Plan Management Navigator
Analytics for Health Plan Administration
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Medicaid Plans' Accelerate Decline in Core Administrative Costs

Summary

Per member administrative costs in core activities of Medicaid plans declined by 5.2% per member per month (PMPM) in 2009 as against a decline of 1.4% in 2008, on an as-reported basis. Adjusting to eliminate the effects of changes in product mix, PMPM costs declined by 5.8% in 2009 versus 2.7% in 2008. Including marketing costs, per member per month administrative expenses declined by 5.4%, as-reported, and 6.4% on a constant-mix basis.

On an as-reported basis, all clusters, including Marketing, showed declines in cost growth. Only Corporate Services costs increased on constant-mix basis, but even that cluster's rate of cost growth was sharply lower. Per member declines in Account and Membership Administration costs were chiefly responsible for the overall declines. For the universe of Medicaid plans submitting 2009 data, core administrative expenses comprised 7.0% of premium equivalents compared with 8.0% for plans submitting data for 2008.

The core administrative expenses of Medicaid plans participating in our performance benchmarking study was $22.41 per member per month (PMPM), and with marketing costs included, total costs were $24.90. These costs varied by product: Medicaid SNP cost $105.67 PMPM while the commercial ASO costs were $17.02 PMPM. Medicaid HMO products had administrative expenses of $22.77 PMPM.

In 2009, the commercial ASO administrative expenses were 6.0% of premium equivalents, the lowest ratio for comprehensive products in this universe. Medicare SNP, Medicaid Child SSI, and Medicaid SSI for Adults were all approximately 7% however. Medicaid Dual Eligible was 7.9% of premium. Medicaid Buy-in products had administrative expenses in the mid-teens.

All attributes cited in this article exclude investment and non-operating income and expense, income taxes and miscellaneous business taxes. Pharmacy and Mental Health administrative costs are included in the Account and Membership Administration cluster. Core functions are comprised of all administrative costs except marketing-related costs. These results are excerpted from the Medicaid edition of the 2010 *Sherlock Expense Evaluation Report*, comprising 2009 data.

Figure 1. Benchmark Summary
Medicaid Costs by Functional Area Cluster, 2009 Data
Per Member Per Month

	25th PCTL	75th PCTL	Median	σ/ Mean
Provider & Medical Mgmt.	$5.32	$7.56	$6.80	36.7%
Account & Mem. Admin.	5.80	10.39	7.35	39.4%
Corporate Services	4.14	7.09	6.19	37.3%
Subtotal: Core Functions	$16.25	$25.94	$22.41	27.1%
Sales and Marketing	1.80	6.09	3.02	79.2%
Total	$20.78	$29.59	$24.90	26.4%

Background on Medicaid

According to the Kaiser Family Foundation Medicaid covers 58 million low-income Americans. Participation including children and parents, people with severe disabilities, and low-income, elderly and disabled Medicare beneficiaries known as "dual eligibles." In addition, Medicaid is expected to reach another 16 million people over the first five years of health reform, when a national expansion of the program takes place.

Of the 58 million beneficiaries, 49% or 29 million are children, 15 million, or 25% are adults, 9 million or 15% are disabled and 6 million or 10% are aged. Managed care was the leading source of services for Medicaid in 2008. About 70% of enrollees received some or all of their services through managed care arrangements. The firms in this report is MCOs, which are paid on a capitated basis.

Under health care reform, the number of eligible individuals are expected by the Congressional Budget Office to increase by 16 million people. The elimination of "categorical eligibility" limitations will mean that the program will be open to people who are poor and under 65, even if they don't have dependent children and even if they do not have a seriously debilitating condition that will not pass within twelve months. According to KFF, the CBO expects that the Federal government to pay for 96% of the $434 billion cost. While states can now begin offering to childless adults at

their regular match rate, the higher "match rate" begins in 2014.

