

# Plan Management Navigator

## *Analytics for Health Plan Administration*



Healthcare Analysts

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## BLUE CROSS BLUE SHIELD PLANS ACCELERATE IN 2017

In 2017, excluding the effect of Miscellaneous Business Taxes, Blue Cross Blue Shield Plans reported administrative cost increases of 5.9%, far higher than the previous three years, and the highest since 2013. Shown in Figure 1, the 2017 trend in Account and Membership Administration was not extraordinary compared with the past eight years, with three other years equal to or greater than 2017. We have not shown this but, after the effect of the Miscellaneous Business Taxes, PMPM total administrative expense declined by 2.3%.

### *Trends Overall and in Expense Clusters*

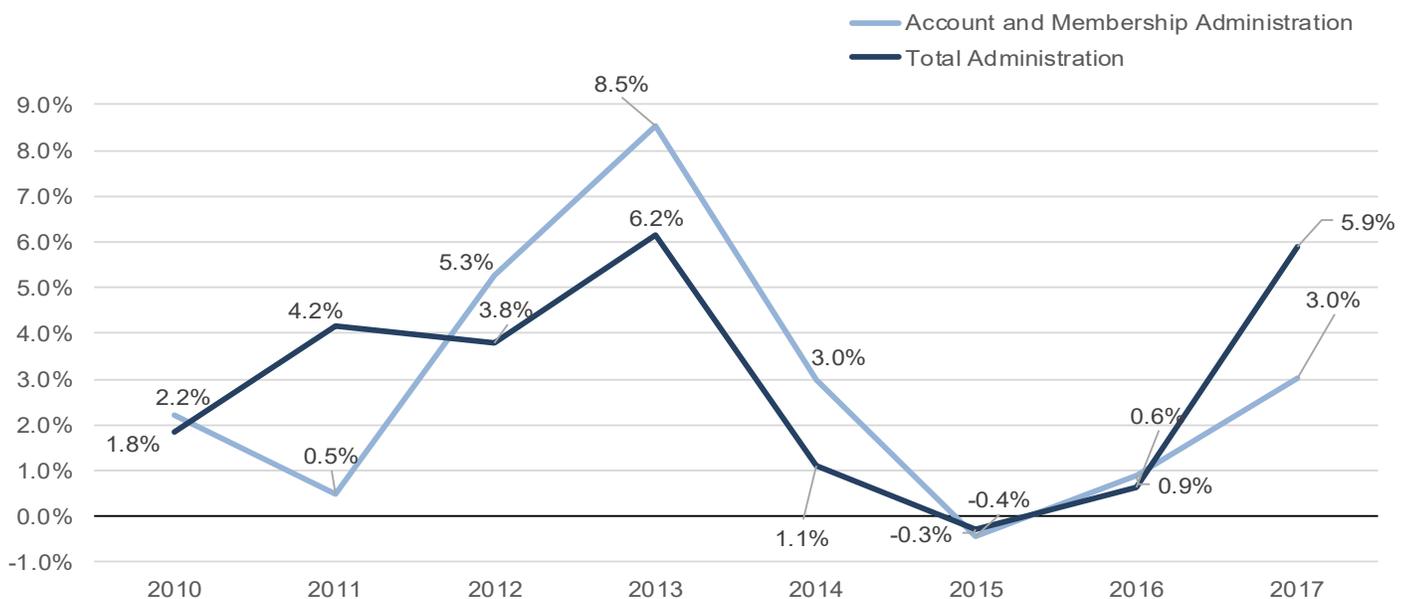
The 2018 Benchmarking cycle is especially interesting because nearly all of the participating Plans did so in 2017 as well. This 93% repeat participation rate is relatively high leading to comparability beyond our normal procedure of controlling for universe and product mix differences.

Figure 2 outlines year-over-year trends on both an as-reported and constant mix plans. The year-over-year acceleration of cost trends was widespread. On an *as-reported* basis, for the 13 continuously participating Plans, per member costs grew by 5.1% compared with 0.8% the prior year.

