Transcript

Blue Cross Blue Shield Administrative Cost Growth Reaches a Historic Low in 2025

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Introduction

All right, let's begin. Thank you very much for attending our presentation of the results of the 2025 benchmarks for Blue Cross Blue Shield plans. First, I want to thank all the participants and all of their contacts with us. This presentation will show cost trends that reflect years of their work and that of their organizations. We know them through their participation, but most of these principal contacts devote hours in uncomfortable meetings with operational leaders to encourage cost optimization. The result of their efforts is historically low growth in administrative expenses and a decline in administration relative to premiums. I really cannot express how highly I regard our participants.

Twelve plans serving 41 million members participated in the 2025 benchmarking study for Blue Cross Blue Shield plans. They serve 57% of Blue Cross Blue Shield members not served by Elevance. This is our 28th such study, and the typical plan has 18 and a half years of participation in the surveys and, as I think will be shown, in the application of the benchmark results.

Executive Summary

This presentation is intended to highlight six things we learned while reviewing, summarizing, and compiling the results of these surveys. First, cost growth was historically low. Second, cost growth was spread across functions in the four expense clusters. Third, advertising and corporate executive were prominent for their low cost growth and their contribution to the total. Fourth, by contrast, the measurement-intensive areas showed rapid growth: rating and underwriting, finance, and actuarial all increased. Also increasing were selected activities in the corporate services functions of legal and risk management. Fifth, the overall expense trends may be explained as the result of a slightly lower staffing ratio, a shift in favor of employees in higher-compensated areas, and a decline in non-labor. Finally, as a percent of premiums, 8.1% is the lowest in the past 20 years.

Long-Term Trends in Administrative Expenses

We have been tracking trends for many years. This chart shows 11 of those years. The rates of growth are for matched sets of Blue Cross Blue Shield plans whose costs have been reweighted so that changes in product mix do not affect the trends. The light blue line shows the growth in per member per month account and membership administration. The last time its growth was lower than 2025 was in 2016. We think this cluster captures an important set of core keep-it-running activities: enrollment, customer services, claims, and information systems.

The mid-2010s, at the far left end of the graph, was a difficult time for health insurers. The then-new marketplace plans often had medical costs in excess of premiums, and losses approached 10% on average during that period. At that time, the late Professor Uwe Reinhardt observed that young, healthy Americans would rather remain uninsured and pay the relatively low penalties. Health plan aggregate net income in 2016 was therefore 52% of 2011. This was a fire alarm for health insurers, leading to intensive focus on administrative costs. Total administration, indicated by the black line, includes this cluster plus all the others: sales and marketing, medical and provider, and corporate services, each of which can have a strategic aspect.

The total PMPM cost increase in 2025 was 0.3%, the lowest since 2021, around the time of COVID, and previously going back to 2015. The recent lower administrative costs have occurred in the context of an expansion of health benefit ratios in the health plan industry, up more than six percentage points in commercial insured since 2019 and up 10 percentage points for Medicare Advantage, according to the NAIC. Commercial insured health benefit ratios increased in each year since 2022, and MA has exceeded 90% since 2020. Competitors described the pressures as broad-based. Elevance, for instance, which is comprised of Blue Cross Blue Shield plans, said this arose in all lines of business within its health benefits segment, particularly within its ACA business. Cigna noted higher medical costs driven by individual and family plan business. UnitedHealth appears to view healthcare cost trends and the increased proportion of high-health-need people as a driver of MA margin compression. So this truly is historic, both in its modest increase, especially for health plan core activities, and in its catalyst. The declines in the rate of growth are occurring in an environment in which more than one factor is pressing the health benefit ratio.

Cost Trends by Cluster

This is a key summary slide. Recall from the previous slide that total expense in 2025 increased by 0.3% and account membership administration increased by 1.1%. I circled those values in red. All the other clusters increased very modestly, and sales and marketing per member per month actually declined by 1%. The rate of growth at either end of the dark blue arrow is a comparison between the two constant-mix growth rates. Total growth, circled, was 0.3% versus 5.6% last year. Account membership administration growth of 1.1%, also circled, was below the 4.2% posted in the prior year. Note that growth in each cluster of expenses was always less than or equal to that of the prior year. The decline in expense growth was precipitous in medical and provider, by 7.8 percentage points.

