



Photograph by Ray K. Saunders.

MEDICARE PLANS ADMINISTRATIVE EXPENSE GROWTH ACCELERATED IN 2017

SHERLOCK BENCHMARKS

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September 28, 2018



TOPICS

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

APPENDICES

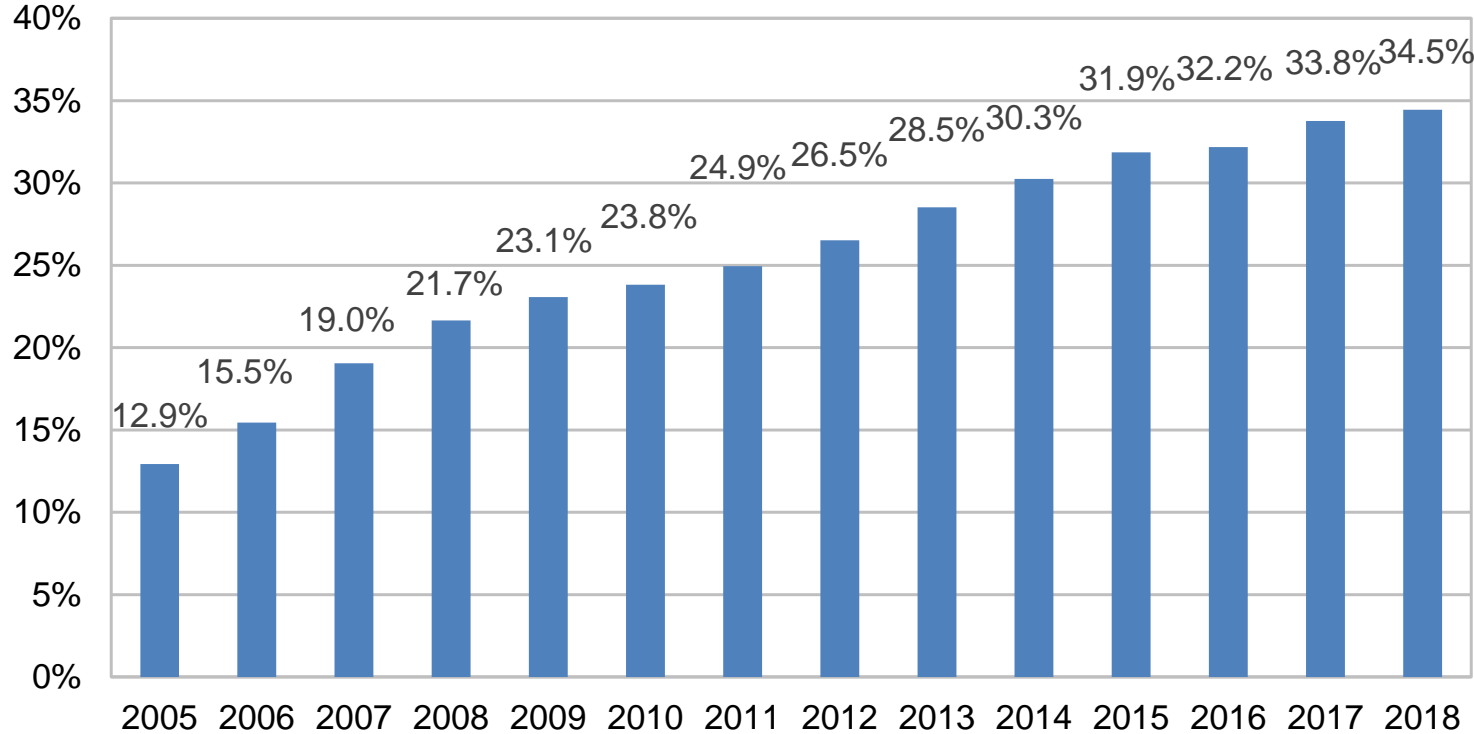
- Last year's values
- Functions in each cluster of expenses
- About the Sherlock Benchmarks