The somewhat more rapid acceleration in the constant-mix growth versus the growth in as-reported expenses reflects a net shift in favor of low administrative cost products. The effect of the mix change is to reduce as reported cost trends by 0.8 percentage points.

**Figure 1. Sherlock Benchmark Summary**

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



While Commercial Insured product membership declined at a 4.6% median rate, ASO/ASC products increased by 2.7%: ASO products are lower cost to administer. Overall, commercial membership declined by 0.3%. High cost Medicare Advantage increased at a median rate of 7.0% while low cost Medicaid decreased at a median rate of 1.8%. Comprehensive membership in continuous Plans declined at a median rate of 0.5%.

Trends that exclude mix changes is a more accurate representation of trends in our view so the discussion that follows is largely based on this. Customer Services and Claims functions declined while Rating and Underwriting, Corporate Executive, Association Dues, Provider Network Management and Services, Medical Management, Actuarial and increased, sometimes sharply. Staffing ratios were higher and compensation increased. Outsourcing was stable.

In the following sections, we will discuss trends with emphasis on their importance to the overall PMPM increase. The most important sources of increase were Information Systems, Medical Management, Corporate Executive and Governance and Provider Network Management and Services. Broker Commissions was also a key contributor but we are cautious about the importance of this for methodological reasons.

## SALES AND MARKETING

A key reason for the cost per member growth overall was the increase in Sales and Marketing. This cluster increased at the fastest rate in the past five years. For the third year in a row, the fastest growing functional area within this cluster was Rating and Underwriting. Rating and Underwriting is not a large function so that its growth impact is modest on the overall trends. But it had the most rapid overall growth and was rapid across nearly all products. Compensation was higher and staffing ratios were lower. Notably, sub-functions of Employer Group Reporting and Risk Adjustment grew quite rapidly while Other Rating and Underwriting grew modestly.

**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>	<b>0.8%</b>	<b>0.6%</b>	<b>5.1%</b>	<b>5.9%</b>

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Outsourcing greatly increased in Risk Adjustment, and staffing (including outsourced) was sharply lower. Indicated combined compensation was also sharply higher in this subfunction. The activities in this function include the risk-adjustment activities for Medicare and Medicaid.

Employer Group Reporting sharply increased in costs as staffing surged. Outsourcing was flat as was compensation. Other Rating and Underwriting grew modestly. Staffing increased, compensation was flat, as was outsourcing.

Broker Commissions was, holding product mix constant, an important source of cost growth. We are cautious about this conclusion because of evidence of changes in the way that Blue customers select ASO/ASC versus insured commercial products. Specifically, in several cases, Blue Plans are reporting sharp increases in ASO/ASC broker commissions. This was often associated with sharper than average shift in favor of ASO/ASC products and a sharp increase in ASO/ASC PMPM fees. Possibly supporting the above, and information is sketchier on this point, broker overrides and bonuses appeared to be much more important, particularly in Commercial ASO/ASC.

So, we suspect that some groups that were previously insured became ASO/ASC, but the higher commission structure of these accounts remained intact. Since the mix adjustment implies the same activity mix year-over-year, the greater commissions paid by such groups violates this premise. Having said this, it is nevertheless the case that there was also a sharp increase in broker Commissions for group Medicare Advantage, among Plans' fastest growing products.

Advertising expenses were up marginally after two years of sharp declines, especially in Charitable Contributions. Always volatile Marketing expenses grew at a rate similar to the past five years. While Sales accelerated to mid single digit rates, it appeared to shed staff, and reallocate in favor of Other Sales from Account Services.

#### CORPORATE SERVICES

The cluster of Corporate Services costs increased at its fastest rate over the past five years and sharply accelerated in 2017. The function of Corporate Executive and Governance was among the fastest growing functional areas in cost growth. In addition to the CEO and COO, this function includes their staff, including enterprise process improvement and enterprise consulting. While this is among the smallest of the functional areas, it was also the fourth largest contributor to cost increases.

