

# Comparing HMO Marketing Spending Between Medicaid, Medicare, and Commercial Lines of Business

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# Background

- This edition of the 5 Slide Series uses our HMO Financial Statement database to assess the percentage of health plans' total revenue allocated to marketing and commissions across Medicaid, Medicare, and Commercial lines of business (LOBs).
- Our assessment focuses on a sample of 30 health plans (10 for each LOB) during CY2016-2018. Selection criteria for these plans were:
  - At least \$100 million in annual revenue
  - All or vast majority of revenue derived from the LOB of focus
  - Avoid inclusion of multiple MCOs from same state
  - Avoid inclusion of same organization to the greatest possible extent
  - Use CY2018 MCOs to greatest extent possible

# Program Design Features Play a Key Role in Level and Nature of Marketing Expenditures

	Medicaid Managed Care	Medicare Advantage	Commercial
Enrollment Model	Mandatory enrollment into participating MCOs; fee-for-service (FFS) setting no longer available for most subgroups.	Voluntary enrollment (FFS remains available)	Varies by employer and MCO contract terms for group coverage; also varies according to nature of individual coverage policies
Health Plan Participation	MCOs selected through a competitive procurement process (for most beneficiaries, five or fewer MCO options are available)	All organizations successfully fulfilling application process participate (dozens of MCO options are often available)	Employers choose which MCOs they offer to their employees; method of selecting MCOs varies
Marketing	Most marketing activities are prohibited	While some marketing activities are prohibited, extensive marketing is allowed	MCOs typically have latitude over level and nature of their marketing activities
Benefits Packages	Minimal variation exists (Medicaid coverage is relatively comprehensive with minimal cost sharing)	Extensive variation across plans exists (alternative benefits and cost sharing configurations)	Extensive variation across plans exists (alternative benefits and cost sharing configurations)

# Less than 1% of Revenue is Dedicated to Marketing Across the Medicaid-Dominant MCOs Assessed

- We analyzed CY2018 financial statements of 10 large Medicaid-dominant MCOs – defined as 100% of 2018 total revenue from Medicaid – and tabulated marketing expenditures as a percentage of each health plan’s total revenue.
- Across these Medicaid-dominant MCOs, 0.19% of revenue was allocated to marketing – none of which went to sales broker commissions.
- Among the 10 Medicaid-focused MCOs, the health plan with the highest percentage of total revenue spent on marketing was well below one percent (0.62%).
  - The plan with the lowest percentage was 0.03%.

Medicaid Financial Data, CY2018			
State of Operations	Total Revenue	Expenditure on Marketing, Advertising, and Commissions	Marketing, Advertising, and Commissions as % of Total Revenue
Georgia	\$659,738,729	\$4,091,221	0.62%
Nebraska	\$444,751,155	\$1,142,830	0.26%
West Virginia	\$449,020,262	\$988,421	0.22%
Ohio	\$2,510,484,616	\$5,547,707	0.22%
New Hampshire	\$289,475,241	\$635,113	0.22%
Pennsylvania	\$1,013,885,353	\$1,570,929	0.15%
Puerto Rico	\$710,793,959	\$764,902	0.11%
Louisiana	\$1,100,184,370	\$769,736	0.07%
Michigan	\$755,917,121	\$425,916	0.06%
Florida	\$618,091,592	\$184,232	0.03%
<b>Total</b>	<b>\$8,552,342,398</b>	<b>\$16,121,007</b>	<b>0.19%</b>

# Marketing Expenditures Averaged 2.26% of Revenue Across the Medicare-Dominant MCOs Assessed

- We analyzed CY2016-2018 financial statements of 10 Medicare-dominant health plans – defined as more than 80% of total revenue from Medicare LOB.
  - Medicare collectively represents 92% of these MCOs’ revenues.
- Across these Medicare-dominant MCOs, 2.26% of CY2016-2018 revenues were allocated to marketing.
  - 72% of these marketing expenditures were allocated to sales commissions.
- Marketing expenditures ranged from a low of 1.16% of revenue to a high of 3.08% among the 10 Medicare-dominant MCOs.