Membership Trends and Mix Changes

Our benchmarks comprised the results of 2.8 million of Medicaid managed care members, not including 318,000 child or family buy-in members. Total members served by these plans, including Medicare and commercial, totaled 3.9 million members.

The ten plans participating in our benchmarking study appear to have had rapid growth. In 2009, total membership increased on average by 5.1% and at a median rate of 10.8%. Medicaid HMO membership increased at approximately same median and average rates.

For plans that participated in our benchmarks in both years, the average proportion of Medicaid HMO members remained at 64.2%, Medicare Advantage increased slightly to 4.0% and commercial ASO increased slightly at the expense of commercial insured.

Administrative Costs and Trends

For convenience of analysis, we group various functional areas into clusters, and standardize for size by expressing expenses on a per member basis. These clusters consist of Provider & Medical Management, Account & Membership Administration, Corporate Services and Marketing. Note that Marketing costs are excluded from the Core Functions. Since states vary in their policies surrounding marketing of Medicaid products, we consider their costs separately.

Values for 2009 and rates of change for these clusters and overall are shown in Figures 1 and 2. Appendix A provides values for all plans participating in 2009, and is comprised of 2008 data.

Core Functions costs declined by 5.2% (compared with a decline of 2.7% last year) to $22.41 PMPM. (All rates of change hold constant the universe of participants.) While Corporate Services grew by 2.2%, Account & Membership Administration declined by 12.7% PMPM. Provider and Medical Management declined by 4.5%. On a constant mix basis, total core expenses declined by 5.8% compared with a decline of 2.7% last year, PMPM. Account & Membership Administration declined by 13.0% PMPM, while Provider & Medical Management declined by 5.0% and Corporate Services grew by 1.8%.

Medical and Provider Management declined by 4.5% (down from growth of 8.5% last year) to $6.80 PMPM. While Provider Network Management and Services increased slightly, the Medical Management / Quality Assurance / Wellness functional area declined rapidly and was responsible for one-fifth of the core cost decline in 2009.

Modest growth in Provider Network Management and Services and steep declines in Medical Management / Quality Assurance / Wellness were similarly evident in the constant mix comparisons. On a constant-mix basis, Provider and Medical Management decreased by 5.0%. The costs of Medical and Provider Management at the 25th percentile was $5.32 PMPM and $7.56 PMPM at the 75th percentile.

Account and Membership Administration cost decreased to $7.35, down by 12.7% from last year. By contrast the rate of decline last year, on an as-reported basis, was 5.3%. The value at the 25th percentile was $5.80 PMPM, while the costs at the 75th percentile were $10.39 PMPM.

Calculation of Premium Equivalents

Administrative services relationships comprise a relatively small part of the business mix of Medicaid plans. On average, they comprise 5.6% of members and most plans in our survey do not serve this market at all. Nevertheless, to the extent such relationships exist, they play havoc with the intuition that administrative costs, when expressed as a percent, are a proportion of the premium dollar. That is because, under ASO relationships, employers are only billed for the administrative services that they provide rather than for the cost of care, which is borne by the self-insured groups.

Our solution to this is to express expenses as a percent of premium equivalents. Since each of the plans submits the health care expenses for the self-insured groups (which they know since they process the groups' self-insured claims), by adding this amount to the administrative service fees actually billed, we are able to estimate the premium equivalents of the ASO arrangements.

Note that, as with premiums, fees charged to ASO clients reflect a profit assumption. Therefore, to estimate premium equivalents it is appropriate to add the fees rather than the administrative expenses to directly compare costs with the insured business.

The function with the greatest decline was Information Systems, which decline was precipitous. Nearly one half of the decline in core expenses was attributable to that functional area. Enrollment and Customer Services also declined while claims were essentially flat.

On a constant mix basis, the Account and Membership Adjudication cluster decreased by 13.0%, lower than the 6.1% decrease for last year. Declines in Information Systems, followed by Customer Services, were responsible for this decline.