Staffing ratios for the Corporate Executive function sharply increased as did outsourced activities. Costs increased across all products but was especially pronounced in MA, consistent with the possibility of management consulting services in that product.

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The compensation in this function varied greatly – median values were lower but average compensation growth was higher than for any other functional area.

In nearly all cases, the Plans with the strongest trends in operating earnings showed the sharpest increases in the compensation portion of this function's costs.

By performance improvements we are referring to margins, whether expressed PMPM or percent of revenue. For the Blue Cross Blue Shield Plans as a whole, median operating earnings increased from \$1.43 to \$8.13, and from 0.5% to 4.0% of revenues. Perhaps reflecting a similar dynamic, Charitable Contributions that are included in otherwise flat to down Advertising and Promotion also sharply increased.

Another small but rapidly growing functional area was Actuarial. Compensation was higher and staffing ratios were mixed. Outsourcing was flat to down. Actuarial expense trends sometimes parallel that of Rating and Underwriting. Association Dues and License / Filing Fees grew at its fastest rate in the past five years.

Finance and Accounting increased though tied with 2014 for the lowest rate of increase in the past five years. Staffing was flat. Credit Card fees fell and compensation was flat to higher. Outsourcing was mixed.

The Corporate Services function increased only modestly, because it includes HR, Facilities, Legal and Regulatory and other sub-functions, its size means that it had the effect of reducing the overall trend in this cluster's cost increase. Government Affairs and Litigation were lower while HR, OPEB and Audit were higher. Staffing ratios were higher.

#### PROVIDER AND MEDICAL MANAGEMENT

The cluster Medical and Provider Management growth in costs was at a low double digit rate, by far, the highest in the past five years. That acceleration and comparisons were also true for both Provider Network Management and Services and Medical Management / Quality Assurance / Wellness functions.

Medical Management staffing was flat but was less likely to be outsourced. Staffing costs per FTE were higher. Cost growth was centered on Precertification, Quality Components and Other Medical Management. Staffing ratios and staffing costs per FTE were higher in each sub-function. Outsourcing was mixed.

Provider Network Management and Services grew especially rapidly. Outsourcing declined, compensation increased and staffing ratios increased.

While Provider Services declined, the Provider Audit / Billing Validation area grew especially rapidly. Staffing ratios were mixed, compensation was higher, and outsourcing was lower.

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Provider Contracting also grew rapidly. The staffing ratios increased but compensation per employee decreased, and outsourcing fell. Other Provider Network Management Services grew rapidly. Staffing was mixed, compensation was higher and outsourcing was less.

#### ACCOUNT AND MEMBERSHIP ADMINISTRATION

Information Systems was the fastest growing function in this cluster. Staffing ratios were mixed, though up in Operations and Support Services. Outsourcing decreased slightly. The growth driver appeared to be Applications Acquisition and Development, which had a widespread tendency to onboard these services. Compensation was mixed.

By contrast, Customer Services and Claims posted declines. Each had declines in staffing ratios. Customer Service had an increase in compensation and a decrease in outsourcing, Claims had flat compensation and an increase in outsourcing. To be clear, these functions retain the manual activities even as automation moves work to Information Systems.

Enrollment posted moderate growth and an increase in outsourcing. It appears that there was a decline in the percent of Blue Cross Blue Shield commercial insured members that were individual to a median of approximately 25% compared with 29% last year. In total, the commercial membership in these plans increased slightly as group membership increased as individual decreased. On the other hand, individual focused Medicare Advantage was the fastest growing product.

Administrative expenses associated with Behavioral Health and Pharmacy benefits were responsible for 0.2 percentage points of growth. In other words, rather than being 3%, the cost increase would have been 2.8%.

**Miscellaneous Business Taxes.** This expense is not part of the expenses that give rise to the 5.9% total increase, but the costs sharply declined in 2017. According to the IRS, “The Consolidated Appropriations Act of 2016, Title II, § 201, Moratorium on Annual Fee on Health Insurance Providers, suspended collection of the health insurance provider fee *for the 2017 calendar year only.*” (Emphasis added.) In 2016, among participating Plans’ commercial insured business, the Annual Fee was a median of \$7.72 and a mean of \$7.49.