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

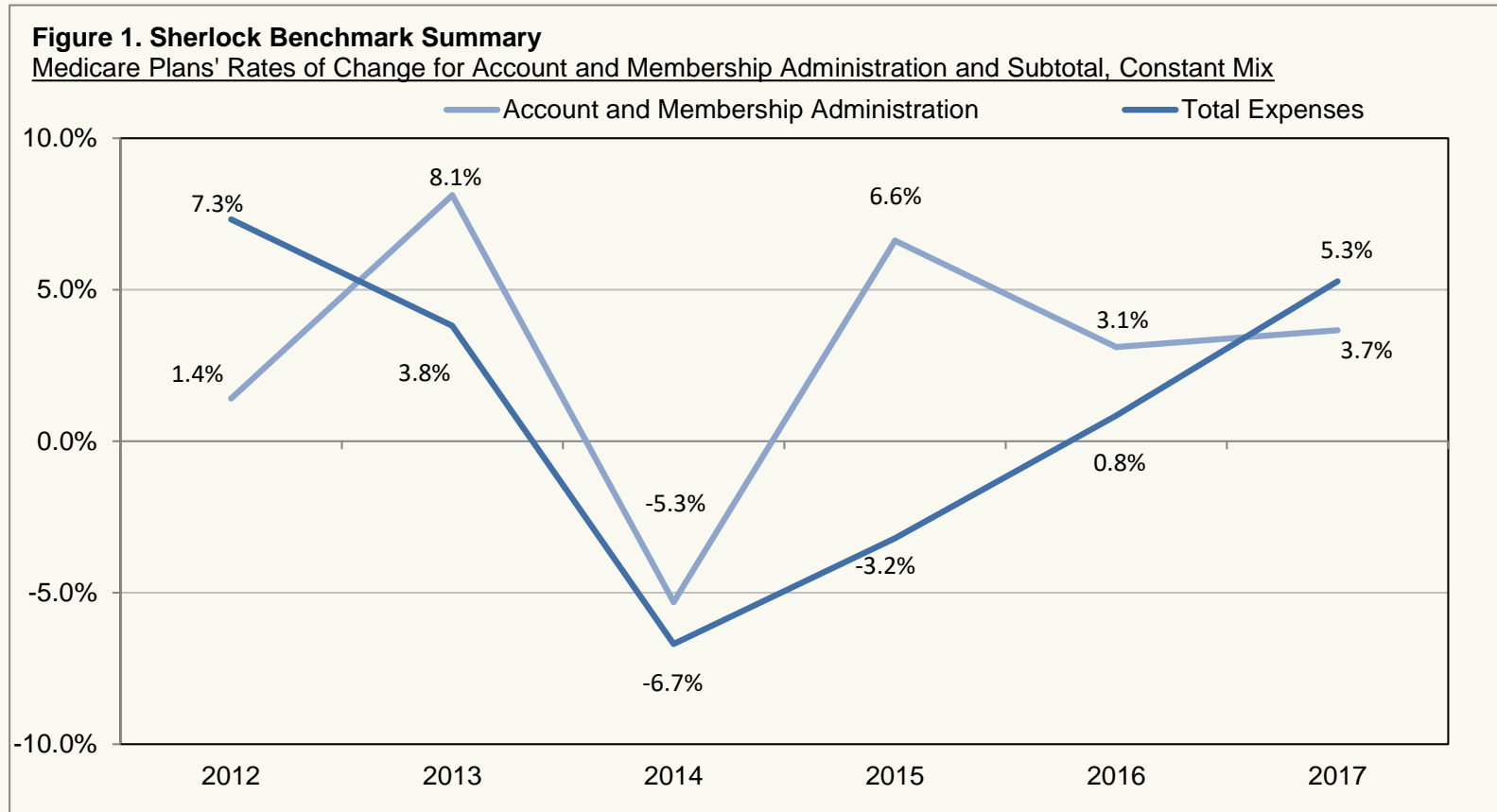


BACKGROUND ON MEDICARE AND MEDICARE ADVANTAGE

Figure 2. Sherlock Benchmark Summary
Medicare Advantage Share



TOTAL EXPENSE GROWTH ACCELERATES FROM LAST YEAR, WHILE A&M ADMINISTRATION ALSO INCREASES FASTER.



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



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

Figure 3. Sherlock Benchmark Summary
Medicare Plans' 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	6.3%	4.2%	4.1%	5.0%
Medical and Provider Management	-3.4%	-3.1%	4.7%	5.7%
Account & Membership Administration	3.8%	3.1%	6.3%	3.7%
Corporate Services	13.9%	14.6%	4.1%	5.1%
Total Expenses	0.1%	0.8%	4.5%	5.3%

Constant-Mix adjusts to exclude product-mix differences.

