



*Photograph by Ray K. Saunders.*

# INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS ACCELERATE IN 2017

## *SHERLOCK BENCHMARKS*

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# TOPICS

- Long term 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

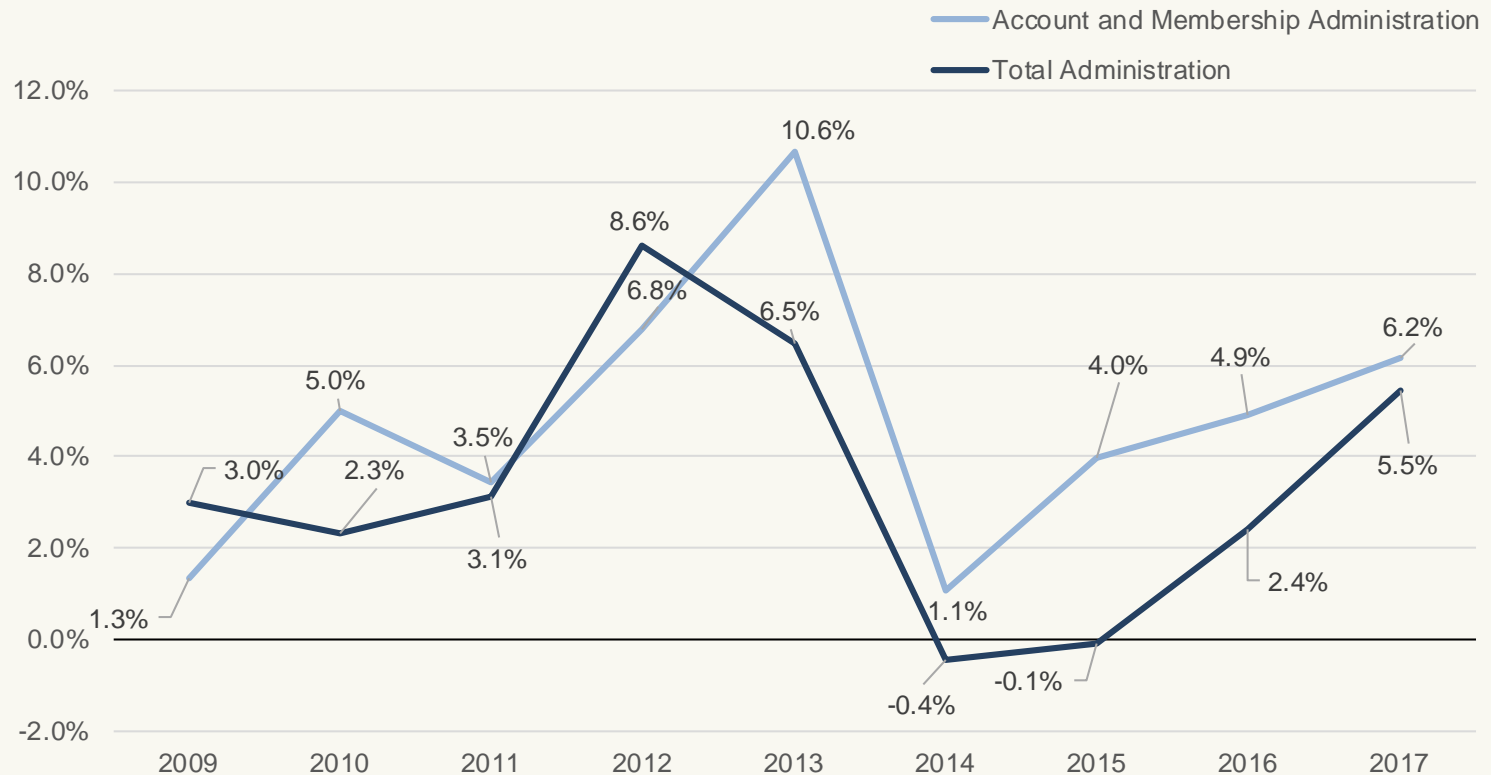
*Racing workboats is our metaphor for businesses striving for performance improvement.*



