



*Photograph by Ray K. Saunders.*

# ADMINISTRATIVE COST TRENDS OF BLUE CROSS BLUE SHIELD PLANS IN 2017

*SHERLOCK BENCHMARKS*

Douglas B. Sherlock, CFA  
President, Sherlock Company

[sherlock@sherlockco.com](mailto:sherlock@sherlockco.com)

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# TOPICS

- Long term decline in cost trends
- Changes in cluster costs
- Reasons for cost increases
- The importance of taxes
- Costs by Cluster: Percent and PMPM
- Costs by Product: Percent and PMPM

# APPENDICES

- Last year's values
- Costs by Market Segment
- Functions in each cluster of expenses
- About the Sherlock Benchmarks

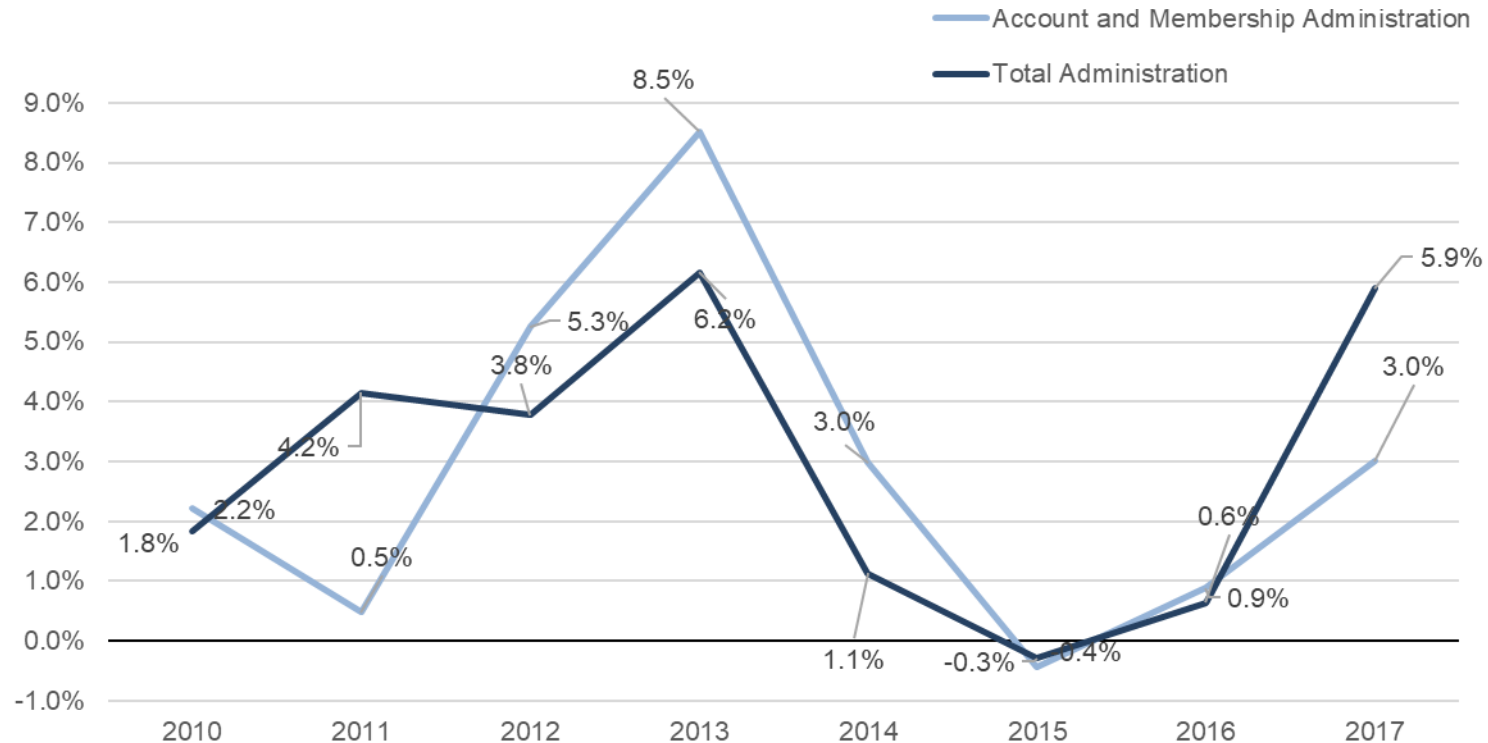
*Racing workboats is our metaphor for businesses striving for performance improvement.*