Corporate Services costs increased by 2.2%, compared with 10.6% last year. These costs include such support areas as Finance and Accounting, Actuarial, Corporate Services (like Facilities, Legal, Printing and Mailroom and OPEB), Corporate Executive / Governance and Association Dues and License / Filing Fees. Finance and Accounting and Corporate Services declined while the other functions increased. Corporate Executive / Governance actually increased sharply though this is also where strategic planning expenses are incurred.

On a constant mix basis, costs increased by 1.8%, compared with 9.2% last year. Here again Corporate Executive / Governance cost growth was the central factor in overall trend. Actuarial was notable in that it grew for the first time since 2005. Total costs for this cluster were $6.19 PMPM in 2009, while the 25th percentile value was $4.14 PMPM and the value at the 75th percentile was $7.09 PMPM.

Marketing expenses, as noted above, are not included with our core functions since marketing activities of Medicaid plans are subject to different state regulations. Marketing costs were $3.02 and declined by 7.3% PMPM, compared with a decline of 21.5% last year. A sharp drop in Advertising and Promotion was chiefly responsible for the decline, while broker Commissions grew. The 75th percentile value for this cluster was $6.09 and the 25th percentile value was $1.80 PMPM.

Holding the product mix constant, Marketing expenses also declined, by 8.6%, compared with a decline of 20.3% last year. On a constant-mix basis, Advertising and Promotion comprised most of the decline in this cluster's costs, and was the single largest component of the decline in core and non-core costs. External broker Commissions actually increased PMPM.

Total Costs were $24.90 PMPM, down by 5.4% in 2009 and 6.4% on a constant mix basis. The rate of cost decline was amplified by the decline in the non-core Marketing clusters trends. The 25th percentile value was $20.78 PMPM and the value at the 75th percentile was $29.59 PMPM.

Figure 2. Benchmark Summary
Medicaid Percent Change in Costs by Functional Area Cluster

	2008 Data		2009 Data	
	As Reported	Constant Mix	As Reported	Constant Mix
Provider & Medical Mgmt.	8.5%	8.9%	-4.5%	-5.0%
Account & Mem. Admin.	-5.3%	-6.1%	-12.7%	-13.0%
Corporate Services	10.6%	9.2%	2.2%	1.8%
Subtotal: Core Functions	-1.4%	-2.7%	-5.2%	-5.8%
Sales and Marketing	-21.5%	-20.3%	-7.3%	-8.6%
Total	-2.8%	-4.2%	-5.4%	-6.4%

Accounting for Costs as a Percent of Premium Equivalents

Notwithstanding its important drawbacks, health plans and others often express administrative costs as a percent of premiums. As shown in Figure 3, core administrative expenses were 7.0% of premium equivalents for comprehensive products sold by Medicaid plans, and 8.2% including Marketing expenses. (Please note that each median value and medians of totals is calculated individually. Since medians are the value at which 50% of the distribution is higher and 50% is lower, the sum of the medians will not equal the total. Similarly, the sum of the percentiles will not equal their totals either.)

The 25th percentile value for core administrative expenses was 5.5% of premiums and equivalents and the value at the 75th percentile was 7.6%. Comparing these results to those in Appendix B, core administrative expenses were 100 basis points lower relative to premium equivalents. The sharp decrease in Corporate Services costs appears central to this decline in core administrative costs relative to premium.

The value at the 25th percentile for Provider and Medical Management was 1.6% of premium equivalents, while the 2.8% of premium equivalents represented the 75th percentile. The median value, at 2.0%

was 30 basis points lower than the 2.3% posted last year.

The costs of Account and Membership Administration were 3.0% of premium equivalents, 40 basis lower than the 3.4% reported last year. The value at the 25th percentile was 2.1% of premium equivalents and 3.4% of premium equivalents at the 75th percentile.