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

**Figure 1. Sherlock Benchmark Summary**

Independent / Provider - Sponsored 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**

Independent / Provider-Sponsored 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	5.2%	4.9%	6.4%	6.8%
Medical and Provider Management	4.5%	2.6%	6.8%	6.1%
Account and Membership Administration	3.8%	4.9%	9.0%	6.2%
Corporate Services	0.7%	1.2%	11.7%	11.1%
<b>Total Expenses</b>	3.0%	2.4%	5.2%	5.5%



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

# SOURCES OF “REAL” GROWTH IN INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2017

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	6.8%	Rating & Underwriting <sup>1</sup> ↑	Rating & Underwriting ↑
Med & Provider	6.1%	Prov. Net. Mgmt & Services ↑	Medical Management ↑
Acct & Memb	6.2%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>11.1%</u>	Assoc. Dues & Lic./Filing Fees ↑	Corporate Services ↑
Total	5.5%	Assoc. Dues & Lic./Filing Fees ↑	Information Systems ↑

<sup>1</sup> Sales and Commissions actually declined.



# SOURCES OF *REPORTED* GROWTH IN INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2017

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	6.4%	Rating & Underwriting <sup>1</sup> ↑	Marketing ↑
Med & Provider	6.8%	Prov. Net. Mgmt & Services ↑	Medical Management ↑
Acct & Memb	9.0%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>11.7%</u>	Actuarial ↑	Corporate Services ↑
Total	5.2%	Rating and Underwriting ↑	Information Systems ↑

<sup>1</sup> Sales actually declined.



# AFFORDABLE CARE ACT TAXES

- Miscellaneous Business Taxes (mainly ACA) are ~ 11% of total administrative expenses for commercial insured products. Last year, they were ~ 20%.
- Trend (constant mix) had been 4-5%, in 2014, costs increased by 922.3%, then up by 14.6% in 2015 and down by 6.4% in 2016, down by 54.9% in 2017. If the 2017 decline was included, the total change would have been a decline of 3.8% rather than an increase of 5.5%.
- Plans posted mean Miscellaneous Business Taxes for commercial insured products of \$5.46 in 2017. They were \$10.74 in 2016. In 2013, they reported \$2.44.
- These taxes include Transitional Reinsurance Fee, Risk Adjuster User Fee, Exchange User Fee, CERF fees and an Annual Fee on Health Insurers. The last fee declined from a median of \$4.55 in 2016 to zero in 2017. This is a one year phenomenon.



COMPARED WITH VALUES IN APPENDIX A,  
COSTS WERE 0.3% HIGHER IN 2017. COST  
TRENDS, CHANGES IN THE PRODUCT MIX  
AND THE UNIVERSE WERE RESPONSIBLE.

**Figure 3. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2017 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>	<b>2016 Values Median</b>
Sales and Marketing	\$7.83	\$10.22	\$13.04	42%	\$10.49
Medical and Provider Management	5.19	6.80	7.71	28%	6.82
Account and Membership Administration	11.21	15.32	17.11	39%	17.16
Corporate Services	5.22	6.58	7.89	30%	6.17
<b>Total Expenses</b>	<b>\$31.26</b>	<b>\$38.35</b>	<b>\$44.29</b>	<b>31%</b>	<b>\$38.23</b>