#### SUMMARY OF COST DRIVERS

The above comments are based on continuously participating plans, and includes the effect of staffing and costs performed on an outsourced basis. Overall, it appears that staffing is slightly higher than last year among continuing plans. Over all participating plans, it is approximately 18.8 FTEs per 10,000 members, though we estimate that it differs between products and market segments. Of the 14 functional areas with staff, five had ratio increases and four had declines. Key areas of growth included Provider Network and Corporate Services and Medical Management. Key declines included Claims and Customer Services. An indicator of increasing automation was that Information Systems also added staff.

Compensation was typically higher. Inflation is a factor, since 10 of the 14 primary functional areas increased. In addition, note that the key areas of staffing growth employed higher cost FTEs, while the lower cost FTEs declined in staff.

Overall, outsourcing was about the same as last year. Five of the 14 functions increased in outsourcing while four decreased, notably the substantial Information Systems and Medical Management functional areas.

### *Costs of Blue Cross Blue Shield Plans, by Cluster, PMPM*

Figure 3 shows the values of administrative expenses for all 14 participating Plans. Bear in mind that this universe of Blue Cross Blue Shield Plans differs from that of last year in product mix and in populations. In this section we'll touch on comparisons with the results reported last year, notwithstanding this limitation. The prior year's values are shown in Appendix A.

Since the universes differed by one each year, it is not possible to reliably compare the performance of plans participating this and last year based on these charts. For the new plan and the one that participated last year, we can know neither their trends, or their changes in product mix.

The actual total PMPM administrative expenses at \$34.99 were 9.4% higher than last year's values, shown in Appendix A. While Account and Membership was up by 0.7%, Corporate Services, Medical and Provider and Sales and Marketing and were up by higher amounts. Note also that the values appeared more dispersed. In all cases, Coefficients of Variation were greater in 2017 as were the differences between 75th and 25th percentile values.

Sales and Marketing, the second largest cluster, had costs with a median value of \$8.79. Last year's value was \$8.45. This function includes Rating and Underwriting, Sales, Marketing, Broker Commissions and Advertising.

Medical and Provider Management costs per member per month were \$4.44, higher than last year's value of \$4.04. This group of functions includes Provider Network Management

**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>
Sales and Marketing	\$7.68	\$8.79	\$10.32	36%
Medical and Provider Management	3.91	4.44	5.21	26%
Account and Membership Administration	13.37	14.66	17.51	24%
Corporate Services	4.49	6.27	6.63	38%
<b>Total Expenses</b>	<b>\$30.56</b>	<b>\$34.99</b>	<b>\$41.13</b>	<b>23%</b>

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Account and Membership Administration was the single greatest cluster of expenses at a median value of \$14.66 and composed nearly one-half of the total. This helps to explain its substantial effect on overall trend. This cluster includes the central activities of Information Systems, Enrollment, Claims and Customer Services. Comparing this with last year, the costs were higher and more dispersed.

Corporate Services costs were higher PMPM than last year at \$6.27 versus \$5.27. Activities include Corporate Executive, Actuarial, Finance and Accounting, and a group of other activities like Facilities, HR and Legal.

### *Costs of Blue Cross Blue Shield Plans, PMPM by Product*

The importance of considering the product cost values is shown in Figure 4. The products vary greatly in their per member costs and the product Coefficients of Variation tend to be smaller than cluster cost values shown in Figure 3.

The median mix of Commercial products was 83.6% of the membership. Administrative expenses for these costs are both higher and lower than the median comprehensive administrative costs, depending on their financing mechanism, which indirectly bears on the group size. An ASO/ASC group possesses the statistical advantages of larger size, which also means that their sales and marketing costs are spread through greater numbers of members. Commercial *insured* products are accordingly higher than the median for comprehensive products. The single most important product is Indemnity and PPO at \$43.85. HMO costs \$48.87 while POS costs \$45.13.