The columns indicated by the light blue arrow are the trends that exclude mix adjustment. Growth was 0.5% in 2025 versus 6.6% in 2024. Similar to the constant-mix growth, each expense cluster declined in growth except for corporate services, whose growth remained moderate against historic trends. One final observation: the 2025 increase is always more rapid on an as-reported basis than on a constant-mix basis. This reflects the effect of the change in product mix. We will go into details on this observation and each of these trends in the slides that follow.

Changes in Product Mix

The previous slide focused on expense growth in total and by cluster. It showed that as-reported costs grew more rapidly than constant-mix growth. Since administrative costs are often associated with the health care requirements of the population served, the faster growth on an as-reported basis suggests that the mix changed in favor of products used by members requiring greater health care. This slide shows that this is indeed the case. Medicare membership surged by more than 11%, while membership as a whole declined by 0.2%. Reinforcing this, the low-administrative-cost Medicaid and FEP segments declined. Mitigating it, ASO increased at the expense of insured in the commercial segment.

Sources of Cost Change on a Constant-Mix Basis

This details the sources of changes in the expense clusters after excluding the effects of changes in product mix. Expenses increased by 0.3% per member per month. Account membership administration, increasing by 1.1%, is the most important source of increase on a constant-mix basis, but it also represents the plurality of expenses at 44%. The most important change, that is, the dollar impact of its growth, was in the information systems area. No surprise, as this is the largest function in the cluster. Claims is a much smaller function but grew much faster, so the dollar value of its increase approached that of information systems. In both functions, staffing ratios decreased and compensation increased. Claims outsourcing increased more than nearly all other functions.

The decline in advertising was the key factor in the reduction of sales and marketing expenses, the second most important cluster in its effect on trends. Expenses per member per month fell by 1%. Staffing increased as non-labor sharply declined. A notable exception in this cluster is the rating and underwriting area, which increased in cost, especially in the risk adjustment sub-function. Rating and underwriting increased in staffing, in compensation, and in non-labor expenses.

Medical and provider management was the fastest-growing cluster of expenses, though quite modest at 1.3%. Growth in provider network was double that of its sister function, medical management. While staffing ratios grew slightly, provider contracting in the provider network area increased as provider relations services staff declined. Overall, staffing cost per FTE increased, illustrating a shift in favor of employees in the highly compensated functions. Outsourcing increased. Medical management growth was modest, notwithstanding a notable increase in case management and medical informatics.

The effect of corporate services was less than that of medical and provider management. The 1.2% increase was in large part due to a sharp decline in corporate executive and governance, where staffing increased and compensation declined. Strategic expenses, however, grew much faster than what we normally think of as corporate executive, things like CEOs and CFOs and so forth. Corporate executive growth and its factors differ between plans far more than most other functions. This function's decline masked rapid growth in other areas of the corporate services cluster, areas like finance and accounting and actuarial. This, by the way, mirrors the increase in the similarly quantitative rating and underwriting function. Staffing was up in both functions, and compensation growth was especially high in actuarial.

The corporate services function is the largest in the cluster of the same name. Because it is the largest, it weighs heavily on growth. While not growing very fast as a whole, its legal sub-function did, especially in areas like government affairs and outside litigation. Staffing increased in government affairs and compliance. Risk management costs also increased sharply. I consider the constant-mix changes shown in this slide to be the true increases, because they are not distorted by the effects of product mix differences between the years.

As-Reported Cost Trends

This slide shows the growth in clusters and the functions that cause it, but without the reweighting we do for the constant-mix analysis. Growth rates are faster in each cluster because of the shift toward more expensive products like Medicare Advantage. Overall, expenses increased by 0.5% compared to 0.3% on a constant-mix basis. In general, though, they are similar to the constant-mix changes, and the functions that affected the changes are the same, except where I have noted. I mentioned finance and accounting in the previous slide, and you can see it replaces actuarial for the fastest growth in the corporate services cluster, which grew by 3.7% compared with 1.2% on the constant-mix basis. The growth rates for these two functions were very high, and the difference between them was minute. I also mentioned the corporate services function when discussing the previous slide. Because it is such a large function, dwarfing the others in its cluster, its slightly faster growth in this reckoning leads it to displace corporate executive expense growth as a driver. The same slightly higher increase and high weight led information systems to be the most important function as a source of growth on an as-reported basis, replacing corporate executive.