# PMPMs VARY BY PRODUCTS.

**Figure 4. Sherlock Benchmark Summary**

Independent / Provider-Sponsored 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 Insured</b>				
HMO	\$39.79	\$46.95	\$53.53	22%
POS	\$36.25	\$43.10	\$50.11	25%
Indemnity & PPO	\$40.85	\$49.67	\$54.51	28%
<b>Total</b>	\$38.24	<b>\$47.24</b>	\$50.68	25%
<b>Commercial ASO</b>				
	\$19.63	<b>\$21.68</b>	\$25.14	50%
<b>Medicare</b>				
Advantage	\$74.97	\$84.73	\$111.16	30%
SNP	\$121.78	\$146.97	\$187.03	36%
Cost	\$57.70	\$57.71	\$57.72	0%
<b>Medicaid</b>				
HMO	\$20.25	\$26.34	\$31.82	56%
CHIP	\$20.93	\$26.24	\$46.43	63%
<b>Medicare Supplement</b>				
	\$35.56	\$54.35	\$57.43	37%
<b>Comprehensive Total</b>	<b>\$31.26</b>	<b>\$38.35</b>	<b>\$44.29</b>	<b>31%</b>
<b>Stand-Alone Medicare Part D</b>				
	\$16.69	\$20.14	\$27.29	66%



# PERCENTS CAN BE ORDERED DIFFERENTLY FROM PMPMs.

**Figure 5. Sherlock Benchmark Summary**  
Independent / Provider-Sponsored Costs by Product, 2017 Data  
*Percent of Premium and/or Equivalent*

<b>Product</b>	<b>25th Percentile</b>	<b>Median</b>	<b>75th Percentile</b>	<b>Coefficient of Variation</b>
<b>Commercial Insured</b>				
HMO	9.0%	10.0%	11.5%	27%
POS	7.9%	9.5%	11.1%	24%
Indemnity & PPO	8.7%	10.3%	11.3%	22%
Total	8.6%	9.8%	10.9%	23%
<b>Commercial ASO</b>				
	4.9%	5.7%	7.7%	129%
<b>Medicare</b>				
Advantage	8.5%	10.1%	13.9%	31%
SNP	8.2%	8.7%	9.7%	21%
Cost	13.3%	13.4%	13.6%	4%
<b>Medicaid</b>				
HMO	6.6%	7.1%	11.1%	34%
CHIP	8.6%	11.3%	19.8%	46%
<b>Medicare Supplement</b>				
	14.8%	22.2%	27.9%	39%
<b>Comprehensive Total</b>	<b>7.8%</b>	<b>8.5%</b>	<b>9.8%</b>	<b>23%</b>
<b>Stand-Alone Medicare Part D</b>				
	6.1%	6.7%	16.0%	60%

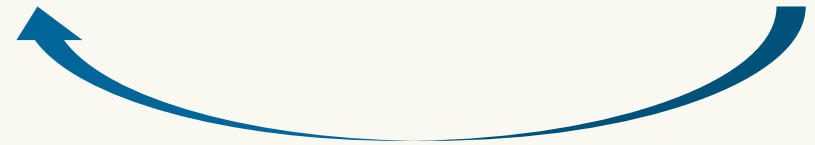
# ADMINISTRATIVE EXPENSES WERE 8.5% OF PREMIUMS, 0.2 PERCENTAGE POINTS LOWER THAN LAST YEAR'S. THE ORDER OF IMPORTANCE OF THE CLUSTERS IS LIKE THE PMPM MEDIANS.

**Figure 6. Sherlock Benchmark Summary**

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2017 Data  
*Percent of Premium and/or Equivalent*

*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%	2.5%	2.8%	36%	2.3%
Medical and Provider Management	1.2%	1.5%	1.7%	23%	1.5%
Account and Membership Administration	2.8%	3.3%	4.2%	32%	3.5%
Corporate Services	1.3%	1.4%	1.7%	23%	1.5%
<b>Total Expenses</b>	<b>7.8%</b>	<b>8.5%</b>	<b>9.8%</b>	<b>23%</b>	<b>8.7%</b>



# IPS ADMINISTRATIVE COSTS ACCELERATE IN 2017



*Photograph by Ray K. Saunders.*

- Staffing ratios higher (R&U), outsourcing lower (IS), compensation increases were limited to a few functions (Corp. Exec.)