Medicare MCO Financial Data, CY2016-2018						
Financial Statement Year	Medicare MCO Delivery State	Total Revenue	Medicare LOB as % of Total Revenue	Expenditure on Marketing, Advertising, and Commissions*	Commissions as % of Total Marketing Expenditure	Marketing, Advertising, and Commissions as % of Total Revenue
2018	Florida	\$1,093,304,646	100%	\$33,631,895	75%	3.08%
2018	Ohio	\$109,247,325	100%	\$2,915,849	93%	2.67%
2018	Louisiana	\$2,000,006,063	82%	\$48,323,904	78%	2.42%
2017	Illinois	\$206,399,912	100%	\$4,836,907	58%	2.34%
2017	Connecticut	\$1,450,134,912	98%	\$33,525,810	86%	2.31%
2017	Kentucky	\$160,584,643	100%	\$3,605,281	72%	2.25%
2018	Pennsylvania	\$1,736,213,154	91%	\$35,067,934	50%	2.02%
2016	Oregon	\$345,070,799	100%	\$6,027,224	82%	1.75%
2018	Puerto Rico	\$324,575,784	90%	\$4,259,307	32%	1.31%
2016	Kansas	\$367,873,275	81%	\$4,265,793	84%	1.16%
<b>Total</b>		<b>\$7,793,410,513</b>	<b>92%</b>	<b>\$176,459,904</b>	<b>72%</b>	<b>2.26%</b>

\*Includes Medicare Supplement Revenue

# Commissions Account for the Majority of Marketing Spend among Commercial Plans

- We analyzed CY2016-2018 financial statements of 10 commercial-dominant health plans – defined as having more than 80% of total revenue from commercial LOB.
  - Commercial business collectively represents 94% of these MCOs’ revenues.
- Across these commercial-dominant MCOs, 3.43% of CY2017 and CY2018 revenues were allocated to marketing.
  - 94% of these marketing expenditures were allocated to sales commissions.
- Marketing expenditures ranged widely from a low of 0.87% of revenue to a high of 6.81% among the 10 commercial-dominant MCOs.

Financial Statement Year	Health Plan Delivery State	Total Revenue	Commercial LOB as % of Total Revenue	Expenditure on Marketing, Advertising, and Commissions	Commissions as % of Total Marketing Expenditure	Marketing, Advertising, and Commissions as % of Total Revenue
2018	Texas	\$749,879,888	93%	\$51,046,368	93%	6.81%
2017	Maryland	\$221,648,917	100%	\$9,971,919	93%	4.50%
2017	District of Columbia	\$3,248,537,769	87%	\$141,117,526	99%	4.34%
2017	Iowa	\$384,008,765	100%	\$13,612,133	93%	3.54%
2017	Illinois	\$173,025,302	100%	\$6,054,172	92%	3.50%
2017	Massachusetts	\$562,981,393	95%	\$17,990,518	96%	3.20%
2017	Georgia	\$3,295,863,128	97%	\$85,728,201	89%	2.60%
2018	Oregon	\$1,377,586,926	100%	\$29,953,021	94%	2.17%
2017	Colorado	\$651,176,451	98%	\$13,458,689	83%	2.07%
2018	Washington	\$139,786,119	98%	\$1,214,041	78%	0.87%
<b>Total</b>		<b>\$10,804,494,658</b>	<b>94%</b>	<b>\$370,146,588</b>	<b>94%</b>	<b>3.43%</b>

# Medicaid MCO Funds are Overwhelmingly Focused on Serving as Opposed to Selling

- Medicaid marketing expenditures consumed 0.19% of the selected health plans' revenues during CY2018.
- The share of premium dedicated to marketing activities in the Medicaid MCOs sector was 12 times smaller than in Medicare, and 18 times smaller than in the commercial MCO arena.
- Mandatory enrollment into the MCO setting – coupled with states' contractual prohibitions against direct marketing/sales activities by the Medicaid MCOs – allow taxpayer funds in this sector to be predominantly focused on service rather than sales.

# 5 Slide Series Overview

Our 5 Slide Series is a monthly publication whereby we briefly discuss/address a selected topic outside the confines of our client engagements.

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