# SHARP UPTICK IN TOTAL, ACCELERATION IN A&M ADMINISTRATION.

**Figure 1. Sherlock Benchmark Summary**

Blue Cross Blue Shield Rates of Change for Account and Membership Administration and Total, Constant Mix



*Medians. Rates of change hold universe and product mix constant.*



# AMONG CONTINUOUSLY PARTICIPATING PLANS, OVERALL ACCELERATION, ESPECIALLY WHEN MIX HELD CONSTANT.

**Figure 2. Sherlock Benchmark Summary**

Blue Cross Blue Shield Median Changes in Per Member Per Month Expenses

Functional Area	2016 Data		2017 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Sales and Marketing	-2.6%	0.2%	3.6%	10.7%
Medical and Provider Management	2.6%	2.8%	9.9%	10.7%
Account and Membership Administration	0.5%	0.9%	3.6%	3.0%
Corporate Services	3.8%	5.2%	9.1%	9.3%
<b>Total Expenses</b>	0.8%	0.6%	5.1%	5.9%

*Constant-Mix adjusts to exclude product-mix differences.*

# SOURCES OF “REAL” GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2017

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	10.7%	Rating & Underwriting ↑	Commissions <sup>1</sup> ↑
Med & Provider	10.7%	Prov. Net. Mgmt & Svs ↑	Medical Management ↑
Acct & Memb	3.0%	Information Systems <sup>2</sup> ↑	Information Systems ↑
Corp. Serv.	<u>9.3%</u>	Corporate Executive ↑	Corporate Executive ↑
Total	5.9%	Rating & Underwriting ↑	Information Systems ↑

<sup>1</sup> Growth in products that normally have modest commissions.

<sup>2</sup> Declines in Claims and Customer Services



# SOURCES OF REPORTED GROWTH IN BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2017

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	3.6%	Rating & Underwriting <sup>1</sup> ↑	Rating & Underwriting ↑
Med & Provider	9.9%	Medical Management ↑	Medical Management ↑
Acct & Memb	3.6%	Information Systems <sup>2</sup> ↑	Information Systems ↑
Corp. Serv.	<u>5.1%</u>	Corp. Exec. & Gov. ↑	Corp. Exec. & Gov. ↑
Total	5.1%	Rating and Underwriting ↑	Information Systems ↑

<sup>1</sup> Broker Commissions actually declined.

<sup>2</sup> Customer Services and Claims declined.



# AFFORDABLE CARE ACT TAXES

- Miscellaneous Business Taxes (mainly ACA) are ~ 12% of total administrative expenses for commercial insured products. Last year, they were ~ 21%.
- Plans posted median Miscellaneous Business Taxes for commercial insured products of \$5.63 in 2017. They were \$12.57 in 2016. In 2013, they reported \$2.55.
- Trend (constant mix) had been 4-5%, in 2014, costs increased by 369.1%, then up by 13.5% in 2015 and down by 1.7% in 2016, down by 54.9% in 2017.
- Include Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee, PCORI/CERF fees and an Annual Fee on Health Insurers. The last fee declined from a median of \$7.72 in 2016 to zero in 2017. This is a one year phenomenon.



COMPARED WITH VALUES IN APPENDIX A, COSTS WERE 9.4% HIGHER IN 2017. COST TRENDS, CHANGES IN THE PRODUCT MIX AND THE UNIVERSE WERE RESPONSIBLE.

**Figure 3. Sherlock Benchmark Summary**

Blue Cross Blue Shield Costs by Functional Area Cluster, 2017 Data

*Median Per Member Per Month Expenses*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>	<b>2016 Values Median</b>
Sales and Marketing	\$7.68	\$8.79	\$10.32	36%	\$8.45
Medical and Provider Management	3.91	4.44	5.21	26%	4.04
Account and Membership Administration	13.37	14.66	17.51	24%	14.55
Corporate Services	4.49	6.27	6.63	38%	5.27
<b>Total Expenses</b>	<b>\$30.56</b>	<b>\$34.99</b>	<b>\$41.13</b>	<b>23%</b>	<b>\$32.00</b>