Staffing, Compensation, and Non-Labor Costs

I touched on the effects of the staffing ratio in the previous two slides. Let me expand on that. I mentioned that the constant-mix growth was 0.3%. For this purpose I am using the average growth of 1.3%, because the math works better with averages than with medians. This higher value also excludes the effect of prescription drug and behavioral health administration. Incidentally, we estimate that in the absence of the trends in the administration of those two benefits, the 0.3% constant-mix growth would have been 0.4%.

The idea of this slide is that changes in per member per month costs can be explained as the result of changes in the staffing ratio, changes in compensation, and the change in non-labor expenses. The staffing ratio declined by 0.2 percentage points to 21.3 FTEs per 10,000 members, or 23.5 for the commercial insured segment. The effect of pure increases in compensation, plus the shift in favor of employees toward more highly compensated functions, gave rise to a 4.5% increase in staffing costs per FTE, to $139,000. Non-labor costs per FTE declined by 2.8%, and if you remove the effect of the decline in staffing, non-labor declined by 3%.

Per Member Per Month Costs

This slide shows the cost values for all 12 participating plans. The previous slides were rates of change and required comparable information for this year and last. In total, administrative expenses were lower by 0.8%, to $51.50 from the previous year. The increase in the medical and provider area at 2.8% mirrored the longitudinal analysis, which identified this cluster as the fastest growing on a constant-mix basis. The decline in sales and marketing was matched by the decline measured in the longitudinal analysis shown in the prior slides. Other connections between the trends and these differences are sketchier, which makes sense, because the universe is different, as are their product mixes.

Cost by Product

This slide shows the 2025 administrative expense cost by product, ranging from $3.26 for standalone dental to $289.65 for Medicare Advantage SNP. The variation in product costs is the reason we take product mix into account when we try to understand health plan costs and trends. There are 14 products shown here. Comprehensive total expenses are $51.50, as shown in the previous slide. The differences may be summarized by some of their defining factors: method of distribution, population served, and scope of benefits.

The effect of population is shown in the difference between the high-cost MA individual and the almost-average commercial HMO insured. The median administration for MA is more than double that of commercial HMO, because the care required for the product's members is also more than double. Along with the higher costs of health benefits, MA incurs higher claims volumes, customer service inquiries, and case management cases.

The difference between commercial insured at $67.08 and commercial ASO ASC at $34.46 PMPM illustrates the difference in administration due to distribution system differences. The only difference between these two products is group size: individuals and small groups buy insured products, and large groups buy ASO since they are self-insured. A by-product of size is that the per member cost to sell the product is much less.

Finally, the scope of benefits is also a factor in cost. MedSup, standalone Part D, and standalone dental are all examples of low-administrative-cost products when measured on a PMPM basis. MedSup serves the same demographics as MA but is a secondary payer; its administrative expenses are one-third those of MA. Incidentally, we post these PMPM product values on our website in the form of an application. It will allow you, if you are so inclined, to compare your costs with those in this set of plans. Look for the application called Test Drive.

Percent of Premiums and Equivalents

The percents shown here illustrate the differing effects of the factors of distribution, population, and scope on the products. We use the example of commercial HMO and individual MA to show how demographics affect administrative expenses. On a PMPM basis, costs were 2.6 times greater for MA than HMO. On a percent basis, this difference diminishes to 1.5 times. This illustrates that many, but not all, administrative expenses are sensitive to the health needs of members. Medicare-eligible people submit more claims, requiring more claims processors. Scope also makes a difference. MedSup, standalone Part D, and standalone dental are all low cost per member per month, but expressed as a percent they are high or average. Even if the health benefit cost per claim is less, the cost to process any claim may be the same as any other, so as a percent it increases relative to the premium. Since the distribution advantages of ASO do not affect the other administrative costs, the difference between ASO and insured commercial products is roughly the same whether on a PMPM or a percent basis.