As a sector, Blue Cross Blue Shield Plans have a heavy commitment to ASO/ASC products, representing a median of 46.6% of comprehensive members. These products' costs are lower than for comparable insured products largely due to the modest per member Sales and Marketing expenses required for large groups that are eligible to use these products. Thus, Indemnity and PPO costs \$26.70, HMO costs \$24.51 while POS costs \$24.14.

FEP is considered an insured product serving Federal Employees and dependents under retirement age, but since Blue Cross Blue Shield Association is the prime contractor, it has the low marketing cost characteristics of ASO/ASC commercial products. Its costs are \$23.63. It is possible that the uniformity of the product between the Plans contributes to the low coefficient of variation of 15%.

Note that Medicare Supplement is an approximately average cost product at \$33.29 PMPM. We include this as a comprehensive product in the Sherlock Benchmarks though it pays only when Medicare does not.

Medicare and Medicaid are government-sponsored products serving seniors and the poor. Medicare products are relatively high cost at \$97.63 and \$191.33 PMPM for Medicare Advantage and Medicare Special Needs Plans respectively. Note that, within Medicare Advantage, group runs higher than individual. Some Sales and Marketing and Enrollment costs would normally be expected to be lower for the group Medicare Advantage business. Group Medicare is apparently in flux in some of the Plans and typically has relatively few members. Medicare costs this year are higher than last year.

**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%

Among the comprehensive insured products, Medicaid products are similar to commercial, at median PMPM values of \$43.22. The specialty products of Stand-Alone Medicare Part D and Stand Alone Dental were very low cost products at \$15.65 and \$4.20 PMPM respectively.

### *Costs of Blue Cross Blue Shield Plans, Percent of Premiums by Product*

The product ranking of administrative expenses measured by the percents of premiums corresponds with that of the PMPM costs with some important exceptions. While Medicare Supplemental is approximately average cost when measured PMPM, at 16.9%, its cost ratio was the highest among the comprehensive products, which had a median value of 8.9%.

**Figure 5. Sherlock Benchmark Summary**

Blue Cross Blue Shield Costs by Product, 2017 Data

*Percent of Premium Equivalents*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
<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%
<b>Commercial Insured</b>				
Commercial ASO/ASC	6.8%	7.7%	8.8%	54%
<b>FEP</b>				
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%
<b>Medicaid</b>				
Medicaid	8.8%	9.3%	12.3%	34%
<b>Medicare Supplemental</b>				
Medicare Supplemental	13.6%	16.9%	19.7%	31%
<b>Comprehensive Total</b>				
Comprehensive Total	8.4%	8.9%	10.3%	17%
<b>Medicare Advantage SNP</b>				
Medicare Advantage SNP	8.2%	9.0%	12.3%	41%
<b>Stand-Alone Medicare Part D</b>				
Stand-Alone Medicare Part D	8.4%	13.5%	19.2%	51%
<b>Stand Alone Dental</b>				
Stand Alone Dental	10.9%	17.8%	20.6%	43%

The specialty products, Stand-Alone Medicare Part D and Stand Alone Dental were relatively high cost products at median values of 13.5% and 17.8%, respectively. These were extremely low cost products on a PMPM basis.

Medicare Advantage costs, while many times higher PMPM, have ratios only 40-50% higher than the median for comprehensive at 11.3%. Group Medicare has higher PMPM costs than Individual, and the relationship is similar at 13.0% and 11.3% respectively. While Medicare SNP is not considered part of comprehensive for this universe, at 9.0%, it is average for Comprehensive but 5-6 times higher when calculated PMPM.

Again, most other percent of premiums correspond directionally with the PMPM values. FEP is among the lowest cost products on a PMPM basis and, at 5.4%, is the lowest cost product expressed in percents. Medicaid was approximately average in PMPM costs and was, at 9.3%, slightly higher than average.

Commercial ASO products range from 6.0% of premiums to 7.9% of premiums. Commercial insured products range from 8.6% of premiums to 10.2% of premiums. Lower Sales and Marketing for self-insured groups is key reasons for this difference.