- IPS costs were \$38.35 versus \$38.23 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 5.2%, constant mix grew by 5.5%, both accelerated from last year.
- The rate of growth in all clusters accelerated, in particular Corporate and Services and Medical and Provider Management.
- Sales and Broker Commissions declined while Actuarial, Rating and Underwriting, Marketing, Association Dues and License / Filing Fees, Customer Services and Corporate Executive all increased at double digit rates.



# APPENDIX A. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2016

## Appendix A. Sherlock Benchmark Summary

Independent / Provider-Sponsored 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	\$8.66	\$10.49	\$12.85	31%
Medical and Provider Management	5.32	6.82	7.54	29%
Account and Membership Administration	12.75	17.16	20.29	36%
Corporate Services	4.80	6.17	7.93	38%
<b>Total Expenses</b>	<b>\$34.97</b>	<b>\$38.23</b>	<b>\$47.32</b>	<b>26%</b>



# APPENDIX B. INDEPENDENT / PROVIDER-SPONSORED ADMINISTRATIVE COSTS IN 2016

## Appendix B. Sherlock Benchmark Summary

Independent / Provider-Sponsored Costs by Functional Area Cluster, 2016 Data

*Percent of Premium and/or Equivalentents*

<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%	2.3%	3.0%	31%
Medical and Provider Management	1.1%	1.5%	1.6%	26%
Account and Membership Administration	2.9%	3.5%	4.3%	31%
Corporate Services	1.1%	1.5%	1.6%	29%
<b>Total Expenses</b>	7.9%	8.7%	9.8%	21%



# APPENDIX C. MARKET SEGMENT COSTS OF IPS PLANS

*Limited Sample  
for these metrics.*

## Independent / Provider-Sponsored Costs by Segment

*Per Member Per Month*

	ACA, Under 65	Non-ACA Under 65	Small Group	Middle Market	Large Group
Median Administrative Expenses	39.89	\$40.25	\$51.28	\$45.88	\$34.67

- Sales and Marketing is lower on ACA versus non-ACA individual Plans. ACA Information Systems, Medical Management Customer Services is higher.
- Small group Sales and Marketing expenses are higher than individual. Broker Commissions are central.
- Large Groups cost less than Middle Market because of lower Sales and Marketing. Customer Services and Enrollment costs are also lower.





# 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. It is the 16<sup>th</sup> consecutive year for the IPS Universe.
- 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 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. 34% members served by Health Plan Alliance plans are participating in this year's Sherlock Benchmarks for Independent / Provider - Sponsored health plans. Including plans in our other universes, 41% of these plans members are reflected in the Sherlock Benchmarks.
- 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.



# APPENDIX G. FUNCTIONS IN EACH CLUSTER

## Appendix G. Sherlock Benchmark Summary

### Major Functions Included in Each Administrative Expense Cluster

#### **Sales & Marketing**

- Rating and Underwriting
  - (b) Risk Adjustment
  - (c) All Other Rating and Underwriting
- Marketing
  - (a) Product Development and Market Research
  - (b) Member and Group Communication
  - (c) Other Marketing
- Sales
  - (a) Account Services
  - (b) Internal Sales Commissions
  - (c) Other Sales
- External Broker Commissions
- Advertising and Promotion
  - (a) Media and Advertising
  - (b) Charitable Contributions

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

- Provider Network Management and Services
  - (a) Provider Relations Services
  - (b) Provider Contracting
  - (d) Other Provider Network Management and Services
- 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**

- Enrollment / Membership / Billing
  - (a) Enrollment and Membership
  - (b) Billing
- Customer Services
  - (a) Member Services
  - (b) Printed Materials and Other
- Claim and Encounter Capture and Adjudication
  - (a) Coordination of Benefits (COB) and Subrogation
  - (e) Other Claim and Encounter Capture and Adjudication
- Information Systems Expenses
  - (a) Operations and Support Services
  - (b) Applications Maintenance
    - (1) Benefit Configuration
    - (2) All Other Applications Maintenance
  - (c) Applications Acquisition and Development
  - (d) Security Administration and Enforcement

#### **Corporate Services**

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



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