Figure 3. Benchmark Summary
Medicaid Costs by Functional Area Cluster,
as a Percent Premiums or Equivalents, 2009 Data
Percent of Premium Equivalents

	25th PCTL	75th PCTL	Median	σ/ Mean
Provider & Medical Mgmt.	1.6%	2.8%	2.0%	43.0%
Account & Mem. Admin.	2.1%	3.4%	3.0%	31.3%
Corporate Services	1.4%	2.4%	1.7%	31.4%
Subtotal: Core Functions	5.5%	7.6%	7.0%	28.0%
Sales and Marketing	0.6%	1.7%	1.0%	70.2%
Total	7.1%	9.1%	8.2%	21.4%

The median proportion of premium equivalents attributable to Corporate Services was 1.7%, 60 basis points lower than last year's value of 2.3%. Twenty-five percent of plans had values below 1.4% of premium equivalents or above 2.4% of premium equivalents in 2009.

Including marketing costs, the 25th percentile value of total administrative expenses was 7.1%, while the 75th percentile value was 9.1%. The median value, at 8.2%, was 60 basis points lower than reported last year.

Marketing costs comprised 1.0% of premium equivalents, with the 25th percentile value at 0.6% and the value at the 75th percentile was 1.7%. The comparable median percent last year was 1.9% or 90 basis points higher than for this year.

Administrative Expenses by Product

All participants in our benchmarking studies segment their costs by product as well as by over forty functional areas. Overall, the resources consumed in these products are reflected in varying administrative expenses that differ quite sharply between the various products. Our participants normally have quite robust activity-based costing systems to facilitate this. For example, suppose commercial HMO products have 40% of the claims volume as Medicare Advantage products. Commercial products administrative expenses will be accordingly lower. Similarly, ASO products have lower overall costs than their insured counterparts since ASO arrangements are normally provided only to larger groups that tend to be less costly to market to.

These differences are manifest in their overall cost differences. The most expensive product offered by Medicaid plans is their Medicare SNP product at $105.67 PMPM. Medicare Advantage followed, at $63.53. The least expensive comprehensive product offered by these health plans was the ASO product at $17.02 PMPM. This is shown in Figure 4. Medicare Part D was $15.73. Total Medicaid administrative expenses were $22.05, though the costs differed greatly by type of beneficiary. Adult SSI was relatively high while Medicaid low income was among the low cost products at 17.71.

As shown in Figure 5, on a percent of premium basis, the ranking of administrative expenses by product is different. Note that while Medicare Advantage SNP is the high cost product measured PMPM, at 7.1% among the lowest cost products. Medicare Advantage, at 7.9% is also relatively low, while it is the second highest cost product on a PMPM basis. On the other hand, the ASO product remained among the low cost on a percent basis.

Calculation of Mix-Adjusted Rates of Expense Growth

To make the most useful comparisons administrative expenses between years, it is illuminating to eliminate the effects of product mix differences. This is beneficial both between organizations with different product mixes and also between periods. Accordingly, in comparing expenses between periods, we hold constant the product mix between the two years.

To do this, since Medicaid plans report to us by product, we reweight their expenses so that the product mix existing in the prior period is the same as in the current one. We then recalculate the rates of change based on these reweighted estimates.

On average Medicaid HMO was 8.4% while Child SSI was lowest at 6.9% and Medicaid Low Income was 8.3%. The Child and Family Buy-in products were, as a percent of premium among the highest cost at 13.1% and 14.1% respectively.

Comparisons Across Universes

Health plans in other Sherlock Company benchmark universes also offer Medicaid products. Figure 6 compares their core costs in the Medicaid HMO product. It is notable that while there are significant scale differences between the various plans, the core costs are relatively similar. Medicaid plans are usually smaller than Independent / Provider-Sponsored (IPS) plans which are smaller than Blue Cross Blue Shield (Blue) Plans.