### *Costs of Blue Cross Blue Shield Plans, Expense Clusters as Percent of Premium*

Figure 6 shows the ratios of administrative expenses to premiums or equivalents. Administrative expenses were 8.9% of premiums, 0.7 percentage points higher than last year's equivalent value was 8.3%.

Sales and Marketing declined by 0.1% to 2.0% of premium. All other clusters were higher: Corporate Services was up by 0.3 percentage points, to 1.6% of premiums. Account and Membership Administration also increased by 0.3 percentage points to 4.0% of premium. Medical and Provider Management was up by 0.2 percentage points to 1.3% of premium.

**Figure 6. Sherlock Benchmark Summary**  
 Blue Cross Blue Shield Costs by Functional Area Cluster, 2017 Data  
 Median 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	1.9%	2.0%	2.8%	34%
Medical and Provider Management	1.0%	1.3%	1.4%	28%
Account and Membership Administration	3.5%	4.0%	4.3%	18%
Corporate Services	1.3%	1.6%	1.8%	27%
<b>Total Expenses</b>	<b>8.4%</b>	<b>8.9%</b>	<b>10.3%</b>	<b>17%</b>

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## *How We Performed This Analysis*

This analysis is based on the twenty-first annual edition of our performance benchmarks for health plans. The Sherlock Benchmarks (*Sherlock Expense Evaluation Report* or *SEER*) represent the cumulative experience of approximately 815 health plan years.

Each peer group in the Sherlock Benchmarks is established to be relatively uniform. So, within that constraint, it is open to most Blue Cross Blue Shield plans possessing the ability to compile high-quality, segmented financial and operational data. This 20<sup>th</sup> analysis of Blue Plans is based on a peer group of fourteen Blue Cross Blue Shield Plans who collectively serve 37.1 million people. There are 34 eligible “primary licensee” excluding for one that is off shore and another that is under the governance of another primary licensee. We calculate that participation in this year’s study comprises 52% of all Blue membership, excluding those served by publicly traded firms. We believe this universe to be quite robust.

The average Plan participating in the Sherlock Benchmarks this year served 2.6 million people and the median membership was 1.6 million. The geographic reach extended from coast to coast and the size was evenly disbursed in tiers defined in million-member increments.

Thirteen of this year’s participants participated in the prior year. In addition to the comprehensive members, these Plans also served 31,000 Medicare SNP members, 461,000 members of stand-alone Medicare Part D products and 5.2 million members of Stand-Alone Dental. In addition to these members, collectively, these Plans served 7.1 million additional Blue Cross Blue Shield members through “host” relationships with other Blue Plans.

Within the Comprehensive products, 82.6% was commercial, or 30.6 million. Approximately 18.3 million of the commercial members were served under some form of self-insurance arrangement, comprising approximately 59.7% of the total commercial members.

Medicare Advantage, with 1.1 million members, was offered by 10 Plans. It composed 3.0% of the combined comprehensive membership and 11.0% of revenues for comprehensive products. With SNP and Stand-Alone Part D, Medicare products represents 12.2% of total revenues. Medicare Supplement, offered by all 14 Plans, was 6.2% of members and 4.9% of revenues for comprehensive products. Medicaid HMO, offered by three Plans, comprised 3.2% of membership. FEP included 5.0% of total comprehensive members.

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## REPORTING CONVENTIONS

We employ a number of conventions to make the metrics most beneficial for the audience of *Plan Management Navigator*.