SOURCES OF “REAL” GROWTH IN MEDICARE PLANS ADMINISTRATIVE COSTS IN 2017

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	5.0%	Marketing ↑	Marketing ↑
Med & Provider	5.7%	Prov Net Mgmt & Svcs ↑	Prov Net Mgmt & Svcs. ↑
Acct & Memb	3.7%	Customer Services ↑	Information Systems ↑
Corp. Serv.	<u>5.1%</u>	Assoc. Dues & Lic./Filing Fees ↓	Corporate Services ↑
Total	5.3%	Marketing ↑	Marketing ↑



SOURCES OF *REPORTED* GROWTH IN MEDICARE PLANS ADMINISTRATIVE COSTS IN 2017

	Chg.	Greatest Change	Highest Weight
Sales & Marketing	4.1%	Marketing ↑	Marketing ↑
Med & Provider	4.7%	Prov. Net. Mgmt & Services ↑	Medical Management ↑
Acct & Memb	6.3%	Enrollment ↑	Information Systems ↑
Corp. Serv.	<u>4.1%</u>	Assoc. Dues & Lic./Filing Fees ↓	Corporate Services ↑
Total	4.5%	Marketing ↑	Information Systems ↑



COMPARED WITH VALUES IN APPENDIX A,
 COSTS WERE 4.5% HIGHER IN 2017. COST
 TRENDS, CHANGES IN THE PRODUCT MIX
 AND THE UNIVERSE WERE RESPONSIBLE.

Figure 4. Sherlock Benchmark Summary

Medicare Plans' Costs by Functional Area Cluster, 2017 Data
 Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	2016 Values Median
Sales and Marketing	\$8.88	\$12.57	\$14.34	57%	\$12.07
Medical and Provider Management	6.18	7.34	8.20	29%	7.46
Account and Membership Administration	14.38	16.81	19.98	35%	15.73
Corporate Services	5.70	6.99	8.73	31%	6.43
Total Expenses	\$37.56	\$39.80	\$52.80	34%	\$38.10



PMPMs VARY BY PRODUCTS.

Figure 5. Sherlock Benchmark Summary
Medicare Plans' Costs by Product, 2017 Data
Per Member Per Month

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	\$66.13	\$81.73	\$97.08	25%
Advantage	\$66.13	\$81.73	\$91.52	25%
SNP	\$119.83	\$126.78	\$147.99	22%
Medicare Supplement	\$41.06	\$54.35	\$65.79	36%
Medicaid Total	\$21.34	\$26.83	\$32.77	38%
HMO	\$21.34	\$27.23	\$34.07	39%
CHIP	\$19.16	\$23.75	\$31.29	53%
Commercial Insured Total	\$36.23	\$47.37	\$53.98	32%
HMO	\$39.52	\$47.89	\$58.21	30%
POS	\$32.16	\$41.45	\$42.83	29%
Indemnity & PPO	\$35.17	\$47.22	\$52.02	32%
Commercial ASO	\$19.46	\$21.81	\$24.28	35%
Comprehensive Total	\$37.56	\$39.80	\$52.80	34%

PERCENTS CAN BE ORDERED DIFFERENTLY FROM PMPMs.

Figure 6. Sherlock Benchmark Summary
Medicare Plans' Costs by Product, 2017 Data
Percent of Premium Equivalents

Product	25th Percentile	Median	75th Percentile	Coefficient of Variation
Medicare	7.8%	8.6%	10.5%	28%
Advantage	7.8%	8.6%	10.3%	28%
SNP	8.8%	9.1%	10.5%	19%
Medicare Supplement	10.9%	26.7%	31.1%	50%
Medicaid Total	7.1%	7.4%	9.6%	28%
HMO	7.1%	7.3%	9.3%	28%
CHIP	8.3%	10.0%	13.4%	48%
Commercial Insured Total	8.5%	9.5%	10.6%	30%
HMO	8.3%	10.2%	11.3%	32%
POS	5.9%	6.4%	7.9%	39%
Indemnity & PPO	7.8%	9.3%	12.9%	50%
Commercial ASO	4.8%	6.2%	7.9%	135%
Comprehensive Total	8.1%	8.5%	9.9%	21%

ADMINISTRATIVE EXPENSES WERE 8.5% OF PREMIUMS, EQUAL TO LAST YEAR'S.