Figure 4. Benchmark Summary
Medicaid Costs by Product, 2009 Data
Per Member Per Month

	25th PCTL	75th PCTL	Median	σ/ Mean
HMO	$23.57	$33.32	$27.18	43.9%
POS	$18.35	$18.35	$18.35	NM
Indemnity & PPO	$25.99	$38.11	$30.89	28.6%
Total Comm. Ins.	$25.43	$29.93	$26.11	37.2%
ASO	$14.81	$21.50	$17.02	40.0%
Total Commercial	$21.20	$24.68	$23.85	36.9%
Medicare Advantage	$62.08	$79.00	$63.53	56.9%
Medicare SNP	$83.38	$138.65	$105.67	49.3%
Medicare Total	$63.53	$79.00	$71.17	55.5%
Medicaid Low Income	$16.21	$19.22	$17.71	24.1%
Medicaid SSI for Adults	$64.10	$72.00	$68.05	16.4%
Medicaid Child SSI	$54.34	$56.02	$55.18	4.3%
Medicaid Dual Eligible	$14.04	$21.20	$17.62	57.5%
Medicaid HMO	$18.75	$25.93	$22.77	23.9%
Medicaid Child Buy-In	$14.46	$14.46	$14.46	NM
Medicaid Family Buy-In	$29.29	$29.29	$29.29	NM
Medicaid Total	$18.75	$25.91	$22.05	23.8%
Comprehensive Total	$20.78	$29.59	$24.90	26.4%
Medicare Part D	$15.73	$15.73	$15.73	NM

The PMPM costs for the Medicaid plans fall between the Independent / Provider-Sponsored plans and then the Blue Cross Blue Shield Plans. While economies of scale are few and of modest effect, we suspect that specialization may overcome what scale exists. Medicaid focused plans may have an advantage in administrative simplicity. Since most of the plans, regardless of universe, operate in only one state, their Medicaid product options may be quite limited, especially as compared with commercial products. A firm focused on Medicaid may well require a less complex information system than would be necessary in the commercial world.

Figure 5. Benchmark Summary
Medicaid Costs by Product, 2009 Data
Percent of Premium Equivalents

	25th PCTL	75th PCTL	Median	σ/ Mean
HMO	6.8%	10.0%	8.5%	46.9%
POS	5.7%	5.7%	5.7%	NM
Indemnity & PPO	7.7%	15.5%	11.8%	45.4%
Total Comm. Ins.	5.8%	9.5%	8.3%	46.4%
ASO	5.5%	6.3%	6.0%	19.0%
Total Commercial	5.8%	7.7%	7.7%	37.5%
Medicare Advantage	6.5%	8.9%	7.9%	44.5%
Medicare SNP	5.8%	10.4%	7.1%	56.0%
Medicare Total	6.7%	8.9%	7.9%	41.3%
Medicaid Low Income	7.4%	9.3%	8.3%	32.6%
Medicaid SSI for Adults	6.7%	7.3%	7.0%	11.8%
Medicaid Child SSI	6.6%	7.1%	6.9%	9.4%
Medicaid Dual Eligible	7.2%	8.7%	7.9%	27.0%
Medicaid HMO	7.0%	9.0%	8.4%	19.0%
Medicaid Child Buy-In	13.1%	13.1%	13.1%	NM
Medicaid Family Buy-In	14.1%	14.1%	14.1%	NM
Medicaid Total	7.0%	9.0%	8.4%	19.3%
Comprehensive Total	7.1%	9.1%	8.2%	21.4%
Medicare Part D	6.3%	6.3%	6.3%	NM

Accordingly, Medicaid plans have much lower Enrollment and much lower Information Systems costs PMPM than their Blue and Independent / Provider-Sponsored peers in their offerings of Medicaid HMO products. We believe that it is most common to operate all insurance products on the same information systems platform so it may be that the higher costs of commercial products are shared with their Medicaid product.

Some of this is offset by higher costs in Provider and Medical Management. Medicaid-focused plans spend more on Provider Network Management and Services than Blue and IPS, though scale may be a factor. Medicaid focused plans also spend more on Medical Management than their Blue and IPS counterparts for this product.

