versus 11.3% last year. Excluding Marketing, PMPM costs increased by 8.2% versus 16.6% last year.

Medicaid plans increased their offerings of very costly Medicare products, which distorted upwards its real growth. While the increase was in low single digits, their costs are so high as to distort trend. Accordingly, after backing out the effect of this and other mix changes, Medicaid PMPM costs increased by 3.8% rather than the 7.2% as reported. This was down from 3.9% on constant product mix basis in the prior year. While the 2006 increase in Core Expenses was 1.8% on a constant product mix basis, it actually fell in 2007 by 6.4%.



The mix shift in favor of Medicare Advantage was especially evident in trends in provider and medical management. PMPM growth among Medicaid plans was 9.1%. But, backing out the effect of mix changes, Medicaid Provider and Medical Management expenses grew by only 0.6%. Both raw and mix-neutral trends are well below that of 2006, at 36.1% and 23.6% respectively. Managing the care for seniors is more demanding than for younger Medicaid members of these plans.

Account and Membership Administration growth was affected by an actual decline in Enrollment / Membership / Billing and Customer Services costs. On the other hand, Information Systems expenses soared and Claims Adjudication increased. The rate of growth declined from 18.5% in 2006 to 15.3% in 2007. Interestingly, on a constant mix basis, costs accelerated from 6.4% increase to a 7.9% increase.

Corporate services cost growth has been trimmed, though less dramatically in 2007 than for other clusters of functional areas. In 2007, PMPM expense growth increased by 4.5% as against 15.1% in 2006. But on a product mix adjusted basis, costs were up by 3.9% for the Medicaid plans as compared with the remarkable decline of 14.3% last year among our respondents. Finance and Accounting and Corporate Services (including HR, Facilities, Legal, Regulatory) comprised the lion's share of the declines in the rates of growth of this cluster.

By any measure, Core Expense growth has sharply declined. PMPM cost growth halved from 16.6% to 8.2%. On a constant product mix basis, they declined from positive 1.8% to negative 6.4%. Again, these core expenses exclude marketing costs that are not permitted in certain states for Medicaid.

Marketing expense growth also declined, from 7.3% to 3.5% on a product mix adjusted basis. Notably, however, Rating and Underwriting grew robustly. The source of the decline in growth was internal Sales and Marketing which, on a product mix adjusted basis, declined 11.5% in 2007, compared to an increase of 8.7% in 2006.

Accordingly, total cost growth also declined. Costs fell from 11.3% growth in 2006 to 7.2% growth in 2007. Holding constant the product mix, cost growth declined from 3.9% in 2006 to 3.8% in 2007.

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This figure shows the distribution of administrative expenses of health plans focusing on Medicaid. I am not going to belabor this since it is pretty self explanatory. But I do want to make a few casual observations.

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To put this distribution of expenses in some context, please see how the expenses of the clusters of operations compare between the universes. Note that the \$6.19 in Provider and Medical Management is fairly high. The comparable numbers for Independent / Provider-Sponsored plans and Blue Cross Blue Shield Plans are \$4.39 and \$3.12, respectively. These Medicaid plans plainly invest in care management. Our September and July *Navigators* contain the comparable data for the universes.

Illustrating the benefits of product specialization, Medicaid plans have Account and Membership administration that is actually lower than that of the larger Independent / Provider-Sponsored plans and Blue Cross Blue Shield Plans. Medicaid plans had costs of \$7.72 versus \$9.30 and \$10.23 for the Blues and IPS's respectively. By the way, we sometimes call the Independent / Provider-Sponsored plans IPS plans since it is less of a mouthful.

If economies of scale are found anywhere, they are found in Corporate Services. Median PMPM costs for Medicaid Plans, with 210,000 members is \$5.00. For IPS plans, with 250,000 members on average, PMPM costs are \$4.36. Blue Cross Blue Shield Plans, with 750,000 members have median corporate services costs of \$4.40.

Since marketing is often minimal in Medicaid managed care plans, it should come as no surprise that median Marketing expenses are \$2.98 versus \$8.23 for IPSs and \$7.46 for Blues. Thus total costs PMPM are considerably lower at \$24.30 versus \$25.36 for Blues and \$29.49 for IPS plans.

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This slide shows the distribution of costs expressed as a percent of premium equivalents. Overall, it tells much the same story as the PMPM data. Account and Membership Administration is the largest piece of administrative expenses, and Marketing expenses are the smallest. The reversed order of Provider and Medical

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Management and Corporate Services stems from the fact that we are using median values and the median percents and median PMPMs are calculated independently.

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This slide shows administrative expenses expressed as a percent of premium equivalents, for Medicaid plans and the other two universes. The scale effect is evident for Corporate Services for this universe, Account and Member Administration remain remarkably similar to larger peers, and the emphasis on care management is also clear in the high Provider and Medical Management numbers. Low marketing costs also distinguish between Medicaid plans and these other universes.

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The difference in the costs of various products is shown in this slide. Medicaid plans collectively offered nine different products although, as previously noted, most of their members were in Medicaid HMO. While that product had total costs of \$21.17, the median costs of Medicare SNP products offered by this universe were \$104.75 or five times higher. Medicare Advantage costs, at \$66.74, were three times higher.

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This slide also shows the differences in the costs of the various products, but expressed as a percent of premium equivalents. I would like to point out, however, that the order of expenses differs. For instance, note that SNP and Medicare Advantage are the high cost products on a PMPM basis, but they are among the lowest costs on a percent of revenue basis. For me, it is helpful to conceptualize this counter-intuitive difference by remembering that that the cost per claim submitted is higher in the Medicare population.

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I would finally like to end with a comparison that we touched on earlier. This slide shows a comparison between the various universes for their Medicaid products. Focusing on the PMPM expenses for the core products, these plans had costs that were less than those of IPS and BCBS plans. On a percent of premium basis, they were lower than that of the Blue Cross Blue Shield Plans. Conventional wisdom reflects that there



are economies of scale in many industries so that it is not intuitively obvious that the Medicaid plans should even be competitive. After all these plans have roughly 210,000 members on average compared with Blue Plans of 750,000 and 250,000 for IPS plans. Yet relatively small size is apparently overcome through focus.

<Figure 11>

Again, many thanks for joining us in this conference call. I'll now to answer any questions that you might have.

If those are all the questions for today, let me close by inviting you to contact me about any additional questions that surface. We do intend to post a transcript of the formal part of this presentation, along with the slides on our website.

<Appendix slide follows. It describes the functional areas found in the each of the functional area clusters discussed in this presentation.>