- The trends reported in this analysis are median changes, and when we refer to PMPM or percent of premium ratios, these too are medians. This convention reduces the effect of outlying values on overall trends and values. Since each median value is calculated independently, the components cannot be summed.
- References to growth rates hold the universe constant in the comparison years unless otherwise noted. Rates of change that are called “as-reported” are of health plans participating during both comparison years. When we refer to “constant mix” we are calculating rates of change for that same set after reweighting each Plan’s values to eliminate the effect of product mix differences between the years.
- Percent of premium ratios are calculated on a *premium-equivalent* basis. That is, in the case of ASO/ASC arrangements, we build to a premium from fees by adding them to the health benefits incurred by the self-insured group. In this way, premium equivalents sum to all of the expenses of health insurance, including profits earned by the health plan, analogous to actual premiums on insured products. While not in accordance with GAAP, this approach has two advantages: comparability of ASO ratios with those of insured products offered by these plans, and an intuitive appeal to most readers.
- Expenses exclude capital costs and investment income. Excluded expenses include interest and similar debt capital costs and other capital formation costs (debt or equity), including transaction costs, and interest payments to providers under “prompt pay” laws.
- Participants in and licensees of the Sherlock Benchmarks will note that the values for Account and Membership Administration and Total Administrative costs reported here will differ from those reported in the Benchmarks. The values reflected in *Navigator* include administrative expenses associated with pharmacy and mental health while the *Sherlock Benchmarks* do not. Because variation in employer benefit designs and the propensity of the administration of these health services to be outsourced by Plans accepting these management responsibilities, the *Benchmark* reports carve them out. Pages 22 - 24 in Tab 2 of Volume I of the 2018 *Sherlock Benchmarks* reconciles these two presentations.

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- Miscellaneous Business Taxes are a special case among administrative expenses since, short of recapitalization or elimination of commercial insured business, such expenses are impossible to manage. So, expense trends, along with the PMPM and percent of premium ratios, are generally calculated *before* the effect of Miscellaneous Business Taxes. These taxes are primarily related to the Affordable Care Act. For commercial insured products, the median PMPM value of such taxes is \$5.63 and the mean is \$8.13 or approximately 14% of administrative costs. (As noted earlier, this is sharply lower than in the prior year.) Such costs are essentially nil for ASO/ASC products. By way of comparison, in 2010, the median Miscellaneous Business Tax for commercial insured products was \$2.55 PMPM.

The ACA fees include Comparative Effectiveness Research Fees (CERF), Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee and Annual Fee on Health Insurers. The Annual Fee on Health Insurers was formerly the largest generally applicable fee since it applied to all insured business and had a median value of \$7.72. The Risk Adjuster Fee, the second largest fee, has a median value of \$0.22 PMPM. The Exchange User Fee only applies to Exchange members but the median fee for that population is \$20.21 PMPM.

On a constant-mix basis, per member Miscellaneous Business Tax costs decreased by 54.9% PMPM, compared with a decrease of 1.7% down from the surge of 369.1% in 2014.

### *Note on the Sherlock Benchmarks*

These results are excerpted from the Blue Cross Blue Shield edition of the 2017 Sherlock Benchmarks. The results are based on our detailed surveys of 2017 operating parameters of 14 Blue Cross Blue Shield Plans serving 37.1 million members. Accordingly, much more information is available by licensing the Sherlock Benchmarks.

Information about the Benchmarks are found here:

<https://sherlockco.com/sherlock-benchmarks/>. Tables of Contents, report formats, citations, QA and other information can be found here. In addition, we have an application that allows you to try out the benchmarks for no charge.

If you are interested in licensing these materials or if we can answer any further questions about them or you have questions about this *Plan Management Navigator*, we hope you will not hesitate to contact us ([sherlock@sherlockco.com](mailto:sherlock@sherlockco.com)).

Health plan managers endeavor to achieve optimal costs. If that is achieved, favorable health care trends amplify operating profits and mute operating losses. Managing what you measure facilitates your achievement of that goal. In a competitive environment, measurement implies comparison with the leaders of your industry.

The Sherlock Benchmarks reflect over 815 health plan years of experience over 21 consecutive years. Thus, planning, budgeting and cost benefit analyses are credibly informed by the Sherlock Benchmarks.

In addition to the Blue Cross Blue Shield universe, we also survey and report on universes of Independent / Provider – Sponsored Plans, Larger Health Plans, Medicare Advantage Plans and Medicaid Plans. We will be reporting on the results of the other universes in the months that follow.

#### **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. Sherlock Benchmark Summary**

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

*Percent of Premium Equivalent*

<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>

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## Appendix C. 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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