This slide shows administrative expenses segmented by cluster but expressed as a percent of premium. They reflect all the actual expenses, but also, in effect, a weighting of the percent-of-premium costs shown on the prior slide. Using these percents, you can see administrative expenses are 8.1% of premium equivalents, a one percentage point decline from 2024. Insight on that decline can be inferred from the differences in the cluster values; prior-year medians are shown in the far right column. Sales and marketing declined by 0.5 percentage points, while medical and provider and account membership administration declined by 0.2 and 0.1 percentage points, respectively.

Based on this year's modest PMPM growth, with its parallels 5 and 10 years ago, we characterized the 2025 growth as historically low. But the actual level of administrative costs relative to premiums is also low, again falling from 9.1% in 2024 to 8.1% in 2025. This sharp decline makes me wonder whether I buried the lead, as journalists like to say. This slide suggests that maybe I did. On the far right, you can see the decline in administrative expenses between 2024 and 2025 among Blue Cross Blue Shield plans participating in our benchmarks. But you can also see that this is part of a long-term trend. This chart shows the percent-of-premium ratios over the past 20 years. It shows some volatility year over year, but a general trend of declines of one to two percentage points over these two decades. The largest decline appears to be in the corporate services area, followed by sales and marketing. By contrast, account and membership administration also declined, to a lesser extent, while medical and provider increased slightly. So what we are seeing is truly historic in other ways as well. Since the intent of our work is to provide a tool to inform optimal cost management, we favor PMPM measures. Percents are, however, helpful from a policy perspective, and over the long term this decline is indeed impressive.

Conclusion

2025 appeared to be a year of concentrated cost management. Expense growth declined in account membership administration and in total. In fact, it declined in all clusters but corporate services. The decline was sharp even when the effect of greater Medicare mix is included. Advertising and corporate executive and governance declined, but the quantitative areas of rating and underwriting, finance and accounting, and actuarial all increased sharply. The corporate services function increased modestly, with the exception of the legal area and risk management, where it grew rapidly. While staffing declined, that was partly a reflection of the shift in favor of employees in higher-compensated functional areas. We talked, for example, about provider network management, where provider services declined but provider contracting increased. Non-labor fell and outsourcing increased. While the decline in the percent of premium equivalents devoted to administration fell by one percentage point to 8.1%, it looks like this is a continuation of a trend extending back 20 years. This should, by the way, be a point of pride for the participating plans and our contacts within them.

I want to close by thanking my colleagues at Sherlock Company for their insights, hard work, and entrepreneurialism. The improvements in the style of this presentation compared to prior years, the Navigator, and the website you see are only part of the improvement. A new, very robust website tailored toward licensees and participants assists them in expense classification and submission of the survey form. This saves time and allows plans to more efficiently proceed to making decisions.

Q&A

Question: Administrative costs were essentially flat on a PMPM basis, yet declined from 9.1% to 8.1% of premium. How much of that improvement reflects true operating efficiency versus premium rate increases and product mix changes? And what would the trend look like on a constant-mix, constant-premium basis?

Remember, our expenses per member per month were primarily focused on a constant-mix basis year over year. They reflected some changes within the various functions and clusters, but overall we saw true, modest increases in administrative costs, notwithstanding normal inflation. There was some reallocation, but it was actually in favor of higher-staffing areas. So we think this is true efficiency. When you have inflation rates of 3.5% but account membership administration increasing by 1.1% or so, you have a real decrease.

Inflation is going to affect the premium rate, so what you are seeing is some top-line effect: the denominator continues to grow because health care costs continue to grow, but administrative expenses grow slower as a result. The percent falls just because the PMPMs are growing less, notwithstanding inflation.

I think it is important to put this in context. The plans participating in this are competing in a difficult environment. They are not only competing against other health plans but also facing challenges from providers. Provider consolidation is something all industry observers have noted. Customers are demanding more as well. So between the interests of customers, the interests of vendors, and the other competitive forces surrounding them, innovation is required in order to stay competitive, which is an upward pressure on costs. So if anything, in my opinion, this probably understates some of the real optimization taking place. I do want to thank you for that question.

Thank you all very much. It looks like we will be posting this in the next day or so on our website, so please visit us. In the meantime, if you have any further questions, reach out to me, to Erin, or to anyone else, and hopefully we can satisfy your curiosity or give you further insight into what we have presented here today. Thank you so much, and I hope you have a great rest of your day.