# PMPMs VARY BY PRODUCTS.

**Figure 4. Sherlock Benchmark Summary**

Blue Cross Blue Shield Costs by Product, 2017 Data

*Per Member Per Month*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
<b>Commercial HMO</b>				
Insured	\$39.07	\$48.87	\$57.69	23%
ASO / ASC	\$24.02	\$24.51	\$27.82	29%
<b>Commercial POS</b>				
Insured	\$39.93	\$45.13	\$47.86	26%
ASO / ASC	\$20.26	\$24.14	\$27.50	25%
<b>Indemnity &amp; PPO</b>				
Insured	\$38.99	\$43.85	\$49.42	26%
ASO / ASC	\$21.91	\$26.70	\$29.75	23%
Commercial Insured	\$40.86	\$43.78	\$49.42	19%
Commercial ASO/ASC	\$21.69	\$27.13	\$29.75	23%
FEP	\$21.41	\$23.63	\$26.52	15%
<b>Medicare Advantage</b>				
Individual	\$92.91	\$98.76	\$116.88	22%
Group	\$108.59	\$138.08	\$170.49	30%
Medicare Advantage Total	\$90.35	\$97.63	\$116.88	23%
Medicaid	\$32.53	\$43.22	\$57.00	54%
Medicare Supplemental	\$25.45	\$33.29	\$40.13	36%
<b>Comprehensive Total</b>	\$30.56	\$34.99	\$41.13	23%
Medicare Advantage SNP	\$180.75	\$191.33	\$221.41	21%
Stand-Alone Medicare Part D	\$11.36	\$15.65	\$18.91	63%
Stand Alone Dental	\$2.49	\$4.20	\$5.09	49%



# PERCENTS CAN BE ORDERED DIFFERENTLY FROM PMPMs.

**Figure 5. Sherlock Benchmark Summary**  
 Blue Cross Blue Shield Costs by Product, 2017 Data  
 Percent of Premium Equivalents

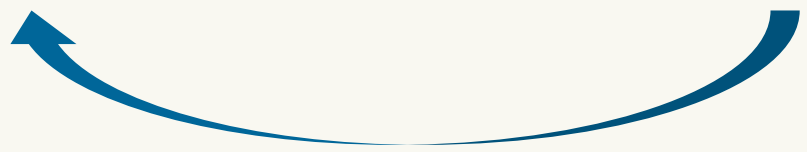
Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
<b>Commercial HMO</b>				
Insured	8.0%	8.6%	9.4%	21%
ASO / ASC	5.9%	6.0%	6.2%	24%
<b>Commercial POS</b>				
Insured	9.5%	10.2%	11.0%	19%
ASO / ASC	6.4%	6.7%	7.2%	17%
<b>Indemnity &amp; PPO</b>				
Insured	9.3%	10.1%	11.0%	15%
ASO / ASC	6.8%	7.9%	8.8%	54%
Commercial Insured	9.3%	9.9%	11.0%	13%
Commercial ASO/ASC	6.8%	7.7%	8.8%	54%
FEP	4.6%	5.4%	6.0%	24%
<b>Medicare Advantage</b>				
Individual	10.0%	11.3%	14.6%	29%
Group	11.9%	13.0%	13.8%	19%
Medicare Advantage Total	10.0%	11.3%	14.6%	27%
Medicaid	8.8%	9.3%	12.3%	34%
Medicare Supplemental	13.6%	16.9%	19.7%	31%
<b>Comprehensive Total</b>	8.4%	8.9%	10.3%	17%
Medicare Advantage SNP	8.2%	9.0%	12.3%	41%
Stand-Alone Medicare Part D	8.4%	13.5%	19.2%	51%
Stand Alone Dental	10.9%	17.8%	20.6%	43%

# ALL FOUR CLUSTERS GREW IN COMPARISON TO THE 2016 VALUES. THE ORDER OF IMPORTANCE OF THE CLUSTERS IS LIKE THE PMPM MEDIANS.