Figure 7. Sherlock Benchmark Summary
 Medicare Plans' Costs by Functional Area Cluster, 2017 Data
 Percent of Premium Equivalents

2016
 Values

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation	Median
Sales and Marketing	2.0%	2.7%	3.2%	37%	2.7%
Medical and Provider Management	1.3%	1.5%	1.7%	27%	1.5%
Account and Membership Administration	3.2%	3.4%	3.9%	28%	3.3%
Corporate Services	1.3%	1.5%	1.6%	21%	1.3%
Total Expenses	8.1%	8.5%	9.9%	21%	8.5%



COMPARISONS WITH BLUE AND IPS UNIVERSES

Figure 8. Sherlock Benchmark Summary

Medicare Advantage Product Characteristics by Universe, 2017 Data

	Medicare Plans	IPS Plans	BCBS Plans	Combined Plans
Total Costs				
<i>Per Member Per Month</i>				
25th Percentile	\$66.13	\$110.30	\$90.35	\$79.19
Median	81.73	116.01	97.63	96.85
75th Percentile	91.52	128.71	116.88	116.01
Coefficient of Variation	25%	21%	23%	27%
<i>Percent of Premiums and Equivalentents</i>				
25th Percentile	7.8%	13.0%	10.0%	8.8%
Median	8.6%	14.6%	11.3%	11.3%
75th Percentile	10.3%	15.9%	14.6%	14.2%
Coefficient of Variation	28%	17%	27%	29%
Plans offering Medicare	11	6	10	27
Medicare Advantage Members (millions)	0.74	0.22	1.09	2.05
Comprehensive Total Members (millions)	5.08	5.99	37.09	48.15



MEDICARE ADMINISTRATIVE COSTS ACCELERATE IN 2017



Photograph by Ray K. Saunders.

- Costs were \$39.80 versus \$38.10 last year. Actual performance, differences in universe and mix changes were responsible.

- Growth in administrative expenses, 2nd fastest since 2012. As-reported increased by 4.5%, constant mix grew by 5.3%, both accelerated from last year.
- The rate of growth in all clusters accelerated, except for the Corporate Services Cluster.
- Sales, Advertising and Promotion, Finance and Accounting, and Association Dues declined while Rating and Underwriting, Marketing, Provider Network, Customer Services, Actuarial, and Corporate Executive & Gov. grew by double digits.
- Important sources of growth were Marketing and Information Systems.
- Staffing ratios higher (Corp. Exec.), outsourcing higher (Marketing), compensation increases were limited to a few functions (Provider Network Mgmt.)

APPENDIX A. MEDICARE PLANS ADMINISTRATIVE COSTS IN 2016

Appendix A. Sherlock Benchmark Summary
Medicare Plans' Costs by Functional Area Cluster, 2016 Data
Per Member Per Month

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	\$10.64	\$12.07	\$15.69	57%
Medical and Provider Management	6.99	7.46	8.00	19%
Account and Membership Administration	14.39	15.73	19.21	38%
Corporate Services	5.70	6.43	8.09	33%
Total Expenses	\$36.56	\$38.10	\$53.10	34%

APPENDIX B. MEDICARE PLANS ADMINISTRATIVE COSTS IN 2016

Appendix B. Sherlock Benchmark Summary
Medicare Plans' Costs by Functional Area Cluster, 2016 Data
Percent of Premium Equivalents

Functional Area	25th Percentile	Median	75th Percentile	Coefficient of Variation
Sales and Marketing	2.1%	2.7%	3.3%	34%
Medical and Provider Management	1.3%	1.5%	1.5%	14%
Account and Membership Administration	2.8%	3.3%	3.4%	33%
Corporate Services	1.2%	1.3%	1.5%	20%
Total Expenses	7.7%	8.5%	9.1%	17%

APPENDIX C. 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 D. 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 E. STRONG NETWORK, BROAD ACCEPTANCE

- The Sherlock Benchmarks is now in 21st consecutive year, or over 818 plan years. It is the 15th consecutive year for the Medicare universe.
- Since June of 2016, health plans serving 167 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 F. 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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