Figure 6. Medicaid Benchmark Summary
Medicaid Characteristics by Universe, 2009 Data

	Medicaid	Indep. / Prov. Sponsored	BCBS	Combined Universes*
Core Costs PMPM				
25th PCTL	$15.86	$15.03	$20.16	$15.74
Median	21.30	17.77	21.72	19.76
75th PCTL	$23.43	$23.03	$23.15	$23.31
σ/ Mean	25.0%	24.7%	19.6%	23.5%
Core Costs as a Pct. of Premiums				
25th PCTL	6.3%	7.2%	9.5%	7.5%
Median	7.5%	8.3%	9.9%	8.6%
75th PCTL	8.3%	11.0%	10.1%	10.2%
σ/ Mean	22.4%	30.7%	7.0%	23.3%
Total Costs PMPM				
25th PCTL	$18.75	$17.11	$22.21	$18.27
Median	22.77	19.04	23.25	20.38
75th PCTL	$25.93	$25.41	$24.97	$25.70
σ/ Mean	23.9%	23.5%	18.9%	23.0%
Total Costs as a Pct. of Premiums				
25th PCTL	7.0%	7.8%	10.1%	8.2%
Median	8.4%	8.6%	11.0%	9.1%
75th PCTL	9.0%	12.3%	11.8%	11.5%
σ/ Mean	19.0%	30.4%	10.3%	23.3%
Plans Offering Medicaid	10	8	4	19
Medicaid Members	2,769,200	506,580	115,705	3,050,112
Total Compr. Members	3,939,306	5,978,755	32,486,659	41,260,732

** Three firms included in two universes, are exluded from combined figures.*

million insured Americans. These organizations are segmented into peer groups of Independent / Provider-Sponsored Plans, Larger Health Plans, Third Party Administrators, Blue Cross Blue Shield Plans and Medicare Plans. The results of the Independent / Provider-Sponsored Plans, Third Party Administrators and Blue Cross Blue Shield Plans may be found on our web site.

Background on This Universe and SEER

The peer group in this analysis consisted of ten Medicaid plans, which together served 3.9 million members. Of these members, 2.8 million were Medicaid HMO, and this product comprised on average 70.8% of the total. On average 68.4% of the premiums and fees of these plans came from Medicaid products. The median membership in this universe was 235,000 members.

Cost comparisons are based on the results for plans that participated in both of the comparison years. PMPM and percent values are for all plans that reported this year. We employed median values throughout this report as the best measure of central tendency.

Overall, our benchmarks in 2010 (containing 2009 data) comprise the cumulative experience of approximately 450 health plan years. Fifty-eight health benefit organizations participated in this year's studies, and they collectively serve 44

Appendix A. Benchmark Summary
Blue Cross Blue Shield Costs by Functional Area Cluster, 2008 Data
Per Member Per Month

	25th PCTL	75th PCTL	Median	σ/ Mean
Provider & Medical Mgmt.	$4.59	$7.47	$5.55	31.1%
Account & Mem. Admin.	6.44	10.25	7.66	31.9%
Corporate Services	5.04	7.65	5.94	31.6%
Subtotal: Core Functions	$19.06	$23.46	$22.97	17.8%
Sales and Marketing	1.03	8.37	5.23	83.9%
Total	$23.61	$30.56	$27.51	22.1%

Appendix B. Benchmark Summary
Blue Cross Blue Shield Costs by Functional Area Cluster as a Percent Premiums or Equivalents, 2008 Data
Percent of Premium Equivalents

	25th PCTL	75th PCTL	Median	σ/ Mean
Provider & Medical Mgmt.	1.6%	2.7%	2.3%	46.4%
Account & Mem. Admin.	2.7%	4.0%	3.4%	41.6%
Corporate Services	2.1%	3.1%	2.3%	34.3%
Subtotal: Core Functions	6.4%	10.1%	8.0%	30.4%
Sales and Marketing	0.5%	2.7%	1.9%	82.9%
Total	8.3%	11.4%	8.8%	26.4%