**Figure 6. Sherlock Benchmark Summary**  
Blue Cross Blue Shield Costs by Functional Area Cluster, 2017 Data  
*Median Percent of Premium Equivalents*

*2016  
Values*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>	<b>Median</b>
Sales and Marketing	1.9%	2.0%	2.8%	34%	2.1%
Medical and Provider Management	1.0%	1.3%	1.4%	28%	1.1%
Account and Membership Administration	3.5%	4.0%	4.3%	18%	3.7%
Corporate Services	1.3%	1.6%	1.8%	27%	1.3%
<b>Total Expenses</b>	<b>8.4%</b>	<b>8.9%</b>	<b>10.3%</b>	<b>17%</b>	<b>8.3%</b>



# BLUES ADMINISTRATIVE COSTS ACCELERATE IN 2017



*Photograph by Ray K. Saunders.*

- Blue costs were \$34.99 versus \$32.00 last year. Actual performance, differences in universe and mix changes were responsible.
  - Growth in administrative expenses, far higher than the previous three years. As-reported increased by 5.1%, constant mix grew by 5.9%, both accelerated from last year.
  - The rate of growth in all clusters accelerated, in particular Sales and Marketing and Medical and Provider Management.
  - Customer Services and Claims functions declined while Rating and Underwriting, Corporate Executive, Association Dues, Provider Network Management and Services, Medical Management and Actuarial increased, sometimes sharply.
- ACA taxes comprise 12% of total PMPM costs for Insured products.
  - Mix changes favored government sponsored and ASO/ASC.



# APPENDIX A. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2016

**Appendix A. Sherlock Benchmark Summary**

Blue Cross Blue Shield Costs by Functional Area Cluster, 2016 Data

*Per Member Per Month*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Sales and Marketing	\$7.48	\$8.45	\$9.81	33%
Medical and Provider Management	3.87	4.04	4.48	19%
Account and Membership Administration	13.03	14.55	16.46	18%
Corporate Services	4.31	5.27	5.76	21%
<b>Total Expenses</b>	<b>\$28.47</b>	<b>\$32.00</b>	<b>\$37.21</b>	<b>18%</b>

# APPENDIX B. BLUE CROSS BLUE SHIELD ADMINISTRATIVE COSTS IN 2016

## Appendix B. Sherlock Benchmark Summary

Blue Cross Blue Shield Costs by Functional Area Cluster, 2016 Data

*Percent of Premium Equivalents*

<b>Functional Area</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
Sales and Marketing	2.0%	2.1%	2.5%	28%
Medical and Provider Management	1.0%	1.1%	1.3%	19%
Account and Membership Administration	3.4%	3.7%	4.1%	18%
Corporate Services	1.3%	1.3%	1.4%	18%
<b>Total Expenses</b>	<b>7.9%</b>	<b>8.3%</b>	<b>8.9%</b>	<b>15%</b>



# APPENDIX C. COMMITMENTS TO VARIOUS MARKET SEGMENTS MADE A DIFFERENCE FOR BLUE PLANS

*Limited Sample  
for these metrics.*

## Blue Cross Blue Shield Costs by Segment

*Per Member Per Month*

	ACA, Under 65		Non-ACA Under 65 - Grandfathered	Small Group	Middle Market	Large Group
	On Public Exchange	Off Public Exchange				
Median Administrative Expenses	51.59	\$54.31	\$38.97	\$51.61	\$49.50	\$36.90

- Comparing Compliant plans, Sales and Marketing are much lower on Exchange. Information Systems is higher. Otherwise similar costs. (We omit User Fees.)
- Comparing costs of Compliant plans Off Exchange to Grandfathered, Medical and Provider and Account and Membership Administration are lower. Customer Services and Claims are much lower.
- Grandfathered cost less than Small groups since Sales and Marketing costs are less.
- Middle Market costs are less than Small Group chiefly due to lower Account and Membership Administration, especially Information Systems.
- Large Groups cost less than Middle Market because of lower Sales and Marketing and Information systems.



## APPENDIX D. CAREFUL QUALITY ASSURANCE

- **Voluntary** – Since providers are users, they have stake in the metrics. Other than required 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: 93% of Blue and 80% of IPS repeated from last year. 79% of Blues have seven or more years of participation, and 80% of IPS plans have five or more years of participation.
- **Checks** - In survey instrument and in analytical module; Anomalies investigated.
- **Data Validation** – Reconciled to audit. Preliminary results provided for proofing.
- **Business model** - No conflicts of interest; no “Tragedy of the Commons.”





# APPENDIX E. SUMMARY OF THE REPORTS AND GUIDELINES

- The **financial metrics** report analyzes costs segmented by function and by product. They are standardized by PMPMs and by Percent.
- The **staffing and compensation** report analyzes the staffing ratios, per employee compensation and propensity to outsource. We supply estimates of staffing ratios by product.
- The **operational metrics** include operational metrics unique to particular functions such as the average speed of answer in member services and the time between claim receipt and payment approved. While completion of many of these metrics is optional, you will receive the results of your universe.
- **Medical management** metrics are comprised of results for all universes. These include the costs to manage various cases and diseases. This is optional like the operational metrics.
- **Health care utilization** metrics are also comprised of results for all universes. Unit cost and volumes are provided for each product for 40 health care services and products.
- The **CFO Letter** summarizes and analyzes the financial metrics, staffing, and compensation reports. After eliminating the effect of product mix differences, variances from norms are identified and functions are ranked in order of importance. We calculate the value of the factors of staffing ratios, compensation and non-labor costs, and their relative contribution to each functional variance.
- The **Common Guidelines** provide detailed definitions of activities and calculation notes.



# APPENDIX F. STRONG NETWORK, BROAD ACCEPTANCE

- The Sherlock Benchmarks is now in 21<sup>st</sup> consecutive year, or over 815 plan years.
- Health plans serving 175 million insured Americans use the Sherlock Benchmarks, including most Blue Cross Blue Shield plans, public companies and the largest Independent/Provider-Sponsored health plans.
- Of the 34 U.S.-based Blue Cross Blue Shield primary licensees, fourteen serving 37.1 million people, participated in this year's Sherlock Benchmarking Study for Blue Cross Blue Shield Plans.
- Of the 14 members of the Alliance of Community Health Plans that are not focused on public programs or are staff-model plans, 8 are participating in this year's Sherlock Benchmarking Study for Independent / Provider – Sponsored health plans.
- Most of the largest members of the Health Plan Alliance that are focused on Commercial Insured or ASO are participating in this year's Sherlock Benchmarking Study for Independent / Provider – Sponsored health plans.



# APPENDIX G. FUNCTIONS IN EACH CLUSTER

## Appendix G. Sherlock Benchmark Summary

### Major Functions Included in Each Administrative Expense Cluster

#### **Sales & Marketing**

1. Rating and Underwriting
  - (a) Employer Group Reporting
  - (b) Risk Adjustment
  - (c) Other Rating and Underwriting
2. Marketing
  - (a) Product Development and Market Research
  - (b) Member and Group Communication
  - (c) Other Marketing
3. Sales
  - (a) Account Services
  - (b) Internal Sales Commissions
  - (c) Other Sales
4. External Broker Commissions
5. Advertising and Promotion
  - (a) Media and Advertising
  - (b) Charitable Contributions

#### **Provider & Medical Management**

6. Provider Network Management and Services
  - (a) Provider Relations Services
  - (b) Provider Contracting
  - (c) Provider Audit / Billing Validation
  - (d) Other Provider Network Management and Services
7. Medical Management / Quality Assurance / Wellness
  - (a) Precertification
  - (b) Case Management
  - (c) Disease Management
  - (d) Nurse Information Line
  - (e) Health and Wellness
  - (f) Quality Components
  - (g) Medical Informatics
  - (h) Utilization Review
  - (i) Other Medical Management

#### **Account & Membership Administration**

8. Enrollment / Membership / Billing
9. Customer Services
  - (a) Member Services
  - (b) Printed Materials
  - (c) Grievances and Appeals
10. Claim and Encounter Capture and Adjudication
  - (a) Coordination of Benefits (COB) and Subrogation
  - (b) BlueCard Home and Custom Par Fees
  - (c) Medicare Crossover Fees
  - (e) Other Claim and Encounter Capture and Adjudication
11. Information Systems Expenses
  - (a) Operations and Support Services
  - (b) Applications Maintenance
    - (1) Benefit Configuration
    - (2) Other Applications Maintenance
  - (c) Applications Acquisition and Development
    - (1) Amortization of Developed Software
    - (2) Pre-Planning and Project Costs
  - (d) Security Administration and Enforcement

#### **Corporate Services**

12. Finance and Accounting
  - (a) Credit Card Fees
  - (b) All Other Finance and Accounting
13. Actuarial
14. Corporate Services Function
  - (a) Human Resources
  - (b) Legal
    - (1) Compliance
    - (2) Government Affairs
    - (3) Outside Litigation
    - (4) All Other Legal
  - (c) Facilities
  - (d) OPEB
  - (e) Audit
  - (f) Purchasing
  - (g) Imaging
  - (h) Printing and Mailroom
  - (i) Risk Management
  - (j) Other Corporate Services Function
15. Corporate Executive and Governance
16. Association Dues and License/Filing Fees



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